

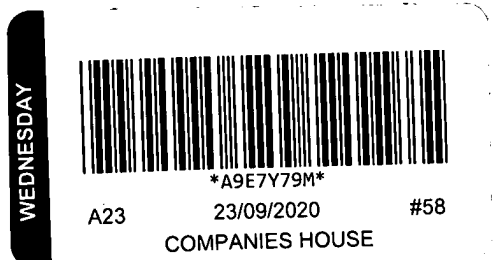
Drax Corporate Limited

Report and Audited Financial Statements

Year Ended

31 December 2019

Company Number 05562058



Drax Corporate Limited

Report and Audited Financial Statements for the year ended 31 December 2019

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Directors

Andrew Koss (resigned 7 April 2020)
Will Gardiner
Andy Skelton (appointed 13 June 2019)

Company Secretary

David McCallum (resigned 31 January 2019)
Brett Gladden (appointed 1 February 2019)

Registered office

Drax Power Station
Selby
North Yorkshire
YO8 8PH

Company number

05562058

Auditor

Deloitte LLP
Statutory Auditor
1 New Street Square
London
EC4A 3HQ

Drax Corporate Limited

Strategic Report for the year ended 31 December 2019

Introduction

The directors present their Strategic Report for Drax Corporate Limited (the "Company") for the year ended 31 December 2019.

This Strategic 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 and such statements should be treated with caution due to their inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Principal activities

During the year, the Company continued to provide a variety of services in support to the wider Drax Group of companies (together "the Drax Group"), including the provision of long-term and short-term intra-group financing. This principal activity is expected to continue in the foreseeable future. The Company provides financing and cash management services to other Drax Group entities using a variety of arrangements, including short-term cash pooling and longer-dated term loan agreements.

Business review

During 2019, costs incurred in the provision of support services were £45.9 million (2018: £29.8 million). These costs reflect the emoluments of Drax Group employees engaged in the performance of the services, fees payable to third party advisers and consultants, plus other operating and administrative expenses. Certain costs were recharged directly to other Drax Group undertakings as incurred. The increase includes incremental research and innovation costs associated with key strategic initiatives of the Drax Group including those relating to Bio-Energy Carbon Capture and Storage (BECCS).

The operating loss for the period, before dividends received and interest, was £45.7 million (2018: £29.8 million). Profit after tax for the year amounted to £19.2 million (2018: Loss after tax £39.2 million). The profit for the year was predominately owed to the income received from shares in group undertakings of £81.2 million compared to £nil in the previous period.

At the balance sheet date, the Company had net current assets of £558.2 million (2018: £49.2 million net current liabilities). The net current asset position is largely due to an increase in amounts owed by Drax Group undertakings due to the Company advancing funds to another Group company to fund the acquisition of Drax Generation Enterprise Limited or (DGE) (formerly Scottish Power Generation Limited) from ScottishPower. Despite a large increase in amounts owed by Drax Group undertakings, the Company's net assets at the balance sheet date have decreased to £1,629.5 million (2018: £1,671.5 million) this is due to new borrowings drawn down in the year, the movement in the funds borrowed by the Company are discussed below.

On 2 January 2019, the Company drew down £550 million under an acquisition bridge facility and subsequently on-lent these funds to another Drax Group Company to fund the acquisition by that Company of DGE from ScottishPower.

On 16 May 2019, another Drax Group company raised a further US \$200 million publicly traded bonds, the funds raised of £150 million were subsequently on-lent to the Company to repay part of the acquisition bridge facility.

On 24 July 2019, the Company successfully concluded the refinancing of the remaining £400 million drawn on the acquisition bridge facility. Two new facilities were agreed with effective rates substantially inside Drax Group's current cost of debt: a £375m UK infrastructure private placement with maturities extending out to between 2024-2029 and a £125m environmental social & governance or (ESG) facility with combined proceeds of £500 million. Further information on the Company's borrowings is presented in note 20.

The Company's borrowings are subject to the guarantee and security arrangements noted in note 21.

Drax Corporate Limited

Strategic Report for the year ended 31 December 2019 (*continued*)

Principal risks and uncertainties

The Company has a comprehensive system of governance controls in place to mitigate risks. Policies, procedures and internal controls have been established across the key areas of the business to ensure that these risks are managed in a controlled manner and in accordance with the policies set by the Board.

Liquidity risk

Liquidity risk is the risk that the Company has insufficient cash to meet its short-term financial demands. The Drax Group's Treasury function is responsible for liquidity, funding and settlement management under policies approved by the Board. Liquidity needs are monitored using regular forecasting of operational cash flows and financing commitments. The Drax Group and Company maintains a mixture of cash and cash equivalents and committed and uncommitted facilities in order to ensure sufficient funding is available for business requirements.

Financial Risk

The Company holds index linked debt giving exposure to inflation risk. These risks are mitigated at a Group level through cash held or inflation-linked income streams. Details of the Company's debt instruments that are exposed to interest rate risk and their repayment schedules are detailed in notes 19-20.

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 amounts owed by Group undertakings, other receivables and prepayments and accrued income). Credit exposure is controlled by counterparty limits that are reviewed and approved by a management committee.

Interest rate risk

The Company is exposed to interest rate risk, principally in relation to its net debt to the extent arising from floating rate debt instruments. The Company has sought to mitigate this risk with interest rate hedges on a proportion of its debt facilities.

