

Committed to the world's energy transition

Drax Group plc Annual report and accounts 2023

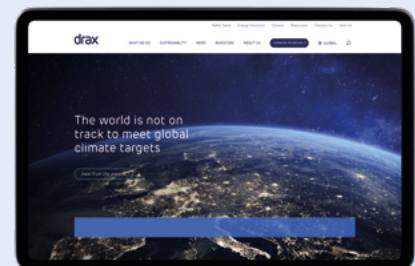


Financial/ESG highlights

Total revenue £8,125m (2022: £7,775m)	Adjusted EBITDA(excluding EGL) ^{(1) (3)} £1,214m (2022: £731m)	Total basic earnings per share 142.8 pence (2022: 21.3 pence)
Total operating profit £908m (2022: £146m)	Dividend per share 23.1 pence (2022: 21.0 pence)	Cash generated from operations £1,111m (2022: £320m)
Percentage of total UK renewable electricity generated 8% (2022: 11%)	Net debt ^{(1) (2)} £1,084m (2022: £1,206m)	Total recordable incident rate 0.38 (2022: 0.44)
Group carbon intensity 39 tCO₂e/GWh 2022: 49 tCO ₂ e/GWh	Group carbon emissions Scope 1 and 2 (location-based) 486 ktCO₂e (2022: 669 ktCO ₂ e)	Group carbon emissions Scope 3 3,534 ktCO₂e (2022: 3,123 ktCO ₂ e)
Wood pellets produced 3.8Mt (2022: 3.9Mt)	Employee engagement score 79% (2022: 79%)	(1) Adjusted financial performance measures are described on page 206 (2) Net debt is described in Alternative performance measures on page 209 (3) Electricity Generator Levy (EGL) of £205m

Delivering dispatchable, renewable power

An electricity generator produces **dispatchable power** when the power can be ramped up and down, or switched on or off, at short notice to provide a flexible response to changes in electricity demand. Biomass, pumped storage, coal, oil, and gas electricity generation can meet these criteria and hence can be Dispatchable Power sources. Nuclear can be dispatched against an agreed schedule but is not flexible. Wind and solar electricity cannot be scheduled and hence are not Dispatchable. An electricity system requires sufficient Dispatchable Power to operate and remain safe. **Renewable power** is derived from natural sources that are replenished at a higher rate than they are consumed.



Read more at [drax.com](https://www.drax.com)

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Our purpose is to enable a zero carbon, lower cost energy future

Through our strategic pillars, that are aligned to net zero targets, we are delivering on our promise. This is how we are creating impact:



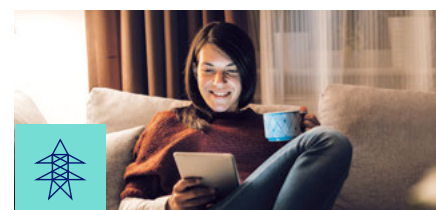
 To be a global leader in carbon removals

Strategic pillar Page 16



 To be a global leader in sustainable biomass pellets

Strategic pillar Page 18



 To be a UK leader in dispatchable, renewable generation

Strategic pillar Page 20

At a glance

We are committed to enabling a zero carbon, lower cost energy future. Our strategic aims are to be a global leader in both sustainable biomass pellets and carbon removals, and to be a UK leader in dispatchable, renewable generation.

Drax is the second largest producer of sustainable biomass globally, and the UK's largest source of renewable power by output. We are progressing options for carbon removals using bioenergy with carbon capture and storage (BECCS).

Our integrated flexible and renewable value chain

Pellet Production

Sustainably sourced biomass is a renewable, low-carbon source of energy and a key element in the road to net zero. This is at the heart of our purpose. The material we use to make pellets includes sawmill and other wood industry residues and forest residuals (which includes low grade roundwood, thinnings, branches and tops). They provide a sustainable, low-carbon fuel source that can be safely and efficiently delivered through our global supply chain.

The forests from which we source our biomass are managed in accordance with standards designed to support the health and growth of these forests over the long term. Based in the US South and in Western Canada, we have 18 operational and development sites with nameplate capacity of around 5.4Mt once expansions are complete.

We have US\$3.7 billion of long-term contracted sales to third parties across Asia and Europe. Our Generation business also uses sustainably sourced pellets from our Pellet Production sites to make flexible, renewable electricity for the UK.

We are committed to sourcing sustainable biomass that achieves both decarbonisation and positive forest outcomes. You can read more about this in the Sustainable Development section on page 44.

Employees

781

Adjusted EBITDA

£89m

(2022: £134m)

Pellets produced

3.8Mt

(2022: 3.9Mt)

Generation

Our portfolio of flexible, low-carbon and renewable UK power assets – biomass, hydro, and pumped storage generation – provides dispatchable, renewable power and system support services to the electricity grid.

Our dispatchable power assets – which can be turned up or down, or switched on or off, at short notice to provide (or dispatch) a flexible response to changes in electricity demand – have an important role to play in enabling the transition to more renewable energy and a more flexible energy system: generating renewable electricity when the sun doesn't shine and the wind doesn't blow.

We are the UK's largest source of renewable power by output, and Drax Power Station is the UK's largest single source of renewable electricity by output.

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

We are developing options for BECCS at Drax Power Station in the UK and exploring options for global BECCS.

Employees

675

Adjusted EBITDA (excluding EGL)

£1,138m

(2022: £696m)

Percentage of total UK renewable electricity generated

8%

(2022: 11%)

Customers

Our Customers business sells renewable electricity to industrial and commercial customers in the UK.

The business also offers non-generation system support and energy management services to help customers cut costs and reduce their emissions.

This includes the provision of decarbonisation services, such as vehicle fleet electrification, implementing a charging infrastructure, or optimising electric assets. It also helps customers to sell any renewable power they generate.

Opus Energy sells renewable electricity and gas, powering a portfolio of mainly small and medium-sized enterprise (SME) customers, as well as some larger corporate businesses, across the UK. The provision of renewable sourced electricity as standard supports customers with the achievement of their sustainability goals.

Employees

892

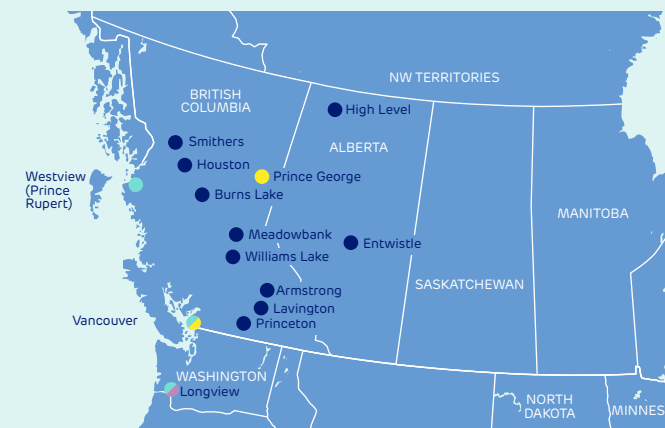
Adjusted EBITDA

£72m

(2022: £26m)

Where we operate

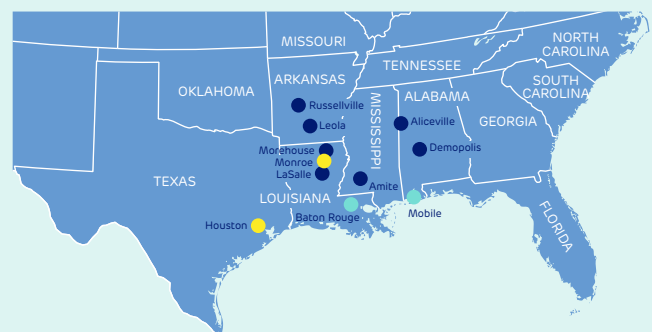
Canada



- Ports
- Developments
- Operational plants
- Corporate offices

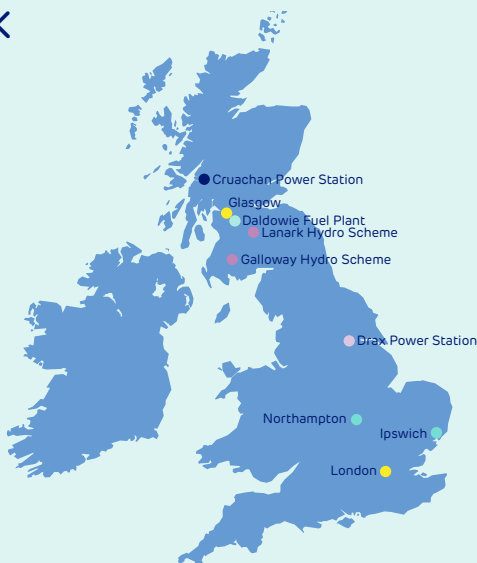
18 operational and development sites, with nameplate capacity of around 5.4Mt once expansions are complete.

US



Five deep water ports, including one in development, accessing Asian and European markets.

UK



Dispatchable, renewable power generation – biomass, hydro, and pumped storage – and supply to UK industry.

Japan



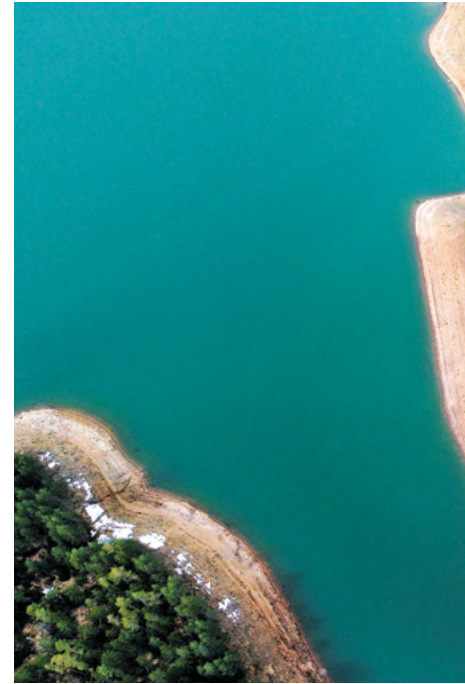
- Pumped storage hydro generation
- Biomass from waste
- Hydro-electric generation
- Biomass generation
- Customers business – sales and energy management services
- Corporate offices

Market context

Our role in energy security, tackling climate change, and a Just Transition

The world is navigating a complex interplay of technological, geopolitical, environmental, and social factors, requiring global co-operation and innovative solutions. Trade tensions, technological competition, and ideological differences contribute to a delicate balance of power that influences international politics and economics. As societies grapple with the challenges, the pursuit of sustainable and inclusive development must remain a shared goal. This is summarised as the energy trilemma – how to maximise decarbonisation and ensure energy security, whilst minimising the cost (maximising the benefit) to society.

The global commitment to address climate change is reflected in initiatives like the Paris Agreement and the agreement to transition away from fossil fuels reached at COP28 in Dubai, but the implementation of sustainable practices and the transition to renewable energy sources have faced increasing challenges from wider economic pressures, such as higher interest rates and in some regions political hesitancy.



Energy security

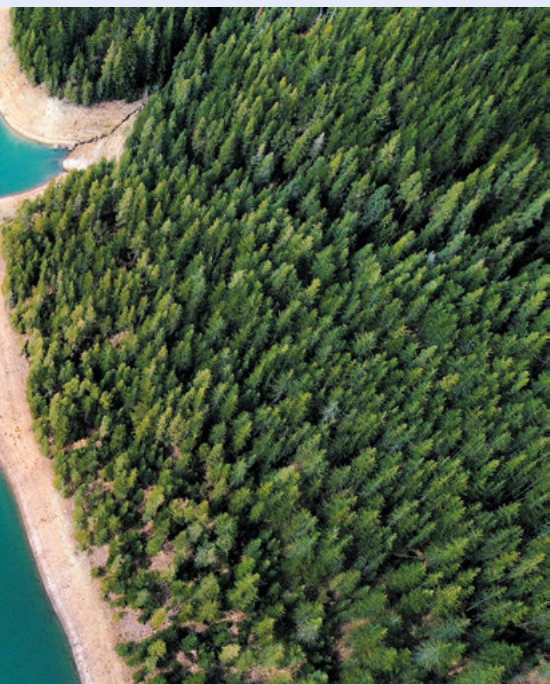
In the two years since the Ukraine-Russia war started, energy security has become increasingly important, with countries and organisations facing a tough balancing act between emissions cuts and energy security. During this time, Drax has continued to play an important role in preserving the UK's energy security. In 2023 across its pumped storage, hydro and biomass assets, Drax provided 8% of the UK's renewable power and Drax Power Station in North Yorkshire was the largest single source of renewable power by output in the UK, whilst also supporting thousands of jobs across the country both directly and through our supply chain.

With the growth in the electrification of heating and transport likely to lead to a significant increase in the demand for electricity, there is a clear need for the development of new capacity. This will likely come from wind and will drive a need for a more flexible power system. This is at the heart of our flexible, renewable model. Drax helps to keep the lights on when the wind doesn't blow and the sun doesn't shine. Unlike wind or solar, our sites provide secure, dispatchable, renewable power whatever the weather – supporting grid stability.



8%

In 2023 across its pumped storage, hydro and biomass assets, Drax provided 8% of the UK's renewable power



9.5bn

Up to 9.5bn tonnes of carbon dioxide removals, via BECCS, could be required annually by 2050.

The illustrative mitigation pathways assessed in the IPCC's latest report use significant volumes of CDRs, including BECCS, as a tool for mitigating climate change. IPCC modelling shows that between 0.5 and 9.5 billion tonnes of CDRs, via BECCS, could be required annually by 2050 to reach global net zero targets. The UN-backed Principles for Responsible Investment estimate that the CDR market could be worth over a trillion dollars by 2050. More supply is required to meet the scale of the challenge, and the IPCC estimates a requirement for 80Mt of BECCS by 2030 (IPCC's median case) compared to just 20Mt of projects in development for 2030.

The UK sits in an advantageous position to realise the potential of CCS. Not only does it possess 25% of Europe's geological storage opportunity for carbon, it also holds an infrastructure, skills, and engineering advantage due to the legacy associated with the oil and gas industry. To take advantage of this position, the UK must act fast, requiring action by the Government, business, and the investment community. This includes finalising CCS business and financial models, confirming the role of the UK Emissions Trading Scheme (UK ETS) scheme and voluntary carbon markets in supporting investment in CCS, and providing a near-term incentive for prospective storage operators to appraise storage locations building on recent North Sea Transition Authority licensing rounds.

The international environment for BECCS continued to develop favourably in 2023. A growing number of governments and

key stakeholders around the world recognise that deploying BECCS at scale will be critical to delivering on climate targets. In the US and Canada, policies to support deployment of renewables and carbon capture technologies are under development and Drax continues to engage with policymakers at the federal, state/provincial, and local level to ensure our sustainability and supply chains are well understood, and to educate on how biomass and BECCS can contribute to grid stability, economic development, and emissions targets.

The EU carbon removal certification framework aims to scale up carbon removal activities and whilst still going through the legislative process, it classifies BECCS as a permanent solution. The Industrial Carbon Management consultation outcome, published in November 2023, demonstrated a high level of support for carbon removals (71%) and BECCS in particular as the highest-ranked technology (76%). Several governments have announced carbon management strategies, research and development funding schemes or grants. On biomass, two pieces of legislation published in 2023 – the Renewable Energy Directive (RED III) and the EU Regulation on Deforestation-free products – could impact our supply chains and impose additional requirements relating to the trade of wood pellets into and from the EU. We remain engaged on these as the EU works on implementation, to help ensure the rules are practical and implementable and that trade into and from the EU can continue.

We expect the momentum behind BECCS to continue in 2024. This could include the development of detailed roadmaps to deliver net zero targets and international negotiations on carbon markets.

The Global Role of BECCS and Carbon Dioxide Removals (CDRs)

Leading scientists agree that reducing emissions alone isn't enough to achieve global climate goals, and that carbon capture and storage (CCS) will be crucial in global efforts towards reaching net zero. BECCS is currently the only credible large-scale technology that could generate renewable power and deliver carbon removals.

The Intergovernmental Panel on Climate Change (IPCC) is the world's leading authority on climate science. It states that carbon dioxide removal (CDR) methods, including BECCS, are needed to mitigate residual emissions and keep the world on a pathway to limit warming to 1.5°C.

A Just Transition

The global energy market continued to see a transition to cleaner and more sustainable energy sources, advancements in technology, and a growing emphasis on digitalisation. Environmental concerns, enhancing energy security, and meeting the evolving demands of a changing world remain high priorities for governments across the world.

Socially, conversations about diversity, equity, and inclusion are gaining prominence, influencing corporate policies, public discourse, and political agendas. Movements advocating for social justice and equality continue to reshape cultural norms and challenge systemic inequalities.

Against this backdrop policymakers need to address all three elements of the energy trilemma in order to minimise the cost, maximise the benefits, and deliver a Just Transition.



Business model

A leading UK-based renewable energy company with global growth opportunities aligned to net zero targets.

Our assets

People

Supportive, diverse and inclusive culture where colleagues feel they belong

Resilient supply chain

Geographically diversified biomass supply chain

Innovation

Developing options for large-scale carbon removal technologies

Financial strength

Clear capital allocation policy to support the strategy

Customer services

Decarbonisation services to high-quality business customers

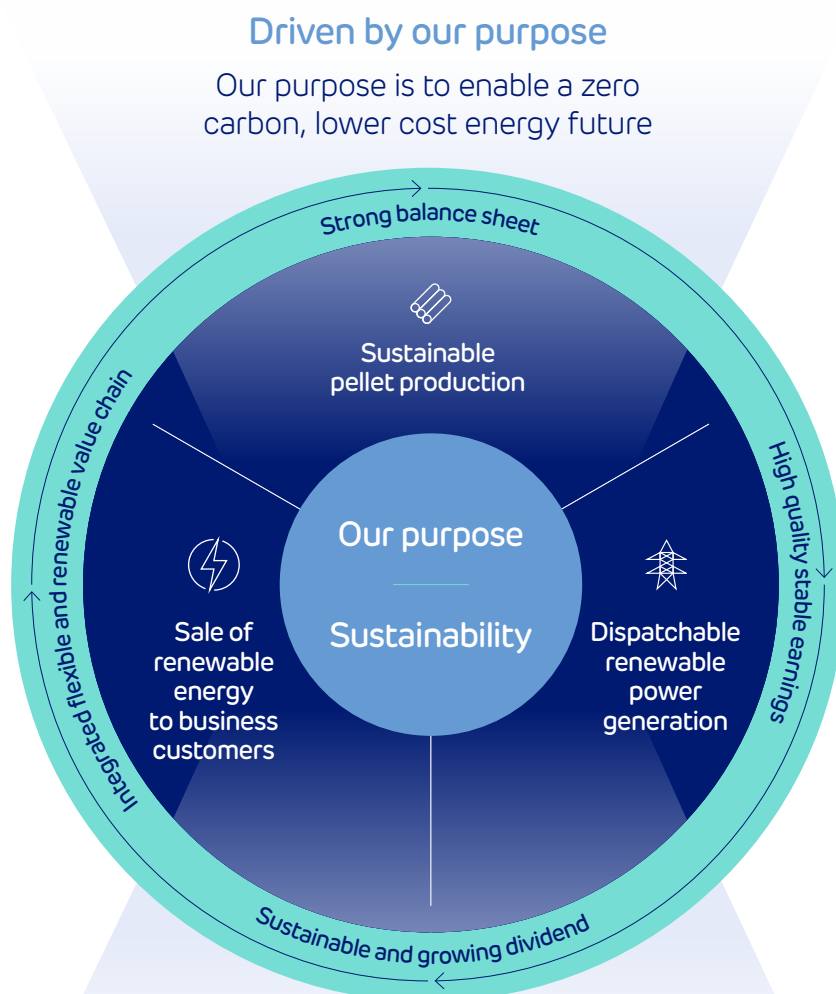
Power generation

11.5TWh

Biomass generation

0.8TWh

Hydro generation



Driven by our purpose

Our purpose is to enable a zero carbon, lower cost energy future

Sustainability underpins what we do

Helping to ensure we have a positive impact on the climate, nature, and people



How we add value

Supporting the UK's energy security – stable, resilient energy supply



Supporting the energy transition – secure, renewable, dispatchable UK power generation



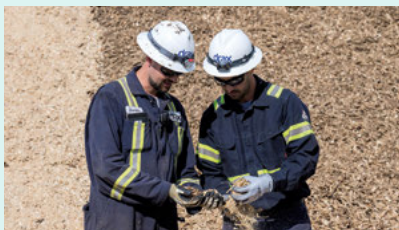
No.1

UK's largest source of renewable power by output (8%)



No.2

Second largest supplier of sustainable biomass globally



Stakeholders

Workforce

[See Page 33](#)

Shareholders and investors

[See Page 33](#)

Communities

[See Page 34](#)

Government, political bodies and regulators

[See Page 35](#)

Customers and suppliers

[See Page 36](#)



Chair's statement



Andrea Bertone, Chair

Enabling a secure and sustainable future, together with you.

I am pleased to present my first Chair's statement for the Group. I joined the Drax Board in August 2023 and assumed the role of Chair in January 2024.

I have spent most of my executive career working in power generation, primarily in North and South America. What drew me to Drax, among other things, was the Group's strong sense of purpose in enabling a zero carbon, lower cost energy future.

Over the last 15 years Drax has transitioned from a UK-based coal-fired power generator to an international renewable energy company. With the development of carbon removal opportunities utilising BECCS technology, I believe that Drax is at the forefront of the energy transition, and I am excited to be a part of that.

On a personal note, I am grateful to Philip Cox for his support during my introduction to the Company and I would like to thank him on behalf of the Board for his nine years of service to the Group, as a Non-Executive Director and Chair.

During his stewardship, the business has completed its transition from coal to biomass power generation, our Pellet Production business has grown, and we have progressed opportunities for BECCS.

These actions have been driven by the Group's continuing commitment to deliver our purpose and contribute to the fight against climate change.

People and values

Since joining the Board, I have already spent time with many colleagues across the Group. I have visited several sites, and I look forward to visiting more during 2024 as I continue to learn about Drax.

I have been impressed with the commitment and enthusiasm of colleagues I have met, and the strong sense of pride in what we are doing. This extends to making sure we do what is right in the way we work, that we support one another, and that we actively engage with stakeholders.

Sustainability is at the heart of the Group, and we believe that achieving a positive economic, social, and environmental impact helps us create sustainable long-term value. We welcome healthy discussion and challenge about what we do, and we acknowledge that there is always room for continued improvement.

The Board remains committed to building a supportive, diverse, and inclusive working environment where all colleagues feel comfortable contributing to healthy debate to achieve the best results. In our latest colleague engagement (*My Voice*) survey we received positive outcomes on measures, such as inclusion and safety, with an overall engagement score of 79% (2022: 79%). You can read more about this on page 64. I am also pleased to report that as at 1 January 2024, 56% of the Board were women.

“

I believe that Drax is at the forefront of the energy transition, and I am excited to be a part of that.

Results and dividend

Adjusted⁽¹⁾ EBITDA (excluding the Electricity Generator Levy (EGL)) in 2023 was £1,214 million. This is significantly higher than 2022 (£731 million), reflecting a strong power generation and system support performance in the UK. The balance sheet also remains strong, with Net debt of £1,084 million (2022: £1,206 million), which is significantly below our target ratio of around 2 times Net debt to Adjusted EBITDA.

At the 2023 Half Year Results, we confirmed an interim dividend of £36 million (9.2 pence per share). The Board proposes to pay a final dividend in respect of 2023 of £53 million, equivalent to 13.9 pence per share. This will make the full year 2023 dividend £89 million (23.1 pence per share) (2022: £84 million, 21.0 pence per share).

This represents a 10% increase on the dividend per share paid in respect of 2022. It is also consistent with our policy to pay a dividend that is sustainable and expected to rise as the strategy delivers stable earnings, cash flows and opportunities for growth.

The Group has a clear capital allocation policy. In determining the rate of growth in dividends from one year to the next, the Board will take account of cash flows from contracted income, the less predictable cash flows from the Group's commodity-linked revenue streams, and future investment opportunities. If there is a build-up of capital, the Board will consider the most appropriate mechanism to return this to shareholders. In line with this policy, between May 2023 and September 2023 the Group conducted a £150 million share buyback programme, purchasing over 26 million shares.

Summary

I would like to thank all colleagues for their hard work, dedication, and expertise in helping us deliver our purpose and our financial results.



In 2023, we used our generation assets and our supply chain to provide reliable and flexible power; we enhanced security of supply in the UK; and we continued to deliver strong financial performance, which resulted in growing dividends to our shareholders.

At the same time, we have made good progress with our strategic objectives. Our biomass growth strategy is clear and underpins our plans for biomass sales, opportunities for BECCS, and renewable power generation.

Through these complementary opportunities, we believe we can deliver sustainable long-term value to our stakeholders as we realise our purpose of enabling a zero carbon, lower cost energy future and become a carbon negative company, removing more carbon from the atmosphere than we produce across our direct operations.

Andrea Bertone,
Chair

28 February 2024

Board composition (women)
(as at 1 January 2024)

56%

Dividend increase

10%

(1) Adjusted financial performance measures are described on page 206.

CEO's Review



We are creating opportunities for growth and attractive returns aligned to global decarbonisation efforts.

Will Gardiner, CEO

The global geopolitical environment continued to be challenging in 2023, with the ongoing war in Ukraine, as well as the conflict in the Middle East. Nevertheless, markets stabilised and prices came down for many commodities, as Europe, in particular, adapted to the new reality and limits on imports of gas from Russia. Despite these challenges, the world continues to drive towards decarbonisation, with an agreement at COP28 to commit to transition away from burning fossil fuels.

These trends also apply to the UK, where gas and power prices have come down significantly. Energy security continues to be a key focus and, despite all the challenges, the UK looks to continue delivering its net zero targets.

As many countries seek to decarbonise in a cost-effective manner, while protecting energy security and delivering a Just Transition, our purpose – to enable a zero carbon, lower cost energy future – is well aligned with these competing priorities.

The world must act now to address the climate crisis if we are to limit global warming to 1.5°C above pre-industrial levels. We need more renewable energy, and more flexible energy systems to make the best use of intermittent renewables.

Crucially, we also need carbon removal technologies, like BECCS, to remove carbon from the atmosphere.

We believe that the use of sustainable biomass and BECCS, alongside flexible, renewable generation and energy systems can make an important contribution – decarbonising and protecting energy security, whilst stimulating economies and minimising the cost.

These benefits will only be possible with the right biomass – biomass that is sourced sustainably. At Drax we are committed to using biomass that can deliver positive outcomes for the climate, nature, and people. We continue to put in place policies, procedures, and controls to support this, and we are committed to working in partnership with stakeholders in the communities where we operate, as well as with industry, scientists, and civil society organisations to achieve our ambitions.

Against this backdrop we are continuing to execute our strategy for carbon removals from BECCS in the US and UK by 2030. In addition we are planning to expand our pumped storage hydro business, and biomass supply chain.

Through our strategy we are creating opportunities for growth and attractive returns while aligning to global decarbonisation efforts. Investments remain subject to the right frameworks from governments and regulators, underpinned by high-quality earnings and cash flows from our core business. We are delivering for shareholders today, paying a sustainable and growing dividend and additional returns via a £150 million share buyback programme conducted in 2023, in line with our capital allocation policy.

Safety

Safety remains a primary focus and, in 2023, we achieved an improvement in performance with our Total Recordable Incident Rate of 0.38 (2022: 0.44). As we explained in our 2022 Annual Report, we widened the scope of reporting to include contractor incidents and saw improvements in the recording of incidents in our pellet operations.

We are committed to a strong safety culture across the Group and remain focused on improving performance. We continued to implement Health, Safety and Environmental (HSE) improvement plans across our businesses in 2023, including investment in training, human resource, and capital projects. We also strengthened our HSE reporting culture by encouraging all colleagues to provide feedback when they identified any hazards or near misses. From this, we were able to implement action plans to prevent reoccurrence. Our See it, Stop it, Report it campaign was run Group-wide.

Chair

At the start of 2024 Andrea Bertone became the new Chair of the Drax Board. With her extensive experience of the energy sector in the Americas, Andrea's stewardship will be valuable as we develop our growing global business.

Andrea replaces Philip Cox, who dedicated nine years of service as a Non-Executive Director and Chair. Philip was Chair throughout my time at Drax and I am grateful for his calm and assured stewardship of the business during a period of significant change and growth. Thank you, Philip.

Summary of 2023

In 2023 we delivered a strong financial and operational performance. We did so while continuing to play an important role supporting energy security in the UK through the provision of dispatchable, renewable generation for millions of homes and businesses.

Adjusted⁽¹⁾ EBITDA (excluding EGL) of £1,214 million, represents a 66% increase on 2022 (£731 million). This reflects a very strong system support and renewable power generation performance across the portfolio as well as growth in our Customers business.

Biomass operations in Generation and Pellet Production remain at the heart of the Group, with combined Adjusted EBITDA (excluding EGL) of £974 million in 2023 (2022: £659 million).

Flexible generation and energy supply (pumped storage, hydro and Customers) delivered Adjusted EBITDA (excluding EGL) of £325 million (2022: £197 million).

In addition, capital projects, innovation, and other costs give Consolidated Adjusted EBITDA (excluding EGL) of £1,214 million (2022: £731 million).

Our balance sheet is strong, with total cash and committed facilities of £639 million and Net debt of £1,084 million. This means that Net debt to Adjusted EBITDA (excluding EGL) was less than 1 times – significantly below the Group's target of around 2 times.

In line with our policy to pay a sustainable and growing dividend, the Group plans to pay a total dividend for 2023 of 23.1 pence per share. This is an increase of 10% on 2022 (21.0 pence per share), which in addition to the £150 million share buyback programme represents total returns to shareholders of £236 million.



We need more renewable energy, and more flexible energy systems to make the best use of intermittent renewables. Crucially, we also need carbon removal technologies, like BECCS, to remove carbon from the atmosphere.

The Group's capital allocation policy remains unchanged and Drax continues to assess options for capital investment, further returns to shareholders, and the repurchase or retirement of debt.

Electricity Generator Levy

As a consequence of higher gas prices, the UK Government introduced the EGL, a levy on renewable generation. The charge incurred in 2023 was £205 million.

Ofgem and the National Audit Office

In May 2023, Ofgem (via its audit contractor, Black & Veatch), completed an annual assessment of Drax Power Limited's compliance with the Renewables Obligation (RO) scheme, with Drax receiving a "Good" rating (the highest of four available ratings).

Separately, also in May 2023, Ofgem announced the opening of an investigation into Drax Power Limited's annual biomass profiling reporting under the RO scheme. In its opening statement, Ofgem confirmed that it had not established any non-compliance that would affect the issuance of Renewables Obligation Certificates (ROCs). Drax awaits the conclusion of this investigation.

In September 2023, the National Audit Office (NAO) announced a review of the UK Government's biomass strategy. In January 2024, the NAO concluded its process, acknowledging the important role that sustainably sourced biomass has to play in the UK Government's plans for net zero, and recognising the importance of sustainability reporting and criteria being robust and fit for purpose.

Operational performance

Pellet Production

Adjusted EBITDA of £89 million (2022: £134 million) reflects lower levels of production, an increased proportion of sales to third parties under legacy contracts, and higher operating expenditure due to maintenance costs arising from unplanned outages and increased staff costs.

Against the backdrop of a more challenging operational and market environment, we believe that this was a robust performance, with opportunities to improve profitability in our Pellets business.

We also continued to progress development opportunities with the expansion of Aliceville (Alabama) and a new-build pellet plant at Longview (Washington State) that includes the development of a new co-located port facility.

Taken together, existing operations and developments will give Drax a network of 18 pellet plants (around 5.4Mt of capacity), with access to five deep-water ports in the US South and West Coast of North America.

The pellet supply market experienced a challenging year but, as a vertically integrated producer, user, buyer, and seller of biomass, we operate a differentiated biomass model from our peers and see the current global biomass market as representing a favourable balance of risks and opportunities for the Group.

In the short term, we are focused on managing risks to our supply chain, while at the same time remaining alert to the opportunities this may create. Longer term, we are fundamentally positive on the outlook for biomass demand and expect this to grow, as sustainable woody biomass is increasingly used for BECCS and carbon removals, as well as for next-generation sustainable aviation fuel (SAF).

The Group currently has over 17 million tonnes of long-term biomass sales contracted to third parties in Asia and Europe extending to the mid-2030s.

In November 2023, we commenced supply of a new 0.5Mt five-year contract with a Japanese customer, and in November we also agreed a Letter of Intent for the sale of up to 1Mt of biomass to a major European utility, including a biofuel project which is targeting a final investment decision during 2025.

(1) Adjusted financial performance measures are described on page 206.

CEO's Review continued

We believe that these developments demonstrate the growing demand for biomass pellets in Asia and Europe and its wider application in the energy transition.

Generation

Adjusted EBITDA (excluding EGL) of £1,138 million was an increase of 64% on 2022 (£696 million). This reflects a strong system support and renewable power generation performance across the portfolio – providing high levels of dispatchable renewable and low-carbon power, and system support services – offsetting incrementally higher biomass costs.

Our portfolio generated over 4% of the UK's electricity between October 2022 and September 2023 (the most recent period for which data is available). We also generated 8% of the UK's renewable electricity over the same period, making Drax the largest renewable generator by output. In addition, during 2023 our assets produced on average 16% of the UK's renewables at times of peak demand and up to 67% on certain days. This underlines the important role that Drax plays in security of supply in the UK.

The current operating environment highlights the importance of continued investment to ensure good operational performance and availability. As a part of this investment programme, we completed two major planned outages at Drax Power Station in July and November 2023.

Biomass

The Group has a robust and diversified global supply chain. It consists of both third-party suppliers and around 5Mt of owned production capacity across the Group's operational facilities in the US and Canada. This diversification provides a high level of operational redundancy designed to mitigate potential disruptions at supplier level.

In the UK, Drax utilises dedicated port facilities at Hull, Immingham, Tyne and Liverpool, with annual throughput capacity and biomass rail sets providing supply chain capacity significantly in excess of the Group's typical annual biomass usage.

Drax Power Station has around 300,000 tonnes of onsite biomass storage capacity. Taken together with volumes throughout the supply chain, the Group currently has visibility of around one million tonnes of biomass in inventories. This adds to the resilience and security of the UK power market over the winter period. Around 30% of the UK's gas storage sites are required to produce the equivalent amount of electricity that the Drax inventory supports.

Most of the biomass we use is under long-term contracts. However, as we previously reported during 2022, upstream inflationary pressures in certain aspects of our supply chain led to some cost increases in 2023, in addition to an increase in labour costs at Drax Power Station adding to the fixed cost base of the plant.

Pumped Storage and Hydro

Cruachan pumped storage and the Lanark and Galloway hydro schemes delivered a very strong performance in 2023. Adjusted EBITDA (excluding EGL) of £253 million is significantly above 2022 (£171 million) and historical levels of Adjusted EBITDA since acquisition, which have been in the region of £70 million.

The primary driver of this strong performance was a high level of activity at Cruachan. The plant delivered system support services via the short-term balancing mechanism, ancillary services and peak off-peak power generation. As forward power prices have reduced, we expect a lower level of Adjusted EBITDA in 2024, although well above the historical performance. Cruachan and elements of our run-of-river hydro schemes also operate in the Capacity Market.

While power prices are unpredictable, we believe that increased reliance on intermittent renewables in the UK system will continue to drive further demand for dispatchable power and system support services. This creates long-term enduring earnings opportunities for assets like Cruachan.

You can read more about these assets, and how they have performed in the five years since Drax purchased them, on page 15.

Coal

At the request of the UK Government, during the winter contract period of 2022-2023 we kept the remaining two coal units at Drax Power Station available to provide a "winter contingency" to support the UK power system. At the end of March 2023 we closed these units and decommissioning is underway.

Customers

Our Customers business performed well in 2023 with Adjusted EBITDA of £72 million (2022: £26 million). This headline performance benefited from a reduction in the volatility seen in the previous period, which we do not expect to recur to the same extent in 2024. The Industrial and Commercial (I&C) business performance was underpinned by stable margins on higher contracted power prices and elevated value from renewable products.

Conversely, our Opus business declined because of the exit from gas supply and lower customer numbers.

Over the past three years, we have restructured the Customers business, streamlining operations. These changes have supported the development of our core I&C supply operations, which represents the majority of earnings in our Customers business.

Setting aside one-off benefits, 2023 was a strong underlying performance reflecting the high-quality customer base and increased value of renewable power underpinned by Renewable Energy Guarantee of Origin (REGO) certificates. With a growing demand for 100% renewable power supply to customers, prices for these certificates have increased and our Customers business provides a means to realise greater value from our large scale renewable generation – a benefit of our integrated value chain.

Alongside supplying renewable energy, we see an important role in supporting the decarbonisation of I&C businesses through the provision of additional products – including asset optimisation, electric vehicle (EV) services, and carbon offset certificates – which we believe could evolve in the future to the provision of Drax carbon removals. Reflecting this potential, in August 2023 Drax Energy Solutions acquired BMM Energy Solutions (BMM), an installer of EV charge points. The acquisition enhances our end-to-end EV charging proposition, as part of the Group's commitment to support customers in achieving their net zero ambitions.

Strategy

Through 2023 we continued to progress our strategy, which is designed to realise our purpose of enabling a zero carbon, lower cost energy future and our ambition to be a carbon negative company. It includes three complementary strategic pillars: closely aligned with global energy policies; (1) to be a global leader in carbon removals; (2) to be a global leader in sustainable biomass pellets; and (3) to be a UK leader in dispatchable, renewable generation.

Adjusted EBITDA (excluding EGL)

£1,214m

UK's renewable electricity generation

8%

A UK leader in dispatchable, renewable generation

The UK's plans to achieve net zero by 2050 will require the electrification of sectors such as heating and transport systems, resulting in a significant increase in demand for electricity. We believe that intermittent renewable and inflexible low-carbon energy sources – wind, solar and nuclear – could help meet this demand. However, this will only be possible if other power sources can provide the dispatchable power and non-generation system support services required to ensure security of supply and to limit the cost to the consumer.

With demand for these services growing, and with fewer assets capable of doing this as older thermal plants are retired, this is a challenge for the power system but also an opportunity for the Group.

Biomass, pumped storage and hydro all have an important role to play and we are looking at ways to supplement the portfolio and create long-term value for the Group and our shareholders.

We are continuing to develop options for Cruachan, including a 600MW expansion. The location, flexibility and range of services Cruachan can provide makes it strategically important to the UK power system and an enduring source of long-term earnings and cash flows linked to the UK's energy transition. In July 2023, the Scottish Government awarded planning consent for the expansion and, subject to the right investment framework, we are targeting a final investment decision to be taken in 2025.

In this regard, in January 2024 the UK Government launched a consultation on an investment mechanism to support the development of new long-duration storage projects, like pumped storage, with a "minded to" preference for a "cap and floor" mechanism. We continue to target commercial operations by 2030.

We are continuing to construct three new-build Open Cycle Gas Turbine (OCGT) projects at two sites in England and one in Wales, targeting commissioning during 2024. The three plants will provide combined capacity of around 900MW and be remunerated under 15-year Capacity Market agreements (2024-2039), in addition to peak power generation and system support services. The units are expected to enter service in the second half of 2024.

These assets are highly flexible and able to provide the grid with a range of services, which we believe will become increasingly important as the UK energy system becomes progressively more reliant on wind. Whilst gas is not renewable, we expect the units to operate on a limited basis at times of system stress, resulting in a low-carbon footprint.

We also continue to assess options for these assets, including their potential sale.

A global leader in carbon removals

Our ambition is to develop carbon removals globally, and to deploy BECCS in the UK and US by 2030. The Intergovernmental Panel on Climate Change (IPCC) is the world-leading authority on climate science. Its research states that Carbon Dioxide Removal (CDR) methods, including BECCS, are needed to mitigate residual emissions and keep the world on a pathway to limit global warming to 1.5°C.

The illustrative mitigation pathways assessed by the IPCC use significant volumes of carbon removals, including BECCS, as a key tool for mitigating climate change. The IPCC has assessed that globally up to 9.5 billion tonnes of CDRs from BECCS could be required per year by 2050.

The Group is developing a pipeline of projects that could contribute towards this total, with our ambition for 20Mt of carbon removals. We are progressing plans to develop 7Mt of carbon removals through BECCS by 2030. Of this, 3Mt would be in the US and 4Mt in the UK.

US BECCS

The US represents an attractive investment environment for large-scale carbon removals. It combines good access to fibre and carbon storage – thereby shortening our supply chain, in addition to a supportive investment horizon provided by the Inflation Reduction Act and associated schemes.

We have a first site selected and progressing through pre-FEED (front-end engineering design). The site, located in the US South, would be a new-build BECCS power plant capable of producing around 2TWh per annum of renewable electricity from sustainable biomass and capturing around 3Mt of carbon dioxide per annum. Total investment is estimated to be in the region of \$2 billion with a target final investment decision (FID) in 2026 and commercial operation by 2030. Additional projects could be brought onstream through the 2030s.

The capital cost of the project reflects the construction of new-build power generation capacity as well as carbon capture and storage (CCS) systems.

The design of the plant enables a wider choice of sustainable biomass materials, including non-pelletised material, such as woodchips. Drax aims to locate new plants in regions that are closer to sources of sustainable biomass and carbon transportation and storage systems. This is expected to significantly reduce the operating cost of a new-build BECCS plant compared to a retrofit, as well as reducing carbon emissions in the supply chain. However, we may need to source from further afield to ensure consistent access to the volumes and quality of fibre required.

Investment in the first new-build BECCS site and subsequent developments through the 2030s will be subject to long-term CDR offtake agreements with corporate counterparties, and power purchase agreements for 24/7 renewable power, with discussions with prospective counterparties underway.

We are allocating resources across all of these opportunities and in August 2023 we opened a new Global BECCS headquarters in Houston, Texas. We now have over 100 employees working on our Global BECCS programme in the UK and North America.

We are also continuing to assess options for BECCS projects using existing non-Drax assets, in addition to screening other regions for BECCS potential, including Europe and Australasia.

UK BECCS

We continue to develop an option for BECCS at Drax Power Station, with plans to add post-combustion carbon capture to two of the existing biomass units that use sustainable biomass and technology from our technology partner, Mitsubishi Heavy Industries (MHI). The captured carbon will be transported and stored under the North Sea.

In August 2023, the UK Government published a Biomass Strategy which set out its position on the use of biomass in the UK's plans for delivering net zero. This outlined the potential "extraordinary" role that biomass can play across the economy in power, heating and transport. This includes a priority role for BECCS, which is seen as critical for meeting net zero plans due to its ability to provide large-scale CDRs.

CEO's Review continued

In December 2023, the UK Government confirmed further policy support for the development of carbon capture and storage in the UK, including an update on the Track-1 expansion and Track-2 processes, having previously set out an indicative timetable for selection of successful projects during 2024, moving onto bilateral discussions regarding the level of Government support. This support is expected to take the form of a 15-year Contract for Difference (CfD) with a dual payment mechanism linked to both low-carbon electricity and negative emissions.

Both options are potentially available to Drax and the timing for their deployment is consistent with our expectations. This could see us take a FID on a first Drax Power Station BECCS unit in 2026 and commence BECCS operations by 2030. In January 2024, the project received planning approval which represents another milestone in the development of the project.

Bridging mechanism

In January 2024, the UK Government launched a consultation on a bridging mechanism to support large-scale biomass generators transitioning from their existing renewable schemes to BECCS. We participated in the consultation and we now await Government's response.

We believe that a bridging mechanism offers the most effective way to build a link between the end of the current renewable schemes in 2027 and BECCS operations. This could provide multi-year certainty allowing Drax to secure long-term biomass supplies and continue to support energy security via flexible and reliable renewable biomass operations in advance of BECCS.

Innovation

We continue to invest in innovation in biomass and BECCS. In 2023, we commissioned a small sugar extraction plant and we remain an equity shareholder in C-Capture Limited, which is developing a solvent technology that could be used for BECCS and other applications.

A global leader in sustainable biomass pellets

We believe that the global market for sustainable biomass will grow significantly, creating international opportunities. These will include sales to third parties, BECCS, generation and other long-term uses of biomass, including SAF. Reflecting that growth, we are developing a pipeline of new contracts for biomass supply into new markets and uses to supplement our existing long-term third-party supply arrangements.

To support this expected growth in demand for biomass products, we are targeting 8Mt of pellet production capacity. This will require over 2Mt of new biomass pellet production capacity to supplement existing capacity and developments.

Drax is differentiated as a major producer, supplier and user of biomass, active in all areas of the supply chain, with long-term relationships and over 20 years of experience in biomass operations. We can deploy the Group's innovation in coal-to-biomass engineering, together with the development of a leading position in carbon removals, alongside our large, reliable and sustainable supply chain. In doing so, we will form long-term partnerships to support customers with their decarbonisation journeys.

Sustainability

As a purpose-led organisation, as we grow, positive outcomes for climate, nature and people should grow too. We believe the more we do, the more atmospheric carbon could be reduced and removed. Our operations could help sustain more working forests, and provide more jobs and opportunities in communities where we source and operate.

We must continue to meet all sustainability expectations of us, promote continuous improvement, and be seen to do so.

Working in partnership with industry, communities, scientists, and civil society organisations will be vital to achieving our ambitions. We will look to work constructively with them to help us deliver improvements and perpetuate positive outcomes for the climate, nature, and people.

Engaging with stakeholders is an important element. In 2022, we commissioned Jonathon Porritt CBE (a leading environmental campaigner and co-founder of Forum for the Future) to convene a High-Level Panel to conduct an independent inquiry into how to implement BECCS in a way that delivers positive outcomes for the climate, nature and people. The Panel reported back in November 2022, setting out the conditions for BECCS to be done well, and in July 2023 we published our response.

In 2023 the Science Based Targets initiative (SBTi) also validated that our carbon reduction targets are in line with the actions required to follow a 1.5°C pathway. This adds further rigour to our plans to continue to reduce carbon emissions within the Group.

We are a supporter of the Task Force on Climate-related Financial Disclosures (TCFD). We are also a Taskforce on Nature-related Financial Disclosures (TNFD) adopter, and in 2023 we participated in a TNFD pilot project for our pumped storage and hydro assets. We are also a signatory to the UN Global Compact (UNGC) and we are committed to promoting the UNGC principles concerning respect for human rights, labour rights, the environment, and anti-corruption.

Outlook

We are continuing to play an important role in supporting energy security in the UK. We are using our supply chain and dispatchable, renewable generation portfolio to provide large volumes of reliable renewable power and system support services. In this context the strategic importance of our portfolio and its contribution to the UK power system is clear. We believe we will have a long-term role to play as the UK manages the need to decarbonise whilst maintaining energy security.

Our long-term focus remains on progressing our strategy and our ambition is to become a carbon negative company, underpinned by the development of BECCS. The potential for the growth in CDRs, and the opportunity this could afford BECCS in the UK and our plans for North America, are both significant. We anticipate making further progress on these options during 2024.

Through these strategic objectives, we expect to create opportunities for long-term international growth, underpinned by strong cash generation and attractive returns for shareholders, and to deliver value for our stakeholders.

Will Gardiner,
CEO

28 February 2024

Case study

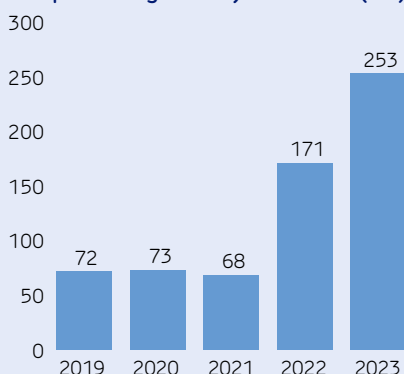
Pumped Storage and Hydro Generation

The UK's plans to achieve net zero by 2050 will require the electrification of sectors such as heating and transport systems, resulting in a significant increase in demand for electricity. We believe that intermittent renewable and inflexible low-carbon energy sources – wind, solar and nuclear – could help meet this demand. However, this will only be possible if the remaining power sources can provide the dispatchable power and non-generation system support services required to ensure security of supply and to limit the cost to the consumer.

Our portfolio of pumped storage hydro and run-of-river assets (comprised of Cruachan Pumped Storage Power Station and the Lanark and Galloway hydro schemes, all in Western Scotland), provide over 560MW of flexible generation capacity. The portfolio's ability to support across all four areas of the UK power market – power generation, renewables, system support services and capacity – provides a stable long-term earnings base with potential benefits from power prices and volatility.

The assets (in addition to four Combined Cycle Gas Turbines (CCGT)) were purchased from Scottish Power on 2 January 2019 for £702 million. The CCGT's were sold by Drax in December 2020 for a total consideration of up to £193 million.

Pumped Storage and Hydro EBITDA (£m)



Cruachan

440MW
capacity



Lanark

17MW
capacity



Galloway

109MW
capacity

The Board's assessment was that the acquisition would create significant value for shareholders, strengthen Drax's ability to pay a growing and sustainable dividend, and deliver returns significantly in excess of Drax's weighted average cost of capital. The performance of the pumped storage and hydro assets in the past five years of ownership has successfully delivered on these expectations.

The ability of Cruachan to not only generate power at scale for up to 15 hours but also store it makes it an important source of long-duration storage, ideally situated to support the high levels of intermittent wind power produced in Scotland.

The Group is actively considering further capital allocation into flexible generation and long-duration storage. The role that Cruachan plays today, but also in the future, informs the development of an option for a 600MW expansion of Cruachan, targeting commercial operations by 2030. You can read more about our plans for the expansion of Cruachan on page 38.

Most recently, in February 2024 Drax accepted a 15-year Capacity Market agreement for a 40MW expansion of Cruachan, worth around £221 million between October 2027 and September 2042, providing additional capacity, power, and system support capability. The capital cost of this expansion is approximately £80 million.

Tackling climate change

is at the heart
of our purpose

drax



Our strategic pillar:

**To be a global leader
in carbon removals**

Leading scientists agree that reducing emissions alone isn't enough to achieve global climate goals. Carbon removals will be a critical tool to help combat the climate crisis.

Bioenergy with carbon capture and storage, or BECCS, is a scalable carbon removal technology with the potential to remove large quantities of CO₂ from the atmosphere and store it permanently underground. It is also currently the only technology to combine carbon removal technology with the generation of dispatchable, renewable electricity.

Deploying BECCS at Drax

Our ambition is to remove and store 20MtCO₂ globally each year, and to have one UK and one US BECCS plant operational by 2030. In 2023 we opened our new BECCS headquarters in Houston, Texas, for our teams focused on bringing these important projects to fruition throughout North America.

Developments in many country's policies demonstrates the growing recognition of the need for investment in carbon removal technologies like BECCS. We continue to develop options for BECCS at Drax Power Station, subject to the right regulatory and investment environment, which could provide dispatchable, renewable power and deliver high integrity permanent carbon removals. This could create and support thousands of green jobs,



BECCS done well could deliver high integrity carbon removals, taking large quantities of CO₂ from the atmosphere and storing it permanently underground.

Our principles for high integrity carbon removals

Permanent

The CO₂ we capture will be stored in geological formations for thousands of years, with a very low risk of reversal.

Sustainable development

Our ambitious projects will create positive outcomes for the climate, nature, and people.

Robust quantification

Every tonne of CO₂ removed will be measured, based on conservative approaches and sound scientific methods.

Additionality

Our BECCS projects could deliver additional climate benefit that would not have happened otherwise.

Well-governed

Reliable tracking, transparent reporting, and independent validation will underpin all our removals.

BECCS Done Well

Drax has also been working with stakeholders to ensure BECCS is "done well". You can read more about this on page 37.

both at Drax and in the supply chain, and could put Drax at the forefront of a climate solution to help decarbonise communities and economies, and help support energy security on a global scale.

High integrity carbon removals

At Drax, we hold our operations to high standards to deliver positive benefits for nature, climate, and people. We recognise that scaling up BECCS must be done responsibly and, in an emerging market, robust standards are vital to ensure we are investing in trustworthy, reliable solutions. That's why Drax has developed a BECCS Methodology that sets out how we are working to deliver high integrity carbon removals.

The BECCS Methodology aims to give stakeholders, such as communities, customers and investors, the confidence that our BECCS investments and operations can deliver measurable climate benefits and bring permanent positive change. The BECCS Methodology also contains robust criteria on the sustainable sourcing of biomass. These criteria include sourcing from regions with stable or increasing carbon stock, sustainable management of forests and maintenance of biodiversity.



Read more about BECCS on **Page 13**



Read more about our BECCS Methodology here www.drax.com/BECCS-Methodology

Sustainably sourcing our biomass



Our strategic pillar:

To be a global leader in sustainable biomass pellets

Biomass, when sustainably sourced, supports well-managed forestry and provides a renewable, low-carbon source of energy.

Our commitment to sustainability sits at the heart of what we do, and Drax is committed to ensuring the biomass we use delivers positive outcomes for the climate, nature, and people.

Our biomass sourcing requirements

Our Responsible Sourcing Policy for biomass supplied to Drax Power Station outlines our forest biomass sustainability commitments. Our sustainability requirements and Supplier Code of Conduct outline our requirements for material sourced for Drax Power Station. This supports maintaining our compliance with UK sustainability rules. The biomass used at Drax Power Station complies with the standards set out in law, regulations, and the requirements of the renewable support schemes under which we operate. This includes the Land Criteria and the Greenhouse Gas (GHG) Criteria.

Our Commitment to Sustainable Forestry sets out the requirements associated with our certification programme in the US. It outlines our commitment to comply with applicable federal, state and local laws and regulations, and promotes the Principles of Sustainable Forest Management.



How Drax evidences compliance with our sourcing requirements

Third-party certification is a key part of our due diligence process. Our primary certification scheme is the Sustainable Biomass Program (SBP). In 2023, 97% of biomass received at Drax Power Station was SBP Compliant (2022: 97%). At our North American Pellet Production operations, 95% of pellets produced were sold with SBP Compliant claims.

For material received at Drax Power Station, monthly reports are submitted to the UK regulators, demonstrating compliance with the Land Criteria and reporting on the supply chain emissions of the biomass used. For each compliance year, this reporting is independently assessed in a limited assurance engagement using the ISAE 3000 standard.

We utilise additional control measures, such as post-harvest evaluations and Catchment Area Analyses (CAAs) to provide another layer of assurance. This is further to any jurisdictional systems or requirements, which vary by region of operation.



Sustainably sourced biomass can play an important role in tackling climate change and displacing fossil fuels.

Our North American Pellet Production assets include:

Northern Operations: 10 pellet plants, 0.45Mt capacity in development, and access to three ports, including one in development.

Southern Operations: seven pellet plants, 0.13Mt capacity in development, and access to two ports.

In 2023, Drax produced 3.8Mt of wood pellets for use for generation at Drax Power Station and for contracted sales to third parties in Asia and Europe. In addition, Drax traded 0.9Mt pellets from third parties.

Our North American pellet plants are SBP certified

Our pellet plants are subject annually to an external audit for SBP certification. This assesses their sourcing and management systems against the sustainability requirements of the SBP Standards. Pellet plants can apply an SBP-Compliant claim to the pellets they produce, where it can be demonstrated that sourcing has fully complied with the SBP Standards. The certification status of wood pellets produced at Drax pellet plants varies by customer requirement.

A process undertaken within the scope of SBP certification is the Supply Base Evaluation (or Regional Risk Assessment for certain regions). Where this identifies a specified risk in the area from which we source (Supply Base), we will either avoid those areas or implement mitigation measures to manage those risks. During the annual SBP audit, the auditor evaluates the efficacy of the implemented mitigation measures, including visits to the forest of origin.

Our US pellet plants are Sustainable Forestry Initiative (SFI®) and Forest Stewardship Council® (FSC® C123692), Chain of Custody certified and both US and Canadian pellet plants are PEFC Chain of Custody certified. Certificates are available on the Drax website.

[Read more about sustainable biomass on Page 72](#)

Helping to keep the lights on



Our strategic pillar:

**To be a UK leader
in dispatchable,
renewable generation**

**Making sure the UK has a secure
and sustainable energy supply.**

**Moving away from fossil fuels and towards
using more renewable energy is critical in
helping the world tackle climate change.**

Our dispatchable, renewable power assets have an important role to play in enabling this transition to more renewable energy. This is because they allow us to generate renewable electricity at times of low sunlight or low wind levels. Being dispatchable means we can turn them up and down, or on or off, at short notice. In doing so, we provide (or dispatch) a flexible response to changes in electricity demand and fluctuations in wind and solar energy generation. Our flexible sources of generation help to reinforce the UK's renewable energy mix, to support the UK's energy security, and help to keep the lights on.



Our dispatchable, renewable power assets have an important role to play in enabling the transition to more renewable energy.

How Drax supports the UK energy system

Keeping the lights on requires not just electricity generation, but also a range of non-generation activities. These help provide the stability, flexibility, and reliability that keeps the electricity grid operating and running at the right frequency, while also reducing the risk of power cuts. Historically, large coal- and gas-fired power stations were able to deliver these system support services as a by-product of producing reliable baseload electricity. Coal and gas plants are closing as the UK decarbonises and are being replaced by intermittent renewable energy sources, principally wind. However wind, by its nature, is intermittent and generally unable to provide these vital system support services.

Our dispatchable, flexible, and renewable assets can react quickly to help balance the energy system and help keep the lights on, supporting the UK's energy security.

Our UK assets include:

Drax Power Station: The power station uses compressed wood pellets, a form of sustainably sourced biomass. It has a capacity of 2.6GW capable of generating enough renewable electricity a year to power the equivalent of over eight million homes.

Cruachan pumped storage hydro power station: Based in Scotland, our pumped storage hydro plant helps to produce electricity using the force of gravity, a reservoir and a mountain. When there is excess power on the grid (for example, from wind or solar), and demand for electricity is low, the plant uses this excess electricity to pump water from the lower reservoir up to a higher one where it is stored. When electricity demand increases, water is released from the upper reservoir, flows through a turbine and into the lower reservoir. The flow of water rotates the turbine which in turn powers a generator to produce renewable electricity quickly and reliably. Able to reach full load in as little as 30 seconds, it can react quickly to help balance the energy system and resolve intermittency issues at times of low sunlight or low wind levels. Cruachan can produce 440MW of renewable electricity – enough to power the equivalent of over 1.4 million homes.

Hydro-electric schemes: Generating power for nearly a century, the Lanark and Galloway hydropower schemes in Scotland have a combined capacity of 126MW – enough to power the equivalent of around 400,000 homes. These schemes use the country's plentiful water sources to provide a reliable and sustainable source of renewable electricity.

[Read about Cruachan expansion plans Page 38](#)

Financial Review



Net debt: Adjusted EBITDA including EGL is significantly below the Group's long-term target of around 2 times.

Andy Skelton, Chief Financial Officer

Adjusted EBITDA (excluding the Electricity Generator Levy⁽¹⁾ (EGL)) of £1,214 million was an increase of 66% compared to the prior year (2022: £731 million). Including EGL of £205 million, Adjusted EBITDA rose by 38%. The EGL was implemented with effect from 1 January 2023 and all arose in the Generation segment. For Consolidated results and Generation we state whether Adjusted EBITDA includes EGL or not, for other segments we do not, as EGL is not applicable to them.

Cash generated from operations of £1,111 million has risen by 247% (2022: £320 million). Operating cash flows before movements in working capital were around 100% of Adjusted EBITDA including EGL in 2023 and 2022. For more details of movements in working capital please see note 4.3. Net debt was £1,084 million (31 December 2022: £1,206 million), with a ratio of Net debt: Adjusted EBITDA excluding EGL of 0.9 times (31 December 2022: 1.6 times) – significantly below the Group's long-term target of around 2 times.

Total operating profit of £908 million represents a significant increase on 2022 (2022: £146 million). An increase in Total gross profit of £931 million was partially offset by an increase of £169 million in operating and administrative expenses, of which £45 million is attributable to staff costs, as we continue to invest in future growth. Maintenance costs also increased as there were two major planned outages at Drax Power Station, and the Pellet Production business incurred costs, as described in the Financial performance section.

Total capital investment was £519 million (2022: £255 million). Of this, £332 million related to growth expenditure, £143 million maintenance projects and £44 million health, safety, environment and IT. The £332 million of growth expenditure (2022: £127 million) includes £189 million in respect of development of three Open Cycle Gas Turbines (OCGTs) and £45 million in respect of our Longview pellet plant development.

The proposed cumulative ordinary dividend for 2023 of 23.1 pence per share represents a 10% increase on 2022. The Group is committed to paying a sustainable and growing dividend in line with its long-standing capital allocation policy. On 15 September 2023 the Group completed a £150 million share buyback, purchasing 26.5 million shares for a net £149 million between 18 May and 15 September 2023.

Financial performance

Adjusted EBITDA and EGL by segment

Pellet Production's Adjusted EBITDA of £89 million represents a 34% reduction on 2022 (£134 million). The Pellet Production business produced 3.8Mt (2022: 3.9Mt) and shipped 4.6Mt (2022: 4.7Mt) of pellets. Of the 4.6Mt shipped, 2.5Mt were to Drax Power Station (2022: 2.2Mt) to support UK security of energy supply. Sales to third parties are typically at a lower gross margin than internal shipments as contract pricing was established prior to the impacts of recent inflationary trends, such as an increase in staff costs, whereas internal transfer pricing is updated annually to incorporate such changes. We would expect pricing to improve as we start to supply a greater proportion of newer sales contracts.

In addition to the impact of the sales mix, the business incurred higher repairs and maintenance costs due to both planned outages and a higher than expected level of unplanned outages. These unplanned outages contributed to the lower than expected level of production, in addition to the impacts of wild fires in Canada, weather damage to our port facility in Baton Rouge and industrial action at the ports of Vancouver and Prince Rupert, BC.

Notwithstanding cost increases in 2023, the Group sees opportunities to reduce costs and improve profitability in Pellet Production.

Financial highlights

Adjusted EBITDA
excluding EGL

£1,214m

(2022: £731m)

Adjusted operating profit

£782m

(2022: £469m)

Total operating profit

£908m

(2022: £146m)

Cash generated
from operations

£1,111m

(2022: £320m)

Adjusted basic earnings
per share

119.6 pence

(2022: 85.1 pence)

Total basic earnings
per share

142.8 pence

(2022: 21.3 pence)

Net debt to Adjusted EBITDA
excluding EGL

0.9 times

(2022: 1.6 times)

Total dividend
per share

23.1 pence

(2022: 21.0 pence)

		Year end 31 December	
		2023	2022
Financial performance (£m)	Total gross profit	1,954	1,023
	Operating expenses	(712)	(543)
	Impairment losses on financial assets	(33)	(48)
	Depreciation and amortisation	(225)	(239)
	Impairment of non-current assets	(71)	(42)
	Other losses	(5)	(6)
	Total operating profit	908	146
	Exceptional costs and certain remeasurements	(127)	323
	Adjusted operating profit	782	469
	Adjusted depreciation, amortisation, asset obsolescence charges and losses on disposal of fixed assets	228	261
	Adjusted EBITDA including EGL	1,009	731
	EGL charge	205	–
	Adjusted EBITDA excluding EGL	1,214	731
Capital expenditure (£m)	Capital expenditure for the year	519	255
Cash and net debt (£m unless otherwise stated)	Cash generated from operations	1,111	320
	Net debt	1,084	1,206
	Net debt to Adjusted EBITDA excluding EGL (times)	0.9	1.6
Earnings (pence per share)	Cash and committed facilities	639	698
	Adjusted basic	119.6	85.1
	Total basic	142.8	21.3
Distributions (pence per share)	Interim dividend	9.2	8.4
	Proposed final dividend	13.9	12.6
	Total dividend	23.1	21.0

We calculate Adjusted financial performance measures, which exclude income statement volatility from derivative financial instruments and the impact of exceptional items. This allows management and stakeholders to better compare the performance of the Group between the current and previous year without the effects of this volatility and one off or non-operational items. Alternative performance measures are described more fully on page 181, with a reconciliation to their statutory equivalents in note 2.7 to the Consolidated financial statements on page 208. Throughout this document we distinguish between Adjusted measures and Total measures, which are calculated in accordance with International Financial Reporting Standards (IFRS). Tables in this financial review may not add down/across due to rounding. All references to notes within this report refer to the notes to the Consolidated financial statements.

(1) In December 2022, the UK Government confirmed the details of the EGL, which applies to the Group's biomass units operating under the Renewables Obligation (RO) scheme and run-of-river hydro assets, but not the CfD unit at Drax Power Station or Cruachan. The legislation bringing this levy into force was enacted during July 2023 and extends to March 2028. EGL is payable at 45% on revenues above an index-linked benchmark level, after deducting an allowance for increased fuel costs. As EGL has been assessed as a levy for accounting purposes, rather than a tax, it is recognised within Adjusted results within gross profit.

Financial Review continued

Generation's Adjusted EBITDA (excluding EGL) of £1,138 million is a 64% increase on 2022 (£696 million). Including EGL, Adjusted EBITDA rose by 34% to £933 million. This reflects a strong system support and renewable power generation performance across the portfolio – providing high levels of dispatchable, renewable and low-carbon power and system support services – offsetting incrementally higher biomass costs and an increased allocation of Innovation, capital projects and other costs.

Our Cruachan pumped storage power station, as well as the run-of-river hydro assets at Lanark and Galloway, continued to perform strongly. Combined with the Daldowie energy from waste plant they contributed Adjusted EBITDA (excluding EGL) of £253 million (2022: £171 million) and £230 million of Adjusted EBITDA including EGL. This was achieved through higher levels of generation and achieved power prices, in addition to the provision of support services via the short-term balancing mechanism, ancillary services and participation in the Capacity Market.

During 2023 a review of the mechanism for corporate recharges was performed, leading to an increase in the amount of Innovation, capital projects and other costs recharged to the reportable segments, with the largest increase seen in Generation. Following this change the remaining Innovation, capital projects and other costs constitute development expenditure on projects which have not yet hit the capitalisation criteria and intra-group eliminations. Global BECCS is an example of such a development cost, with an increase in costs of £43 million in 2023. Further information on the mechanism is included in note 2.1.

Our Customers business generated £72 million of Adjusted EBITDA (2022: £26 million). This increase reflects a strong performance in the I&C business and was driven by increased contracted power prices with consistent margin percentages and increased value from renewable products, as well as benefits from reductions in market prices and volatility during 2023, which are not expected to recur going forwards.

A non-cash impairment of £69 million was recognised related to the Opus Energy part of our Customers business, as the exit from gas supply and changing customer behaviours led to a reduction in forecast cash flows for this element of the Group. Further details are provided in the Total operating profit section below.

Bad debt charges, net of credits, reduced to £33 million (2022: £48 million). Before recognition of credits, the bad debt charge represents 1.0% of Customers revenues (2022: 1.4%), the reduction being because of revenue mix moving towards higher credit quality customers.

Innovation, capital projects and other costs of £85 million, inclusive of intra-group eliminations, shows a 31% decrease on 2022 (£124 million). However, before the change in methodology for recharges described previously, costs increased by 49%. The increase predominantly reflects higher development expenditure on major projects which have not yet reached the stage of capitalisation, including Global BECCS and Cruachan II. Appropriate UK BECCS costs continue to be capitalised, as described in the 'Capital expenditure' section.

Total operating profit

Total operating profit of £908 million is an increase of £762 million on 2022 (£146 million), with the increase in Total gross profit of £931 million offset by an increase in Total operating and administrative expenses of £169 million reflecting the factors described above. Total operating profit also includes an additional benefit of £200 million from net adjustments for certain remeasurements (2022: £298 million net loss) that are not included in Adjusted EBITDA.

The main drivers behind the certain remeasurements credit was an increased value of gas-for-power trades because of falling gas prices and a reduction in carbon prices during the year. Net exceptional costs of £74 million were recognised during 2023 (2022: £25 million). Of this, a £69 million debit related to the impairment of non-current assets related to the Opus Energy business within Customers, the largest proportion being an impairment of customer-related assets of £31 million and goodwill of £15 million. There was also a credit of £14 million related to an agreed settlement with a vendor in relation to a billing system where development was halted in a previous period. Finally, a cost of £18 million was recognised with respect to contingent consideration on the historical CCGT disposal. Further detail on these transactions can be seen in note 2.7.

Depreciation and amortisation decreased by 6% to £225 million (2022: £239 million), with the main decrease being in the Pellet Production business.

Profit after tax and Earnings per share

Net finance costs for 2023 were £112 million (2022: £68 million). Changes in interest rates led to an increase in the interest charge of £24 million. This was partially offset by a £9 million increase in interest receivable. Foreign exchange

losses in the period were £9 million (2022: £11 million gain). The remaining increase is attributable to levels of utilisation and interest on new facilities.