Drax Corporate Limited


Strategic Report for the year ended 31 December 2019 (*continued*)

Key Performance Indicators

The key performance indicators set out below are used to evaluate the performance of the Company.

	2019 £m	2018 £m
Profit/(loss) after tax	19.2	(39.2)
Net current assets/ (liabilities)	558.2	(49.2)
Net assets	1,629.5	1,671.5

This report was approved by the Board on 17 September 2020 and signed on its behalf.

DocuSigned by:

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Andy Skelton
 Director

Drax Corporate Limited

Directors' Report

for the year ended 31 December 2019

The directors present their report and the audited financial statements for the year ended 31 December 2019.

Dividends

The Company's profit after tax for the year amounted to £19.2 million (2018: loss after tax £39.2 million). During the year dividends were paid totalling £57.4 million, (2018: £132.7 million).

Subsequent to the year end, the Company has received dividends from shares in Drax Group undertakings of £70.0 million and paid dividends totalling £70.0 million.

Directors

The directors who served during the year and subsequently were:

Andrew Koss (resigned 7 April 2020)
Will Gardiner
Andy Skelton (appointed 13 June 2019)

Matters covered in the Strategic Report

Details of the principal activities of the Company, and the business review are disclosed in the Strategic Report on pages 1 - 3.

Post balance sheet event and going concern

Subsequent to the balance sheet date, Covid-19 has spread globally causing worldwide disruption to businesses and economic activity. The World Health Organisation declared Covid-19 a pandemic on 11 March 2020.

Currently, where possible, the Drax Group's employees are working from home. Social distancing measures are in place at the Drax Group's operating sites for workers who continue to ensure the safe and reliable running of plant. Whilst the situation remains unpredictable and continues to evolve, the consequences of the pandemic are starting to become visible. The Drax Group does not anticipate a material impact upon its operations or financial performance as a result of Covid-19 and the generating plants have continued to generate in line with expectations from pre Covid-19.

The Company and the wider Drax Group have considered a wide range of potential scenarios and assessed the likely impact of each upon the Drax Group's financial resilience, in terms of liquidity and debt covenants. Whilst significant uncertainty remains in relation to the extent and period over which these circumstances will continue and there remains a risk that the impact of Covid-19 could be greater than that modelled by the Drax Group, in both plausible and extreme scenarios and after considering the availability of potential mitigating actions, the likelihood of headroom being exhausted was considered remote in each case. Taking this into account, 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.

In addition, after the balance sheet date the Company has also completed a three-year extension to the £125m ESG facility, extending the contractual final maturity date to 2025 and in August 2020, the Company secured additional infrastructure private placement term loan facilities of approximately £160m with maturities spanning out to 2030. The full amount remains undrawn at the date of signing these financial statements.

Workforce engagement

Understanding the needs of our various stakeholders is essential to our long-term success. We recognise that to achieve our purpose, we need to listen to, and work with, a diverse range of interested parties. The Company, and the Drax Group plc group of companies, has a wide range of stakeholders and takes care to ensure that there is an effective strategy to identify and engage with stakeholders.

Drax Corporate Limited

Directors' Report for the year ended 31 December 2019 (*continued*)

Workforce engagement (*continued*)

A comprehensive list of stakeholders identified across the Drax Group and how we engage with them and have regard to their interests, can be found in the 2019 Drax Group plc Annual Report.

Engaging with the workforce is important as we want to create an engaging environment where our employees can thrive. We maintain regular dialogue with our workforce through our Workforce Engagement ("My Voice") Forums, annual engagement survey, and weekly Q&A from the Drax Group CEO.

The My Voice forums are made up of members nominated by colleagues from the around the Drax Group and meet quarterly to discuss matters raised by colleagues, by the Board and by Drax Group plc Board. Drax Group plc executive directors and some Drax Group Executive Committee members attended the meetings that took place in 2019. The My Voice Forum Chairs also meet quarterly with the Drax Group CEO and Chair to further discuss topics raised at the My Voice forums. Matters discussed during 2019 include how effectively communication filters down from senior leadership to the wider business; living our values; and wellbeing, including a greater focus on mental wellbeing. In response to employee feedback, plans have been developed to address wellbeing across the Drax Group, including mental wellbeing, which were shared with the My Voice forums to seek their input before rolling out a wellbeing programme in 2020.

Our dialogue with employees includes regular communication about the Drax Group's, strategy, plans and performance. During 2019, 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 2019, nearly half of all UK employees across the Drax Group participated in a Drax Sharesave scheme.

Disclosure of information to auditor

Each of the persons who are directors 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 be 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 provisions of s418 of the Companies Act 2006.


Auditor

The auditor, Deloitte LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Qualifying 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 and its subsidiaries.

This report was approved by the Board on 17 September 2020 and signed on its behalf.

DocuSigned by:

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Andy Skelton
Director

Drax Corporate Limited

Directors' Responsibilities Statement for the year ended 31 December 2019

The directors are responsible for preparing the Strategic Report, the Directors' Report and the audited 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 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 to 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.

Drax Corporate Limited

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Drax Corporate Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit 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 26.

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".

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

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Drax Corporate Limited

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

Other information

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

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

We have nothing to report in respect of these matters.