The effective Adjusted tax rate of 29% (2022: 17%) is above the standard rate of corporation tax in the UK. The impact of EGL costs, which are not allowable for corporation tax deductions, increased the effective rate by 7%. This is partially offset by UK incentives such as the UK patent box scheme and R&D tax credits. This figure includes the impact of tax rates prevailing in overseas jurisdictions. The extension of the full expensing of capital expenditure, as announced in the UK Government's 2023 Autumn Statement, makes permanent the cash tax timing benefit for capital spend.

Adjusted basic earnings per share was 119.6 pence (2022: 85.1 pence) and Total basic earnings per share was 142.8 pence (2022: 21.3 pence). The average number of shares used in deriving these calculations is 393.8 million, with the closing number outstanding being 384.7 million.

Capital expenditure

Major components of the £519 million capitalised during 2023 were the Group's strategic developments of three OCGT projects (£189 million), and Pellet Plant expansion projects at Longview and Aliceville (£76 million). Further information on expected commissioning dates for these projects can be seen in the CEO's Review. Capitalised spend on UK BECCS was £18 million (2022: £19 million). Expenditure is being minimised as the Group awaits clarity from the UK Government on support for BECCS at Drax Power Station.

Cash and Net debt

Net cash movements

Operating cashflows before movements in working capital of £1,013 million were an increase of 38% (2022: £734 million), reflecting increases in Adjusted EBITDA. Both years represented around 100% of Adjusted EBITDA including EGL. Cash generated from operations in 2023, inclusive of movements in working capital, was £1,111 million (2022: £320 million).

Working capital was an inflow of £108 million (2022: £403 million outflow), details of the movements can be seen in note 4.3. The key movements being the return of collateral payments (£155 million inflow, 2022: £407 million outflow) associated with the maturity of power contracts sold via exchanges and lower spot prices, and lower receivables (£71 million inflow, 2022: £379 million outflow). Both of these movements were attributable to increased power prices in 2022. These were partially offset by

an increase in ROC assets leading to a £104 million cash outflow (2022: £114 million inflow). At 31 December 2023 the Group had accelerated £298 million of cash flows using standard renewable certificate sales (2022: £331 million). Payables showed an outflow of £31 million as commodity prices stabilised, after a £432 million inflow in 2022.

The Group has access to a receivables monetisation facility within the Customers I&C business, totalling £400 million. At 31 December 2023 £400 million was drawn under this facility (2022: £400 million). The term of this facility was extended during the year to 2025, reducing to £300 million thereafter. The facility grew from £200 million at the start of 2022 to £400 million by year end, as power prices and therefore trade receivables rose. The increase helps to offset the associated working capital requirements and will reduce as contracted positions unwind and power prices fall. This is a non-recourse facility, with a sale of the underlying receivable asset, accelerating cash receipt. At the point of sale, Drax transfers substantially all the risks and rewards of ownership through the non-recourse nature of the transaction. No obligations are created from the transfer and no liability is recognised.

Cash flows associated with capital expenditure on the three OCGT projects are lower than the accounting additions recorded because of the use of deferred letters of credit to extend payment terms. These provide a working capital benefit to the Group through extending payment terms by a period of less than twelve months, to more closely align the cash outflows on the construction of the assets with the cash inflows from the commencement of their operation. As set out in note 2.7, these balances are not included within the Group's definition of Net debt. Of the total amount outstanding under deferred letter of credit and similar facilities at 31 December 2023 of £225 million (2022: £215 million) the capital expenditure proportion was £155 million (31 December 2022: £134 million). The impact of this facility reduced the cash outflow in the purchases of property, plant, and equipment and payables lines in the Consolidated cash flow statement.

Net interest payments of £95 million (2022: £74 million) increased in line with the increased interest charge in the Consolidated income statement.

Corporation tax payments totalled £180 million (2022: £39 million). The primary driver of the increase was the increase in taxable profits arising in UK entities leading to higher payments on account. Separately, the cash outflow on EGL, which is a levy administered within the corporation tax framework, was £196 million.

Returns to shareholders totalled £236 million, comprising £149 million of share buy back payments (2022: £nil) and £86 million of dividend payments (2022: £79 million). More details on the share buyback programme can be seen in note 2.11.

Net debt and Net debt: Adjusted EBITDA

Both ratios of Net debt: Adjusted EBITDA including and excluding EGL are significantly below the Group's long-term target of around 2 times.

Liquidity

In November 2023, Drax repaid C\$100 million of its C\$300 million ESG term-loan and extended the maturity of the remaining C\$200 million from 2024 to 2026. This facility includes an embedded ESG component which adjusts the margin payable based on Drax's carbon intensity measured against an annual benchmark.

Cash and committed facilities of £639 million at 31 December 2023 provides substantial headroom over our short-term liquidity requirements. In addition to cash-on-hand, the Group has access to a £300 million ESG-linked Revolving Credit Facility (RCF) and a C\$10 million RCF. The C\$10 million RCF was allowed to expire in January 2024. Also in January 2024, the £300 million ESG-linked RCF was extended by a year with an expiry now in January 2026.

Net debt and Net debt: Adjusted EBITDA

	Year ended 31 December	
	2023 £m	2022 £m
Cash and cash equivalents	380	238
Current borrowings	(264)	(44)
Non-current borrowings	(1,161)	(1,397)
Impact of hedging instruments	(38)	(2)
Net debt	(1,084)	(1,206)
Collateral posted	79	234
Net debt excluding collateral	(1,005)	(972)
Adjusted EBITDA excluding EGL	1,214	731
Adjusted EBITDA including EGL	1,009	731
Net debt: Adjusted EBITDA excluding EGL (times)	0.9	1.6
Net debt: Adjusted EBITDA including EGL (times)	1.1	1.6

Liquidity

	Year ended 31 December	
	2023 £m	2022 £m
Cash and cash equivalents	380	238
RCF available but not utilised	260	260
Short-term liquidity facility	–	200
Cash and committed facilities	639	698

Financial Review continued

No cash has been drawn under this RCF since its inception in 2020, but £46 million was drawn at 31 December 2023 for letters of credit (31 December 2022: £46 million drawn for letters of credit). The short-term £200 million liquidity facility, entered into during December 2022 to cover collateral requirements predominantly for that winter, was allowed to expire in December 2023. During 2023, an uncommitted £200 million facility was entered into with the main purpose of supporting cash collateral requirements. At 31 December 2023 £120 million was drawn under this facility, maturing in July 2024. During February 2024 a new £258 million term loan was entered into, with maturities in 2027 and 2029.

At 31 December 2023 the Group had net cash collateral posted of £79 million (31 December 2022: £234 million) which will be returned to the Group as the associated contracts mature. Depending on market movements collateral may need to be posted in future by the Group.

During 2023, the Group's Issuer Credit Ratings were affirmed as 'BB+' by Fitch and S&P and as 'BBB (low)' by DBRS, with a Stable Outlook in each case.

Derivatives

We use derivatives to hedge commodity price and foreign exchange risk.

Decreases in pricing in several of these markets in 2023 led to a net £200 million credit related to certain remeasurements, which we continue to adjust for when presenting Adjusted results. The gains were predominantly driven by falling gas prices impacting gas-for-power trades and reductions in carbon prices.

Distributions

In line with our long-standing capital allocation policy, the Group is committed to paying a growing and sustainable dividend. On 26 July 2023, the Board approved an interim dividend for the six months ended 30 June 2023 of 9.2 pence per share. This was paid on 3 October 2023 with a record date of 25 August 2023.

At the Annual General Meeting on 25 April 2024, the Board will recommend to shareholders a resolution to pay a final dividend for the year ended 31 December 2023 of 13.9 pence per share. If approved, the final dividend will be paid on 17 May 2024, with a record date of 19 April 2024.

Taken together with the interim dividend of 9.2 pence per share, this would give a total dividend for 2023 of 23.1 pence per share, a 10% increase on 2022 and representing a sustainable increase in accordance with our capital allocation policy.

In addition to the proposed dividend, on 26 April 2023 the Group announced a share buyback programme totalling £150 million. On 15 September 2023 the Group completed this buyback, having purchased 26 million shares for a net cost of £149 million which are now held as treasury shares.

When thinking about additional returns to shareholders, the Group gives consideration to the profile of future capital investments, upcoming maturity of debt, equity dilution associated with the vesting of share schemes and any inflow from the sale of non-core assets.

Going concern and viability

The Group's financial performance in 2023 was strong, delivering improved profitability and a decrease in Net debt to Adjusted EBITDA. Our financing platform is stable, with no major debt repayments on core facilities due until November 2025 and significant liquidity headroom is available from both committed and uncommitted facilities. Since 31 December 2023 the £300 million ESG linked RCF has been extended to 2026 and a new £258 million term loan put in place, with maturities in 2027 and 2029.

The Group refreshes its business plan and forecasts throughout the year, including scenario modelling designed to test the resilience of the Group's financial position and performance to several possible downside cases. In addition, during 2023 a reverse stress test was performed, and the parameters required to cause a default were found to be implausible. Based on its review of the latest forecast, the Board is satisfied that the Group has sufficient headroom in its cash and committed facilities, combined with available mitigating actions, to be able to meet its liabilities as they fall due across a range of scenarios.

The Directors therefore have a reasonable expectation that the Group will be able to continue in operation over the five-year period of the viability assessment. Consequently, the Directors also have a reasonable expectation that the Group will continue in existence for a period of at least 12 months from the date of the approval of the financial statements and have therefore adopted the going concern basis when preparing the Consolidated financial statements.

Other information

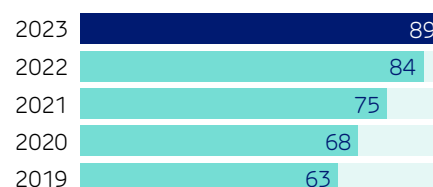
BMM acquisition

In August 2023 the Customers business completed the acquisition of BMM Energy Solutions Limited, an electric vehicle charge point installer, for consideration of £9 million. This acquisition strengthens the Group's end-to-end charging proposition in the UK and demonstrates the Group's commitment to helping customers achieve their net zero ambitions. Please see note 5.1 for further information.

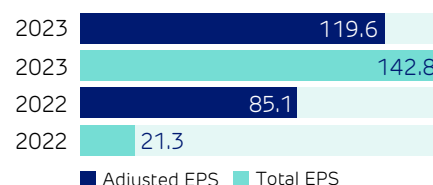
Pension scheme merger

In January 2023 the merger of the Group's two defined benefit pension schemes was completed, reducing levels of administrative expense and time taken to manage the two schemes. Please see note 6.3 for further information.

Total declared dividends (£m equivalent)



Earnings per share (pence)



Five year history

	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m
Adjusted Revenue	4,703	4,235	5,174	8,159	7,792
Adjusted EBITDA (including EGL)	410	412	398	731	1,009
Total Operating profit/(loss)	62	(156)	197	146	908
Total Profit/(loss) for the year attributable to equity holders	1	(158)	80	85	562
Earnings per share	pence	pence	pence	pence	pence
Adjusted basic	29.9	29.6	26.5	85.1	119.6
Statutory basic	0.1	(39.8)	20.0	21.3	142.8
Dividend per share	15.9	17.1	18.8	21.0	23.1
	£m	£m	£m	£m	£m
Net debt	(841)	(776)	(1,108)	(1,206)	(1,084)
Capital expenditure	172	200	238	255	519

Adjusted EBITDA (including EGL) (£m)

2023	1,009
2022	731
2021	398
2020	412
2019	410

Adjusted basic earnings per share (pence)

2023	119.6
2022	85.4
2021	26.5
2020	29.6
2019	29.9

Dividend per share declared (pence)

2023	23.1
2022	21.0
2021	18.8
2020	17.1
2019	15.9

Remuneration at a glance



Nicola Hodson, Chair of the Remuneration Committee

The Remuneration Committee ensures that our variable pay programmes are aligned with long-term value creation and appropriately reward delivery of annual financial performance, progress against our core strategic objectives, and sustainable business practices.

As noted in other sections of this Annual Report, our strategy consists of three core aspects: to be a global leader in sustainable biomass pellets; a global leader in carbon removals; and a leader in UK dispatchable renewable generation. Drax is committed to building a supportive, diverse and inclusive working environment, and to delivering positive outcomes for the climate, nature, and people.

The Board believes that management must deliver the right combination of long-term value creation and a sustainable business, underpinned by a strong culture and values which is informed by and responsive to our stakeholders. The Remuneration Committee (Committee) ensures that the way in which Executive Directors, senior management, and the wider workforce are rewarded is aligned to the delivery of appropriately balanced short-term and longer-term objectives.

A key part of the Committee's activities is the design and oversight of the Drax variable pay programmes for all colleagues across the Group. Variable pay for the Executive Directors, consisting of an annual bonus plan and equity based Long Term Incentive Plan, is incorporated into the Directors' Remuneration Policy (Policy) which was approved by shareholders at the AGM held in April 2023.

The majority of colleagues across the Group participate in the annual bonus plan. For most colleagues, including the Executive Directors, payment of a bonus is dependent on the delivery of performance metrics which make up the Group's annual Scorecard (Group Scorecard).

The Committee gives thorough consideration each year to what performance metrics should be included in the Group Scorecard, making sure those elements provide an appropriate balance and are reflective of expectations of our shareholders and other key stakeholders.

The delivery of financial performance is set with reference to the Board's financial plans. It is of paramount importance and makes up the majority weighting of the 2024 Group Scorecard (55%). Consistent with prior years, the delivery of our Group EBITDA budget is the primary financial KPI. For 2024, Net Cash Flow has replaced Leverage as the secondary financial KPI. The Committee believed that a cash generation target was more aligned to the Group's strategy in 2024.

The delivery of critical strategic milestones is essential to Drax making progress on each of the three core strategic objectives and they have a 25% weighting in the Group Scorecard. The strategic milestones in the Group Scorecard may change from year to year, reflecting specific priorities and the Group's annual plan. They are typically part of multi-year programmes, examples include the development and implementation of BECCS, which is key to our objective of being a global leader in carbon removals, and the expansion of our pumped storage power station at Cruachan supporting our objective to be a leader in UK dispatchable renewable generation.

Another core strategic objective for Drax is to be a global leader in sustainable biomass pellets, and one of our aims is to sell 4Mt per annum of biomass pellets to third parties by 2030. In support of this, performance measures focused on pellet production goals and pellet sales targets are also included in the Group Scorecard. You can read more about sustainability at Drax in Sustainable Development on page 44.

Safety and ESG performance have been a key part of the annual bonus plan since 2022 and they have a 20% weighting. As part of the Policy review in 2022, the Committee carefully considered how ESG should most appropriately be included in annual variable pay programmes, seeking input from the Committee's independent adviser and taking into account views from other stakeholder groups. The Committee determined that the annual bonus plan was still the most appropriate vehicle for ESG measures. This is because the vast majority of colleagues participate in the annual bonus, meaning the widest possible group of colleagues are held to account for and (where appropriate) are rewarded for ESG performance.

For the 2024 Group Scorecard, ESG is represented by three performance measures. The first is a carbon reduction measure comprising three distinct projects covering our operational business areas. The delivery of these projects by the end of 2024 will support a reduction in our carbon footprint across Scopes 1, 2 and 3 and will contribute to our ambition to be a carbon negative company. This performance measure is the "Environmental" dimension of ESG in the 2024 Group Scorecard.

The second ESG performance measure will focus on improving diversity, equity and inclusion (DEI) across the organisation. This will take the form of a DEI target, derived from an all-employee opinion survey administered by Workday Peakon. It measures colleague perceptions of Drax's efforts to maintain a diverse workforce and create an environment where every colleague feels included and has an equitable experience. The DEI target is the "Social" dimension of ESG in the 2024 Group Scorecard and it also aligns with our "People Positive" element of the Group's strategy.

The third ESG performance measure will focus on compliance which is integral to the success of our business and that the Board regard as a core part of our licence to operate. Compliance is the "Governance" dimension of ESG in the 2024 Group Scorecard.

Safety performance is assessed against one leading indicator and one lagging indicator. The leading indicator is the Near Miss and Hazard Identification Rate (NMHIR) which is measured based on the number of environmental, safety and process safety observations across all operations and locations. It is intended to embed the positive reporting culture that we have sought to introduce across the Group. The lagging indicator in 2024 remains Total Recordable Incident Rate (TRIR). This is measured at a Group level with the overall target built up based on local business area targets.

Finally, underpinning the bonus plan is a modifier which can be applied to reduce the overall formulaic bonus outcome, if the Committee consider it appropriate. The Committee has discretion to apply the modifier if any of the following events were to occur: a major breach in safety; a major environmental, community or biomass sourcing event; or a major compliance breach or failure.

A summary of the performance metrics in the 2024 Group Scorecard are provided in the table below.

Performance Measure	Weighting
Group EBITDA	55%
Net Cash Flow	
BECCS	
Cruachan 2	25%
Pellet Production	
Pellet Sales	
Safety	20%
Environmental – Carbon Reduction	
Social – DEI	
Governance – Compliance	

The Drax Long Term Incentive Plan (LTIP) rewards executives and senior managers for the longer-term performance of the Group. Vesting of LTIP awards is conditional on two performance conditions – Total Shareholder Return relative to the FTSE 350 (TSR) and cumulative adjusted Earnings Per Share (EPS).

Including TSR ensures that a significant part of the reward is aligned with the overall shareholder experience over the same period. The EPS performance condition rewards for year-on-year delivery of robust financial performance.

In addition, for Executive Directors vested awards are subject to a further two-year post-vesting holding period, further aligning our Executive Directors with the longer-term shareholder experience.

The 2024 LTIP award is scheduled to be granted in March 2024. The weighting of the performance conditions is summarised below and is outlined in more detail in the Remuneration Committee Report on page 159.

Performance Measure	Weighting
Total Shareholder Return (relative to FTSE 350)	50%
Cumulative Adjusted Earnings Per Share	50%

The Committee will continue to assess each year whether variable pay programmes remain aligned to long-term strategy and support the delivery of, and appropriately reward for, the Group's short-term and longer-term objectives. Where appropriate the Committee will make changes, and seek input from key stakeholders, such as our shareholders.

Nicola Hodson
Chair of the Remuneration Committee

Key performance indicators

Our strategic pillars:



To be a global leader in carbon removals



To be a global leader in sustainable biomass pellets



To be a UK leader in dispatchable, renewable generation

Measure:	Definition/why it matters	Performance
Adjusted EBITDA (excluding EGL) (£million)	This is our principal financial performance metric, combining the earnings of each business to give a Group outcome. The reconciliation of statutory earnings to Adjusted EBITDA is on page 209.	2023 1,214 2022 731 2021 398
Adjusted basic EPS (pence)	This is an important measure of our profitability – showing adjusted earnings on a per share basis. The calculation of Adjusted basic EPS is on page 211.	2023 119.6 2022 85.1 2021 26.5
Average Net debt (£million)	This is a key measure of our liquidity and our ability to manage our current obligations.	2023 1,243 2022 1,117 2021 1,002
Total recordable incident rate (TRIR)	Keeping our people safe is a core principle. TRIR is an industry standard measure of fatalities, lost time injuries and medical treatment injuries per 100,000 hours worked. You can read more about health, safety, and wellbeing in People Positive on page 67.	2023 0.38 2022 0.44 2021 0.22
Group carbon emissions Scope 1, 2 and 3 (ktCO ₂ e)	We are focused on reducing carbon emissions – as measured by Scope 1, 2 and 3 – which enables us to track progress towards our carbon negative ambition. You can read more about this in Climate Positive on page 50.	2023 486 3,534 2022 669 3,123 2021 1,255 3,121 Scope 1 and 2 Scope 3
Pellets produced (Mt)	This measures a key part of our strategy – to increase our pellet production capacity and output. This represents the number of pellets produced in millions of tonnes.	2023 3.8 2022 3.9 2021 3.1
Employee engagement score (%)	An engaged and motivated workforce is a critical component in delivering our strategy. This is measured through our annual engagement survey. You can read more about employee engagement in People Positive on page 64.	2023 79 2022 79 2021 79

Type:

-  Financial
-  Non-Financial

Our Risks:

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

Target	Strategic link	Link to risks	Link to remuneration
To grow the Adjusted EBITDA of the Group to support investment in the strategy.	 	      	The Adjusted EBITDA performance measure has a 40% weighting on the bonus Scorecard. See pages 151 and 152
To grow Adjusted basic EPS of the Group.	 	      	Cumulative Adjusted basic EPS is a performance condition of the LTIP and has a 50% weighting and is measured over a three-year period. See page 153
Long-term target of Net debt to EBITDA of around 2.0 times.	  	    	The leverage (Average Net debt) performance measure had a 20% weighting on the bonus Scorecard. See pages 151 and 152
TRIR of 0.20 per 100,000 hours worked.	 	 	The safety performance measure has a 6.7% weighting in the bonus Scorecard. See pages 151 and 152
Ambition to be carbon negative by 2030 across our direct business (Scope 1 and 2) operations globally.	 	     	The 2023 bonus Scorecard had a 16.7% weighting on measures focused on reducing our carbon emissions, including the development of BECCS. See pages 151 and 152
8Mt pa of production capacity by 2030.		    	Increasing the pellet production capacity is a key component in growing reported Adjusted EBITDA results. Delivery of pellet volume had a 5% weighting in the bonus Scorecard. See pages 151 and 152
Maintain employee engagement year-on-year.		 	The Inclusion Index, which is a subset of questions of the employee engagement survey, and measures how included colleagues feel about working at Drax, was a measure with a 6.7% weighting in the bonus Scorecard. See pages 151 and 152

Stakeholder engagement

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

Achieving our purpose
– to enable a zero carbon, lower cost energy future
– and supporting global efforts to reduce carbon emissions are long-term projects. Building sustainable relationships with a diverse range of interested parties is critical in helping us achieve them.

Many of our strategic and investment decisions have multi-year time horizons. We recognise that these decisions can have an impact far beyond our business and well into the future. This is why we seek to understand the needs and perspectives of our stakeholders; and we believe that considering these views improves the quality of our decision-making.

The following pages explain how the Board considered those matters during 2023.

Section 172 Statement

Under Section 172(1) of the Companies Act, the Directors have a duty to promote the success of the Company, having regard to a range of matters and stakeholders. The Board is responsible for ensuring effective engagement with stakeholders: it recognises that decisions taken today will have an impact upon stakeholders, as well as shape the longer-term performance of the business. Appropriate consideration is important in enabling Drax to deliver

positive outcomes for the climate, nature and people, and to deliver sustainable value creation.

During 2023 the Board's discussions and decision-making considered the matters contained within Section 172, and acted in good faith to promote the sustainable long-term success of the Company. You can read more about how the Board fulfilled its duties in the Corporate Governance Report on pages 112, 118 to 119, and 123 to 124.

Section 172 matter

How the Board considered those matters

a. The likely consequences of any decision in the long term	• Business model (page 6) • Carbon removals (page 16) • Principal Risks (page 94) • BECCS project developments in the UK and globally (page 124)
b. The interests of the Company's employees	• Workforce engagement (pages 33 and 124) • Diversity and inclusion (pages 65 and 129) • Safety, health and wellbeing (page 67)
c. The need to foster the Company's business relationships with suppliers, customers and others	• Engagement with customers (page 36) • Engagement with suppliers (page 36) • Supplier Code (page 70)
d. The impact of the Company's operations on the community and the environment	• Biomass Sourcing (page 72) • Climate Positive (page 50) • Nature Positive (page 56) • People Positive (page 62) • Taskforce on Climate-related Financial Disclosures (TCFD) (page 78) • Climate change risk (page 105) • Engagement with communities, schools, and colleges (page 34) • Drax Foundation (page 40)
e. The desirability of the Company maintaining a reputation for high standards of business conduct	• Ethics and integrity (page 70) • Culture and values (pages 63 and 113) • Speak Up (Whistleblowing) (page 71) • Corporate Governance Code (page 118)
f. The need to act fairly as between members of the Company	• Shareholder engagement (page 33) • Rights and obligations attaching to shares (page 162)

Workforce

Key issues	Engagement activities	
• Health, safety and wellbeing • Cost-of-living crisis • Diversity and inclusion • Culture and values • Engagement, recognition	We maintain regular dialogue through several workforce engagement activities. These include: MyVoice Forums (involving direct dialogue between colleague representatives, and the Chair of the Board and CEO); colleague briefings run by our executive and leaders; dialogue with unions; and our annual engagement and 'pulse' surveys. The CEO also emails a weekly update with a Q&A section responding to colleague questions. Our MyVoice Forums continue to be a key part of our listening strategy, providing us with a view of colleague sentiment and key topics of interest. In 2023 our MyVoice survey was delivered on a new platform with over 22,000 colleague comments received. We review the survey results of the MyVoice surveys, inviting input on key topics, such as development, careers, and diversity and inclusion. Colleague Resource Groups were established in 2023 to	provide a forum for discussion and feedback about improvements to the way we operate to support minority groups within Drax. To learn more about the Forums and Colleague Resource Groups, see pages 64 and 65 respectively. In October 2023 the new Chair, Andrea Bertone, recorded a video message introducing herself to the whole business, in which she talked about her background and experience, why she joined Drax and hopes for the future. In November 2023, Andrea joined her first meeting with the MyVoice Forum chairs. The CEO also recorded regular video messages to the whole business with updates on our strategy, BECCS, and the Group's participation in events such as New York Climate Week and COP28.
Principal Risks		
• Safety, health and wellbeing, and environment • People		

Shareholders and investors

Key issues	Engagement activities	
• Strategy • Financial and operational performance • Biomass sustainability • BECCS delivery • Environmental, Social and Governance (ESG)	The Group has an active Investor Relations (IR) programme through which it engages with existing shareholders and potential investors to inform on progress with the Group's performance, strategy, and investment case. Key areas of discussion are the Group's strategy, capital allocation, operational and financial performance, policy and regulation, and biomass sustainability. In February and July 2023, management met with shareholders and investors as part of full- and half-year results roadshows. Through these sessions, attended by the CEO, CFO, and Head of IR, we continued to make the case for our strategy and the long-term options this could provide, as well as discussing current operational and financial performance, and capital allocation. In May 2023, Drax hosted a Capital Markets Day with presentations from the CEO, CFO, Chief Innovation Officer, and Director of Sustainability. The meeting focused on the development of options for Global BECCS and plans for capital deployment. The event was attended by around 100 investors, analysts, and bankers, as well as around 300 online participants. The IR team continued to meet with shareholders and investors during 2023 to discuss the Group's biomass strategy, and BECCS remains a central theme for discussion. Further activity included attendance at industry conferences where	we hosted one-to-one and group investor meetings as well as fireside chats. Reflecting the increased focus on North America and the opportunity there for BECCS, the CFO and Head of IR undertook two investor roadshows in the US and Canada, meeting around 50 investors, primarily equity, but also debt, to discuss the investment proposition, with a key focus on BECCS. During October 2023, the CFO hosted 20 institutional investors on a site visit to Drax Power Station, providing further insight into operations and BECCS, as well as discussing the Group's balance sheet and use of working capital. The IR team, working with our Director of Sustainability, continued to meet with investors and their governance teams to discuss key issues around biomass sustainability and carbon accounting, as part of an ongoing series of engagement, including two webcasts attended by around 250 investors. The Chair (Philip Cox) and Senior Non-Executive Director (SID) (David Nussbaum) also met with shareholders to discuss the Board's approach to governance, sustainability, and the wider business. In addition, the Chair and SID participated in a virtual meeting with investors hosted by the Investor Forum – an institutional investor-led group which aims to facilitate engagement with corporates and good stewardship.
Principal Risks		
• Strategic • Biomass acceptability • Political and regulatory		

Stakeholder engagement continued

Communities

Key issues	Engagement activities
• That Drax is a responsible business and good neighbour • Tackling climate change • Environmental justice	In 2023, we launched a new community strategy combining Community Action and Engagement Plans for our operating countries, with strategic giving through the Drax Foundation and a designated Community Fund. This is managed by a global Community team, with Community Managers in each of our operating countries. Through the Drax Foundation, we are providing grant funding for non-profit organisations that improve equitable access to science, technology, engineering, and mathematics (STEM) education, community green spaces, and renewable energy. In the US, we engaged with a wide range of community stakeholders, with a particular focus on Gloster, Mississippi. In Gloster and the surrounding Amite County, we held meetings with the Mayor and Aldermen to understand some of the challenges and opportunities facing the local community and discussed how Drax can engage more effectively to improve community relations. We plan to hold follow-up focus group conversations early in 2024, to ensure that we are listening and responding to traditionally under-represented voices within the community. We have also met with the local High School Principal and Careers Coach, with the objective of attracting, training, and retaining more school leavers into a career at the Drax plant. A second focus for 2023 was early community engagement in our potential BECCS markets. In Texas and Mississippi we met with community leaders and grassroots civil society groups to enhance our understanding of how a new BECCS plant could impact a wide range of community stakeholders. We are now using this information to feed into community engagement and benefit plans. This work is being led by a US BECCS Community Manager, who was appointed in 2023. Elsewhere in the US, our Community Fund, disbursed around £268,000 to 44 local community initiatives. We also distributed around £363,000 to larger State-wide STEM and nature non-profit organisations through the Drax Foundation.
Principal Risks	In Canada, we hired a Canada Community Manager who, during 2023, visited communities in areas close to our sites to improve understanding of local community sentiment and how we can improve relations and engagement. Engagement has ranged from local mayors, school leaders, and developing a wide range of relationships with local non-profit organizations. We have also recruited a new Director for Indigenous Engagement and Partnerships, who has developed a new Indigenous Peoples Policy. During 2023, we gave approximately £175,000 to local community projects and programmes through our Community Fund. We also distributed approximately £359,000 to larger national or state-wide STEM and nature non-profit organisations through the Drax Foundation. In the UK, we have active partnerships with Engineering UK, Primary Engineers, and Glasgow Science Centre. Each of these is designed to inspire, educate and train the next generation to pursue careers in STEM subjects. During 2023, we provided educational tours of Drax Power Station in Selby for around 1,500 school children. We opened our Skylark Centre to thousands of people for community events. We also delivered STEM sessions in a number of UK schools. In Scotland we developed new partnerships with Argyll and the Isles Coast and Countryside Trust and Kirkcudbright Dark Spaces Planetarium, to support our STEM outreach and Nature Positive focus. We also provided funding for the Loch Ken Trust, to fund a local ranger, and to Embers Aquatics, to deliver education on water safety in the communities surrounding our hydro assets. Through our Community Fund, we disbursed around £244,000 to local projects and programmes in the communities where we operate. Through the Drax Foundation, we also donated approximately £457,000 in larger grants to support STEM and nature non-profit organisations working in and around the regions where Drax operates. □ For more information about the Drax Foundation and Community Fund, please see page 40 and for more on our community investment please see page 69

Government, political bodies and regulators

Key issues	Engagement activities
• Energy security • Energy costs • Tackling climate change • System stability and flexible generation • BECCS delivery	We engage with government bodies in the UK, EU, North America, and Asia on topics including: energy security; decarbonisation; BECCS; and the need for system stability and flexible generation. While Drax makes no political donations, it is important that we engage with politicians, political parties, policymakers, and other stakeholders to understand their views and explain our plans and strategy. In the UK, we engage with political stakeholders at party conferences and through All-Party Groups. We also engage proactively and reactively with political bodies, such as Parliamentary Select Committees, over issues including biomass acceptability. In addition, we engage with relevant ministers and their teams ahead of significant political proceedings, including fiscal events. We routinely engage with relevant teams at the UK regulator Ofgem, the Department for Energy Security and Net Zero (DESNZ), and National Grid. We also engage with Energy UK and the Sustainable Biomass Programme to promote best practice and progressive reform in policy, licences, and standards. In the EU, we continue strategic engagement to build support for biomass and BECCS. This includes advocating for BECCS in the context of the Carbon Removal Certification Framework Proposal (CRCF), the upcoming EU Industrial Carbon Management Strategy and 2040 climate target initiative. Our activities include meeting with MEPs, officials from the European Commission, think tanks and NGOs. The Industrial Carbon Management consultation outcome, published in November 2023, demonstrated a high level of support for carbon removals (71%) and BECCS in particular as the highest-ranked technology (76%). Several EU Member States continue developing programmes to enable BECCS deployment and we engage as appropriate. Several governments have announced carbon management strategies, research and development funding schemes, or grants. Following publication of two pieces of legislation in 2023 – the Renewable Energy Directive (RED III) and the EU Deforestation-free products Regulation – we are assessing the potential impact on our supply chains. We remain engaged on these as the EU works on implementation, to ensure the rules are practical and implementable and that trade into and from the EU can continue. We are members of and engage with various trade associations and partnerships with others in the forest sector concerning responsible sourcing of sustainable biomass. In Asia, we continue to showcase our coal-to-biomass conversion expertise as a tool to decarbonise the region whilst guaranteeing energy security. We work closely with embassy officials from the UK, Canada, and US, as well as engage with government officials to discuss logistics and trade, sustainable sourcing policies, and our supply chains. In the US and Canada, we engage with policymakers at the federal, state/provincial, and local levels to ensure that our sustainability and supply chains are well understood, and to discuss how biomass and BECCS can contribute to grid stability, economic development, and the realisation of emissions targets to combat the effects of climate change. Policies to support deployment of renewables and carbon capture technologies are under development in both countries. It is important for Drax to participate in conversations around topics such as carbon capture, clean technologies, energy permitting, and pipeline regulatory reform, to discuss sustainable biomass and BECCS as a pathway to enable policy goals and net zero targets. At the state level, we engage regularly with state and local policymakers on the opportunities we can provide for job creation and economic development, particularly in rural communities.
Principal Risks	
• Climate change • Biomass acceptability • Political and regulatory • Strategic	

Stakeholder engagement continued

Customers and Suppliers

Key issues	Engagement activities	
• Energy costs • Ethical business conduct • Reducing environmental impact • Long-term partnerships	The cost of energy remained a critical issue for our customers in 2023. We continued to work with UK Government's support package for businesses, the Energy Bill Relief Scheme (EBRS) which then transitioned into the Energy Bill Discount Scheme (EBDS). We also engaged with customers requiring additional support with payment arrangements tailored to their needs. In 2023, we were pleased that our Trustpilot score remained at 4.5 stars, which is above the industry average of 3.9. This is a testament to the hard work of our colleagues. Where a Trustpilot review has a rating for us of two stars or lower, we assign one of our Energy Relationship Specialists who engage with the customer to identify the reasons behind the rating and try to rectify any issues. We also seek to ensure that such engagement involves the creation of enduring solutions that can improve the service experience overall. Our internal Operational Excellence team interacts directly with customers to gain feedback about certain processes, to seek to ensure our solutions meet customer needs. Our large Industrial and Commercial (I&C) customers, as well as the Third Party	Intermediaries (TPIs) we work with as partners, have dedicated account managers and service delivery managers. Our relationships with relevant suppliers are governed by contracts that include compliance with relevant regulatory and legal requirements, anti-bribery and corruption, modern slavery and supplier code of conduct, to which suppliers are expected to adhere. These are regularly reviewed by our Procurement, Legal, and Business Ethics functions. Drax has also signed up to the Prompt Payment Code, and monitors performance to both continue to improve payment performance and maintain positive supplier relationships. Engagement through our biomass supply chain is a key focus for the Group. We engage with suppliers to understand where they source from, and our standard biomass purchase agreements require suppliers to mitigate environmental impacts resulting from their activities. You can read more about our biomass sourcing in the Sustainable Development section on page 72
Principal Risks		
• Climate change • Safety, health and wellbeing, and environment • Biomass acceptability		

Effective engagement helps us to fulfil our purpose, deliver our strategy, and create lasting value and positive outcomes for stakeholders.