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.

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 has 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.

Drax Corporate Limited

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

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.

DocuSigned by:

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Louise Cooper FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP,
Statutory Auditor
London
United Kingdom

Date: 17 September 2020

Drax Corporate Limited

Income Statement for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Other income		0.2	0.1
Gross profit		0.2	0.1
Administrative expenses		(45.9)	(29.8)
Transaction and integration costs		-	(0.1)
Operating loss	4	(45.7)	(29.8)
Income from shares in Group undertakings	10	81.2	-
Interest receivable and similar income	6	33.1	31.0
Interest payable and similar charges	7	(62.9)	(44.5)
Profit / (loss) before tax		5.7	(43.3)
Tax credit on profit / (loss)	8	13.5	4.1
Profit / (loss) for the financial year attributable to the owners of the parent company		19.2	(39.2)

The notes on pages 14 to 35 form part of these financial statements.

Drax Corporate Limited

Statement of Comprehensive Income for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Profit / (loss) for the year		19.2	(39.2)
Items that may subsequently be reclassified to profit or loss:			
Fair value (losses) / gains on cash flow hedges	16	(5.6)	5.1
Deferred tax credit / (expense) on cash flow hedges before tax rate changes	16	1.0	(0.9)
Other comprehensive (expense) / income		(4.6)	4.2
Total comprehensive income / (expense) for the year		14.6	(35.0)

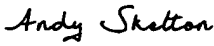
The notes on pages 14 to 35 form part of these financial statements.

Drax Corporate Limited

Balance Sheet at 31 December 2019

Company number 05562058	Note	2019 £m	2018 £m
Fixed assets			
Intangible assets	11	0.8	0.6
Tangible fixed assets	12	8.1	6.8
Fixed asset investments	14	2,331.9	2,331.9
Derivative financial instruments	15	21.8	27.9
Right-of-use assets	13	4.9	-
		2,367.5	2,367.2
Current assets			
Debtors:			
amounts falling due after more than one year	17	164.2	545.7
amounts falling due within one year	17	939.4	234.8
Cash at bank and in hand		295.2	240.2
		1,398.8	1,020.7
Creditors: amounts falling due within one year	18	(840.6)	(1,069.9)
Net current assets/ (liabilities)		558.2	(49.2)
Total assets less current liabilities		2,925.7	2,318.0
Creditors: amounts falling due after more than one year	19	(1,296.2)	(646.5)
Net assets		1,629.5	1,671.5
Capital and reserves			
Called up share capital	22	419.0	419.0
Share premium account		4.0	4.0
Hedge Reserve	16	(0.4)	4.2
Profit and loss account		1,206.9	1,244.3
Equity attributable to the owners of the parent company		1,629.5	1,671.5

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 17 September 2020.

DocuSigned by:

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Andy Skelton
Director

The notes on pages 14 to 35 form part of these financial statements.

Drax Corporate Limited

Statement of Changes in Equity for the year ended 31 December 2019

	Called-up share capital £m	Share premium account £m	Hedge Reserve £m	Profit and loss Account £m	Total Equity £m
At 1 January 2018	419.0	4.0	-	1,414.5	1,837.5
Comprehensive expense for the year					
Loss for the year	-	-	-	(39.2)	(39.2)
Other comprehensive income	-	-	4.2	-	4.2
Total comprehensive income/ (expense) for the year	-	-	4.2	(39.2)	(35.0)
Dividends paid	-	-	-	(132.7)	(132.7)
Share based payment	-	-	-	1.5	1.5
Deferred tax on share-based payments release directly from equity	-	-	-	0.2	0.2
Total transactions with owners	-	-	-	(131.0)	(131.0)
At 31 December 2018	419.0	4.0	4.2	1,244.3	1,671.5
Comprehensive income for the year					
Profit for the year	-	-	-	19.2	19.2
Other Comprehensive income/(expense)	-	-	(4.6)	-	(4.6)
Total comprehensive (expense)/ income for the year	-	-	(4.6)	19.2	14.6
Dividends paid	-	-	-	(57.4)	(57.4)
Share based payment	-	-	-	0.8	0.8
Deferred tax on share-based payments release directly from equity	-	-	-	-	-
Total transactions with owners	-	-	-	(56.6)	(56.6)
At 31 December 2019	419.0	4.0	(0.4)	1,206.9	1,629.5

The notes on pages 14 to 35 form part of these financial statements.

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019

1 General information

Drax Corporate Limited is a private company, limited by shares, incorporated in England and Wales under the Companies Act 2006. The address of the registered office can be found on the Company information page and the nature of the Company's operations and its principal activities are set out in the Strategic Report.

2 Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention 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 Financial Reporting Standard 101 (FRS 101) may require the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. There were no particular areas which involved a higher degree of judgement or complexity or where assumptions and estimates were significant to the financial statements.

The presentation currency used is sterling and amounts have been presented in round millions ("£ms").

2.2 Going concern

As discussed in the Directors' Report on pages 4 and 5, the directors have reviewed the financial position of the Company and considered the impact of Covid-19 on the wider Drax Group. 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.

2.3 Exemption from preparing consolidated accounts

The Company is a wholly owned subsidiary of another company incorporated in the UK and in accordance with Section 400(1)(a) of the Companies Act 2006, is not required to produce consolidated accounts.