Case study

BECCS Done Well

We welcome constructive input and challenge on BECCS, and we want to continue working with stakeholders to ensure it is done well. As a responsible BECCS developer, we have put significant effort into investigating to what extent, and under which conditions, BECCS can be scaled to make a material contribution towards fighting the global climate crisis whilst not having unintended negative consequences.

In 2022 Jonathon Porritt, environmental campaigner and co-founder of Forum for the Future, convened a High Level Panel to conduct an independent inquiry into BECCS, with Forum for the Future acting as Secretariat. The aim of the six-month inquiry (which concluded in November 2022) was to identify the necessary conditions which, if met, would satisfy the panel of independent sustainability experts, that BECCS from woody biomass can deliver positive outcomes for nature, climate, and people. The panel spoke to experts regarding the issues surrounding the sustainable deployment of BECCS. As a result of this input, the panel developed 30 conditions under which it considered that BECCS could indeed be "done well".

✓ The conditions can be found here www.drax.com/BECCS-Done-Well (forumforthefuture.org).

We committed to formally respond to the recommendations in the study and during 2023 a dedicated team worked on the response. We also engaged with our Independent Advisory Board (IAB) to better understand the implications and intended outcomes of the conditions, and how we could deliver those outcomes.

✓ Our response was published in July 2023 and can be found at www.drax.com/Drax-Response-to-BECCS-Done-Well.

In our response, we agreed in principle with 24 of the 30 conditions. One condition we did not agree with, with reasons given. The remaining five conditions require further consideration before we can set out a meaningful response. The responses are not an end point in our work to make Drax a world-leading company driven by sustainability. Instead, this response marks the beginning of a process that will result in a set of sustainability commitments for BECCS that we can operationalise and hold ourselves to realising. Recognising the importance of transparency, we used the response to address common concerns around BECCS as a carbon removal solution and describe under which

“

With such high concentrations of greenhouse gases already in the atmosphere, the only sustainable way of avoiding a cataclysmic outcome for humankind will be to draw down billions of tonnes of CO₂ back out of the atmosphere. Dealing with overshoot means Carbon Dioxide Removals – with billions of tonnes of removals and storage needed every year by 2050.

The High Level Panel on BECCS Done Well, November 2022

conditions its scale-up meets the high bar on environmental and socioeconomic sustainability that the public rightly expects.

Stakeholders, such as NGOs and civil society, play an important role in enabling companies such as Drax to drive an equitable and inclusive transition to net zero. We therefore welcome the contribution of stakeholders to help ensure good practice and responsible actions are taken. We expect to be challenged in how we are responding to our commitments, recognising it is important they evolve as science and policy advance.

The commitments are also feeding through to work we are doing to develop industry-recognised, high-quality methodologies for the issuance of CDR credits from BECCS. This supports our ambition to be a world-leading, sustainability-driven company, while holding ourselves to strict sustainability, socioeconomic, and environmental standards. We may commission further inquiries as our business develops and scientific perspectives evolve.

“

We are all very impressed by the in-depth consideration that the Drax team has devoted to fashioning this response. The level of detail is comprehensive, and its readiness to engage with each of the proposed 30 Conditions in our Report should be reassuring for all those stakeholders involved in this critical area of debate and policymaking.

The High Level Panel on BECCS Done Well, July 2023



Stakeholder engagement in action

Case study

Engaging stakeholders in the expansion of Cruachan Power Station

During 2023, Drax engaged with the Scottish Government, UK Government, the local community, and a range of other stakeholders, and we saw some important milestones being reached.

The UK Government has recognised that new long-duration, large-scale electricity storage (LDES) projects can play a pivotal role in delivering a flexible energy system to meet future needs and represent value for consumers.

A key focus of engagement in 2023 was to discuss the new investment mechanism to help enable investment in and promote new LDES projects such as the extension of Cruachan Power Station. We welcomed

the announcement in January 2024 that the UK Government had launched a consultation on an investment mechanism to support the development of new LDES projects, with an intention to develop a “cap and floor” mechanism to help give operators the confidence to progress with project developments. This mechanism would offer protection to consumers by providing a “cap” on the revenue that operators can earn, with some or all of the revenue earned over the agreed cap returned to the consumer, and also provide revenue-certainty for operators by providing a guaranteed revenue should returns from operating assets drop below the agreed “floor”.

In July 2023, Drax received approval of the Section 36 planning application by Scottish Ministers. As part of the Section 36 process, Drax had engaged with a variety of stakeholders including Scottish

and UK Government ministers. We were proud to host a visit from the First Minister of Scotland to Cruachan to announce the planning approval.

In 2023, we undertook further ground investigation and pre-FEED works, and appointed Studio Pietrangeli as Owners’ Engineer to progress design and optimisation works. We engaged with the local community and schools to discuss the socioeconomic benefits of the expansion, and during the year we welcomed around 28,000 visitors to our visitor centre, including over 450 free educational tours.

We aim to continue to engage with key stakeholders in 2024 to secure the policy mechanism to support the expansion, while demonstrating the importance of Cruachan for energy security, and the benefits to the local community.



Case study

Engaging with First Nations in Canada

During 2023 Drax continued to work with the T̓sideldel, one of the T̓silhqot'in Nations living in British Columbia. The T̓sideldel focus on responsible stewardship of the land and operating in a way that provides benefits today and supports future generations. Their forests provide the resources for a modern economy, including products such as timber, pulp wood, and biomass.

Over the past four years, around one million cubic metres of fibre has been recovered, which would either have been

left behind, increasing the risk of wildfires, or burned in slash piles.

The T̓sideldel's understanding of the best ways to support and protect the forests represents important learning for other users, including Drax.

In 2023, Drax funded a series of films to help explain and educate audiences about the role the T̓sideldel play in delivering sustainable forestry and biomass. In October 2023 the Drax North American leadership team met with the T̓sideldel to discuss the issues they are facing in the industry, including old growth deferral, forest fire salvage, and fire hazard abatement. As a result

of this engagement Drax supported their work on the communications materials presented to the British Columbia Ministers at the gathering of the British Columbian Cabinet and First Nations Leaders in November 2023.

[You can read more about our engagement with indigenous peoples on page 69](#)

1 million

Around one million cubic metres of fibre recovered over the past four years



Matt White (Executive Vice President, Drax Biomass), Percy Guichon (Councillor, T̓sideldel First Nation), Will Gardiner (CEO, Drax Group plc).

Case study

Engaging with experts

A key part of our engagement with scientists and forestry experts is the IAB.

The IAB advises Drax on the science and evidence surrounding the deployment of BECCS and the BECCS value chain, with a specific focus on the responsible sourcing of biomass.

The IAB provides independent scrutiny, challenge, and advice. It makes recommendations on how we can improve various initiatives within our sustainability strategy, including best practice on ensuring that biomass is sourced sustainably.

In 2023, the IAB played an important role in helping Drax respond to the BECCS Done Well recommendations, as explained on page 37, and in July 2023 the IAB Chair and Vice Chair met the Drax Board to

discuss the work programme and key topics on which the IAB had advised.

Feedback from 2023's activities included refining the scope of the sustainability Evidence Book (see page 49) and how to best present varying views of the scientific community. More details can be found in our half-yearly updates published on our website.

[You can read more about the IAB on page 47](#)

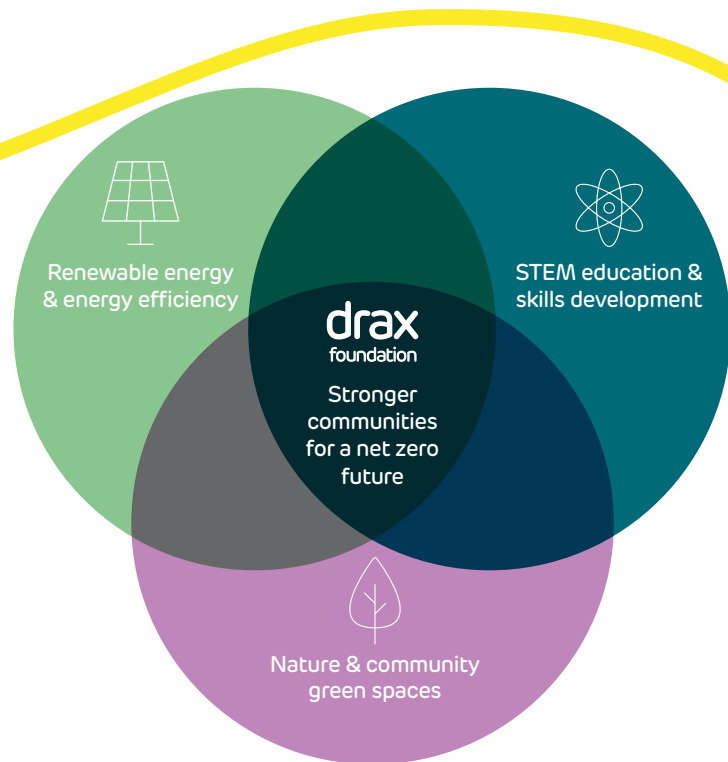
Corporate giving

Drax is committed to being a good neighbour in the communities where we operate. We achieve this by combining active community engagement with corporate giving.



Building stronger communities for a net zero future

The Drax Foundation was established in 2023 to provide grant funding for non-profit organisations that share our commitment to improving equitable access to STEM education, community green spaces, and renewable energy. We prioritise projects and programmes that support underrepresented and underserved groups.



Drax Community team celebrating Global Goals Week with local non-profit partners in Scotland

Drax Community Fund

Giving back in the communities where we operate

We recognise that each of our communities has unique challenges and opportunities. That's why we established a Community Fund to provide reactive funding for local programmes, projects, and community events. This is part of our commitment to being a good neighbour and building stronger communities.

Communities in Crisis Fund

Responding to humanitarian crises

We also operate a Crisis Fund that provides emergency relief for on-the-ground humanitarian organisations in the aftermath of natural disasters and conflict.

Contributing to the Sustainable Development Goals

Across all our funding programmes, the Drax Foundation is committed to making a measurable contribution to the United Nations Sustainable Development Goals (SDGs). We have prioritised eight intersecting SDGs where we have the greatest impact.



Organisations we supported through the Drax Foundation during 2023

In the UK

- Argyll & the Isles Coast & Countryside Trust
- CatZero
- Embers Aquatics
- Don Catchment Rivers Trust
- Eden Rose Coppice Trust
- Friends of Lower Derwent Valley
- Glasgow Science Centre
- HETA
- Kirkcudbright Dark Space Planetarium
- NYBEP
- STEM Learning Ltd
- Speakers for Schools
- Teach First
- Toranj Tuition

In the US

- Boys and Girls Clubs of America
- Center for Planning Excellence
- Central Creativity Foundation
- Galveston Bay Foundation
- Gulf Coast Center for Ecotourism & Sustainability
- Houston Audubon
- Project Learning Tree
- Texas Alliance for Minorities in Engineering (TAME)

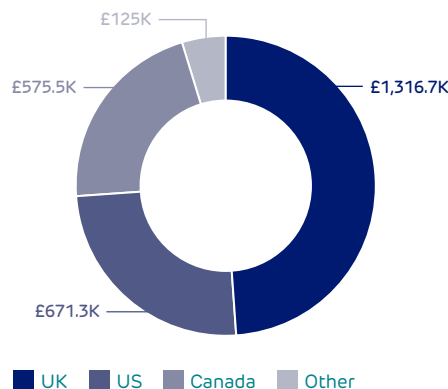
In Canada

- Actua
- Connected North
- Exploration Place
- Nature Trust for British Columbia
- Scientists in Schools
- Society for Women in Science and Technology (SCWIST)
- Science World
- University of British Columbia
- Williams Lake First Nation

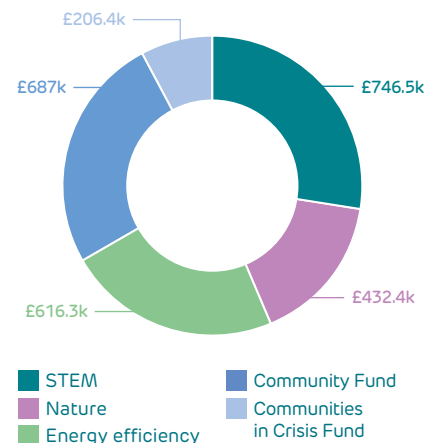
Our impact across all giving 2023 at-a-glance

During 2023, we donated £2.7 million to around 280 projects and programmes, primarily in the countries and regions where Drax operates.

2023 funding by country

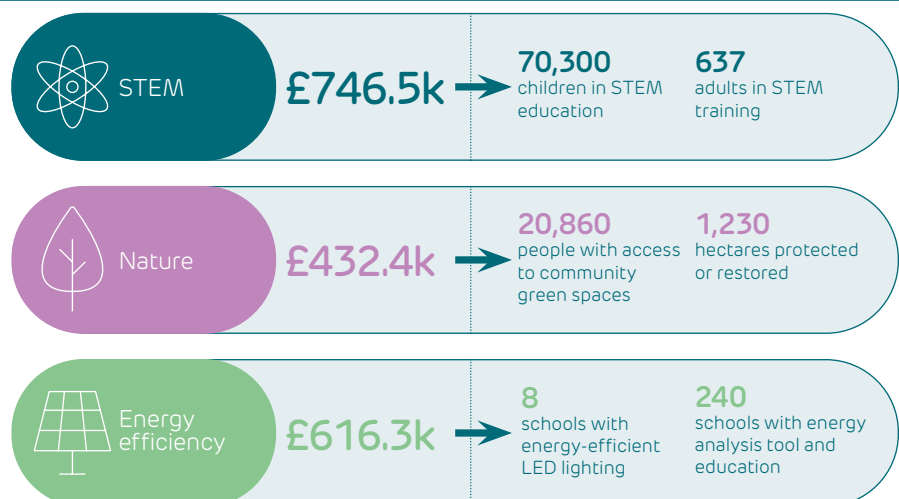


2023 funding by focus area



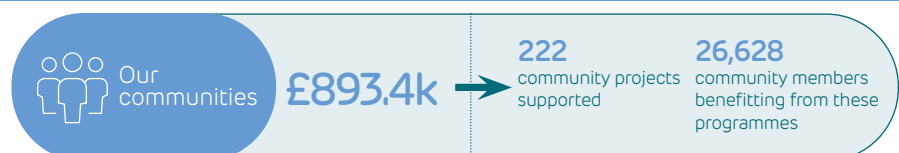
Drax Foundation

The projects and programmes supported by the Drax Foundation during 2023 contributed to the following outcomes across our focus areas.



Community Fund

In 2023 Our Community Fund and Communities in Crisis Fund benefited more than 26,000 members of our communities, and provided emergency donations for crises in the US, Canada, Libya, Morocco, and Gaza-Israel.



Boys and Girls Club of America

"Through our new partnership with the Drax Foundation, we are excited to expand the number of young people engaging in high-quality STEM programs within select Mississippi Clubs"

Lisa Anastasi, Chief Development and Public Affairs Officer for Boys and Girls Clubs of America.



Nature Trust of British Columbia, Canada

"Through the generous support of the Drax Foundation, we will be able to enhance approximately 20 hectares of ingrown forest... improve wildlife and biodiversity habitat values"

Dr. Jasper Lament
CEO The Nature Trust of British Columbia



HETA, Hull

"Drax Foundation funding will enable us to invest in the latest tools and equipment, ensuring that our learners are well-versed in the advancements shaping their industries"

Joanne Rowlands, HETA Centre Manager, Hull

Sustainable Development

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91	Assurance statements
92	Viability statement
94	Principal risks and uncertainties



Leading climate organisations, such as the Intergovernmental Panel on Climate Change (IPCC) and the UK's Climate Change Committee, have once again highlighted the integral role of carbon removals if the world is to meet its emissions targets and keep global warming below 1.5°C. For Drax, this represents a significant commercial opportunity, as we seek to develop and expand our carbon removals offering. But it is also vital that the removals we aim to provide in the future are of high quality, trusted, and recognised internationally.

Miguel Veiga-Pestana, Chief Sustainability Officer

ESG Ratings Summary

A- (2022: B)

CDP Climate Change

In 2023, Drax Group plc received a score of A- (on a scale of F – A). CDP is a not-for-profit charity that runs a global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Please see the CDP website for further details.

B- prime (2022: B- prime)

ISS ESG

As at 21/02/2024, Drax Group plc had an ISS ESG Corporate Rating of B- Prime (on a scale of D- to A+). Corporate Rating prime status is awarded to companies with an ESG performance above the sector-specific Prime threshold.

B (2022: B)

CDP Forests

In 2023, Drax Group plc received a score of B (on a scale of F – A).

A (2022: AA)

MSCI

In 2023, Drax Group plc had a rating of A (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment⁽¹⁾.

62 (2022: 62)

Moody's Analytics

In 2023, Drax Group plc had an overall ESG score of 62 from Moody's Analytics (on a scale of 0 to 100, with 100 being the highest score).

23.5 (2022: 25.9)

Morningstar Sustainability

As of September 2023, Drax Group plc received a Sustainability ESG Risk Rating of 23.5, medium risk⁽²⁾.

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Sustainable Development



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My focus is on embedding sustainability into the overall core business strategy to facilitate the Group's ambitions while building and protecting its reputation.

Miguel Veiga-Pestana, Chief Sustainability Officer

I was pleased to take up the role of Chief Sustainability Officer in September, at such a critical moment in the Group's transformational journey. I am a passionate advocate of our corporate purpose to enable a zero carbon, lower cost energy future.

Drax has the potential to play a significant role in tackling climate change – and I am excited to shape and drive forward Drax's contribution. My focus is on embedding sustainability into the overall core business strategy to facilitate the Group's ambitions while building and protecting its reputation.

Our strategic ambitions to become a global leader in both carbon removals and sustainable biomass pellets have rightly placed focus on the sustainability of the Group's operations while also confirming the complex issues faced by businesses and society more widely in tackling climate change and cutting CO₂ emissions.

Drax acknowledges that in our role in seeking to address these issues, we can do better at explaining what we do, in helping to establish and in meeting the right standards and in working with stakeholders to allow shared concerns for the climate to be properly managed.

We have taken steps in a number of the areas, but more needs to be done. This report outlines actions we have been taking, as well as our plans for future initiatives.

Our Sustainable Development Framework (see page 46) is designed to ensure our business model and commercial transition produces positive outcomes for climate, nature, and people, in our value chains and the locations in which we operate. This means we are aligning the objectives of our business with the UN Sustainable Development Goals (SDGs).

Leading climate organisations, such as the Intergovernmental Panel on Climate Change (IPCC) and the UK's Climate Change Committee, continue to highlight the integral role of carbon removals if the world is to meet its emissions targets and keep global warming below 1.5°C. For Drax, this represents a significant commercial opportunity, as we seek to develop and expand our carbon removals offering. But it is also vital that the removals we aim to provide in the future are of high quality, trusted, and recognised internationally. That was a key reason why, in 2022, we commissioned Jonathon Porritt CBE to convene a High Level Panel to conduct an independent inquiry into how to implement BECCS in a way that delivers positive outcomes for the climate, nature and people.

You can read more about our engagement on 'BECCS Done Well' on page 37. The High Level Panel's findings, and the Group's subsequent response, demonstrate the scientific grounding for BECCS. We recognise that we must be informed by science and that is why we are developing an Evidence Book. This will collate the latest scientific evidence and highlight the gaps in our understanding. We intend the Evidence Book to be updated as that understanding evolves, supported by research and analysis (see page 49).

In 2023 we established a 'Sustainability Council' that has been augmented by a new Science and Evidence function, and the introduction of Expert Hubs, including the Carbon Reduction Task Force. Also in 2023, the Group's annual bonus Scorecard included a Safety and ESG element with a 20% weighting. This links remuneration with our sustainability performance on KPIs for safety, decarbonisation, and a colleague inclusion index measure (read more on page 151). All this will serve to strengthen the governance of sustainability across the business.

I also recognise the challenges faced by the business over the last year. In May 2023, Ofgem announced their investigation into Drax Power Limited's annual biomass profiling reporting under the Renewable Obligations Scheme. As part of that announcement Ofgem confirmed that it had not established any non-compliance that would affect the issuance of Renewables Obligation Certificates (ROCs). Throughout their investigation, Drax has sought to co-operate and continues to engage with Ofgem in support of their work. Drax awaits the conclusion of this investigation.

Separate from the Ofgem investigation, Drax had already commenced a detailed review of internal procedures supported by an external consultant. This review did not highlight any issues with the accuracy of underlying reporting. You can read more about this on page 133 of the report of the Audit Committee.

Another area of focus has been operational challenges in the US South. Following historical permit violations at our Amite pellet plant in Gloster, Mississippi, we had previously engaged with the Mississippi Department of Environmental Quality (MDEQ) and installed new technologies at the plant during 2021. After identifying and self-reporting air pollutant calculation discrepancies at the Amite plant to the MDEQ, in 2023 we received a corresponding notice of violation in respect of those discrepancies. Drax received a second notice of violation in respect of the Amite pellet plant in January 2024 alleging issues with visual inspections and equipment testing. We remain in dialogue with the MDEQ to address these issues. We have also undertaken community engagement on this matter (read more on page 61).

Looking ahead, delivering our purpose and strategic aims will necessitate a new set of guiding principles and commitments across the business. We will publish more details in 2024, setting out the vision, areas of focus and 2030 sustainability plan for the Company.

Miguel Veiga-Pestana,
Chief Sustainability Officer

28 February 2024

What's inside

Climate positive

Our ambition is to become carbon negative by 2030.

Find out more on [Page 50](#)



Nature positive

Our ambition is to implement the systems and metrics across our operations and biomass value chains to demonstrate a contribution to nature positive outcomes.

Find out more on [Page 56](#)



People positive

We will only achieve our ambitions through the talents, skills and experience of our people.

Find out more on [Page 62](#)



Biomass sourcing

Sustainably sourced biomass is central to realising our strategy and our climate positive, nature positive, and people positive outcomes.

Find out more on [Page 72](#)



Taskforce on Climate-related Financial Disclosures

Find out more on [Page 78](#)

ESG Performance Report 2023

Our ESG Performance Report provides additional environment, social, and governance data.

See www.drax.com/sustainability

Policies

For publicly available policies referenced in this section, see www.drax.com/about-us/corporate-governance/compliance-and-policies/



Sustainable Development continued

Introduction

Our Sustainable Development Framework

Our Group-wide Sustainable Development Framework (Framework) established the principle that, as well as delivering positive economic returns, the way we operate our business should provide positive outcomes for the climate, people and nature.

Essential to this is our commitment to source biomass sustainably. We oversee this by underpinning our business with a robust environmental, social and governance (ESG) framework, in addition to being informed by laws, regulations and standards applicable to our business. The Framework is designed to support our three strategic aims, as detailed below, and our purpose: to enable a zero carbon, lower cost energy future.

2023 highlights:

- External validation of our near-term Science-Based Targets initiative (SBTi) carbon reduction targets.
- Piloting the Taskforce on Nature-related Financial Disclosures (TNFD) framework on our Scottish hydro sites.
- Establishment of a Science and Evidence function, with the remit to ensure that properly gathered and reviewed evidence proactively informs our decision-making, for example on BECCS.

2024 priorities:

- Publish the first draft of the Evidence Book and our final response to the 'BECCS Done Well' report (see page 49).
- Produce a formal Climate Transition Plan in line with the Transition Plan Taskforce (TPT) Disclosure Framework.
- Publish a Sustainability Policy Framework outlining the policies and governance underpinning our Sustainable Development Framework.
- Publish and roll-out implementation of a new Group Nature Policy.

Sustainable Development Framework

Three strategic aims:

-  To be a global leader in carbon removals
-  To be a global leader in sustainable biomass pellets
-  To be a UK leader in dispatchable, renewable generation

Sustainable Development Framework:



Governance of sustainability

The Board has ultimate accountability for the Group's sustainability performance. It approves the Group's purpose and three strategic aims, which are underpinned by a commitment to sustainability that guides business operations and activities. The CEO has overall responsibility for the implementation of that strategy in realising our purpose.

In 2023, Drax appointed Miguel Veiga-Pestana, Chief Sustainability Officer (CSO). A member of the Executive Committee, the CSO brings the Sustainability and Corporate Affairs functions into a combined unit and leads Group implementation of the sustainability programme.

The sustainability leadership team provide regular sustainability updates for inclusion within the CEO Report to the Board.

The Executive Committee conduct Quarterly Business Reviews, designed to ensure effective execution of strategic and operating plans. As part of this, the sustainability leadership team provide updates on progress and challenges across our Sustainable Development Framework.

Sustainability governance structure

During 2023, we established a new Sustainability Council (Council). We are working to embed the Council within our governance frameworks.

We also introduced the Biomass Leadership Team forum to provide cross-learning and co-ordination on the sustainability of biomass sourcing and supply.

[See Climate Governance, page 79, for more information.](#)

Drax Group plc Board sustainability oversight		
Executive Committee		
Sustainability Council Co-ordinates sustainability-related policy and strategy development.		Biomass Leadership Team Commercial implementation and accountability for policies concerning biomass sourcing and supply.
Topic-specific Expert Hubs:		
People Expert Hub Reports periodically to the Sustainability Council. Representatives from the HSE Committee, Diversity, Equity, and Inclusion (DEI) Steering Committee, and the Drax Foundation provide updates.	Nature Expert Hub Co-ordinates the operational implementation of nature-related projects. See page 57	Carbon Reduction Task Force Centrally co-ordinates the prioritisation and delivery of decarbonisation projects. See page 51 and page 80

Independent Advisory Board

The Independent Advisory Board (IAB) forms a key part of our engagement and governance regarding responsible sourcing of biomass, providing scrutiny, challenge, and advice. While their focus is biomass sustainability, the IAB does provide feedback on aspects of our wider sustainability strategy.

The IAB membership comprises six scientists and technical specialists (member biographies are available on the Drax website). The Chair is Professor Sir John Beddington, former Chief Scientific Adviser to the UK Government. The Vice Chair is Lord John Krebs, former member of the Climate Change Committee. The IAB Terms of Reference define the technical competencies for membership selection, and characteristics of independence. In early 2024, Lord John Krebs will become the new Chair of the

IAB and Sir John Beddington will step down from his role as Chair. We acknowledge and extend our gratitude for his contribution over the past five years.

In 2023, the IAB met six times, continuing to advise on the science and with a new focus on the development of the Evidence Book. Every six months, the IAB approves a written report summarising its activities and conclusions, and how Drax is responding. These six-monthly updates are published on the Drax website (www.drax.com/sustainability).

The Drax sustainability team formally updates the Executive Committee on the work programme and key challenges and opportunities discussed with the IAB. The IAB Chair and Vice Chair met the Drax Board in July 2023, discussing the work programme and key topics that the IAB has advised on.

Key matters discussed and advised on during the year included:

- The development of the Evidence Book and proposed chapters and topics.
- The strategy for Catchment Area Analysis studies and underlying methodology.
- The Drax response to the 'BECCS Done Well' report by Jonathon Porritt and the High Level Panel.

Feedback from 2023 activities included refining the scope of the Evidence Book and how to best present varying views of the scientific community. More details can be found in our half-yearly updates published on our website.

“

The IPCC and the UK's Climate Change Committee recognise that sustainably sourced biomass can play an important role in meeting climate change targets. It's therefore vital that biomass is sourced sustainably and takes into account the latest scientific thinking. We make recommendations on Drax's sustainable biomass approach and performance, how Drax can optimise carbon benefits, and provide insight on societal expectations for responsible and sustainable biomass.

Sir John Beddington, IAB Chair

Sustainable Development continued

Our sustainability priorities

Stakeholder priorities evolve over time, and it is important that we regularly review and respond to them, to address expectations and effectively manage risks and opportunities.

In 2023, we completed the first phase of a materiality assessment exercise, supported by a third party, Grant Thornton. The exercise is designed to identify the sustainability topics of importance to stakeholders and their potential to have an impact on the business.

The process during 2023 involved external benchmarking to understand the current and emerging topics relevant for Drax. Benchmarking considered sustainability topics in peer disclosures, sustainability reporting frameworks, and three ESG rating questionnaires.

Grant Thornton interviewed 30 internal stakeholders, including our Executive Committee members, to rate topics according to the potential or actual impact of our operations on people and the environment. Further analysis was added through a survey, issued to a sample of colleagues, which asked them to rate sustainability topics perceived as most important for Drax.

The resulting list of 11 material topic groupings is prioritised in order of importance, based upon scoring of impact. The 11 groupings consist of 24 material sub-topics, amongst which Water and Nature (biodiversity) were identified as emerging topics for Drax.

The outputs inform our sustainability disclosures and will be reflected in subsequent updates to our Sustainable Development Framework. This helps to ensure Drax is continuing to meet the expectations of its stakeholders.

The next phase of this exercise will incorporate external stakeholder interviews and engagement, after which we intend to update the material issue list prioritisation.

Sustainability topic groupings and sub-topics according to importance for Drax

Eleven material topic groupings					
Importance for Drax (Internal)	1	Credible and transparent sustainability information	7	Labour practices and standards	
	2	Responsible sourcing	8	Climate action and GHG emissions	
	3	Governance and organisational accountability	9	Cyber and Information Security	
	4	Community relations	10	Diversity, Equity and Inclusion in the workforce	
	5	Business ethics	11	Human capital development	
	6	Environmental impact			
Corresponding topic grouping Topics			Corresponding topic grouping Topics		
Importance for Drax (Internal)	2	1. Responsible sourcing of biomass	6	13. Biodiversity	
	1	2. Credible and transparent sustainability information	5	14. Business ethics	
	8	3. Climate action and GHG emissions	7	15. Employee wellbeing	
	1	4. Science and evidence (based information)	3	16. Remuneration of executives	
	6	5. Environmental pollution	9	17. Cyber and Information Security	
	7	6. Health and Safety	10	18. Diversity, Equity and Inclusion in the workforce	
	3	7. Corporate governance mechanisms	7	19. Responsible products and customer relations	
	8	8. Biomass supply chain GHG emissions	6	20. Water	
	3	9. Investor Relations and Government engagement	2	21. Responsible sourcing of non-biomass	
	3	10. Responsible tax	11	22. Training and development	
	4	11. Community relations	8	23. Energy consumption	
	7	12. Human and labour rights	11	24. STEM and early career opportunities	

BECCS Done Well

In 2022, Drax commissioned an independent inquiry to assess the conditions required to implement BECCS in a way that ensures positive outcomes for nature, climate, and people.

In November 2022, the inquiry's panel and its Chair, Jonathon Porritt, produced "BECCS Done Well: Conditions for success for Bioenergy with Carbon Capture and Storage". This report recommended 30 conditions to deliver sustainable outcomes and you can read more about our engagement with the inquiry, the recommendations, and our subsequent response, on page 37.

Since our July 2023 response, we grouped the 30 conditions into six themes for action and have considered ways we can embed the conditions into our operations. For example, we have incorporated some of the relevant conditions into the development of forthcoming policies related to biomass sourcing and CCS.

We have committed to publishing a final response to "BECCS Done Well" in the first half of 2024. This will provide an update for each of the 30 conditions, including the five conditions requiring further consideration, and will outline how we plan to address them.



Evidence Book

Following our response to the "BECCS Done Well" report, we committed to compiling an Evidence Book. This will seek to provide a thorough examination of the scientific evidence and research pertinent to the BECCS value chain. It will identify areas of consensus, and comment on potential further steps to support assessment in areas where information is insufficient.

The Evidence Book will be publicly available. It will be used to develop our understanding of the steps required in order to scale up BECCS sustainably, collating the science underpinning our plans for BECCS. It will contain relevant scientific evidence and research on areas such as net negativity, biomass availability, and the readiness of both BECCS technology and the carbon market. It will also cover the socioeconomic and environmental co-benefits of BECCS.

In compiling the Evidence Book, we are working with external organisations, as well as the IAB, to ensure a fair and accurate reflection of the science. In June 2023, the IAB provided initial feedback on the developing Evidence Book. The IAB will, periodically, peer review chapters of the Evidence Book.

As the science evolves, so too will the Evidence Book, ensuring the topics covered reflect the latest findings and research surrounding the BECCS value chain. We intend to publish the first topics of the Evidence Book in the first half of 2024.



Climate positive

Our ambition:

To become carbon negative by 2030.



Our performance

Carbon and energy use data summary

For additional data see ESG Performance Report www.drax.com/sustainability

	Unit	2023	2022	2021	2020
Carbon emissions					
Generation CO ₂ e emissions ⁽¹⁾	ktCO ₂ e	141	310	525 ⁽⁹⁾	1,687
Group total Scope 1 ⁽²⁾	ktCO ₂ e	255 [Ⓐ]	336	932	1,693
Group total Scope 2 (location-based) ⁽³⁾	ktCO ₂ e	231 ^{Ⓐ(7)}	333	323	277 ⁽⁷⁾
Group total Scope 2 (market-based) ⁽³⁾	ktCO ₂ e	273 [Ⓐ]	332	323	338
Group total Scope 1 and 2 (location-based)	ktCO ₂ e	486	669	1,255	1,970
Proportion of Group (Scope 1 and 2) emissions within the UK	%	34 [Ⓐ]	51	78	87
Group total Scope 3 ⁽⁴⁾	ktCO ₂ e	3,534 [Ⓐ]	3,123	3,121	3,538
Biogenic CO ₂ emissions ⁽⁵⁾	ktCO ₂ e	11,463	12,130	13,415	13,627
Carbon intensity					
Generation emissions per GWh of electricity generation	tCO ₂ e/GWh	11 [Ⓐ]	23	33 ⁽⁹⁾	100 ⁽⁹⁾
Group emissions per GWh of electricity generation ⁽⁶⁾	tCO ₂ e/GWh	39 [Ⓐ]	49	78	117
Group emissions per unit revenue ⁽⁶⁾	tCO ₂ e/£million	62	–	–	–
Total energy consumption					
Group total energy consumption	GWh	34,113 [Ⓐ]	38,341 ⁽⁸⁾	44,113	44,491
Group total energy consumption within the UK	GWh	30,125	33,789 ⁽⁸⁾	40,112	41,008

Note: The work to update the 2020 "baseline" carbon emissions data set has now been completed, to the extent that all material updates have been made to the data set, reflecting the impact on our emissions footprint of acquisitions, divestments and disposals that have taken place between 2020 and the present day.

Note: Carbon emissions are reported against a criterion of operational control. Carbon emissions are reported in units of carbon dioxide equivalent (CO₂e) and include all greenhouse gases as required by the GHG Protocol.

[Ⓐ] This metric was subject to external independent limited assurance by PricewaterhouseCoopers LLP ('PwC') as part of their assurance over metrics in the ESG Performance Report 2023. For the results of that assurance, refer to page 10 in the ESG Performance Report 2023 (www.drax.com/esg-performance-report-2023) and for the Reporting Criteria refer to pages 12 to 46 in the ESG Databook (www.drax.com/esgdatabook2023).

(1) Generation emissions covers the total direct emissions from Scope 1 and indirect emissions from Scope 2 activities across our Generation sites.

(2) Group total Scope 1 covers all direct emissions from our own business operations, across all sites.

(3) Group total Scope 2 covers all indirect emissions associated with our electricity and heat consumption, across all sites.

(4) Group total Scope 3 excludes "downstream leased assets"; and categories "end of life treatment of sold products", "franchises" and "investments" are not applicable.

(5) The biogenic CO₂ emissions across the Group are zero-rated under the GHG Protocol methodology and our SBTi targets. Biogenic CO₂ emissions are reported separately as "outside of scope" in ESG reports or under "Memo items" of UK Emissions Trading Scheme (UK ETS).

(6) Group emissions are total Scope 1 and 2 (location-based) emissions as reported.

(7) For 2020 and 2023 we have updated the location-based methodology, where the Group is able to apply our own generation (currently UK REGOs) and apply a zero-carbon factor for GB grid locations. Our updated methodology can be found on pages 21 to 25 in the Basis of Reporting. 2022 and 2021 have not been restated on the basis of it being impractical without having to incur undue costs or effort.

(8) 2022 figures restated due to error in calculation in 2022.

(9) 2021 figure was based on the ETS value of Drax Power Station and Daldowie only.

Understanding our carbon emissions

Scope 3	Scope 1	Scope 2	Scope 3
  	 	   	  
Upstream	Direct emissions	Indirect emissions from electricity	Downstream
- Natural gas supply chain - Biomass supply chain - Supply chain for other fuels - Supply of sludge to Daldowie - Biomass transport from Pellet Production to Drax Power Station - Utilities as part of lease contracts - Emissions from operational and capital purchases - Business travel - Hotel stays - Employee commuting	- Methane and nitrogen oxides emissions from biomass generation - Pellet plant operations - Pellet port operations - Large plant vehicles - Flue gas desulphurisation systems - Company vehicles - Fluorinated gases from heating, ventilation, and air conditioning systems	- Hydro electricity consumption - Cruachan electricity imports - Generation electricity consumption - Pellet Production business electricity consumption - Office sites electricity consumption	- Recycling, processing and disposal of waste - Reuse and reprocessing of ash and by-products - Transmission and distribution - Emissions from use of sold electricity - Emissions from use of sold natural gas - Emissions from transport and use of sold pellets - Emissions from use of sold coal

Our approach

Responding to the challenge of climate change is central to our purpose, our three strategic aims, and our ambition to become carbon negative by 2030.

The Group Climate Policy outlines our approach in line with the Taskforce on Climate-related Financial Disclosures (TCFD) framework.

[For information on climate-related governance, see pages 79 and 80.](#)

Carbon Reduction Task Force

The role of the Carbon Reduction Task Force (CRTF) is to centrally co-ordinate the prioritisation and delivery of decarbonisation projects. It oversees accountability for delivery, and monitors and reports on progress through the corporate governance structure, including regular briefings to the Executive Committee.

The CRTF is led by the Head of Decarbonisation and meets regularly. It includes representatives from the Commercial, Generation, and Pellet Production business units. A key aspect of the CRTF's role is to evaluate projects that help to realise the Group's decarbonisation objectives, including our carbon reduction targets.

For each of the three main business units, potential decarbonisation projects are compiled into a long list of candidate projects. Projects are ranked, by factors including financial cost per tonne of carbon reduced, time to deliver, and technical feasibility of scaling project. The projects are then costed using our internal shadow price of carbon⁽¹⁾. The CRTF evaluates which projects represent the most scalable and viable decarbonisation opportunities and then develops the business case for funding and implementation. These project lists form the individual business units carbon reduction plans, providing input both for future Group Scorecard KPIs, and for separate projects funded by individual business unit budgets.

In 2023, the CRTF's activities included delivery of three decarbonisation projects, that form part of the Group annual bonus Scorecard (see page 52).

Internal shadow carbon price

We have embedded a shadow carbon price within the capital expenditure decision-making process. For more information see pages 83 and 89.

Advocacy on climate policy

In 2023, Drax continued to advocate for climate action through our engagement in relevant industry initiatives.

[For more information, see page 90.](#)

(1) Drax's internal shadow price of carbon is used to incorporate the potential future costs (or benefits) of the corresponding increase (or decrease) in carbon emissions on the Group's total footprint, as a specific result of the project under consideration. This is calculated as an amendment to project Net Present Value, where applicable.

Sustainable Development continued

Climate positive

Ambition, targets and progress

Our carbon negative ambition

In 2019, we first set out our ambition to become carbon negative by 2030. At Drax, “carbon negative” means we aim to remove more carbon from the atmosphere than we produce across our direct operations (Scope 1 and 2) globally, discounting those Carbon Dioxide Removals (CDRs) that we sell to third parties.

Drax aims to become a global leader in carbon removals, aiming for 7Mt of removals globally per annum by 2030 using bioenergy with carbon capture and storage (BECCS). In 2023, we continued to develop options for BECCS, both at Drax Power Station in the UK and globally, including North America. Read more in the CEO's Review on page 10.

Our near-term SBTi targets

As we pursue options for BECCS, we are focused on finding opportunities to reduce our absolute carbon emissions across Scope 1, 2 and 3. In 2023, our near-term absolute and emissions intensity carbon reduction targets were externally validated by the Science-Based Targets initiative (SBTi). Since November 2023, we are formally committed to the SBTi framework, aligning ourselves to a 1.5°C pathway.

Our 2023 Scorecard carbon reduction targets

Carbon reduction targets are an integral part of key performance indicators (KPIs) in our business. For the 2023 Group Scorecard, a 6.7% weighting was allocated to achievement of carbon reduction KPIs. This was divided between three projects (with corresponding targets):

- A 25% reduction in Hydro Asset portfolio Scope 1 and 2 emissions by 2023 (against a 2020 baseline), covering sites at Lanark, Galloway, and Cruachan
- A 50% reduction in Scope 3 emissions associated with the sale of fossil natural gas from Opus Energy by December 2023 (against a December 2022 baseline), via offboarding and run-down of the customer gas sales book
- Deploying Electric Vehicle (EV) chargers across all UK Drax sites where we have sufficient property ownership rights

For further information on these projects and wider decarbonisation initiatives, see page 54. The decarbonisation dashboard below outlines our current suite of targets and our progress.

Decarbonisation Dashboard

Progress against our SBTi targets is shown opposite. In summary, we are well ahead of target against our Generation Scope 1 and 2 intensity target and slightly behind on our Scope 3 target. Our Scope 3 target has been impacted by a one-off addition of c. 630 ktCO₂e as a result of the purchase of coal on behalf of National Grid (see page 55). If this non-recurring impact is discounted, we would otherwise be making progress towards our 2030 SBTi Scope 3 target.

Progress against our non-generation Scope 1 and 2 target has been affected by: (1) organic growth in self-supply pellet volumes and the acquisition of our Northern Operations, resulting in an increase in emissions across our Pellets business unit; and (2) a return to normal activity levels in our plants, post our COVID-impacted 2020 baseline year has also had an effect. Achievement of this target and our Scope 3 target is still deemed feasible.

SBTi targets	Target year	Base Year 2020	% change against 2020 baseline	% change against 2020 baseline
75.7% reduction in Scope 1 and 2 emissions from electricity generation by 2030 (kgCO ₂ e/MWh)	2030	100	77% reduction	89% reduction
			23	11
75.7% reduction in Scope 1, 2, and 3 emissions from all sold electricity by 2030 (kgCO ₂ e/MWh)	2030	103	67% reduction	78% reduction
			34	22
42% reduction in non-generation Scope 1 and 2 emissions by 2030	2030	282,926	27% increase	22% increase
			357,994	345,051
42% reduction in Scope 3 emissions by 2030	2030	3,537,561	12% decrease	0.1% reduction
			3,123,388	3,534,369

2023 Group Scorecard targets

	Delivery Date/Year	Project Outcome	Result	Baseline period
Hydro decarbonisation: 25% reduction in Hydro Asset portfolio Scope 1 and 2 emissions by the end of 2023	2023	On target	96% decarbonisation of our hydro assets, based on total emissions	2020
Opus Energy gas portfolio rundown: 50% reduction in Scope 3 emissions associated with the sale of fossil natural gas from the Opus Energy business, by December 2023	Dec 2023	Ahead of target	59% reduction in sold gas (by volume) against a target of a 50% reduction	Dec 2022
UK Electric Vehicle (EV) chargepoint expansion: Deploying EV chargers across all UK Drax sites where we have sufficient property ownership rights. Targeted 36 additional chargers across 10 locations by the end of 2023	Jan 2023	Ahead of target	A total of 36 chargers installed	Dec 2023

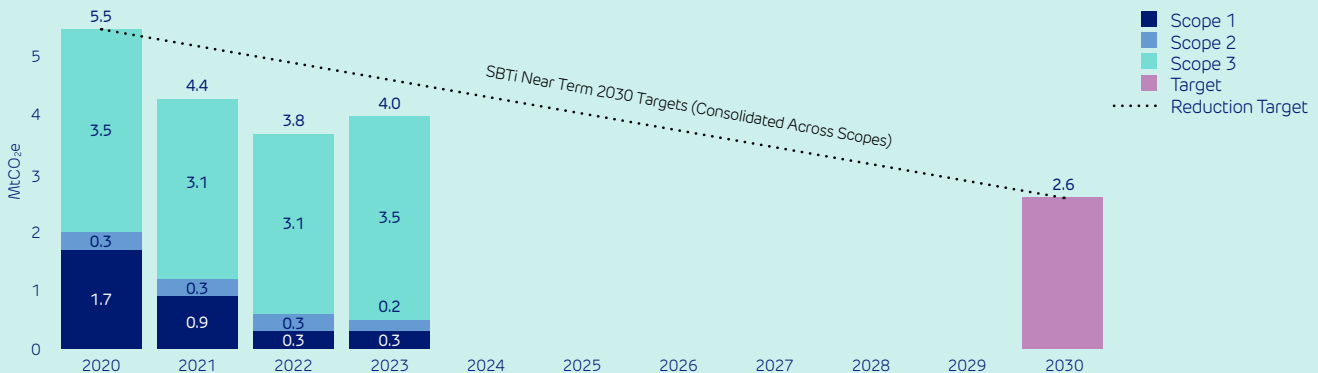
Our Strategy: Drax's carbon reduction pathway

We recognise that clearly defined actions to achieve carbon reduction targets are central to credible transition planning. The diagram below provides an overview of current projects and several projects in development, as we continue to progress

the carbon reduction plans for each of our business units. In 2024, we will build on this with the publication of a formal Climate Transition Plan, in line with the Transition Plan Taskforce (TPT) Disclosure Framework.

Our carbon reduction pathway

Absolute Emissions (MtCO₂e)



Business unit carbon reduction plans

Each business unit has a list of candidate decarbonisation projects, ranked against a set of defined criteria.

Projects include those in progress (such as 2024 Group Scorecard projects), those with multi-year implementation timelines (such as several engineering feasibility studies), and conceptual projects

requiring future development or commercialisation of new technologies. Below we provide a snapshot of projects that have been implemented, are in progress, or are planned for the future.

Pellet Production	Generation	Commercial
Pellets energy optimisation programme (provisional 2024 Scorecard target): We have developed a portfolio of connected energy optimisation initiatives that target a reduction in energy consumption (in the form of electricity and natural gas) of between 4% and 8%, across our Northern and Southern Operations. Natural gas feedstock dryers in Northern Operations: We continue to undertake limited engineering feasibility studies to understand the technical, environmental and cost impacts of replacing our natural gas burning dryers with electric or biomass-fuelled units.	Hydro assets: Reducing Scope 1 and 2 emissions by up to 95% (2023 Scorecard project) by using renewable-backed power for our electricity consumption at Cruachan (the primary source of emissions). Heavy fuel oil (HFO) alternatives: Exploring technical options to use alternative renewable fuel sources to replace HFO for start-up and boiler stabilisation operations for the boilers at Drax Power Station. Options under consideration include renewable liquid biofuels.	Opus Energy gas portfolio rundown: (2023 and provisional 2024 Scorecard target): Reducing Scope 3 emissions associated with the sale of fossil natural gas from Opus Energy in the Customers business, via the offboarding and run-down of the customer book. HVO fuel train project: (provisional 2024 Scorecard target): We are in the process of agreeing terms on the commercial supply of Hydrotreated Vegetable Oil (HVO) to replace diesel in our rail freight route from Immingham to Drax Power Station (representing two-thirds of our total rail-freighted biomass supply). Third party pellet procurement carbon price trial: See page 55.

Carbon negative by 2030: key assumptions and dependencies

Drax recognises there are external dependencies central to our implementation of BECCS projects that could have an impact on our ability to achieve our carbon negative ambition by 2030. Key dependencies include:

- Financing and Government policy:** An appropriate fiscal and legislative framework is required to support the scale of the UK BECCS programme and our future investment decision. This will be key in attracting cost effective investment and capital to the business.
- Technology:** BECCS technology is proven within the industry. Potential uncertainties associated with deployment of BECCS at scale, and alternative, competing technologies developing faster than expected.

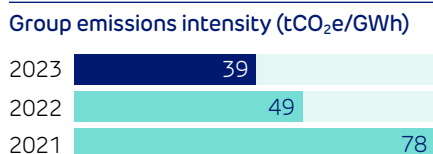
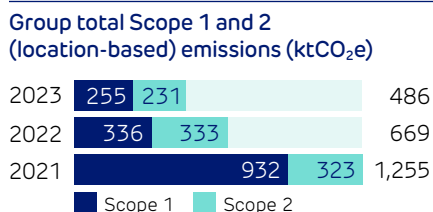
Strategic risks, Principal risks and uncertainties, page 94.

Sustainable Development continued

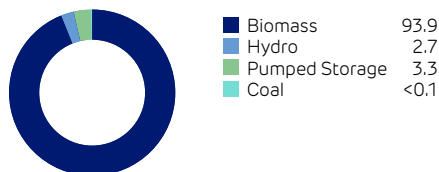
Climate positive

Our carbon emissions and decarbonisation initiatives

Direct operations (Scope 1 and 2)



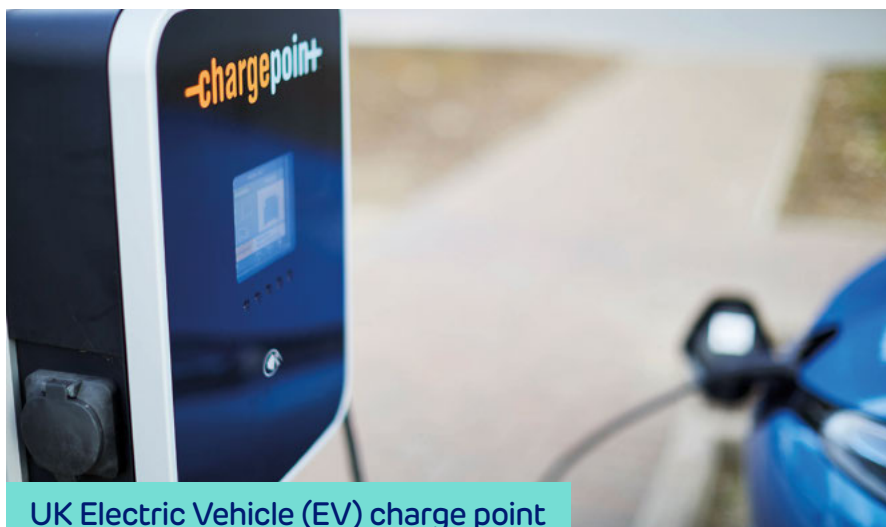
Generation output by technology type (% total output), 2023



* Includes pumped storage generation net of imported and exported power.

In 2023, our total Scope 1 and 2 carbon emissions decreased by 27% compared to 2022. This was largely as a result of a further reduction in coal combustion volumes (Scope 1). This reduction was offset by an increase in emissions from pellet making, as a result of increased electricity usage and a change to our reporting methodology.

At the end of March 2023, we closed the remaining two coal units at Drax Power Station and decommissioning is underway, marking the end of coal-fired power generation at Drax. This closure concludes the transition from coal, which had been used since Drax Power Station was first commissioned in 1974. The transition started in 2003 when Drax first undertook evaluation of the feasibility of converting from coal to sustainable biomass.



UK Electric Vehicle (EV) charge point roll-out and salary sacrifice scheme

In 2023, our Group Scorecard incorporated a target to deploy EV chargers across all UK Drax sites for which we have sufficient property ownership rights. All planned charging points were installed on-time and under budget, significantly enhancing the EV infrastructure across our UK operations.

In conjunction with the EV charge point roll-out, we have started a phased conversion of the Generation vehicle fleet from internal combustion engine-powered vehicles to EVs, and we believe that the fleet will be fully converted by the end of 2025.

In June 2023, we also introduced the Electric Vehicle Salary Sacrifice Scheme. Open to all permanent employees based in the UK, it provides a more affordable way for colleagues to purchase an electric vehicle. Since the scheme's launch, colleagues have placed 140 orders.

36
new EV charge points installed across
10
locations in 2023

The following initiatives also contributed to the overall reduction in Scope 1 and 2 emissions:

- **Hydro assets 2023 Scorecard target:** In 2023, we targeted a 25% reduction in Scope 1 and 2 emissions at our Hydro generation sites (Lanark, Galloway and Cruachan), against a 2020 baseline. We achieved this by reducing our Scope 2 emissions by sourcing renewable-backed electricity.
- **Mitigant project:** Optimising use of mitigant at Drax Power Station (5t/hr in 2020, reduced to c. 3t/hr in 2023). Mitigant, such as pulverised fuel ash, is used to protect boiler components during biomass combustion.
- **SF6 replacement switch gear:** Generation project to replace old switch gear at Drax Power Station. Once the project is completed by the end of 2025, this will realise a total expected reduction in SF6 release of around 80%.

Carbon Dioxide Removals (CDRs)

The IPCC Sixth Assessment Report states that Carbon Dioxide Removal (CDR) methods, including BECCS, are necessary elements in limiting global warming to 1.5°C. At Drax, as we continue to develop options for BECCS, we recognise the importance of standards that define high-integrity removals that are quantified and verified. We partnered with Stockholm Exergi and EcoEngineers to develop a methodology for BECCS CDR credits. The methodology, published externally for feedback in October 2023, proposes criteria and approaches that project developers shall adhere to in each step of developing a credit generating project.

During 2023, Drax agreed a Memorandum of Understanding (MoU) with C-Zero Markets in relation to the sale of CDR credits from Drax's proposed US BECCS facility. Under the terms of the MoU, Drax and C-Zero will work together with a view to C-Zero acquiring 2,000 tonnes of CDRs.

Value chain (Scope 3)

We recognise the contribution that Scope 3 emissions make to our emissions profile, and the importance of focusing our efforts on decarbonisation in the value chain.

Scope 3 emissions breakdown by category (tCO₂e)



The most significant contributor to our Scope 3 emissions profile comes from fuel and energy-related activities. This includes emissions associated with the biomass fuel supply chain. The second largest contributor is purchased goods and services, including the end use of gas purchased and sold by Opus Energy (the run-down of which is part of our 2023 and 2024 Scorecard targets).

In 2023, Group total Scope 3 emissions increased by 13% compared with 2022. A significant contributor (c. 630 ktCO₂e) was due to the sale of the remaining coal we had procured on behalf of the UK Government, under the Winter contingency service agreement with the National Grid. This concluded at the end of

March 2023. Excluding this exceptional item, our Scope 3 emissions would have decreased by 7% overall. In addition, a c. 59% increase in capital expenditure and operating expenses contributed 200 ktCO₂e to our total Scope 3 emissions.

Gas sales in our Customer business contributed 9% of total Scope 3 emissions (2022: 16%). By offboarding and run-down of the customer book in 2023, we achieved a c.190 ktCO₂e reduction in emissions from sold gas.

Between 2021 and 2022, our Scope 1 emissions reduced by 64%. A key contributor to this trend was a reduction in coal generation, resulting in a c.340,000tCO₂e emissions reduction.

Biomass supply chain emissions

Biomass can only be considered a low carbon, renewable energy solution when certain evidence exists. The evidence must show that savings of greenhouse gas (GHG) emissions are delivered on a lifecycle basis, compared to alternatives such as fossil fuel generation. Therefore, we collect fuel and energy data for each step within the supply chain. This enables us to calculate lifecycle GHG emissions for our biomass and check we are compliant with relevant regulatory requirements.

The UK Government has set a limit on biomass supply chain GHG emissions (currently 200 kgCO₂e/MWh of electricity). Generators must meet this limit to be eligible for support under the Renewables Obligation and Contract for Difference schemes. In 2023, our average biomass supply chain GHG emissions were 97 kgCO₂e/MWh of electricity. This increase from 2022 can be attributed to factors including a reduction in use of secondary residues and an increase in biomass sourced from the US, rather than Europe.

Piloting a carbon price for pellet procurement

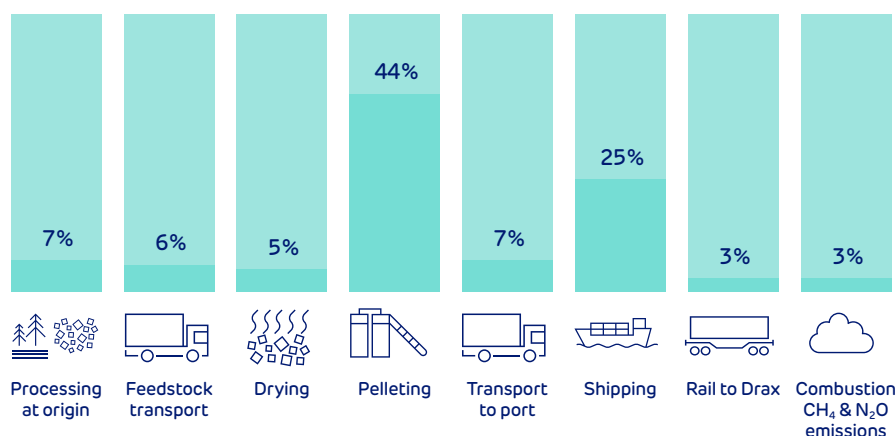
Activities associated with our use of third-party pellets make up a significant proportion (approximately 34%) of our total Scope 3 emissions footprint. This requires us to both reduce the carbon intensity of our own pellet manufacturing operations, while seeking to procure lower intensity pellets from third parties.

In 2023, we completed a three-month trial of a third-party pellet procurement GHG model. The aim was to provide the third-party biomass pellet procurement team with the data required to assess pellets by their carbon intensity, as well as via standard commercial economic measures. The model modifies the price of new pellet contracts based on kgCO₂e per tonne of pellets, imposing a financial premium to the contract price where pellet emission intensity takes us further away from our internal target. We plan to work with both the pellet procurement and IT teams to embed this methodology into our pellet procurement processes in 2024.

Drax Power Station average biomass supply chain GHG emissions

	Unit	2023	2022	2021
Average biomass supply chain GHG emissions	kgCO ₂ e/MWh	97*	96	100

Drax Power Station biomass supply chain GHG emissions in 2023 (%)



Note: Includes the biomass supply chain emissions associated with both the Group's direct operations (Pellet Production business) and third parties. This is an estimate based on the average carbon footprint of pellets received at Drax Power Station for each stage in the biomass supply chain.

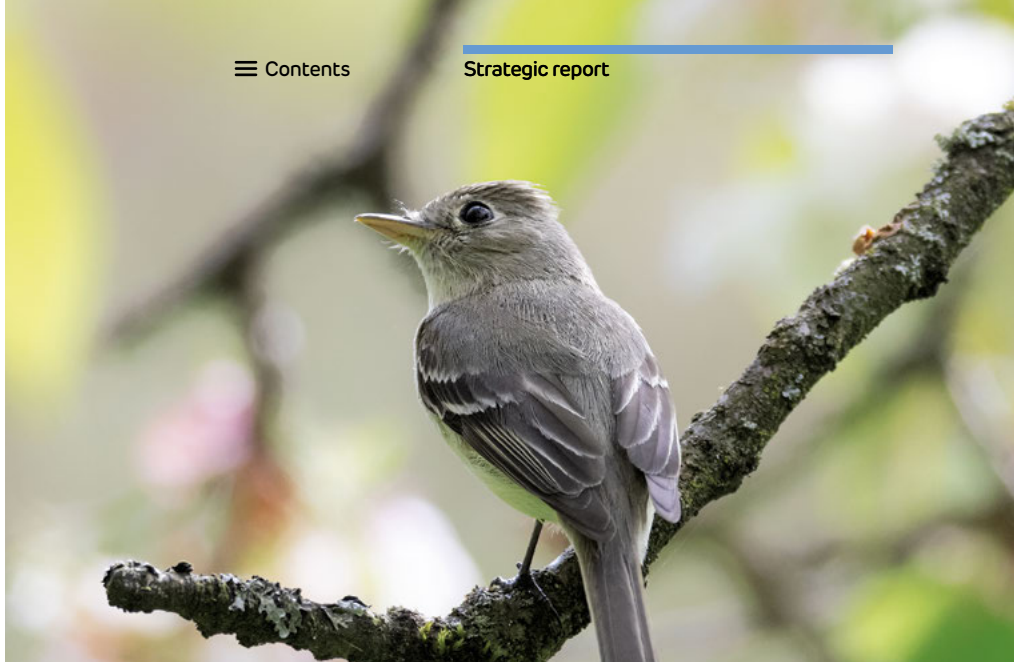
* Limited external assurance by Bureau Veritas using the assurance standard ISAE 3000. For assurance statement see www.drax.com/sustainability



Nature positive

Our ambition:

By 2027 Drax aims to have implemented the systems and metrics across our operations and biomass value chains to demonstrate a contribution to nature positive outcomes in those regions.



Our performance

Nature and environment data summary

TNFD Indicates aspects that are aligned with the Taskforce on Nature-related Financial Disclosures (TNFD) core global metrics, as defined in the Recommendations of the Taskforce on Nature-related Financial Disclosures, September 2023.

For additional data see ESG data supplement www.drax.com/sustainability

		Unit	2023	2022
TNFD indicator	Other emissions to air			
Total non-GHG air pollutants by type	Nitrogen oxides – Generation	t	5,831	5,979
	Sulphur dioxide – Generation	t	849	403
	Particulates – Generation	t	313	376
	Sulphur hexafluoride – Generation	t	0.1	–
	Nitrogen oxides – Pellet Production	t	621	836
	Volatile Organic Compounds (VOCs) – Pellet Production	t	741	854
	Particulates – Pellet Production	t	1,457	1,354
	Carbon monoxide – Pellet Production	t	1,128	–
Water withdrawal and consumption from areas of water stress	Water use			
	Total water abstracted – Drax Power Station	m ³	45,058,529 [Ⓐ]	51,899,818
	Total water returned – Drax Power Station	m ³	41,223,516 [Ⓐ]	47,187,916
	Total water abstracted and returned – Hydro Generation ⁽¹⁾	m ³	3,515,581,216 [Ⓐ]	3,389,452,345
	Total water abstracted from reservoir – Pumped Storage ⁽²⁾	m ³	465,042,239 [Ⓐ]	361,145,582
	Total water abstracted from Loch Awe – Pumped Storage ⁽²⁾	m ³	451,360,634 [Ⓐ]	325,844,996
	Water withdrawn/abstracted from areas of water stress ⁽³⁾	m ³	–	–
	Water consumed from areas of water stress ⁽³⁾	m ³	347	–
Total amount of hazardous waste generated	Waste			
	Total waste generated ⁽⁴⁾	t	47,322	–
	Total hazardous waste generated ⁽⁴⁾	t	3,281	–
Quantity of high-risk ⁽⁵⁾ natural commodities, and proportion sourced under a certification programme	Use of natural commodities			
	Total volume of woody biomass consumed at Drax Power Station (excluding non-woody agricultural residues)	Mt	5.8	6.4
	Total volume of woody biomass produced – Pellet Production ⁽⁶⁾	Mt	3.8	3.9
	Proportion of woody biomass consumed at Drax Power Station with an SBP Compliant claim	%	97	97
	Proportion of woody biomass pellets produced and sold with an SBP Compliant claim – Pellet Production ⁽⁷⁾	%	95	–

[Ⓐ] "Total water abstracted" covers water data reported to the Environment Agency (EA) and Scottish Environment Protection Agency (SEPA) as abstraction.

[Ⓐ] This metric was subject to external independent limited assurance by PricewaterhouseCoopers LLP ("PwC") as part of their assurance over metrics in the ESG Performance Report 2023. For the results of that assurance, refer to page 10 in the ESG Performance Report 2023 (www.drax.com/esg-performance-report-2023) and for the Reporting Criteria refer to page(s) 12 to 46 in the ESG Databook (www.drax.com/esgdatabook2023).

⁽¹⁾ Hydro generation covers Galloway and Lanark Hydro scheme.

⁽²⁾ Pumped storage covers Cruachan Power Station, and excludes volume of water collected via the aqueduct system.

⁽³⁾ Total volume of water from areas of "high" water stress, as classified by the WRI Aqueduct Water Risk Atlas (Aqueduct 4.0), baseline "water stress" indicator.

⁽⁴⁾ Waste data has been collected from our owned sites and the waste has been listed as hazardous/non-hazardous according to local regulator approach. If data has not been available, assumptions have been made based on European Waste Codes and volumes for comparable sites.

⁽⁵⁾ "High-risk natural commodities" include "timber" as per the TNFD Recommendations, which refer to the SBTN High Impact Commodity List (HICL).

⁽⁶⁾ Reflects pellets produced at Drax Pellet Production operations in the US and Canada; excludes traded quantity (third-party to third-party).

⁽⁷⁾ Reported figure reflects pellets produced and sold with an SBP Compliant claim. The remaining volume was produced and sold with an SBP Controlled claim.

Our approach to Nature positive

The loss of nature and biodiversity globally poses a significant risk to the stability of economies and the wellbeing of society. Organisations have direct and indirect impacts and dependencies on natural resources, and it has been estimated that around half of global GDP is moderately or highly dependent on nature.

At Drax, being “nature positive” means going beyond avoiding or minimising our impacts and finding ways to restore and enhance ecosystems.

Governance for nature

The Chief Sustainability Officer (CSO) is responsible for implementation of the Group’s sustainable development framework, including nature positive.

Taskforce on Nature-related Financial Disclosures (TNFD) reporting

The TNFD launched its final recommendations in September 2023. Drax welcomes this framework and is committed to the management and disclosure of nature-related risks and opportunities. Drax is a TNFD Early Adopter, and we intend to publish our first fully-aligned disclosure for our 2025 financial year.

In 2023, we participated in the World Business Council for Sustainable Development (WBCSD) TNFD pilot, as part of the Energy sector working group. We tested the TNFD framework components for our hydro sites and provided feedback to inform the final recommendations. As a WBCSD Forest Solutions Group member, we shared expertise in the development of the TNFD Forest Sector Additional Guidance.

We are establishing the necessary systems and processes Group-wide to achieve our nature positive ambition. Based on our pilot work, we have provided an initial disclosure, referring to the four widely adoptable TNFD pillars.

The Executive Committee and the Board receive regular sustainability updates, including nature, through the respective reporting mechanisms (see page 46). Our Independent Advisory Board provides external advice on the science and evidence underpinning practices to protect nature and support nature recovery.

In June 2023, we established a Nature Expert Hub responsible for coordinating the operational implementation of nature-related projects across the business. The Hub meet regularly, and the Senior Scientific Officer provides updates, as required, to the Sustainability Council. In addition, our North American Pellet Production operations established a Nature Positive Project board in 2023 to drive nature positive outcomes.

[See nature initiatives, page 58 to 60.](#)

We progressed development of a Group Nature Policy in 2023, which will extend our commitment from managing, monitoring and reducing our environmental impact, to actions which encourage the restoration of nature. We expect to receive approval of the Nature Policy in 2024. Until the new policy becomes effective, the Group Environment Policy outlines our commitment to minimise adverse impacts of our operations on the environment.

Strategy for nature

By 2027, we aim to have implemented the systems and metrics across our operations and biomass value chains to demonstrate a contribution to nature positive outcomes

in those regions⁽¹⁾. To understand our baseline and inform the development of a Group-wide nature strategy, we are focused on completing nature assessments where needed across our assets. We are carrying out materiality assessments to understand our impacts and dependencies on nature, recognising that nature’s diversity is geographically specific. We will identify our risks and opportunities, and embed metrics and systems to contribute to nature positive outcomes. For further information on our progress in 2023, see page 58.

Building an approach for risk and impact management

Our operations rely on natural resources and are consequently subject to nature-related risks and dependencies.