2.4 FRS 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 requirements of paragraphs 91-99 of IFRS 13
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 10(d), 16, 111 and 134-136, 36a of IAS 1 Presentation of Financial Statements
- 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

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 (*continued*)

2 Accounting policies (*continued*)

2.4 Financial reporting standard 101 - reduced disclosure exemptions (*continued*)

- the requirements of 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 party to the transaction is wholly owned by such a member.

This information is included in the consolidated financial statements of Drax Group plc as at 31 December 2019 and these financial statements may be obtained from Drax Power Station, Selby, North Yorkshire, YO8 8PH.

2.5 Interest payable

Interest payable is 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.

2.6 Interest receivable

Interest receivable is recognised in the income statement using the effective interest method

2.7 Intangible assets

Intangible assets comprise computer software measured at cost, which includes 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.

After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is charge to the income statement within administrative expenses.

The estimated useful lives range as follows:

Computer software - 3-5 years

2.8 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Leasehold fixtures and fittings	- 10 years
Electronic equipment	- 2-5 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 (continued)

2 Accounting policies (continued)

2.9 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.10 Debtors

Debtors are initially measured at fair value being transaction price, and subsequently at amortised cost less impairment. A provision for impairment of amounts owed by Group is measured at an amount equal to the 12-month expected credit loss.

Applying the Business Model and SPPI test, the Loans and receivables due from Group undertakings are classified as amortised cost as the assets are held to collect contractual cash flows of which are made up solely of payments of principal and interest. The debtors require payment only of fixed amounts on fixed dates.

2.11 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. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.12 Derivative financial instruments

The company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Derivatives are 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 in the income statement when the hedge accounting requirements are not met. 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.

2.13 Creditors

Creditors represent amounts owed to trade creditors, tax authorities and other payables 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.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 (*continued*)

2 Accounting policies (*continued*)

2.14 Functional currency

These financial statements are presented in pounds sterling, which is the currency in which most transactions are denominated.

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 and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

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 within administrative expenses except when deferred in other comprehensive income as qualifying cash flow hedges.

2.15 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are legally binding when members pass a written resolution, or when physically paid. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

2.16 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of an award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to Income Statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with fair value of goods and services received.

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 *(continued)*

2 Accounting policies *(continued)*

2.17 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 and is subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

The lease liability is initially measured at the present value of the future lease payments discounted using the discount rate that is implicit in the lease. If this discount rate cannot be determined from the agreement, the liability is discounted using the 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 twelve 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.

2.18 Pensions

The Group operates a defined contribution plan for its employees, into which the Company pays contributions. 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.

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 *(continued)*

2 Accounting policies *(continued)*

2.19 Adoption of new accounting standards

A number of new and amended standards became effective for the first time in 2019, including IFRS 16 Leases.

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC 15 Operating leases and SIC 27 Evaluating the substance of transactions involving the legal form of a lease.

The Company has adopted IFRS 16 from 1 January 2019 using the modified retrospective method of adoption. Under this method, the cumulative effect of initially applying the standard is recognised at the date of initial application. Consequently, comparative information in these financial statements for the year ended 31 December 2018 has not been restated.

The new requirements have impacted the Company's accounting for lease contracts. The Company's lease portfolio relates to office buildings and equipment. On transition to IFRS 16 on 1 January 2019, assets controlled under lease contracts were brought onto the balance sheet as right-of-use assets, and the Company has recognised a corresponding liability for the amounts payable under the lease contracts.

On transition, the Company elected to use the available practical expedient allowing the standard to only be applied to those contracts identified as leases under the previous standards. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered into or modified before 1 January 2019. However, the Company has applied the new definition of a lease to all contracts entered into or modified on or after 1 January 2019. This change did not have a significant impact on the assessment of new contracts in 2019 that are in scope of the new definition of a lease.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	£m
Operating lease commitment as at 31 December 2018	7.5
Less:	
Effect of discounting	(1.2)
Rentals relating to short-term low value assets	(0.1)
	<hr/>
Lease liabilities as at 1 January 2019	6.2

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 (*continued*)

2.20 Taxation

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.

2.21 Reserves

The Company has the following reserves within equity:

Called-up share capital

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

Share premium account

This represents excess paid over the nominal value of shares issued, including issue costs.

Profit and loss account

Profit and loss account represents cumulative profits or losses net of dividends or other adjustments.

Hedge reserve

The hedge reserve represents accumulated fair value gains and losses on derivative financial instrument contracts that meet the definition of an effective hedge and that have not yet been recycled to the profit and loss account.

3 Key Judgements and significant estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. Management have concluded that there are no significant judgements or sources of estimation uncertainty as defined by IAS 1 within these financial statements.

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 (continued)

4 Operating loss

	2019 £m	2018 £m
The operating loss is stated after charging:		
Depreciation of tangible fixed assets	1.4	0.5
Depreciation of right-of-use assets	0.6	-
Amortisation of intangible assets	0.9	0.2
Exchange differences	2.2	2.7
Operating lease payments	-	1.0
Expense for short-term leases	0.2	-
	<u> </u>	<u> </u>

The fee for the audit of the financial statements was £2,625 (2018: £2,500).