As we carry out nature assessments for our assets, we can see that many of our nature-related impacts and risks are already recognised under our environmental management programme. Over the course of 2024, we will be building a nature-related risk register and we intend to retain the connection to our environmental management systems, which for UK Generation are certified to ISO 14001:2015. The nature-related risk register will be governed within the Group approach to risk management, as defined by the Group Risk Management Policy, and building on the current approach to operational risk management. Material risks and dependencies will be reported in our future Annual Report and Accounts.

Nature metrics and targets

Following identification of our nature-related impacts, dependencies, risks and opportunities, we will review our existing nature-related metrics and create new metrics for key areas. We intend to review how to align these metrics with the standard operation of our business and incorporate them into our ESG dashboards. Whilst the progress and evolution of the ESG dashboards has not developed as significantly as we would have liked, we have seen good examples already of how they have supported delivery, for example on climate in identifying decarbonisation projects within Generation.

⁽¹⁾ Our ambition applies to current business operations and biomass value chains. In the event of business growth or structural change, the ambition would be reviewed and adjusted, as required.



Sustainable Development continued

Nature positive

Our approach to environmental management

Governance

Our Group Environment Policy, approved in May 2023, states our commitment to manage, monitor and reduce the environmental impacts caused by our business through continual improvement of our operations, wherever practicable.

Each month, we report internally on environmental incidents and near misses, and the Board receives HSE performance updates, as part of the CEO report to the Board. We respond to, and track actions taken from, substantiated environmental complaints made in relation to our operations.

We investigate environmental incidents in relation to our operations (such as waste spillage or near-miss contamination events) to establish root causes and learn the appropriate lessons.

Environmental Management Systems

Our Generation assets in the UK are certified to ISO 14001:2015 within an integrated management system.

For information on our approach to integrated Health, Safety and Environment (HSE) governance, management systems, audit, and training, see page 67.

Nature assessments and initiatives

Nature assessments

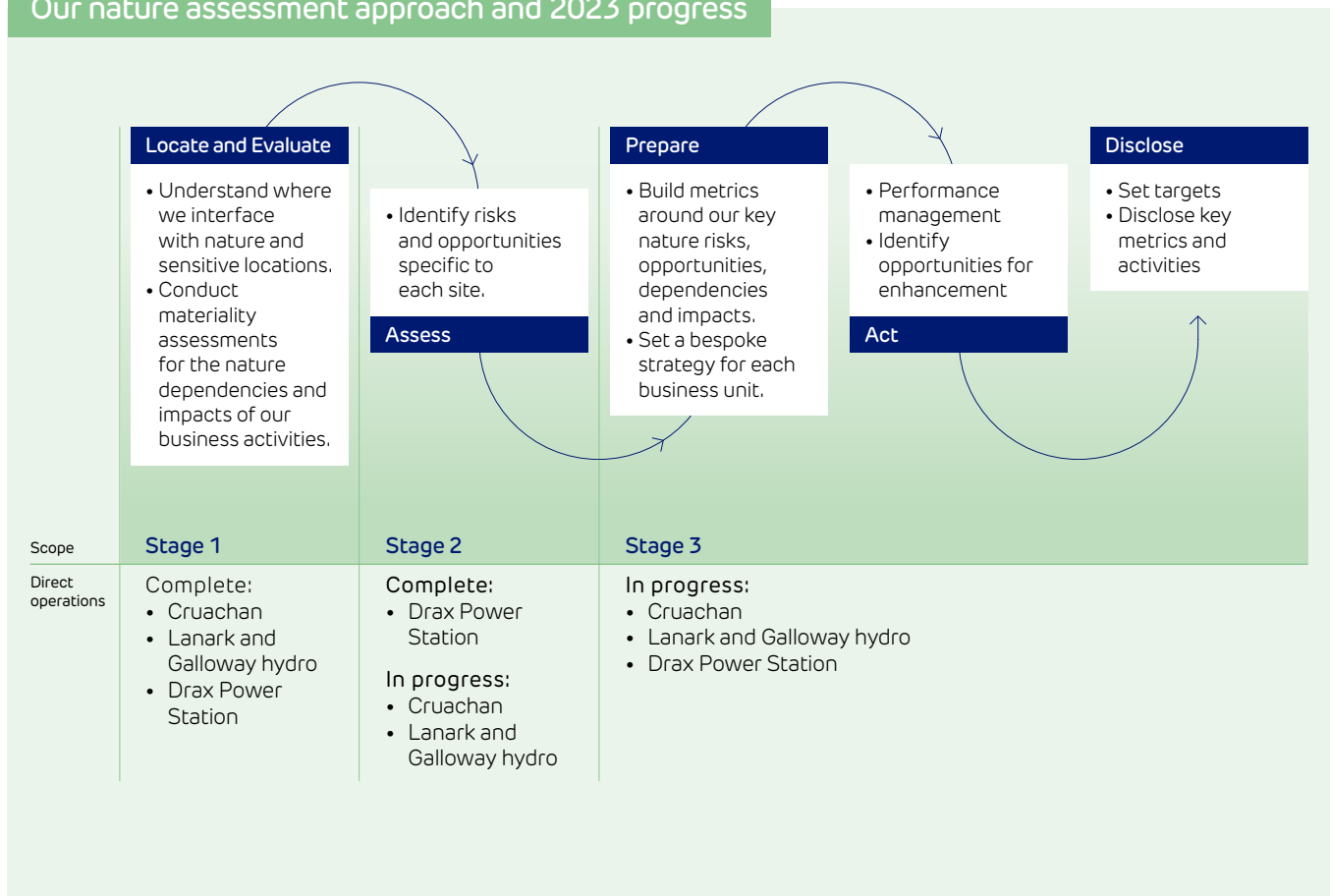
Our approach to nature assessments follows the TNFD LEAP (Locate, Evaluate, Assess and Prepare) approach. LEAP and the subsequent steps are summarised in the diagram below.

For stages 1 and 2, we gather data and information to better understand nature in the areas we operate, identifying nature dependencies, impacts, risks, and opportunities. This provides an understanding of the state of the biomes in which we are located, the proximity of any high importance site to our operations, our risks and dependencies, and the opportunities available to protect and enhance nature.

The diagram below summarises our progress to complete nature assessments for our direct operations in 2023. The “Locate” and “Evaluate” stages have been completed for Drax Power Station, Cruachan and the Lanark and Galloway hydro sites. The “Assess” stage has been completed for Drax Power Station.

Looking ahead, we are expanding on the assessments completed in the UK for the above Generation sites, by initiating nature assessments for select operating locations globally.

Our nature assessment approach and 2023 progress





Spotlight on: TNFD Scottish Hydro Pilot

Over 2022 and 2023, we participated in the WBCSD TNFD pilot, testing the beta versions of the TNFD framework on our Scottish hydro assets and providing feedback to inform the development of the final TNFD Recommendations. Below provides a summary of the work undertaken and initial insights, for Cruachan Power Station and the Lanark and Galloway hydro schemes.

Locate

We considered 19 sub-sites for our Cruachan and Lanark and Galloway operations, identifying the ecoregion, global biome, key biodiversity areas (within 5km), and priority habitats for each site. We then prioritised sub-sites according to the integrity and importance of relevant ecosystems, to produce an overall score for each (from high to low). There are seven sub-sites with a “high” priority score. This is due to their relative proximity to high integrity ecosystems and areas of high biodiversity importance. None of the sites assessed were identified as areas of rapid decline in integrity or water stress.

This provided us with an understanding of the key ecosystems within our hydro operating areas. There are many key biodiversity areas within 5km of our sites, and our Lanark and Galloway run of river hydro scheme is in the Galloway and Southern Ayrshire UNESCO Biosphere.

Evaluate

We carried out materiality studies of the dependencies and impacts for hydro generation using the ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) tool, which enables organisations to map their material impacts and dependencies on nature. This tool provides the dependencies and impacts for the business activity but does not consider the location or specific activities of an individual business.

Assess

We refined the results of the ENCORE tool assessment using the priority scores from the “Locate” stage. For each sub-site, this provided us with a prioritised overview (high, medium or low) of the relative scale of each dependency and impact.

The table below outlines the dependencies and impacts identified for hydro generation with a high materiality rating. We are reviewing our analysis of the outputs of this “Assess” stage and it will guide the focus of our efforts on nature for these sites going forward.

Prepare, Act, and Disclose:

The TNFD pilot provided us with an improved understanding of our nature-related impacts and dependencies for our hydro generation operations in Scotland. We already disclose our water use (both a dependency and an impact), see page 56. Building on this prioritised information, we are compiling the necessary additional metrics to better understand our baseline for the priority impacts and dependencies identified, and to create a bespoke nature strategy for these assets over 2024.

TNFD materiality outputs for hydro generation

Dependencies	Materiality rating
Surface water	●
Water flow maintenance	●
Flood and storm protection	●
Impacts	
Freshwater ecosystem use	●
Water use	●

● Indicates ‘high’ materiality rating

Sustainable Development continued

Nature positive

Nature initiatives

During 2023, we expanded our support of initiatives that aim to deliver nature positive outcomes.

Southern Pellet Production (US)

We commissioned biodiversity experts to conduct a biodiversity assessment across our US Pellet Production catchment areas. The resulting data and recommendations will assist US operations with the reporting of baseline biodiversity data and with navigating TNFD's LEAP process. In addition, the assessment has been commissioned to support target setting and the disclosure of nature and biodiversity metrics. It will also provide insights on the opportunity (and challenges) to monitoring and detecting change of at-risk species and ecosystems.

Drax is actively collaborating with the Louisiana Department of Wildlife and Fisheries (LDWF) in respect of a National Fish and Wildlife Foundation (NFWF) grant to improve forest conditions of overstocked hardwood plantings. These plantings were established under the Wetland Reserve Program (WRP) by providing a market for this small diameter, low-value forest material. The grant has the potential to improve up to 588 hectares of WRP hardwood forest plantings and provide funds for regional conservation efforts.

We are proud to acknowledge our new partnership with the Alabama Wildlife Federation (AWF), having made a financial contribution to its Land Stewardship Assistance Partnership in August 2023. Through this programme, AWF provides on-the-ground wildlife and land management assistance to private landowners in Alabama. AWF's land stewardship biologists have provided professional recommendations to more than 1,000 landowners covering almost 405,000 hectares of land across the state.

Drax is a conservation partner of The Longleaf Alliance (TLA). This includes donor-directed financial support for TLA's Western Technical Assistance & Training Specialist, with service in Southwest Alabama, Mississippi, and Louisiana. Drax supports TLA's mission of being "leaders in the restoration, stewardship, and conservation of longleaf pine ecosystems. Since 2019, we have distributed educational materials to a number of our residual suppliers sourcing material from counties that FSC® has identified as "at-risk" for loss of habitat associated with native longleaf pine systems.

Northern Pellet Production (Canada)

In British Columbia, our purchase of low-grade wood and residues helps to avoid the burning of the material left on the forest floor, which otherwise often occurs. Removal of the residues also helps prevent and mitigate the impact of wildfires.

Drax Power Station

The nearby areas of Barlow Mound and Arthur's Wood are monitored annually, through ecological surveys with independent reporting (such as of soil health). Barlow Mound and Arthur's Wood are also managed for wildlife habitat conservation.

Cruachan Power Station

Cruachan frequently completes biodiversity surveys to monitor the species living in the surrounding habitats. This survey data has allowed the team to build a picture of the variety of mammals, birds and insects present in the area, including a significant number of protected status species. We also seek to partner with local organisations and landowners; for example to reforest pockets of land near the power station.

Lanark and Galloway hydro schemes:

In 2023, we completed our partnership with the Galloway Glens Scheme in South West Scotland, having contributed £100,000 over four years. This included the Dee Restoration project at Black Water, to improve instream and riparian habitats.

We have worked alongside the Galloway Fisheries Trust and the Scottish Environment Protection Agency (SEPA) to trial and develop changes to our flow regime, to improve fish passage at our Tongland Dam on the River Dee. Dams are an integral part of generating renewable electricity, but they can impede fish movement upstream. This project has included increasing the baseflow of water, supporting fish movement and increasing the number of "freshets", which mimic natural rainfall. Early evidence from this project is showing positive signs for encouraging fish movement.

As part of the Galloway Glens Scheme, we supported a project with Galloway Fisheries Trust on salmon movement. Work began in 2021 to tag young salmon (smolt) and monitor their movement down the Ken/Dee River system in Galloway. The study aims to understand how the salmon are behaving under different conditions and investigate what could be done to ease their migration. In 2023, a further 40 smolts were tagged and Drax part-funded the installation of 33 acoustic receivers.

Use of natural commodities: biomass sourcing

Our business relies on sustainably sourced fibre, and third-party certification is a key part of our due diligence processes. Certification schemes embed nature-related considerations, including biodiversity by identifying high conservation value areas and laying the foundation for nature positive results. This is in addition to our supplier's forest management compliance requirements. Certification schemes are dynamic and periodically revised to reflect socio-ecological considerations.

[See biomass sourcing, page 72.](#)

Other emissions to air

Particulates (tonnes), Drax Power Station



Drax Power Station is required to comply with UK laws and regulations which limit emissions to atmosphere. Standards came into effect in August 2021 under the Industrial Emissions Directive and Large Combustion Plant Best Available Techniques Reference Document (BREF) which sets limits for emissions. 2023 was the second year of operation under the annual emission limits for biomass.

For biomass generation at Drax Power Station, the main emissions to air are nitrogen oxides, sulphur dioxide, and particulates (dust). Nitrogen oxides and particulates emissions have reduced annually since 2020 at Drax Power Station, which can be partly attributed to the reduction in coal-fired power generation. In 2023, emissions of sulphur dioxide increased compared with 2022, which can be attributed to the use of a different mitigant.

Volatile Organic Compounds (VOCs) (tonnes), Pellet Production



Our Pellet Production operations in the US and Canada are subject to laws and regulations which limit emissions to atmosphere and set requirements on the level of self-monitoring and reporting which is required to be undertaken. At our Pellet Production plants, the main emissions to air are particulates (dust), VOCs, carbon monoxide and nitrogen oxides.

Pellet Production: responding to local environmental concerns

We acknowledge that a group of residents of Gloster, Mississippi, local to our Amite BioEnergy plant, have alleged that air quality has worsened in the area since the plant opened in 2016. We have engaged with the Mississippi Department of Environmental Quality (MDEQ), and in 2021, following historic emissions breaches, we installed new technologies at the Amite plant to improve our environmental performance. We continue to evaluate the operations and maintenance of the process and control equipment.

During 2023, in Gloster we also prioritised active community engagement. We commissioned a third party to conduct stakeholder interviews and analysis in Gloster, which has fed into a Community Action and Engagement Plan. We also appointed a designated Community Liaison Officer to lead on local outreach. An aspect of local community feedback has been ways Drax can support local needs and initiatives.

We have sought to respond through our Community Fund, we have supported a wide range of community initiatives, with nearly \$200,000 committed to community programmes. We have also held in-person meetings with local community leaders to hear their views on strengthening community relations.

Water

The use of water is subject to strict criteria and UK, US and Canadian laws. That compliance is overseen internally by our Operational and HSE teams and externally by the local regulatory agencies.

Drax Power Station uses water for operational and cooling processes. The primary use for the water is to produce steam at very high pressure, which is used to power the turbines for electricity generation. A proportion of the water used is emitted as water vapour through cooling towers. The remainder is recycled and discharged under permit to the local river. In line with permit requirements, procedures are in place to manage water system efficiency and usage, ensuring discharge consent limits are met.

Total water abstracted for generation at Drax Power Station decreased by 13% between 2022 and 2023. This can be attributed to the operational position (MW produced) for 2023.

In 2023, at the Lanark and Galloway Hydro schemes, we diverted 3,515,581,216 m³ of water from river systems to run through our plants before being redirected back into the river for hydro generation.

At Cruachan Power Station (our pumped storage facility), we generate electricity by allowing water to fall from Cruachan dam down through four turbines which generate electricity at times of increased demand for power from the grid. The water flows through the turbines before being directed into Loch Awe. At times when electricity demand is low and there is excess power on the grid, we pump water from Loch Awe into the upper reservoir at Cruachan dam. We monitor the arrangements for the cycling of this water and report to SEPA as required.

At our Pellet Production plants, water that is discharged primarily consists of deluge water, wash water from hoses, and stormwater from rain events. We conduct periodic stormwater sampling at outfalls to monitor water pollutants.

Environmental compliance

We have open and direct communication with the local environment agencies in the areas in which we operate. We provide further information on environmental compliance matters below.

Drax acquired the Daldowie Fuel Plant as part of the hydro asset portfolio in 2018. Daldowie processes domestic wastewater including sewage. Since then, Drax has responded to feedback from neighbouring sites and SEPA to address concerns on odour emissions. At the plant, we continue to identify and mitigate potential sources of odour. In 2023, work was completed to construct a new standalone 50-metre chimney stack, which takes the output of potentially odorous air from Building Ventilation Fans through a newly installed ducted range system, to disperse the air from the building. We continue our dialogue with SEPA, keeping them informed about our actions. In 2023, the site received one substantiated complaint about odour.

In March 2023, after identifying and self-reporting air pollutant calculation discrepancies at the Amite Bioenergy plant to the MDEQ, we received a notice of violation that was amended in June 2023. In January 2024, we received a second notice of violation in respect of the Amite pellet plant. Drax has received notice of an Administrative Conference, scheduled for March 2024 with the MDEQ, to discuss the respective notice of violations.

In September 2023, we received a notice of potential violation in respect of our Aliceville plant and a request for a written response, following an air inspection that was conducted in August 2023. A response was submitted to the Alabama Department of Environmental Management in October 2023.



People positive

We will only achieve our ambitions through the talent, skills, and experience of our people.



Our performance

People summary performance data

Our ESG Performance Report provides further environment, social and governance data.

See www.drax.com/sustainability



	Unit	2023	2022	2021
Our People				
Total number of Group employees ⁽¹⁾	n	3,551 [Ⓐ]	3,229	3,053
Total employee turnover rate ⁽²⁾	%	13.4	13.8 ⁽⁸⁾	29.5 ⁽⁸⁾
Voluntary employee turnover rate ⁽³⁾	%	8.7	9.3 ⁽⁸⁾	–
Involuntary employee turnover rate ⁽⁴⁾	%	4.7	4.5 ⁽⁸⁾	–
Colleague engagement score	%	79	79	79
Colleague Inclusion Index score	%	81	80	–
Colleagues covered by a collective bargaining agreement	%	11	13	14
Health and Safety				
Total Recordable Incident Rate (TRIR) ⁽⁵⁾	%	0.38 [Ⓐ]	0.44	0.22
Total Lost Time Incident Rate (LTIR) ⁽⁶⁾	%	0.13	0.13	0.05
Near Miss and Hazard Identification Rate (NMHIR) ⁽⁷⁾	%	129.26 [Ⓐ]	–	–
Ethics and Integrity				
Number of Speak Up reports raised	n	49	14	14
Employees that received and completed Code of Conduct eLearning refresh	%	92	99	100
Employees that received and completed an Annual Business Ethics Declaration	%	88	86	100
Employees that received and completed Cyber Security awareness training ⁽⁷⁾	%	98	–	–
Community				
Total donations (including Drax Foundation) ⁽⁷⁾	£m	2.7	–	–

Notes

- (1) Total number of Group employees as at 31 December.
- (2) Total employee turnover is calculated as the number of leavers over the previous 12 months and divided by the average headcount over the same period.
- (3) Voluntary employee turnover is based on leaver categorisation, including resignation and retirement.
- (4) Involuntary employee turnover is based on leaver categorisation, including dismissal and redundancy.
- (5) TRIR is the total fatalities, lost time injuries, restricted work, and medical treatment injuries per 100,000 hours worked. Total includes both employees and contractors across our sites and offices. There were no fatalities in any of the years stated above.
- (6) Lost Time Incident Rate (LTIR) is the total fatalities and lost time injuries per 100,000 hours worked. Total includes both employees and contractors.
- (7) NMHIR is the total near misses and hazard incident rate per 100,000 hours worked. Total includes both employees and contractors. Metrics introduced in 2023 and therefore comparator values for previous years are not reported, due to unavailability of data.
- (8) Turnover data reported for UK only for 2022 and 2021.

Ⓐ This metric was subject to external independent limited assurance by PricewaterhouseCoopers LLP ('PwC') as part of their assurance over metrics in the ESG Performance Report 2023. For the results of that assurance, refer to page 10 in the ESG Performance Report 2023 (www.drax.com/esg-performance-report-2023) and for the Reporting Criteria refer to page(s) 12 to 46 in the ESG Databook (www.drax.com/esgdatabook2023).

Our People strategy

Our strategy encompasses all aspects of a colleague's experience at Drax, including the systems we use, the values we live by, our policies, and the culture we foster. Our approach is to ensure the organisation has the diversity, capability, and experience to deliver our strategic aims. We want each of our colleagues to feel a valued member of a winning team on a worthwhile mission.

The dashboard opposite provides an overview of 2023 performance against our five People Strategy pillars and across which we delivered positive progress. Our People Strategy objectives are to:

- Ensure the organisation has the diversity, skills and experience to deliver on our growth plans
- Bring to life a culture that is representative of our strategic aims and to orient the Group to growth
- Ensure our people are working as effectively as possible and feel valued for the work they do

Culture, Values and Employer Value Proposition

In 2023 we began our Culture, Values and Employer Value Proposition (EVP) programme, to orient our culture in support of our growth strategy. To inform the design, we engaged with a number of our colleagues representing all geographies, businesses, and career levels. We found a strong emotional connection to Drax (due to our purpose), divergent experiences (with colleagues describing our culture as open, respectful, and inclusive, whilst leaders focused more on the pace of change), and growth outstripping people and infrastructure.

This informed the creation of a new EVP: "Together, we make it happen". With three key pillars: (1) clear and bold ambition; (2) caring about positive outcomes; and (3) the future is shaped by you. Additionally, from this work we updated our values and behaviours and built a Colleague Experience framework, all of which will be launched in 2024. We are incorporating our EVP into our recruitment marketing and careers site, and embedding our values and behaviours across talent processes, systems, and internal communications. The impact on our culture and performance will be measured through our new listening platform for colleagues. We transitioned to the new listening platform for our colleague survey in 2023 and will commence the roll-out of additional features in 2024.

People Strategy dashboard

Our People Strategy pillars	KPI	Unit	2022	2023	Trend
Talent Lifecycle	Increase % of women on the Board ⁽¹⁾	%	44	50	▲
	Increase % of women in leadership roles (CL0-3) ⁽²⁾	%	30	31	▲
	Increase % of women in management roles (CL4-5) ⁽²⁾	%	32	33	▲
	Meet Parker Review minority ethnic Board members number as a minimum ⁽³⁾	Minimum number ⁽¹⁾	1	1	=
Inclusive Colleague Experience	Improved Inclusion index	%	80	81	▲
	Improved Inclusion index (People of Colour)	% difference from overall	3	1	▲
	Increase in colleague engagement	%	79	79	=
Evolve and Grow	Improved ratio of external to internal appointments	Ratio	–	2:1	
	Reduction in time to hire	Days	84 ⁽⁴⁾	68.3 ⁽⁵⁾	▲
People Foundations	Decrease in voluntary employee turnover	%	9.3	8.7	▲
Rewarding Performance	In 2023, we continued to undertake reviews of our reward strategies in each market so that our people are incentivised, rewarded, and recognised for their contribution to Drax.				

▲ Positive trend ▼ Negative trend = No change

Our Board Diversity Policy states Drax's support for the recommendations from the FTSE Women Leaders Review and the Parker Review. Our Talent Lifecycle KPIs are aligned to the following targets:
 (1) 40% women's representation on the Board by the end of 2025 (FTSE Women Leaders Review).
 (2) 40% women's representation in leadership teams by the end of 2025 (FTSE Women Leaders Review).
 (3) At least one director from a minority ethnic group on the Board by the end of 2024 (Parker Review).
 (4) UK data.
 (5) Global data.

Our Drax Values

- We care about what matters
- We're a can-do kind of place
- We see things differently
- We listen carefully
- We do what we say we'll do

Note: reflects our values as of 2023, and our updated values will be launched in 2024.

Strategic workforce planning

As Drax grows, we recognise the importance of ensuring we have the capability and skills required to deliver our strategic aims. In 2023, we worked with the Executive Committee and leadership teams in strategic workforce planning workshops, to help determine needs of the future workforce.

Critical skills for the future have been identified as transformational leadership (including leading through change, resilience, adaptability and driving a performance culture), carbon capture (including commercial contract management, project controls, civil, process and chemical engineering, construction management and trading) and project management.

Workforce risks, strengths and opportunities have been identified with short, medium, and long-term proposals put forward, aligned to building the required capability through evolving our early careers, returners, development and leadership programmes. This was considered by the Executive Committee in the final quarter of 2023 and feedback was provided on areas for change. Once ratified, this will be built into our talent strategy and plans.

Sustainable Development continued

People positive

Investing in our people

Resourcing to deliver our strategic aims

During 2023, we recruited for over 1,000 existing and new permanent roles, with total headcount growing by 9% compared with the previous year. The retention rate for new starters joining the business in 2023 was over 80% (as of 31 December 2023).

In 2023, we recruited over 100 new roles to support our strategic aim on carbon removals. 45% of these positions were filled by internal applicants, creating growth opportunity for key talent. We also recruited over 250 new and existing roles to support our strategic aim on sustainable biomass pellets.

3,551

Total number of Group employees, as at 31 December 2023 (2022: 3,229)

Early careers

We deliver programmes aimed at developing early talent for colleagues with 0-5 years of professional experience. Our programmes in the UK include: internships; graduate programmes; work experience; Year in Industry placements; T-levels; and apprenticeships. In North America we are evaluating the introduction of an approach to early careers.

Work experience

In 2023 we delivered 42 week-long work experience placements for students aged 14 to 18. In partnership with the Heart of Yorkshire education group, we offered two 12-month work placements for students undertaking T-Levels.

Apprenticeships

Since 2003, over 150 individuals have completed an apprenticeship at Drax, with a retention rate of 79%. Our apprenticeship scheme at Drax Power Station is our longest running early careers offering.

Growing skills and talent

We are committed to supporting colleagues to develop skills and capabilities to fulfil their career aspirations. In 2023 we delivered approximately 8,000 hours of training (excluding compliance and mandatory digital learning hours). Our blended approach consists of virtual, face-to-face, digitally-created material, and some virtual reality.

Leadership and development

Our senior leadership development offering supports colleagues to grow their leadership capabilities.

Inclusive Leadership

Senior leaders continue to participate in the Inclusive Leadership Programme. More than 40 individuals attended our Inclusive Leadership workshop in 2023 and the first leadership teams attended our newly introduced Psychological Safety masterclass.

Future Creators

Our Future Creators Programme is designed to support the development, retention, and growth of our future leadership pipeline. 61 colleagues have been through the programme since its inception in 2019 with an 77% retention rate. Career progression rates are comparable for men and women. 76% of women and 77% of men who participated have had either an upward career level move, or have moved into a broader role.

Management Programmes

Our Management Excellence Programme (MEP) is designed for aspiring or new managers, offering upskilling and support on managing people. 128 colleagues completed the MEP in 2023. This included the launch of a new MEP for supervisors across our Pellet Production business in North America.

Our Management Accelerate Programme (MAP) is designed for experienced managers who want to elevate their management and leadership skills and techniques. 141 MAP modules have been completed by colleagues in 2023.

Performance management

In 2023, we launched an updated Performance Improvement Policy in the UK. The policy requires colleagues to take responsibility for driving their performance, and we encourage regular discussion between colleagues and their manager.

Listening to our people

MyVoice Survey

Our annual MyVoice Survey is a key part of our listening strategy. In 2023, it was completed by 84% of colleagues (a 5% increase from 2022) and our engagement score remained stable at 79%. We introduced new indicators, including health and wellbeing, and colleague perceptions of how well change is planned, managed, and communicated. We also received over 22,000 comments, which will feed into our 2024 planning.

The key actions from the 2022 My Voice Survey were wellbeing, inclusion, and Drax's commitment to sustainability and communities. We responded during 2023, through our wellbeing strategy, Diversity, Equity and Inclusion (DEI) strategy, and a new community strategy (see pages 40, 65 and 69 for more information).

79%

Employee engagement score, 2023 (2022: 79%)

84%

MyVoice Survey completion rate, 2023 (2022: 79%)

81%

Colleague Inclusion Index, 2023 (2022: 80%)

To support the implementation of our listening strategy, we moved to a new colleague survey platform in 2023. It enables us to track cultural measurement metrics and uses predictive analytics which we believe can help to identify aspects of a colleague's experience that need improving, before negative impacts might occur, such as attrition or a drop in performance. We expect during 2024 to evaluate the findings from the platform.

My Voice Forums

My Voice Forums (MVF) provide a feedback link between the Board and our people. The MVFs meets quarterly and in 2023 covered topics including the new community strategy, Sharesave maturity, and our Employer Value Proposition. Our October meeting was attended by Andrea Bertone, as part of her onboarding following her appointment as Chair Designate in August 2023. The MVFs have operated since 2019. Additionally we have created multiple Colleague Resource Groups, providing different opportunities for colleagues to share feedback and deliver improvements.



5

Number of MVFs across Drax in 2023

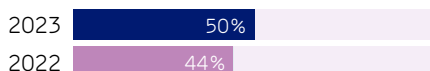
Read more in Stakeholder Engagement, page 32, and Corporate Governance Report, see page 124.

Creating an inclusive workplace

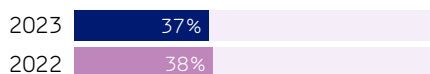
We are committed to a supportive, diverse, and inclusive working environment and continue to enhance Diversity, Equity and Inclusion at Drax. Our DEI strategy is underpinned by the three pillars of: Talent, Culture, and Data. From this, localised action plans are derived. For example, our Northampton office introduced wellbeing and prayer rooms through their local plans.

The Board receives periodic DEI progress updates through the CEO Report to the Board and People Reports. Our DEI Steering Committee meets quarterly and is co-chaired by our Chief People Officer and Commercial Transformation Director.

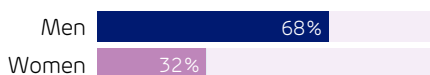
Women on the Board



Women in Senior Management



Workforce gender diversity, 2023



Data based as of 31 December 2023.

Senior Management are ExCom and their Direct Reports excluding Executive Assistant, Personal Assistants and Equivalents.

Our DEI programme in 2023

As well as partnering with our regional teams and business units to deliver DEI action plans, we also introduced a more effective process to both request and monitor Reasonable Adjustment requests through IT.

Talent

We continue to focus on embedding DEI into our recruitment, talent, and retention process. We are currently developing the Drax Recruitment Principles to embed DEI into our recruitment processes and Hiring Manager training. We seek to ensure fair and representative processes that mitigate bias, such as gender decoders in role descriptions and balanced interview panels. For example, where appropriate we want to understand the root causes behind prevailing hiring rates in any particular categories. Improvements have been made to the succession planning process, and in 2023 we added DEI criteria in the definition of Critical Talent, Critical Role, and Regrettable Loss.

Data

In 2023, we extended our self-identification campaign, "Count Me In", to North America. We also began collecting candidate identity data (voluntarily from candidates) in North America during the recruitment process, which will enable us to track candidate conversions to hires, ensuring a measurable approach to increasing diversity hires. We have defined goals to better represent the communities and regions we operate in, and we aim to introduce targets for the recruitment of people of colour in senior roles from 2024.

Culture

In 2023, we built on DEI learning by ensuring that content is accessible and available for colleagues across sites and regions. In North America, we began the Inclusion Managers Program to equip colleagues and build regional action plans. We have developed bite-sized learnings for colleagues to understand DEI in a way which works for them. We also ran 13 workshops with leadership teams sharing our approach to DEI and developing action plans. In 2023 we celebrated DEI events such as LGBTQ+ Pride, Jamaica Day, Black History Month, World Menopause Day, Passover, Hispanic History Month, Indigenous People's Day, and Canada's National Day for Truth and Reconciliation.

Colleague Resource Groups

2023 saw the launch of our first Colleague Resource Groups (CRGs). We now have CRGs covering Women, Race and Ethnicity, Neurodiversity, and LGBTQ+, with approximately 15% of colleagues joining one or more. As part of LGBTQ+

Pride and Inclusion Week we invited speakers and held events to support CRG growth and awareness. We will continue to grow these groups to ensure people have a strong sense of belonging at Drax.

“

Being a CRG Chair for Drax has been incredible. Drax creates a safe and inclusive environment for everyone to come and share, learn, grow, and support each other.

Kelly-Marie Lovesy, Opus Director of Sales, and Women's CRG Co-Chair

Colleague wellbeing and benefits provision

Wellbeing

Our approach considers the holistic wellbeing of our colleagues, with a focus on four pillars of wellbeing: physical, mental, social, and financial. In 2023, we undertook a review of our wellbeing strategy, to enable alignment with the culture, new values, and colleague experience. Priority recommendations have been included as part of 2024 planning.

We recognise that supporting colleagues with their mental wellbeing was identified through the MyVoice Survey, as an area for action. In 2023, a working group was established at Drax Power Station, to help build awareness, support, and action relating to mental health for all colleagues including both Drax employees and contractors. This was in recognition of Mental Health UK data, which shows that men are predominantly less likely to seek help for mental health challenges.

The aims of the working group include breaking down any stigma relating to discussing mental health and working closely with contractor partners to ensure appropriate education and support is available for all workers on site. This support is provided by two local mental health organisations. The approach includes referring to mental health as "mind safety" and using colloquial terms to name onsite wellbeing hubs, to resonate with colleagues and help normalise conversations about mental health. We plan to do more on this important area in 2024.

Sustainable Development continued

People positive

Wellbeing initiatives in 2023

In 2023 our approach focused on enabling colleagues to understand their own health, encouraging healthy behaviours through our wellbeing support, and a focus on financial wellbeing.

Understanding our health	Healthy behaviours	Financial wellbeing	Wellbeing day
Fourteen members of the Drax Leadership Team and Executive Committee took part in a six-month executive wellness trial beginning September 2023. The group was selected to critique and evaluate the programme, which will complete in February 2024. This comprises in-depth health reviews and one-to-one coaching on physical and mental wellbeing. Following the results of this, further roll out will be considered. We enlisted Workday Peakon as our new survey provider, which provides managers with a results dashboard. This will be released in early 2024 and includes health and wellbeing, engagement, and inclusion metrics and will help colleagues to understand what factors impact their engagement performance.	A wide range of wellbeing activities were undertaken in 2023, and ongoing initiatives are taking place to help colleagues make the most of their benefits. This included open enrolment campaigns in each country, to support people to make informed benefits choices. Aligning with our DEI strategy we held events for: Women's health; World Menopause Day; Mental Health Awareness Week and "Movember". In 2023 we launched Peppy Digital Health in Canada, Peppy Women's health in the US, and Care Concierge Service for elder care to UK colleagues.	Financial stress can have a huge impact on people's mental health. Taking steps to support our colleagues' financial resilience and wellbeing is a critical part of supporting wider wellbeing. Recognising the impact of inflation and cost of living concerns, we brought forward our annual pay review to 1 January 2023 from 1 April 2023, as a meaningful way to support colleagues. In addition, the salary increase budget was 8%, higher than in recent years and consistent with the inflation rate in the US and Canada, and broadly in line with the Retail Price Index (RPI) in the UK when adjusting for the direct impact of energy prices. Our new pension provider, AON, offers events tailored to colleagues of all ages to support financial planning towards retirements and later stages in life.	In 2023, all colleagues had access to a Wellbeing Day in addition to normal vacation and sick days. It was designed to be used by colleagues when they felt their wellbeing was compromised, needed to recharge, or do something that positively contributed to their health. 91% of colleagues took a Wellbeing Day in 2023 * Does not include data for US colleagues, where the Wellbeing Day was added to their Paid Time Off allowance.

Benefits provision summary

We continued to support colleagues and their families through the provision of a comprehensive benefits package encompassing retirement, risk and protection, and health and wellbeing. All colleagues have access to the same benefits and level of coverage, in the country in which they are based, unless precluded by alternative arrangements with their respective trade union group or acquisition agreement. The benefit offering consists of core features which are mandatory to all colleagues, and a suite of voluntary benefits which enables colleagues to tailor their benefits package to their personal circumstances.

The My Voice Survey results showed that colleague satisfaction with wellbeing benefits had increased by 20%, compared to 2022. This reflects work undertaken to review our benefits offering, as well as communication and engagement campaigns to raise awareness and support colleagues in navigating to benefits that support their needs.

In the UK, in 2023 we combined three defined contribution pension plans into the Aon Master Trust, giving colleagues access to lower charges, financial tools to plan for retirement, and a default investment fund focused on Environmental, Social, and Governance (ESG) funds.

We partnered with Peppy to provide our colleagues with fertility, pregnancy, birth, and menopause healthcare support. This is available for colleagues in the UK, US, and Canada.

In addition, to support our colleagues in these times of higher cost of living, Drax provides access to comprehensive financial education through Nudge.

Annual bonus

All colleagues are eligible to participate in the Drax annual bonus plan, unless precluded by alternative arrangements with their respective trade union group. The bonus plan is designed to reward colleagues for the delivery of annual targets and objectives, which are directly linked to the financial and strategic performance of the Group. This is measured through the Group Scorecard (see pages 151 and 152).

Long Term Incentive Plan (LTIP)

The Executive Directors and colleagues in senior management participate in the LTIP which rewards for the delivery of long-term shareholder value. Vesting is subject to the delivery of performance conditions typically measured over a three-year performance period. More information on the performance conditions associated with the LTIP grant, to be made in March 2024, can be found on page 159.

One Drax Awards

One Drax Awards are a discretionary grant of share awards made each year to recognise above and beyond performance, and to aid retention of key talent below senior management level. The shares are subject to a one-year vesting period, but the level of vesting is not conditional on achievement of performance conditions.

Enhanced maternity and paternity leave for North American colleagues

In September 2023, we improved our family leave offering for North America colleagues. Previously capped at the legal minimum, eligible colleagues can now take maternity leave or adoption leave for up to 13 weeks at full pay. This aligns with the UK offering for maternity or adoption leave. Paternity leave was also aligned to the UK, meaning all colleagues will be entitled to two weeks' paid leave.

Sharesave

In the UK, Drax offers a Sharesave programme giving employees the opportunity to save over three or five years towards purchasing Drax shares at a 20% discount to the share price at the time of grant. At the launch of the 2023 Sharesave scheme, around 70% of UK colleagues participate in Sharesave. In 2023, around 900 colleagues had Sharesave options maturing with significant gains. To help colleagues navigate tax and investment implications of maturing options, Drax partnered with Wealth at Work on a comprehensive, award-winning, financial education programme which ran in the first half of 2023. We are proud to have won two ProShare awards in 2023 for our Sharesave plan in the UK. In 2023, we also launched a new all-employee plan in the US and Canada (the Employee Stock Purchase Plan) under which colleagues can save to purchase discounted Drax shares every six months.

70%

of UK colleagues participate in Sharesave

Health and safety

Our approach and governance

Our Group Safety, Health and Wellbeing Policy applies to employees and those working for or on behalf of Drax, and is supported by our OneSafeDrax vision that all colleagues have a role to play in safety for themselves and those they work alongside.

In 2023, we established a Group Health, Safety and Environment (HSE) Governance Framework. It defines a systematic, risk-based approach with clear accountabilities, outlining the minimum HSE requirements with which our businesses and operations must comply. The Framework covers occupational health and wellbeing, occupational safety, process safety, and environment. Designated business unit leads are required to put in place HSE implementation statements and processes in line with the Framework. These are determined locally by the nature of the activities, risks, applicable regulatory regimes, and other factors.

Local HSE performance is regularly reviewed by each management team, with Group HSE performance reviewed quarterly by the Group Health, Safety & Environment (GHSE) Committee. The GHSE Committee provides oversight on HSE-related risks. HSE performance is provided to the Executive Committee each month. The CEO reports HSE performance at each meeting to the Board, including progress made on initiatives and areas for further action. Drax Leadership Team sessions (held regularly) normally commence with a “safety standout” item where key safety messages are shared.

Our GHSE Centre of Excellence (C of E) convenes Group and business unit HSE leads, and its Terms of Reference were updated in 2023. The GHSE C of E meets monthly to share knowledge across the business and aims to drive improvements in HSE through use of best practice.

HSE Governance



HSE Management Systems and audit

We have Safety Management Systems (SMS) in place to promote safe workplaces for our people. Our UK Generation assets have an integrated management system, certified to ISO 9001:2015, ISO 14001:2015, and ISO 45001:2018. Our Commercial and Corporate sites in the UK continue to implement a SMS, with a focus on raising awareness and a continuous improvement in our health and safety culture.

Pellet Production sites are aligned to one HSE management system across the US and Canada.

Findings and recommendations from HSE internal audits, which are conducted by a third party, are reported twice each year to the Audit Committee. Each business unit receives a report for local management’s ownership of the improvement areas, and the overall assessment is reported to the quarterly Group HSE Committee and to the Audit Committee.

Training and raising awareness on safety

To ensure colleagues are aware of their own responsibilities, the HSE Framework sets the Group minimum standard for roles, responsibilities, training, and competence. Business unit leads are responsible for maintaining and implementing training matrices according to the local requirements and the nature of site operations.

Regular HSE training is issued to employees in the UK, based on the requirements of their role and this approach is being implemented throughout the business. In 2023, members of the Commercial leadership team completed the Institute of Occupational Safety and Health (IOSH) Leading Safely course, to enable senior leaders to understand their HSE responsibilities, benchmark our current performance and know how to drive health and safety performance improvements.

During the year, we ran a Group-wide “Speak Up for Safety” campaign, to underline the importance of logging hazards, incidents, and near misses in our HSE reporting platform. The campaign aimed to equip colleagues with information needed to identify risks and hazards, understand what should be reported, and to follow the correct procedures. Information, guides and training opportunities were shared via channels including manager briefings, team meetings, drop-in sessions, posters and booklets.

Sustainable Development continued

People positive

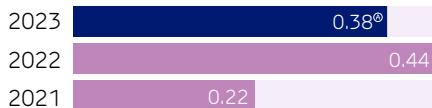
Safety targets and performance

We review our HSE performance regularly, including our Total Recordable Incident Rate (TRIR). We have a process to investigate injury events, with particular focus on those with a potential to become more severe, to ensure we establish root causes and learn lessons, before sharing findings across the organisation, where relevant.

In 2023, lagging and leading safety indicators⁽¹⁾ (TRIR and NMHIR respectively) formed part of the Group Scorecard (see page 151). Our TRIR in 2023 was 0.38 per 100,000 hours worked, against a target of 0.33 (2022: 0.44 per 100,000 hours worked, against a target of 0.20). NMHIR was 129.26 per 100,000 hours worked.

In addition to Group-wide Scorecard targets on safety, business units define local objectives and targets to drive positive safety behaviours locally.

Group TRIR



129.26[Ⓐ]

Group NMHIR⁽²⁾

- (1) TRIR is the total fatalities, lost time injuries, restricted work, and medical treatment injuries per 100,000 hours worked. Total includes both employees and contractors across our sites and offices.
- (2) NMHIR is the total number of Near Miss and hazard identification reports logged per 100,000 hours worked. The total includes both employees and contractors.
- Ⓐ This metric was subject to external independent limited assurance by PricewaterhouseCoopers LLP ('PwC') as part of their assurance over metrics in the ESG Performance Report 2023. For the results of that assurance, refer to page 10 in the ESG Performance Report 2023 (www.drax.com/esg-performance-report-2023) and for the Reporting Criteria refer to page(s) 12 to 46 in the ESG Databook (www.drax.com/esgdatabook2023).

Health and safety compliance

Wherever we operate, we seek to establish open and direct communication with the local health and safety agencies. We provide further information on safety aspects below.

In February 2023, after a detailed investigation by the Health and Safety Executive, all charges brought against Drax in relation to alleged wood dust exposure at Drax Power Station (as reported in 2021) were discontinued, with the Health and Safety Executive concluding there is no evidence of continuing risk of harm from exposure to wood dust at Drax Power Station.

As reported in 2022, we received notification from the Health and Safety Executive in relation to non-compliance with the Pressure Systems Safety Regulations (2000) at Drax Power Station. Drax consider this to be an administrative breach and have responded to the notification, and we are awaiting a formal response from the Health and Safety Executive.

- (1) A lagging indicator measures events that have occurred in the past and can alert organisations to failures in their systems and processes. A leading indicator measures HSE acts or conditions that precede events and can provide insights into an organisation's future performance.



Spotlight on: health and safety during planned outages at Drax Power Station

Two major planned outages were carried out at Drax Power Station for maintenance in 2023. This significant and complex period of work saw an increase in activity with a significant number of contractors on site.

Pre-outage planning included a safety leadership event with all front-line supervisors (Drax colleagues and contractors).

During the outages, additional HSE resource was deployed to support teams and to encourage Safe Systems of Work (SSOW) to be developed and adhered to. Additional safety initiatives were deployed during the outages to promote and reward proactive safety behaviours and high standards.

The outages were completed successfully and a lessons learned process captured areas for improvement.

Community investment

Grant funding | Strategic partnerships | Community outreach



STEM education
& skills development



Nature & community
green spaces



Renewable energy
& energy efficiency

Our approach

At Drax, we aim to make a real and positive difference to the communities in which we operate. In 2023, we launched a new community strategy which combines Community Action and Engagement plans for each of the countries in which we operate, with strategic corporate giving to be delivered through the Drax Foundation and a designated Community Fund.

Our Community and Charity Policy was updated in 2023, and offers opportunities for colleague involvement, such as give as you earn (UK only), employee match funding, employee volunteering, and corporate charitable giving.

During 2023, we prioritised getting out into our communities, meeting with diverse community stakeholders and improving our understanding of the concerns and opportunities. We have identified priority communities with specific needs. We have also prioritised early-stage community engagement in our new BECCS markets in the US.

Over 2023 we worked towards establishing metrics for measuring our impact in the community. By determining our baseline, we plan to evaluate progress towards a positive impact on people and communities. We will publish our first Drax Community Impact Report in 2024.

[Read about our engagement in the community, on page 40.](#)

Drax Foundation

In 2023, we launched the Drax Foundation to provide funding for UK, US, and Canadian non-profit organisations that share our commitment to improving access to science, technology, engineering and mathematics (STEM) education, community green spaces, and renewable energy. We prioritise funding for projects that support under-represented and under-served groups, to advance gender equality and support Indigenous communities.

During the year, the Drax Foundation provided £1.8 million in grant funding for non-profit organisations. This has created access to STEM education and skills development for more than 70,000 children and young adults, and improved access to nature and community green spaces for nearly 21,000 people. In the UK we announced £2.5 million in funding, ringfenced for UK schools to install energy-efficient LED lights and solar panels to deliver energy savings and education. In 2023, this included a LED pilot in eight UK schools near Drax Power Station. The schools in this pilot will save on average £8,600 per annum in energy costs, and reduce their carbon emissions. Drax also funded £150,000 to Energy Sparks ensuring up to 240 schools across Yorkshire and the Humber, East Midlands, the East of England, and Scotland have free access to its online energy management tool, education programme, and support services.

The Drax Foundation is a Donor Advised Fund administered by the Charities Trust (a UK-registered charitable organisation). Applicants must be a registered charity; non-profit or social enterprise; address a societal need; show a commitment to the SDGs; and contribute to the focus areas outlined above.

Drax Community Fund

We recognise that each of the communities in which we operate are unique. That is why we established the Drax Community Fund to respond to these unique challenges and opportunities. Local community groups and civil society are invited to apply for funding throughout the year. In 2023, our Community Fund provided £687,000 in funding for 222 local projects, including over £100,000 for foodbanks in communities in the run-up to the December festive season.

Communities in Crisis Fund

The third pillar of our corporate giving is our Communities in Crisis Fund, which provides rapid donations to relief organisations in the aftermath of natural disasters and other humanitarian crises. During 2023, we donated £207,000 through our Crisis Fund to relief efforts

in the US, Canada, Libya, Morocco and Israel-Gaza.

➤ For more information about our impact through the Drax Foundation and Community Fund in 2023, see www.drax.com/community.

£2.7 million

Donated in 2023 to projects and programmes

Indigenous Peoples

Drax recognises the profound relationships that Indigenous people have with the land on which we operate and from which we source raw materials. We are committed to engaging with those communities to ensure we respectfully listen to, learn from, understand, and respond to concerns related to our operations and those of our suppliers.

In 2023, we established a Group Indigenous Peoples policy. The policy, developed in consultation with internal and external stakeholders, is the foundation of Drax's interaction with First Nations who have traditional territory where we operate. It outlines our commitments regarding how we will work with Indigenous communities to develop and foster meaningful relationships, potential projects, and business opportunities. This includes our commitment to building positive and sustainable relationships with Indigenous peoples, based on trust and respect, and following Free, Prior, and Informed Consent (FPIC).

Drax's outreach is led by our Director of Indigenous Engagement and Partnerships. We have developed a Cultural Awareness training programme to support colleague engagement with Indigenous and First Nations communities. In 2023, the training was completed by a number of sustainability colleagues in North America and will be rolled out further in 2024.

Sustainable Development continued

People positive

In 2023, we provided support to communities we engage with, including: a donation to build community gardens in Prince George. Through the Drax Community Fund; we sponsored the Burns Lake Centennial Celebrations and donated to the Burns Lake National Day for Truth and Reconciliation event. Colleagues across the business were also encouraged to mark the National Day for Truth and Reconciliation.

Ethics and Integrity

At Drax, we are committed to conducting business ethically, with honesty and integrity. We have established a number of Business Ethics programmes to support this commitment.

Governance of ethics and business conduct

Everybody at Drax is personally responsible for ethical business conduct. Managers are responsible for demonstrating leadership on ethical matters and supporting their teams to apply our ethical principles.

We have a dedicated Business Ethics team who develop, maintain, and manage the Business Ethics programmes and associated Documentation Framework. In addition, we have a Data Privacy team that provides guidance on data privacy best practice and meets the needs of personal data requests.



The Ethics and Business Conduct Committee (EBCC), a sub-committee of the Executive Committee, oversees our Business Ethics and Privacy programmes.

The EBCC is chaired by our Group General Counsel. It serves as an escalation route for higher risk ethical decisions, supported by an agreed Escalation Protocol.

The Audit Committee provides an additional layer of oversight, receiving an annual summary on EBCC activity. The Audit Committee also receives regular Speak Up report updates.

Business ethics and privacy programmes

Our Business Ethics and Privacy teams take steps to understand our risk profile and develop an appropriate risk mitigation strategy. In addition to this they monitor compliance and investigate potential breaches, as applicable. Our internal audit function provides additional assurance on the robustness of our Business Ethics and Privacy programmes.

In 2023, we strengthened our Ethical Due Diligence programme by establishing a second line assurance structure and activity plan. The team also commenced work on creating dedicated programmes to support our Anti-Fraud and Political Engagement policies. This work will be completed in 2024.

Business Ethics Documentation Framework

Our Business Ethics and Privacy Documentation Framework consists of principles, policies, and guidance.

Drax Code of Conduct

Our ethical principles are set out in the Drax Code of Conduct (Drax Code). The Code outlines our “doing the right thing” approach and identifies the expected behaviours from colleagues and relevant individuals working on our behalf, on a broad range of topics, such as health and safety, speak-up, and anti-corruption. The importance of complying with relevant policies and guidance is integral to the Drax Code, which includes a series of embedded training videos. The consequence of failing to comply with the Drax Code is clearly articulated in the Code itself. Our Code is subject to regular review.

Drax Supplier Code of Conduct

Our Supplier Code sets out the commitments and standards we expect from our third parties, and any subcontractors they use, in relation to working for Drax. The Supplier Code, which was reviewed and updated in 2022, includes details of how any third party can

“speak up” about a concern over non-compliance with the Supplier Code.

During 2023 we continued to roll out our Supplier Code to relevant third-party suppliers, incorporating it into the associated contracts by means of a specific business ethics clause, including a termination clause for a serious breach. We commenced a further review of the Supplier Code which will be concluded in 2024.

Business ethics and privacy policies

Our Business Ethics and Privacy policies relate to:

- Anti-Bribery and Corruption (including gifts and hospitality and conflicts of interest)
- Anti-fraud
- Corporate Criminal Offences (also known as ‘Anti-facilitation of Tax Evasion’)
- Fair Competition
- Financial and Trade Sanctions (supplemented by a Recusals policy)
- Human Rights
- Political Engagement
- Privacy
- Speak Up (Whistleblowing)

Each of these policies were reviewed and republished over the course of 2023, with the exception of the Political Engagement Policy which has been reviewed, but will be reissued in the first quarter of 2024, in conjunction with the launch of a new Political Engagement and Lobbying programme, that reflects the Group’s growth and increasing global presence. The work on this programme was considered by the EBCC at meetings held in November 2023 and January 2024. A series of guides support the above policies.

In 2023, the Board and Executive Committee received ‘Business Ethics for Senior Leaders’ learning, and additional training to ‘high risk’ teams was provided on Business Ethics and Privacy to reinforce our resilience. Relevant Business Ethics policies and documentation were deployed as mandatory to colleagues at our Princeton site, acquired in 2022. Additional Business Ethics and Privacy documents and training materials were deployed to relevant colleagues at our new Tokyo office. Existing colleagues received an annual eLearning refresher on the Drax Code and UK colleagues took an annual eLearning refresher on Data Protection. Relevant Business Ethics and Privacy documentation was also deployed to our new BMM Energy Solutions colleagues (following Drax’s acquisition of BMM in August 2023). To support this and future integration operations, we created a ‘Keeping Ethics in Mind’ handbook.

Our Ethics programmes in more detail

1. Anti-bribery and Corruption (ABC)

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

2. Speak Up (Whistleblowing)

We are committed to transparency, openness, and continuous improvement. We encourage those working for and on behalf of Drax, and our third parties, to raise genuine concerns (via our reporting channels) about practices that could breach laws, regulations, or our own ethical standards. Drax does not condone retaliation or victimisation in relation to Speak Up matters. During 2023, 49 reports were raised across both our internal and external channels. This is an increase from 14 in the previous year.

3. Corporate Criminal Offences (CCO) (Anti-facilitation of Tax Evasion)

Our ethical due diligence and payment procedures seek to facilitate the conduct of business which is compliant with applicable tax laws. These are subject to regular internal audit. Additional guidance was provided to colleagues most likely to be exposed to 'at higher risk' activity.

4. Ethical Due Diligence

Our Ethical Due Diligence programme underpins several other business ethics programmes, helping us identify and address any legal and/or reputational risks associated with a proposed commercial relationship. We carry out ongoing monitoring of relevant third parties during the lifecycle of our commercial relationship with them. In 2023 we expanded the team carrying out first line activity, introduced second line assurance activities to enhance reporting into the EBCC, and refreshed our Ethical Due Diligence guidance.

5. Fair competition

We are committed to competing fairly and in accordance with applicable fair competition law. Our Fair Competition programme now covers UK and Japanese competition law, US anti-trust law, and Canadian laws, and includes dedicated training for 'at higher risk' teams.

6. Financial and Trade Sanctions

In 2023, our Financial and Trade Sanctions programme was subject to internal audit, which identified some improvements to strengthen the robustness of our programme. We plan to implement these recommendations in 2024. Regular reporting on sanctions activity to EBCC continued in 2023, with no instances of breach identified.

7. Human Rights

We set out our human rights commitments in our Human Rights policy, the Drax Code, and our Supplier Code. Our cross-departmental Supply Chain Human Rights Working Group reports quarterly to the EBCC. Drax has been a signatory of the UN Global Compact (UNGC) since 2018 and participates in the UNGC's

Modern Slavery Working Group, together with Utilities Against Slavery (Slave Free Alliance) working groups and a steering committee. We have a close working relationship with UK anti-slavery charity Unseen, who run the UK's Modern Slavery Helpline. Our 2023 activity in relation to this programme is set out in our 2023 Modern Slavery Statement. Our planned activities for 2024 are also set out in that statement.

8. Privacy

In 2023, we completed the annual review of policies and notices to confirm they remain in line with prevailing legal and regulatory requirements. System improvements were implemented to third-party onboarding for Data Protection and Information Security Due Diligence across the US and Canada, to help ensure that due diligence is performed consistently across the Group in line with best practice. Other improvements were made to annual refresher training on data protection topics, working practices with the Information and Cyber Security function, and continued education within the Data Protection team. Investigations into potential data breaches were investigated in a timely manner, with good support from operational teams. No internal investigations during 2023 resulted in a requirement to send a notification to any relevant authorities (such as the Information Commissioners Office). Individual rights requests from customers and employees were processed within required timescales, along with requests made by appropriate authorities (such as the Police).

Cyber Security

We recognise our exposure to cyber security threats and place importance on our resilience. We have a dedicated cyber security team with responsibility for managing our resistance to threats. The Security team is evolving to align to business requirements to afford the best service and levels of protection Drax needs. All security framework policies are reviewed and re-approved annually. Information and cyber risk assessments are performed in line with our policy and regulatory requirements. Security policies are communicated to colleagues, stakeholders, suppliers, and third parties. Security Awareness

Training and mandatory read policies (Security and Acceptable Use Policy) are managed through our learning management system, forming part of employee inductions and annually thereafter. The business receives regular cyber security communications. In 2023, training was mandated in Japan for our colleagues in Drax Asia.

Our people form our first line of defence against cyber-attacks. As part of colleague training and raising awareness, we perform phishing tests quarterly, and the rate of colleagues successfully reporting the test phishing emails is improving, helping to bolster resilience to phishing attacks. In the event someone responds

negatively to a test, further awareness training is automatically assigned. Specific training will be delivered in 2024 to senior colleagues and those deemed 'higher risk' due to the nature of their role. Drax maintains multiple information and security management systems which align with industry best practice standards, such as ISO27001, and meets the relevant legal and regulatory requirements applicable to our business including, but not limited to, Network and Information Systems Regulation (NIS), Data Protection Act, Smart Energy Code (SEC) and Payment card Industry Data Security Standards (PCI-DSS).



Biomass sourcing

Sustainably sourced biomass is central to realising our strategy and our climate positive, nature positive, and people positive outcomes.



Our performance

Biomass sourcing data summary

For additional data see ESG data supplement www.drax.com/sustainability

	Unit	2023	2022	2021
Drax Power Station				
Total volume of fibre (material consumed at Drax Power Station) ⁽¹⁾	t	5,979,554	6,633,722	7,717,031
Proportion of woody biomass consumed at Drax Power Station with SBP Compliant claim	%	97	97	98
Average biomass supply chain GHG emissions	kgCO ₂ e/MWh	97*	96	100
Pellet Production and Trading				
Total volume of pellets produced	Mt	3.8	3.9	3.1
Proportion of pellets produced and sold with an SBP Compliant claim – Southern Operations (US)	%	100	–	–
Proportion of pellets produced and sold with an SBP Compliant claim – Northern Operations (Canada) ⁽²⁾	%	89		
Total volume of pellets traded (third party to third party)	t	793,858	–	–
Proportion of pellets traded with an SBP Compliant or PEFC Certified claim (claims with which pellets sold) ⁽³⁾	%	86	–	–

Drax Group sources of fibre

	Sawmill and other wood industry residues (t)	Branches and tops (t)	Thinnings (t)	Low-grade roundwood (t)	End-of-life trees (t)	Agricultural residues (t)	Country total (t)
US	1,698,041	316,788	1,378,180	1,654,979	4,683	107,082	5,159,753
Canada	1,714,169	167,876	0	163,458	7,416	0	2,052,919
Latvia	104,081	3,402	96	344,302	0	0	451,881
Estonia	17,992	56	9,914	58,697	0	0	86,659
Brazil	1,202	0	0	125,023	0	0	126,225
Portugal	45	572	1,177	16,795	16,556	0	35,145
Lithuania	9,883	0	0	3,011	0	0	12,894
UK	0	0	0	0	0	56,053	56,053
Bulgaria	0	0	0	0	0	12,594	12,594
Other European	5,217	0	0	2,446	0	668	8,331
Total	3,550,630	488,694	1,389,367	2,368,711	28,655	176,397	8,002,454

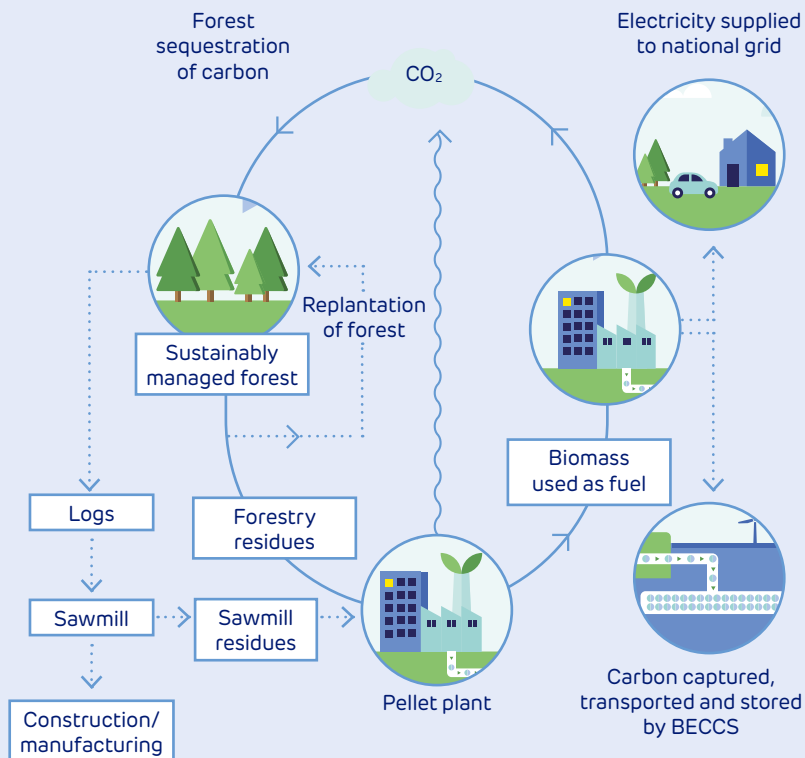
(1) Reported figure reflects volume consumed for power generation at Drax Power Station in 2023.

(2) Reported figure reflects pellets produced and sold with an SBP Compliant claim. The remaining volume was produced and sold with an SBP Controlled claim.

(3) Reported figure reflects pellets traded with SBP Compliant or PEFC Certified claim. The remaining volume held PEFC Controlled claim or no claim.

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

The closed carbon cycle



Sustainable biomass is renewable when sourced within the closed carbon cycle which is shown in the diagram opposite. This section provides details on biomass sustainability.

The CO₂ released from sustainable biomass operates within what is termed a biogenic carbon cycle. This is part of the continuous exchange of carbon between the land and the atmosphere.

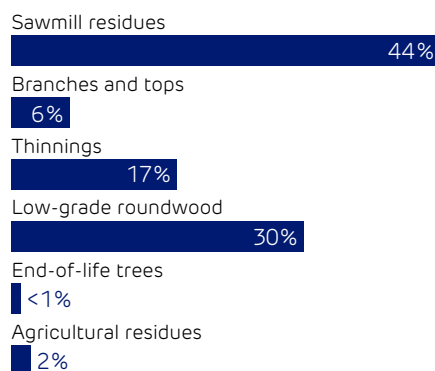
Conversely, fossil-derived carbon is a one-way emission and all burning of fossil fuels adds to the accumulation of greenhouse gases in the atmosphere.

Biomass sourcing: Group overview

As one of the world's largest users of sustainable biomass for energy generation, Drax is committed to ensuring the woody biomass we source comes from forests that are managed in accordance with standards designed to support their health and growth over the long term. By doing this, we can work towards our commitment to deliver positive outcomes for the climate, for nature, and for the communities in which we operate.

Our Pellet Production business produces and supplies biomass, for use in generation at Drax Power Station and for supply to third parties. We have policies and processes in place which aim to ensure we meet the required biomass sourcing standards in our different business operations.

Group biomass feedstock sources, Group data for 2023



44%

Sawmill and other wood industry residues

Sawmill residues are waste products (such as chips, shavings and sawdust) produced when timber is processed at third-party sawmills. These residues are lower-cost and, depending on moisture levels, can reduce drying requirements in the pellet production process.

30%

Low-grade roundwood

Low-grade roundwood is material which does not satisfy the quality standards set by the timber industry and is unsuitable for use in a sawmill.

17%

Thinnings

Thinning is an intermediate harvesting technique which removes trees from forests to increase forest growth, regulate stand density, maintain forest health, and to reduce potential fuels for forest fires. It can improve biodiversity by allowing more light onto the forest floor, promoting herbaceous growth. Thinnings can provide a secondary revenue for landowners and utilises low-value trees, which cannot be used by a sawmill.

Sustainable Development continued

Biomass sourcing

Biomass sourcing: Group overview (continued)

Our policies

Our Responsible Sourcing Policy for biomass, available on the Drax website, sets out the criteria by which we acquire biomass, which is processed by Drax's Pellet Production Operations in North America and used to generate renewable power at Drax Power Station.

The sustainable biomass used at Drax Power Station is required to comply with the standards set out in law, regulations, and the renewable support mechanisms under which we operate. This includes compliance with the Land Criteria and the Greenhouse Gas (GHG) Criteria.

[Read more on page 76](#)

Monitoring compliance

We monitor and evidence compliance with the applicable requirements for our respective operations through third-party certification, supplier engagement, post-harvest evaluations, and Catchment Area Analyses.

Certification

Third-party certification is an important part of our due diligence process. Our key certification scheme is the Sustainable Biomass Program (SBP), a scheme specific to the biomass industry. Under the scheme, independent certification bodies audit biomass suppliers against the Standards developed by SBP. The Standards look holistically across the supply chain including the management of forests to ensure health and vitality of ecosystems are maintained, and greenhouse gas emissions.

Also, in many cases the forests we source from are certified to the Sustainable Forestry Initiative (SFI®) Forest Management Standard, which is endorsed under the Programme for the Endorsement of Forest Certification (PEFC). In the US, where there is abundant family forest land, Drax's SFI Fiber Sourcing, FSC® Controlled Wood, and SBP Certifications provide a robust framework for assuring, and verifying, sustainability.

[For information on certifications at Drax Power Station, see page 76, and for Pellet Production, see page 77.](#)

Post-harvest evaluations

At our Pellet Production operations in the US South, we conduct post-harvest evaluations. This involves a combination of on-the-ground verification and remote sensing-derived imagery, to assess and evidence replanting of tracts from which material was supplied to our facilities. We conduct on-the-ground checks of a subset of active harvests as part of our internal and external audit programmes, and have procedures in place which is intended to help us detect and avoid potential conversion sources. Controls include screening in-woods sources for risk factors, including size of harvest unit and proximity to developing areas.

At our Pellet Production operations in Canada, most fibre sources are from government lands. This means harvest authorities are traceable back to the field sites and the dates of which they are harvested. It is a legislated requirement that harvested areas on government lands are reforested ensuring deforestation does not occur.

Catchment Area Analyses

Drax commissions independent Catchment Area Analyses (CAAs) in some of the regions from which we source. These studies evaluate the carbon stocks in those forests and how forestry and other man-made or natural interventions have or may impact on those carbon stocks. We are committed to reviewing the methodology of these studies as the science develops.

Our CAAs are published on our website, with details of the independent body completing the work, the methodology used, and their findings. Where findings are inconclusive or indicate a negative impact, we investigate further. Completion of our CAAs is part of a rolling programme, and to date we have covered 55% of our sourcing, based on Group sourcing in 2023.

In 2023 we updated our strategy for CAAs, which was reviewed by the IAB. CAAs will be periodically updated to reflect changes in the forest areas and to ensure an up-to-date assessment of the forest carbon stocks from which Drax sources. The period for updates will be no longer than ten years in slow growing forests and no more than five years in fast growing forests, unless natural disturbances create a change that needs to be identified. To ensure consistency in our approach to CAAs, we have identified the required outputs of forest carbon metrics, summarised in the table below.

During 2023, Drax commissioned four CAA studies covering eight pellet plants in the US and Canada, of which seven are for self-supply to Drax Power Station. Drax will continue to assess and expand the CAA programme for its pellet plants.