5 Employees

	2019 £m	2018 £m
Staff costs were as follows:		
Wages and salaries	23.2	16.3
Social security costs	1.9	1.6
Costs of defined contribution pension scheme	1.3	0.6
	<u> </u>	<u> </u>
	26.4	18.5

Employees of this Company are contracted to other Drax Group companies; the above costs reflect the Company's share of the emoluments of those employees during the period for services rendered to the Company. In addition to the above costs, equity settled share-based payment charges of £0.8 million (2018: £1.5 million) have been recognised by the Company in the year (see note 23) and £0.1 million of cash settled share-based payment charges have been recognised (2018: £nil).

The remuneration received by the directors, borne by this Company and its subsidiary undertakings, is shown in the table below. 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.

	2019 £m	2018 £m
Directors' emoluments	1.5	1.1
Aggregate amounts receivable under long-term incentive schemes	0.2	0.9
Director pensions contributions – money purchase scheme	0.2	0.2
	<u> </u>	<u> </u>
	1.9	2.2

Amounts receivable under long-term incentive schemes represents 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. All directors received awards in the year and two of the directors exercised options over shares deriving from a long-term incentive plan during the year.

During the year retirement benefits were accruing to three Directors (2018: two Directors) in respect of money purchase pension schemes.

The highest paid director received aggregate emoluments and amounts receivable under long-term incentive schemes of £0.7 million (2018: £1.3 million) and accrued retirement benefits under money purchase schemes of £0.1 million (2018: £0.1 million).

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 (continued)

5 Employees (continued)

The average monthly number of employees whose remuneration was paid by the Company, including the directors, during the year was as follows:

	2019 Number	2018 Number
Business services	249	187

6 Interest receivable

	2019 £m	2018 £m
Interest from Drax Group undertakings	32.3	30.5
Bank and other interest receivable	0.8	0.5
	<u>33.1</u>	<u>31.0</u>

7 Interest payable and similar charges

	2019 £m	2018 £m
Interest payable on bank borrowings	2.4	4.5
Interest payable on loans from Drax Group undertakings	44.0	31.5
Amortisation of deferred financing costs	1.0	1.1
Other bank charges	10.1	5.4
Interest on lease liabilities	0.2	-
Refinancing costs	5.2	2.0
	<u>62.9</u>	<u>44.5</u>

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 (continued)

8 Taxation

	2019 £m	2018 £m
Corporation tax		
Current tax credit on profits / (loss) for the year	(14.1)	(8.1)
Adjustments in respect of previous periods	0.5	3.9
Total current tax credit	(13.6)	(4.2)
Deferred tax		
Deferred tax (credit) / charge for the year	(0.1)	0.1
Adjustments in respect of previous periods	0.2	-
Impact of tax rate change	-	-
Total deferred tax charge	0.1	0.1
Total tax credit for the year	(13.5)	(4.1)

Factors affecting tax charge for the period

The tax assessed for the year is lower than (2018: lower than) the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are explained below:

	2019 £m	2018 £m
Profit / (loss) on ordinary activities before tax	5.7	(43.3)
Profit / (loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	1.1	(8.2)
Effects of:		
Non-taxable dividends from Drax Group undertakings	(15.4)	-
Prior year adjustment	0.7	3.9
Expenses not deductible for tax purposes	0.1	0.4
Other non-taxable income	-	(0.2)
Impact of tax rate change	-	-
Total tax credit for the year	(13.5)	(4.1)

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%.

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 *(continued)*

8 Taxation *(continued)*

To the extent they are recognised, the closing deferred tax balances are calculated at 17%, the rate which was substantively enacted at the balance sheet date. The deferred tax balances will be remeasured at 19% at the next reporting date, following substantive enactment on the 17 March 2020.

9 Dividends paid

	2019 £m	2018 £m
Amounts recognised as distributions to shareholder in the year:		
Dividends for the year ended 31 December 2018	-	132.7
Dividends for the year ended 31 December 2019	57.4	-
	<u>57.4</u>	<u>132.7</u>

10 Dividends received

	2019 £m	2018 £m
Income received in the year from:		
Shares in Drax Group undertakings	81.2	-
	<u>81.2</u>	<u>-</u>

Subsequent to the year end, the Company received dividends totalling £70.0 million which were subsequently paid as a distribution to the Company's immediate parent company Drax Group Holdings Limited.

Drax Corporate Limited

Notes forming part of the Financial Statements
for the year ended 31 December 2019 *(continued)*

11 Intangible assets

	Computer software £m
Cost	
At 1 January 2019	1.0
Additions	0.9
Transfers	0.2
	<hr/>
At 31 December 2019	2.1
Amortisation	<hr/>
At 1 January 2019	(0.4)
Charge for the year	(0.9)
	<hr/>
At 31 December 2019	(1.3)
Net book value	<hr/>
At 31 December 2019	0.8
	<hr/>
At 31 December 2018	0.6
	<hr/>

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 *(continued)*

12 Tangible fixed assets

	Leasehold Fixtures and fittings £m	Electronic Equipment £m	Total £m
Cost			
At 1 January 2019	1.5	6.0	7.5
Additions	-	2.9	2.9
Issues/Transfers	-	(0.2)	(0.2)
	<hr/>	<hr/>	<hr/>
At 31 December 2019	1.5	8.7	10.2
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 January 2019	-	(0.7)	(0.7)
Charge for the year	(0.3)	(1.1)	(1.4)
	<hr/>	<hr/>	<hr/>
At 31 December 2019	(0.3)	(1.8)	(2.1)
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2019	1.2	6.9	8.1
	<hr/>	<hr/>	<hr/>
At 31 December 2018	1.5	5.3	6.8
	<hr/>	<hr/>	<hr/>

Included in electronic equipment are amounts for assets under construction of £5.6 million (2018: £4.3 million).

Drax Corporate Limited

Notes forming part of the Financial Statements
for the year ended 31 December 2019 *(continued)*

13 Leases

	Right-of-use Assets £m
Cost	
At 1 January 2019	5.5
	<hr/>
At 31 December 2019	5.5
Depreciation	
At 1 January 2019	-
Charge for the year	(0.6)
	<hr/>
At 31 December 2019	(0.6)
Net book value	
At 31 December 2019	4.9
	<hr/>
At 1 January 2019	5.5
	<hr/>
Lease Liability	£m
At 1 January 2019	6.2
Interest charge for the year	0.2
Payments made	(1.0)
	<hr/>
At 31 December 2019	5.4
	<hr/>
Current portion	0.5
Non-current portion	4.9
	<hr/>
	5.4
	<hr/>

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 (*continued*)

14 Fixed asset investments

	Investments in subsidiary companies £m
Cost	
At 1 January 2019	4,082.7
	<hr/>
At 31 December 2019	4,082.7
	<hr/>
Impairment	
At 1 January 2019	1,750.8
	<hr/>
At 31 December 2019	1,750.8
	<hr/>
Net book value	
At 31 December 2019	2,331.9
	<hr/>
At 31 December 2018	2,331.9
	<hr/>

The accumulated impairment primarily arose in 2017 after the carrying values of the investments were impaired following a Group simplification process.

Direct subsidiary undertakings

The following were subsidiary undertakings of the Company at 31 December 2019:

Name	Class of shares	Holding	Principal activity
Drax Holdings Limited ***	Ordinary	100%	Dormant
Drax Research and Innovation Holdco Limited	Ordinary	100%	Holding company
Drax Smart Generation Holdco Limited	Ordinary	100%	Holding company
Drax Smart Sourcing Holdco Limited	Ordinary	100%	Holding company
Drax Smart Supply Holdco Limited	Ordinary	100%	Holding company

	Registered Office
* incorporated in the USA	Principal business address for all subsidiaries incorporated in the USA is 850 New Burton Road, Suite 201, Dover, DE 19904.
** incorporated in Scotland	Principal business address for all subsidiaries incorporated in Scotland is 13 Queen's Road, Aberdeen, Scotland, AB15 4YL.
*** registered in Cayman Islands	The address of Drax Holdings Ltd is c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1 9005, Cayman Islands.
Incorporated in the UK	The registered office of all the companies incorporated in England and Wales is Drax Power Station, Selby, North Yorkshire, YO8 8PH.

Where active, subsidiary undertakings operate in their country of incorporation. All subsidiary undertakings have 31 December year ends.

The directors believe that the carrying value of the investments is supported by their underlying value in use.

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 (continued)

14 Fixed asset investments (continued)

Indirect Subsidiary undertakings

The following were indirect subsidiary undertakings of the Company at 31 December 2019:

Name	Class of shares	Holding	Principal activity
Abbott Debt Recovery Limited	Ordinary	100%	Debt recovery services
Abergelli Power Limited	Ordinary	100%	Power generation
Amite BioEnergy LLC*	Common	100%	Fuel supply
Baton Rouge Transit LLC*	Common	100%	Fuel supply
Hirwaun Power Limited	Ordinary	100%	Power generation
DBI O&M Company LLC*	Common	100%	Non-trading company
Domus Energy Limited	Ordinary	100%	Dormant
Donnington Energy Limited	Ordinary	100%	Dormant
Drax Biomass Holdings Limited	Ordinary	100%	Dormant
Drax Biomass Holdings LLC*	Common	100%	Dormant
Drax Biomass Inc.*	Common	100%	Wood pellet manufacturing
Drax Biomass International Holdings LLC*	Common	100%	Holding company
Drax Biomass Transit LLC*	Common	100%	Holding company
Drax CCS Limited	Ordinary	100%	Holding company
Drax Corporate Developments Limited	Ordinary	100%	Development company
Drax Fuel Supply Limited	Ordinary	100%	Non-trading company
Drax Generation Developments Limited	Ordinary	100%	Development company
Drax Generation (Selby) Limited	Ordinary	100%	Non-trading company
Drax Innovation Limited	Ordinary	100%	Development company
Drax Pension Trustees Limited	Ordinary	100%	Dormant
Drax Power Limited	Ordinary	100%	Power generation
Drax Retail Developments Limited	Ordinary	100%	Development company
Farmoor Energy Limited	Ordinary	100%	Power retail
Haven Heat Limited	Ordinary	100%	Non-trading company
Haven Power Limited	Ordinary	100%	Power retail
Haven Power Nominees Limited	Ordinary	100%	Non-trading company
Jefferson Transit LLC*	Common	100%	Dormant
LaSalle Bioenergy LLC*	Common	100%	Fuel supply
Millbrook Power Limited	Ordinary	100%	Power generation
Morehouse BioEnergy LLC*	Common	100%	Fuel supply
Opus Energy (Corporate) Limited	Ordinary	100%	Power retail
Opus Energy Group Limited	Ordinary	100%	Holding company
Opus Energy Limited	Ordinary	100%	Power retail
Opus Energy Marketing Limited	Ordinary	100%	Marketing services
Opus Energy Renewables Limited	Ordinary	100%	Renewables purchase
Opus Water Limited	Ordinary	100%	Dormant
Opus Gas Limited	Ordinary	100%	Fuel Supply
Opus Gas Supply Limited	Ordinary	100%	Power retail
Progress Power Limited	Ordinary	100%	Power generation
Pirranello Energy Supply Limited	Ordinary	100%	Dormant
Damhead Creek II Limited (formerly Select Energy Limited)	Ordinary	100%	Dormant
Sunflower Energy Supply Limited	Ordinary	100%	Dormant
Tyler Bioenergy LLC*	Common	100%	Dormant
Drax Generation Enterprise Limited** (formerly ScottishPower Generation Limited)	Ordinary	100%	Power generation
SMW Limited**	Ordinary	100%	Fuel supply

In July 2019, 100% of the issued share capital of Pirranello Energy Supply Limited was acquired by Drax Smart Supply Holdco Limited, a direct subsidiary of the Company; Pirranello Energy Supply Limited became an indirect subsidiary of the Company from this point.

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 (continued)

15 Derivative financial instruments

The Company is exposed to interest rate risk on the repayment of its intra-group borrowings relating to USD \$500 million 2025 fixed rate loan notes. The Company has taken out a fixed to fixed cross-currency interest rate swap with a fellow Drax Group company to hedge the future cash flows associated with the loan notes, effectively converting them to sterling fixed rate cash flows.

	2019 £m	2018 £m
Fair value of financial instrument:		
At 1 January 2019	27.9	-
Fair value (losses) / gains taken to the hedge reserve	(10.9)	27.9
	<hr/>	<hr/>
Closing fair value at 31 December 2019	17.0	27.9
	<hr/>	<hr/>

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.

	2019 £m	2018 £m
Derivative financial instrument assets > 1 year	21.8	27.9
Derivative financial instrument assets < 1 year	-	-
	<hr/>	<hr/>
Total derivative financial instruments assets	21.8	27.9
	<hr/>	<hr/>
Derivative financial instrument liabilities > 1 year	(4.8)	-
Derivative financial instrument liabilities < 1 year	-	-
	<hr/>	<hr/>
Total derivative financial instruments liabilities	(4.8)	-
	<hr/>	<hr/>
Total derivative financial instruments	17.0	27.9
	<hr/>	<hr/>

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 (continued)

16 Hedge reserve	2019 £m	2018 £m
At 1 January 2019	4.2	-
Fair value (losses) / gains taken to the hedge reserve	(10.9)	27.9
Fair value losses / (gains) recycled to the income statement	5.3	(22.8)
Deferred tax on cash flow hedges	1.0	(0.9)
	<hr/>	<hr/>
Closing value at 31 December 2019	(0.4)	4.2
	<hr/>	<hr/>
17 Debtors	2019 £m	2018 £m
Due after more than one year:		
Amounts owed by Drax Group undertakings	164.0	545.7
Deferred tax	0.2	-
	<hr/>	<hr/>
	164.2	545.7
	<hr/>	<hr/>
Due within one year:		
Amounts owed by Drax Group undertakings	933.1	230.7
Social security and other debtors	2.0	0.5
Prepayments and accrued income	4.3	3.6
	<hr/>	<hr/>
	939.4	234.8
	<hr/>	<hr/>

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

Amounts owed by Drax Group undertakings also includes other funds advanced by 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 by the Company are settled according to the terms of the agreement or if shorter, the date demanded by the Company as the lender. If interest is not paid on the due date it is rolled over and capitalised.

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 (continued)

18 Creditors: Amounts falling due within one year

	2019	2018
	£m	£m
Trade creditors	1.7	1.6
Amounts owed to Drax Group undertakings	790.7	977.5
Accruals	23.6	20.6
Lease liabilities	0.5	-
Other creditors	24.1	70.2
	840.6	1,069.9

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

The Company entered into a number of payment facilities in 2019 to leverage scale and efficiencies in transaction processing whilst providing a working capital benefit, of which £22 million was outstanding as at 31 December 2019 (2018: £70 million). The amounts fall due between 4 and 60 days from the year end.

19 Creditors: Amounts falling after more than one year

	2019	2018
	£m	£m
Amounts owed to Drax Group undertakings	759.7	616.0
Bank borrowings (see note 20)	526.8	29.7
Deferred tax	-	0.8
Lease liabilities	4.9	-
Derivative financial instruments liabilities	4.8	-
	1,296.2	646.5

Amounts owed to Drax Group undertakings after more than one year are repayable on specific due dates set out in the relevant agreement and bear a commercial rate of interest payable on dates as set out within the agreement. Bank borrowings include a £35 million indexed-linked term loan due in 2022 and private placement and ESG facilities of £500m due from 2022 to 2029.

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 (*continued*)

20 Analysis of bank borrowings

Analysis of the maturity of loans is given below:

	2019 £m	2018 £m
Gross amounts falling due 2-5 years		
Borrowings before deferred finance costs	285.4	37.1
Gross amounts falling due after 5 years		
Borrowings before deferred finance costs	252.5	-
	<hr/>	<hr/>
Total Gross borrowings before deferred finance costs	537.9	37.1
	<hr/>	<hr/>
Deferred finance costs	(11.1)	(7.4)
	<hr/>	<hr/>
Net borrowings	526.8	29.7
	<hr/>	<hr/>

At the start of the year, the Company's financing structure included a £350 million facility comprised of a Revolving Credit Facility (RCF) with a value of £315 million and an index-linked term loan of £35 million. The RCF matures in April 2021. At 31 December 2019 and 2018, no amounts were drawn under the RCF.

On 2 January 2019, the Company drew down £550 million from an acquisition bridge facility and subsequently on-lent these funds to another Drax Group company to fund the acquisition by that company of DGE from ScottishPower.

On 16 May 2019, another Drax Group entity issued US \$200 million loan notes. The sterling proceeds of this issue of £150 million were on-lent to the Company and the Company used the on-lent funds to repay part of the acquisition bridge facility.

On 24 July 2019, the Company successfully refinanced the outstanding balance drawn on the acquisition bridge facility. Two new facilities totalling £500 million were agreed: a £375 million UK infrastructure private placement with maturities extending out to 2024-2029 and a £125 million ESG facility. The original contractual maturity date of the ESG facility was 2022. After the balance sheet date this has been extended by three years to 2025.

The weighted average interest rate payable at the balance sheet date on the Company's borrowings was 3.99% (2018: 4.56%). A proportion of the interest rate on the £125 million ESG facility is variable, based on the Drax Group's total carbon dioxide emissions per GWh of electricity generation.

Deferred finance costs have increased in the year due to fees deferred on the private placement and the ESG facility.

The Company's borrowings are guaranteed and secured by the Company and each of its direct and indirect subsidiary undertakings, as set out in note 21.

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 (continued)

21 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 2019 the outstanding secured borrowings amounted to £1,267.5 million (2018: £622.4 million). Guarantees and security have also been provided in respect of the above borrowings by certain members of the Drax Group.

The Company also provides security and guarantees in respect of Drax Power Limited's (a Drax Group Company) 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 Drax Power Limited defaulting on the terms of these arrangements. As at 31 December 2019, this value was £32.7 million (2018: £11.9 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.

22 Share Capital

	2019 £m	2018 £m
Allotted, called up and fully paid		
419,046,647,002 (2018: 419,046,647,002) ordinary shares of £0.001 each	419.0	419.0

23 Share based payments

Equity settled share option schemes

The Drax Group operates three share option schemes for employees – the Performance Share Plan (PSP) for directors and senior executives (which replaced the Bonus Matching Plan (BMP) from 2017), the Deferred Share Plan (DSP), and the Savings-Related Share Option Plan (SAYE) for all qualifying employees. The Company incurs a non-cash charge in respect of these schemes in the income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding. The table below represents the credit to equity during the year. Additional information in relation to the Drax Group's share-based incentive plans can be located in pages 175-178 of the Drax Group plc Annual Report and Accounts for 2019.

	2019 £m	2018 £m
PSP (granted from 2017)	0.6	0.7
DSP (granted from 2018)	0.4	0.2
SAYE Plan	0.1	0.1
BMP (granted in periods prior to 2017)	(0.3)	0.5
	0.8	1.5

Drax Corporate Limited

Notes forming part of the Financial Statements for the year ended 31 December 2019 (*continued*)

23 Share based payments (*continued*)

	2019			2018		
	Weighted average share price at the date of exercise £	Range of exercise prices £	Weighted average remaining contractual life months	Weighted average share price at the date of exercise £	Range of exercise prices £	Weighted average remaining contractual life months
PSP (granted from 2017)	-	-	16	-	-	21
DSP (granted from 2018)	-	-	20	-	-	23
SAYE Plan	£3.14	£2.67 - £3.41	25	£3.65	£2.26 - £4.27	19
BMP (granted in periods prior to 2017)	£3.65	£3.65 - £3.65	-	£2.70	£2.70 - £2.70	2

24 Pensions

The Company contributes to a defined contribution pension scheme in respect of its employees. The assets of the scheme are held separately from those of the Company in an independently administered fund. The net pension cost charge in the income statement represents contributions payable by the Company to the fund and amounted to £1.3 million (2018: £0.6 million representing £1.5 million of contributions paid less an accrual release of £0.9 million). There were no contributions payable at the balance sheet date in either the current or previous year.

25 Ultimate parent undertaking and controlling party

The immediate parent company and controlling company is Drax Group Holdings Limited, a company incorporated in England and Wales.

The ultimate parent 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. 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 Drax Group's website at www.drax.com.

26 Post balance sheet events

In August 2020, the Company secured additional infrastructure private placement term loan facilities of approximately £160 million with a range of maturities between 2024 and 2030. The new facilities have an average margin of 2.07%. The covenants attached to these facilities are consistent with those attached to the Group's existing facilities and are guaranteed under the same arrangements as described in note 21. At the date of signing these financial statements, no amounts have been drawn.