Summary of CAA findings, covering 55% of Group fibre sourcing in 2023

	% of Drax supply in 2023	Deforestation	Changes in management practice	Unexpected/abnormal increase in wood prices	Reduction in growing stock	Reduction in sequestration rate of carbon	Increase in harvesting levels above the sustainable yield capacity
Alabama Cluster	6.52	●	●	●	●	●	●
Amite BioEnergy	3.94	●	●	●	●	●	●
Burns Lake and Houston	4.76	●	●	●	●	●	●
Chesapeake	11.7	●	●	●	●	●	●
Enviva Cottdendale	0.56	●	●	●	●	●	●
Estonia	1.11	●	●	●	●	●	●
Georgia Mill Cluster	8.63	●	●	●	●	●	●
LaSalle	6.93	●	●	●	●	●	●
Latvia	5.41	●	●	●	●	●	●
Morehouse	5.77	●	●	●	●	●	●

● No ● No/Inconclusive ● Inconclusive ● Yes/Inconclusive ● Ambivalent impact ● Slight increase

Policy and standard developments

UK Biomass Strategy

In August 2023, the UK Government published its Biomass Strategy. The Strategy is a “state of the nation” on biomass and BECCS, reiterating the UK Government’s support for both technologies, noting that biomass is already a key component of the UK’s energy supply and that its future potential is “extraordinary”.

Whilst not proposing any new policy or regulation, the Strategy serves as a reminder of the UK Government’s support for the scale up of sustainably sourced biomass for BECCS in the UK. In the Strategy, the UK Government committed to consulting on reforms to the sustainability criteria for biomass in 2024, with a view to introducing a Cross Sectoral Sustainability Framework. Any biomass used in BECCS will be required to meet the updated sustainability requirements.

Additionally, the Strategy presented new modelling on the global availability of biomass to which the UK has access, up to 2050. The estimates are conservative, and we await publication of the full modelling with assumptions. The UK Government also published a Priority Use Framework. Whilst not binding, it states that biomass uses that can produce negative emissions (i.e., those that capture and store CO₂) should be prioritised in the long term to support the UK’s net zero target.

Finally, the Strategy reiterated the essential role of BECCS in reaching net zero emissions. We worked collaboratively with the UK Government across a two-year period to help inform the Biomass Strategy. We await the forthcoming sustainability criteria consultation.

RED III and EUDR

The EU completed its “Fit for 55” legislative package, including updates to the Renewable Energy Directive (RED III) and a new EU Deforestation-free products Regulation. RED III strengthens biomass sustainability criteria to reflect good forest management practices and aligns with the cascading principle to ensure that wood is utilised to its highest economic and environmental added value. The EU Regulation on deforestation-free products requires companies to undertake due diligence to ensure products do not result from recent (post 31 December 2020) deforestation, forest degradation or breaches of local environmental and social laws.

Both pieces of legislation impose additional requirements that will require adjustments to continue trade of wood pellets into and from the EU. We therefore continue to engage closely with the implementation process leveraging our membership in trade associations and work with different governments, including the US and Canada.

SBP Standard revision

In May 2023, the SBP updated its standards, following the conclusion of a three-year development process. The update is part of a five-year refresh

cycle of the SBP standards, and includes strengthened criteria associated with forest carbon, biodiversity, and social impact (including Free, Prior and Informed Consent). Drax contributed to the development of the revised standards through participation in working groups and representation on the SBP Technical Committee. The deadline to transition to the new standard is November 2025.

SBP recognition by Japanese Government

In September 2023, SBP was formally recognised by the Government of Japan as meeting the requirements for confirming both the lifecycle greenhouse gas emissions under Japan’s Feed in Tariff (FIT)/Feed in Premium (FIP) system for renewable energy and the legality and sustainability of imported wood as defined by the Japanese Clean Wood Act. This is a significant step, given Japan is an emerging and growing market for biomass end use and its recognition of SBP becoming the industry standard for biomass globally.

Ofgem investigation

In May 2023, Ofgem announced the opening of an investigation into Drax Power Limited’s annual biomass profiling reporting under the Renewables Obligation scheme. In its opening statement, Ofgem confirmed that it had not established any non-compliance that would affect the issuance of ROCs. Drax awaits the conclusion of this investigation.

In 2023, Ofgem’s auditor verified the 2021-2022 annual profiling data and found this to be reported correctly.

The Sustainable Biomass Program (SBP) certification system

SBP is a certification system designed for woody biomass used in industrial energy production. Originally created by biomass generators, SBP has evolved and has had a multi-stakeholder governance structure since 2019.

When we receive woody biomass at Drax Power Station, the majority is delivered with a “claim” to evidence SBP compliance. In 2023, 97% of material consumed at Drax Power Station was SBP Compliant.

SBP’s Standard outlines the sustainability requirements which must be assessed by a third-party auditor to achieve SBP Compliant status. The new SBP Standard, published in May 2023,

was subject to multi-stakeholder review. The SBP feedstock standards cover a wide range of sustainability issues, including legal sourcing, carbon stock management, environmental impacts (including biodiversity and ecosystems) and impacts on people and communities.

Using SBP certification provides a significant amount of transparency on the biomass we use. On the SBP website, anyone can search certified biomass producers across the world and have access to summary reports from their audits and a Supply Base Report. Both these documents are published annually on the SBP website.

SBP Supply Base Reports describe the material used at the pellet plant, the areas sourced from, identifies the risks of sourcing in those areas and the mitigations put in place by the pellet plant to bring the identified risk down to an acceptable level. These reports are subject to local stakeholder engagement, to ensure all risks have been considered and SBP manages a complaints process, where concerns can be raised regarding biomass sourcing.

Sustainable Development continued

Biomass sourcing

Biomass Sourcing: Drax Power Station

Drax Power Station sources of fibre (material consumed at Drax Power Station)

	Sawmill and other wood industry residues (t)	Branches and tops (t)	Thinnings (t)	Low-grade roundwood (t)	End-of-life trees (t)	Agricultural residues (t)	Country total (t)
US	1,289,412	316,788	1,317,584	1,652,167	4,683	107,082	4,687,716
Canada	406,723	44,079	0	43,839	7,416	0	502,057
Latvia	104,081	3,402	96	344,302	0	0	451,881
Estonia	17,992	56	9,914	58,697	0	0	86,659
Brazil	1,202	0	0	125,023	0	0	126,225
Portugal	45	572	1,177	16,795	16,556	0	35,145
Lithuania	9,883	0	0	3,011	0	0	12,894
UK	0	0	0	0	0	56,053	56,053
Bulgaria	0	0	0	0	0	12,594	12,594
Other European	5,217	0	0	2,446	0	668	8,331
Total	1,834,555	364,897	1,328,771	2,246,280	28,655	176,397	5,979,555

Our Group Sustainability Policy and Supplier Code of Conduct outline our requirements and are included in biomass supplier contracts, for material sourced at Drax Power Station.

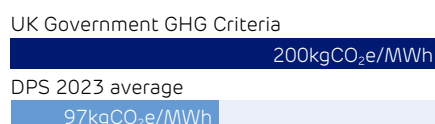
Our Responsible Sourcing Policy for biomass outlines our forest biomass sustainability commitments. This is to provide further assurance that the sustainable biomass we source makes a net positive contribution to climate change, protects biodiversity, and supports communities in the areas from which we source. We utilise the SBP certification scheme to help ascertain compliance with our Responsible Sourcing Policy.

UK Government requirements, certification, and assurance

The biomass used at Drax Power Station is required to comply with the standards set out in law, regulations, and the requirements of the renewable support schemes under which we operate. The UK Government outlines sustainability requirements for biomass generation to be eligible for renewable support. Biomass must comply with the Land Criteria (which for wood pellets, sets out a range of measures for sustainable forest management) and the Greenhouse Gas (GHG) Criteria.

The GHG Criteria is a limit set out by the UK Government, which ensures that the totality of emissions involved in Drax's biomass supply chain, represents significant GHG reductions compared to fossil fuels. The current GHG criteria for UK biomass is to ensure supply chain emissions do not exceed 200kgCO₂e/MWh electricity generated. For more information, see page 55.

Drax Power Station average biomass supply chain GHG emissions (kgCO₂e/MWh)



Drax Power Station SBP Compliant material (%), 2023



We are required to demonstrate, and assure to a limited level ISAE 3000 standard, that the biomass we use at Drax Power Station is sourced against the UK's sustainability standards. We therefore report monthly on the amount of biomass used, the type of material used, where it came from, and the GHG emissions from the supply chain. Under UK regulations, we must also confirm if the biomass complied with the Land Criteria. At the end of every compliance year, the renewable support schemes require we have an independent third-party audit to assess the accuracy of the monthly reporting submitted through the year.

In 2023, a retrospective audit covering the compliance period April 2021 to March 2022, which was issued to Drax and to Ofgem, highlighted no material misstatements in our reporting.

At Drax Power Station, to ensure we can identify and track material through our supply chain, we are certified against the FSC® C119787, SBP and PEFC chain of custody requirements.

97%

of biomass used at Drax Power Station in 2023 was SBP Compliant

Biomass Sourcing: Pellet Production and Trading

	Sawmill and other wood industry residues (t)	Branches and tops (t)	Thinnings (t)	Low-grade roundwood (t)	End-of-life trees (t)	Agricultural residues (t)	Country total (t)
US	1,078,620	0	770,826	36,635	0	0	1,886,081
Canada	1,467,578	149,020	0	150,920	0	0	1,767,518
Total	2,546,198	149,020	770,826	187,555	0	0	3,653,599

As a minimum, we assess all fibre suppliers to our pellet mills under PEFC's due diligence review process. This ensures that all fibre sources are claimed as PEFC controlled sources.

Our Commitment to Sustainable Forestry sets out the requirements associated with our certification programme in the US. It outlines our commitment to comply with applicable federal, state and local laws and regulations, and promotes the Principles of Sustainable Forest Management.

Our North American Pellet Plants are SBP certified

Our pellet plants are subject annually to an external audit for SBP certification. This assesses their sourcing and management systems against the sustainability requirements of the SBP Standards. Pellet plants holding an active SBP certification can apply SBP claims to the pellets they produce. The certification status of wood pellets produced at Drax pellet plants varies by customer requirement.

A key process undertaken within the scope of SBP certification, is the Supply Base Evaluation (SBE), or the SBP-endorsed Regional Risk Assessment (RRA) for certain regions. Where this identifies a specified risk in the area we source from (Supply Base), we will either avoid those areas or implement mitigation measures to ensure those risks are managed to low. During the annual SBP audit, the auditor evaluates the quality of the implemented mitigation measures, including visits to the forest of origin.

Pellet Production: certification

In 2023, in our Northern Operations (Canada), 89% of pellets produced and sold in 2023 held an SBP Compliant claim. The remainder held an SBP Controlled claim. 100% of pellets produced and sold in our Southern Operations (US) held an SBP Compliant claim.

Trading: certification

In 2023, the volume of pellets traded was 793,858 tonnes. 86% of the traded volume held either an SBP Compliant or PEFC Certified claim. The remainder was PEFC Controlled or without a claim.

The uncertified traded volume in 2023 was sourced from a supplier that is SBP certified and FSC® certified. Through a combination of on the ground supplier visits, independent external audit and assessment of sustainability risks, we ensure suppliers meet their markets' requirements.

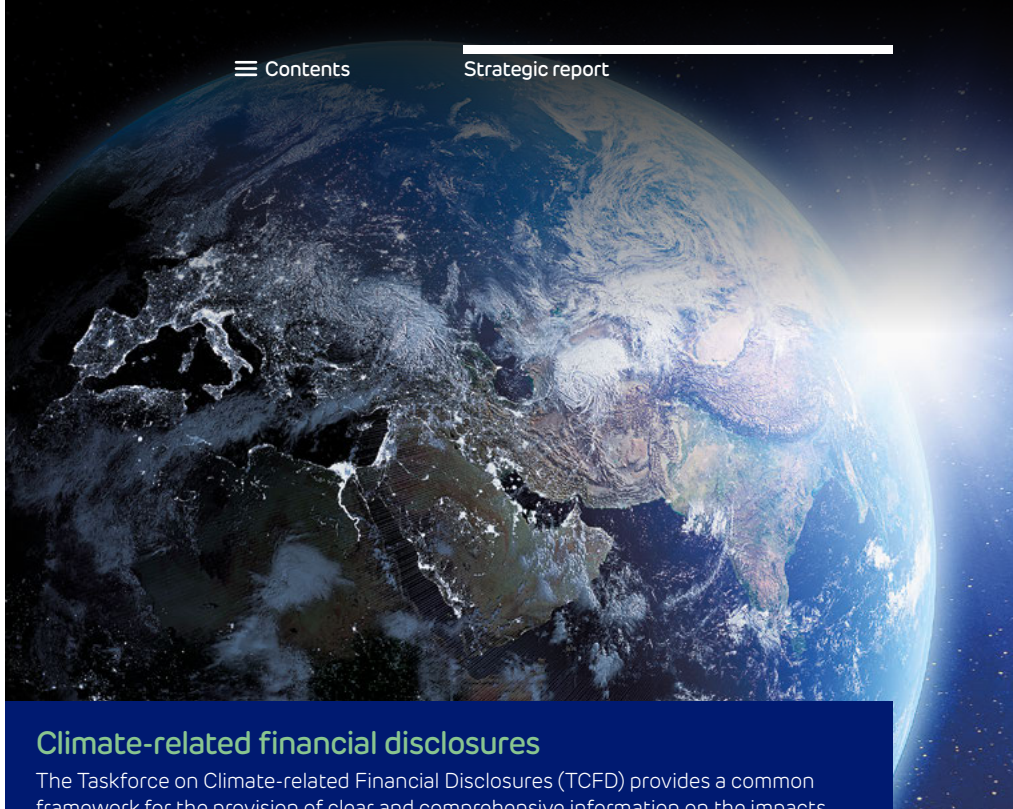
Rapid Risk Assessment system screening

For our Pellet Production Southern Operations in the US, we have developed a Rapid Risk Assessment system which is used by our fibre procurement team to screen in-woods harvests prior to contracting. This Arc Geographic Information System (ArcGIS) includes federally threatened and endangered species, species and ecological occurrence data from NatureServe; and location of Specified Risks identified by the FSC® Controlled Wood National Risk Assessment.

These High Conservation Value areas are managed individually based on ecological requirements. If timber management is incompatible, then Drax will avoid contracting and will instead take steps to inform and educate the landowners and suppliers. If the high conservation area can benefit from active forest management (for example, forest thinning that enhances the habitat for wildlife) then we will work in collaboration with the landowner, fiber supplier, and, as needed federal/state biologists, to carefully

harvest the unit to desired habitat specifications. If there is a species or ecological occurrence on the tract that requires special protections, Drax works in partnership with the relevant stakeholders to ensure appropriate habitat protections.

Taskforce on Climate-related Financial Disclosures



Climate-related financial disclosures

The Taskforce on Climate-related Financial Disclosures (TCFD) provides a common framework for the provision of clear and comprehensive information on the impacts of climate change. Drax has been a TCFD Supporter since 2020, recognising that identification and disclosure of climate-related risks and opportunities supports Drax and our stakeholders to make long-term decisions.

Compliance statement

This disclosure has been prepared in line with the Financial Conduct Authority Listing Rule (LR 9.8.6R(8)), consistent with the recommendations of TCFD. The climate-related financial disclosures outlined comply with the requirements of the Companies Act 2006, as amended by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022.

TCFD pillar	TCFD recommended disclosure	Consistency with recommended disclosure	Reference
Governance	1. Describe the Board's oversight of climate-related risks and opportunities	■	Page 79
	2. Describe management's role in assessing and managing climate-related risks and opportunities	■	Page 79 Principal risks, page 105
Strategy	3. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term	■	Pages 86 to 88 Principal risks, page 105
	4. Describe the impact of climate-related risks and opportunities on the organisation's business, strategy, and financial planning	■	Page 82 Viability Statement, page 92
	5. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	■	Pages 84 to 85
Risk management	6. Describe the organisation's processes for identifying and assessing climate-related risks	■	Page 81 Principal risks, page 105
	7. Describe the organisation's processes for managing climate-related risks	■	Page 81 Principal risks, page 105
	8. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	■	Page 81 Principal risks, page 105
Metrics and targets	9. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	■	Page 89 Climate positive, page 50
	10. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks	■	Climate positive, page 50
	11. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	■	Pages 86 to 88, and page 90 Climate positive, page 50

■ Fully consistent
■ Partially consistent

Our 2023 actions and progress

Climate-related financial disclosure is an evolving practice and a journey of ongoing improvement. The table below summarises progress against our 2023 actions, and outlines priorities for 2024.

TCFD Pillar	Actions for 2023 (as per Annual Report 2022)	Progress in 2023	Actions for 2024
Governance	In 2023 we will roll out our new sustainability governance approach.	We put in place a revised sustainability governance structure, aligned to our Sustainable Development Framework (see page 46).	Embed the sustainability governance structure and evaluate effectiveness. Implement decarbonisation projects as agreed for the 2024 Group Scorecard.
Strategy	Drax will perform an additional materiality assessment of ESG related risks that will seek to inform the Group's approach to climate and other sustainability related risks.	We completed a materiality assessment in 2023 (see page 48). The results inform our sustainability disclosures and subsequent updates to our Sustainable Development Framework.	Undertake an initial quantitative transition risk scenario analysis exercise.
Risk Management	Drax will update and monitor the risk register for the climate change Principal Risks and build on our risk assessment work.	We built on our risk assessment work by exploring the potential quantitative impact of physical climate risk parameters for Generation and Pellet Production assets (see page 84 to 85).	Utilise quantitative scenario analysis insights, relating to potential future development of physical climate parameters across Pellet Production and Generation assets.
Metrics and Targets	In 2023, we will be developing individual carbon reduction plans across our three main business units (Pellet Production, Generation and Customers). These will form part of our climate transition plan.	Each business unit has a ranked and costed (shadow price of carbon) list of potential decarbonisation projects, which form the business unit carbon reduction plans (see page 53).	Publish a Climate Transition Plan in line with the Transition Plan Taskforce (TPT) Disclosure Framework. This will outline the plans underpinning our carbon reduction targets.

Governance

Responding to climate change is a core component of the Group's purpose, to enable a zero carbon, lower cost energy future. This is reflected in our governance – from our Board through our Executive Committee and their leadership, to our business units and their functions (see Climate Governance Diagram, page 80).

Our Group Climate Policy, first approved by the Board in 2020, is available on the Drax website.

Strengthening climate governance

Actions taken during the year to further embed sustainability and climate governance included:

- Inclusion of new climate and sustainability questions in the internal Board evaluation
- Three 2023 decarbonisation scorecard targets, linking climate outcomes with remuneration (see page 52)
- Appointment of Chief Sustainability Officer (CSO), Miguel Veiga-Pestana
- Recruitment of a dedicated Sustainability Central Project Management Office (PMO) Lead, to manage delivery of the Group sustainability change management portfolio from 2024

Board oversight

The Drax Board has ultimate accountability for climate-related risks and opportunities. The CEO and Executive Committee oversee and ensure that Drax effectively implements the business strategy, which is aligned to decarbonisation objectives.

Every quarter, the sustainability leadership team provide a sustainability update for inclusion within the CEO Report to the Board. This includes an update on the Climate positive pillar of our Sustainable Development Framework.

Management's role

The CSO is responsible for implementation of the Group's sustainability programme. The Sustainability Council (see page 46) acts as Risk Management Committee for the climate change Principal Risks. Governance of the climate change Principal Risks is described on page 81.

The Group conducts Quarterly Business Reviews with the Executive Committee. For this, the sustainability leadership team provide quarterly updates on progress and challenges across our Sustainable Development Framework, including the Climate positive pillar.

Sustainable Development continued

Taskforce on Climate-related Financial Disclosures

Drax Group plc Board

The Board meets regularly and has ultimate accountability for climate-related risks and opportunities.

In 2023, the Board:

- Considered and approved the acquisition of BMM Energy Solutions, strengthening our electrification proposition to UK business customers
- Received an update on 2023 decarbonisation progress at the Group's October Board Strategy days

- Received a briefing on decarbonisation at Drax, during the December Board meeting. The session focused on absolute emissions reductions, including progress against our targets, current decarbonisation project options, and potential future decarbonisation pathways
- Received two papers on evolving sustainability reporting requirements, including climate-related disclosure and management's plans to meet disclosure requirements

Audit Committee

The Audit Committee has delegated responsibility for overseeing effectiveness of risk management processes and controls, including the climate change Principal Risks.

In 2023, the Committee:

- Reviewed and challenged the climate change Principal Risks disclosures at Half and Full Year.
- Received an update on climate-related disclosure and management's progress against plans to meet disclosure requirements.
- Received a paper regarding sustainability disclosure and assurance, including climate-related disclosure requirements.

Remuneration Committee

The Remuneration Committee oversees the approach to remuneration, including the Safety and ESG element of the Group Scorecard.

In 2023, the Committee:

- Considered and approved the 2023 Group Scorecard targets and KPIs, including three carbon reduction projects, with a 6.7% weighting.
- Received an update on the progress tracking the performance against the 2023 targets.
- Considered potential carbon reduction projects (with corresponding targets) for the 2024 Group Scorecard.

Executive Committee

The Executive Committee holds at least seven formal meetings annually but meets almost every week. The Committee focuses on the delivery of Drax's strategy, and operational and financial performance, including our ambition to become carbon negative.

In 2023, the Committee:

- Considered the new sustainability governance structure.
- Undertook an in-depth review of the climate change Principal Risks.

- Considered Drax's participation in the Science Based Targets initiative (SBTi).
- Considered two update papers on evolving sustainability reporting requirements, including climate-related disclosure and management's plans to meet disclosure requirements.
- Received an update on climate transition plan requirements.
- The CEO reviewed and signed off our CDP Climate Change questionnaire submission in July.

Independent Advisory Board (IAB)

The IAB met six times in 2023. The IAB provides external advice and challenge on the Group's responsible sourcing of biomass, and aspects of the wider sustainability strategy. See page 47 for more information.

Sustainability Council

The Council was established in the second quarter of 2023 and meets at least quarterly. It has responsibility for review and challenge of the climate change Principal Risk register.

In 2023, the Council:

- Reviewed key updates to the climate change Principal Risk register in June and December.
- Received updates at each meeting relating to progress on the Climate positive pillar of our Framework. For example, in October, an update on progress towards achievement of three 2023 decarbonisation Scorecard projects, and candidate projects for the 2024 Scorecard.

Carbon Reduction Task Force (CRTF)

The CRTF meets at least monthly and has responsibility for operational implementation of carbon reduction workstreams. Membership includes representatives from each of our business units, to centrally co-ordinate decarbonisation workstreams.

In 2023, the CRTF:

- Co-ordinated delivery of the three 2023 decarbonisation Scorecard target projects and non-Scorecard projects.

Business Units and Functions

Sustainability: Responsible for the sustainability programme, including decarbonisation projects, the climate change Principal Risks, ESG disclosure, data, and assurance.

HSE: Responsible for environmental compliance and performance.

Risk management

Climate-related risk management is integrated into the Group-wide approach

The identification, assessment and management of climate-related risks is integrated into the Group risk management approach, as defined by the Group Risk Management Policy. The Group Financial Risk Management Committee annually reviews and re-approves the Policy. It is supported by the Group Risk Management Framework, which defines Drax's approach to risk management and the responsibilities of management and our colleagues.

Climate change is a Principal Risk category governed within the Group-wide approach (see page 105, Principal Risks and Uncertainties). The climate change Principal Risks are owned by the CSO, and subject to an annual review by the Executive Committee. In June 2023, the Executive Committee undertook an in-depth review of the climate change Principal Risks, challenging the assumptions, mitigations and controls which had been identified.

Senior leadership and risk owners, who are located across the business units, are collectively responsible for the

identification of risks with the potential to threaten the achievement of strategic objectives.

The Audit Committee and the Board review the effectiveness of risk management processes and controls. The Audit Committee reviews and challenges the Principal Risks disclosures twice annually, including those relating to climate change, as part of their review and approval of the Half Year Report and Annual Report.

The Board also reviews and considers the evaluation and mitigation of Principal Risks, the disclosure to be made in periodic financial reporting, and the internal processes for the identification and management of risks.

Processes for identifying, assessing and managing climate-related risks

The climate change Principal Risks are administered by the Senior Scientific Officer. Each risk has an assigned business unit management owner, responsible and accountable for monitoring the risk, providing updates, and ensuring mitigations and controls are fit for purpose. Risk owners provide updates to the risk register at Half and Full Year. Since its inception in 2023, the Sustainability Council acts as the Risk

Management Committee, responsible for review and challenge of the climate change Principal Risks.

Additionally, we identify, assess, and manage our climate-related risks through scenario analysis (see approach to scenario analysis, below), climate vulnerability assessments, and our internal carbon reduction workstreams.

To assess the materiality of climate-related risks, identified risks are prioritised based on the Group risk scoring matrix, which considers likelihood and impact. The assessment of impact is separated into different categories, including financial, regulatory, strategic, reputational, technological, and environmental considerations. The level of impact, from minor to critical, is defined for each category.

During 2023, we completed a materiality assessment. We engaged with our workforce and key internal stakeholders to understand the sustainability topics they view as priorities for the business and our stakeholders. "Climate action and GHG emissions" was one of the material topic groupings considered, see page 48.

Approach to scenario analysis

Scenario analysis helps us to identify and assess climate-related risks. Using authoritative third-party sources, scenario analysis provides a method for climate risk identification and assessment that is guided by climate science.

In 2021 and 2022, we undertook two scenario analyses that informed updates to our climate change Principal Risks (top-down identification). In 2023, we evolved our approach and focused our scenario analysis on the most significant physical climate-related risks that

management had identified (bottom-up assessment). The 2021 scenario analysis encompassing transition risks is deemed to provide a sufficient current understanding of those risks. We intend to undertake a quantitative transition risk scenario analysis in the next year.

Drax's approach to scenario analysis, from top-down identification to bottom-up assessment of key risks

2021	2022	2023
High-level, qualitative, transition and physical scenario analysis	Quantitative, physical scenario analysis	Quantitative, physical scenario analysis, exploring different climate parameters
Time horizon: 2030	Time horizon: 2040	Time horizon: 2025, 2030, 2040, 2050
Scope: Group, all business units	Scope: Pellet Production supply chain (self-supply)	Scope: Generation and Pellet Production assets
▼	▼	▼ ▲
Climate Change Principal Risk Register	Climate Change Principal Risk Register	Climate Change Principal Risk Register

Summarised results of our 2023 scenario analysis, exploring the potential quantitative impact of physical climate risk parameters across our Generation and Pellet Production assets, are presented on pages 84 to 85.

Sustainable Development continued

Taskforce on Climate-related Financial Disclosures

Strategy

A strategy to enable a zero carbon, lower cost energy future

Drax's three strategic aims are aligned with decarbonisation objectives (see CEO's Review, pages 13 to 14). The identified climate-related risks and opportunities that could have a material financial impact on the business are set out on pages 86 to 88 and in Principal Risks and Uncertainties (page 105).

Drax's carbon reduction pathway

An overview of Drax's carbon reduction targets and our plans (current projects and several projects in development) is provided in the Climate Positive section (page 50). In 2024, we intend to build on this with the publication of a Climate Transition Plan.

Impact of climate-related risks and opportunities on financial planning

The conclusions from the scenario analysis detailed on pages 84-85 informed the approach to the viability assessment.

The table below summarises how climate-related matters influence and are factored into the respective areas of our financial planning.

Financial planning element	Our approach
Revenues	The UK Government is legally committed to its target to achieve net zero in the UK by 2050. For our UK-based Generation business, the impact of a transition to net zero is incorporated into our forecasts for future power prices, modelled over a 15-year basis (see Note 2.4 to the consolidated financial statements, page 195). In 2023, the UK Government Biomass Strategy identified that current modelling implies biomass use combined with BECCS will contribute the most toward net zero. We include BECCS conversions in our long-term plans, capital expenditure and main strategic investments. Our business plans include developments in the US for new build BECCS plants, where the Inflation Reduction Act (IRA) has been put in place. The IRA creates government-backed incentives to build capabilities in sustainable power generation and carbon capture and storage, which could include BECCS. We model sensitivities to our business plans for potential disruption to Pellet Production operations caused by extreme weather events. This presents a potential risk to revenue for Pellet Production and could have subsequent impacts to biomass generation if the supply chain is disrupted. Current risks are largely from extremes of weather, including severe cold and sub-zero freezing in winter, as well as wildfires in Canada, and storms in the US South. Our transition away from fossil fuels to renewable forms of energy creates an opportunity for the Group, with increase in demand for our products and services. Our pumped storage hydro asset provides vital support to the UK system, balancing supply and demand caused by variability of intermittent generators, such as wind and solar. As reliance on intermittent generation increases, the system is likely to require more balancing services, increasing the value available for assets such as pumped storage. Consumer demand for renewable electricity is growing, and the value of Renewable Energy Guarantee of Origin (REGO) certificates has increased. Our biomass and hydro run-of-river generation assets are eligible to claim REGOs on the electricity they produce, and our Customers business provides REGOs to their customers. We expect global demand for biomass to increase and our business plans include an increase in third party pellet sales into Asia, through primarily our operations in Canada but also in the US.
Costs (direct and indirect)	The demand for renewable electricity and transition away from fossil fuels also creates risk for our costs, as the cost of biomass and fibre (the primary raw material for Pellet Production) will likely increase with demand. We seek to mitigate this risk through contracting significant volumes of fibre under long-term (5-year+) offtake agreements. Operating costs include carbon taxes paid in the jurisdictions in which we operate. This includes fuel duties in the UK and BC Carbon Tax in Canada. Since ceasing coal generation, the impact of carbon taxes has significantly reduced on the Group. There remains carbon tax to pay on oil used in biomass generation and gas used at the Daldowie Fuel Plant in the UK, and fuels used in Pellet Production in Canada. Introduction of an EU Carbon Border Adjustment Mechanism (CBAM) may impose taxes on all trade of electricity between the UK and the EU via relevant interconnectors in the future. We do not currently expect the introduction of an EU CBAM to be material. Further to our necessity to operate as a sustainable business, we have a dedicated sustainability function which comes with its own cost base and has increased in size. This is in response to the growth in our business and the importance of following laws, regulations, and standards.

Financial planning element	Our approach
Capital expenditures and capital allocation	Drax's capital allocation policy outlines our focus on: (1) maintaining the Group's credit rating, (2) investing in the realisation of the Group's strategy, (3) paying a sustainable and growing dividend, and (4) returning surplus capital beyond investment requirements. We have embedded a shadow carbon price within the capital expenditure decision-making process. This internal shadow carbon price is used principally to modify the Net Present Value and Internal Rate of Return models used to assess new business and investment cases. This provides a value for decarbonisation and a corresponding penalty for investments which increase our carbon footprint (see page 89 for associated metric). From a tax perspective, Drax currently makes use of the UK Patent Box tax relief regime and will ensure that further opportunities arising from UK BECCS patented activities are explored. Biomass is currently excluded from the UK Emissions Trading Scheme, which has provided us with a working capital inflow, through substituting coal (which had incurred taxes) to biomass (which does not). We expect that UK BECCS revenue expenditure may qualify for R&D relief under the UK Research and Development Expenditure Credit (RDEC) regime. For tax effect of RDEC credit to date, see page 89. R&D investment: In the shorter term, we continue to look into next generation carbon capture technologies with the aim of identifying future options with lower energy penalty than the current technologies. We have used some R&D spend to expand and improve our carbon capture incubation area, to accommodate more and larger pilots to advance our understanding of future alternatives to the current amine-based systems. The innovation team supports the CRTF and are dedicating more R&D budget to investigate technology options to displace or reduce the use of fossil fuels in the Group's operations. In the longer term, management consider the impact of changes to the UK grid on the need for dispatchable renewable power and energy storage solutions. Globally, we recognise the increasing role biomass will have to play in decarbonising other industries. We are conducting research into areas that may fit Drax's future strategy, including biofuels, Sustainable Aviation Fuel (SAF), and hydrogen.
Acquisitions and divestments	Drax's three strategic aims are closely aligned with climate solutions, enabling net zero, and energy security. Acquisitions and divestments are therefore guided by, and intended to enable, the achievement of our strategic and decarbonisation aims. For example, the acquisition of Pinnacle Renewable Energy Inc in 2021 and Princeton Pellets in 2022 supports our aim to be a global leader in sustainable biomass pellets. The divestment of Combined Cycle Gas Turbines (CCGTs) in 2021 supports our aim to be a UK leader in dispatchable, renewable generation. In 2023, we acquired BMM Energy Solutions to strengthen our Customers business in the provision of electrification capabilities to large and medium-sized enterprises. The acquisition of BMM provides Drax with enhanced offerings for the installation and maintenance of electric vehicle (EV) charge points.
Access to capital	Banks and investors are concerned not only with their own ESG performance, but also the ESG risks and opportunities they are subject to as a lender. Drax maintains a strong and wide investor base and portfolio of working capital facilities through financial and banking institutions. We have sought to embed aspects of our climate targets and commitments into our debt and credit facilities. These facilities all include an embedded ESG mechanism that adjusts the margin of interest paid based on Drax's carbon emissions per GWh of electricity generated, measured against an annual benchmark. This is consistent with our continued strategic focus on reducing our carbon emissions. Government support will be required for Drax to fully realise its ambitions and will be critical in attracting cost effective investment and capital to the business.

Integrating climate risk and financial reporting

In 2023, we formalised the consideration of climate risk within the asset impairment review. Physical (acute and chronic) and transition climate-related risks were added to the impairment checklists completed by the business unit finance teams. Financial Reporting and ESG colleagues led a

training session in September 2023, to upskill Finance colleagues on the climate-related risk categories, as defined by the TCFD Recommendations.

For further information regarding climate change and financial reporting, see Note 3.8 (Climate Change) to the Consolidated financial statements.

Sustainable Development continued

Taskforce on Climate-related Financial Disclosures

Quantitative physical risk scenario analysis: summary of results

We utilised the S&P Global Climamomics tool to undertake quantitative analysis of the potential financial impacts resulting from physical risks of climate change. We explored how different physical climate change hazards could evolve under three scenarios, for our operational Generation and Pellet Production asset portfolio.

The following three scenarios were modelled for the analysis:

Scenario	Description	Rationale for selection
High (RCP 8.5/ SSP5-8.5)	Low mitigation scenario in which global average temperatures rise by 3.3 to 5.7°C by 2100.	Exploration of a high warming scenario to 'stress test' a high level of physical risks.
Medium (RCP 4.5/ SSP2-4.5)	Strong mitigation scenario in which total GHG emissions stabilise at current levels until 2050 and then decline to 2100, resulting in global average temperatures rising by 2.1 to 3.5°C by 2100.	Exploration of an ambitious yet plausible mid-range scenario.
Low (RCP 2.6/ SSP1-2.6)	Aggressive mitigation scenario in which total GHG emissions reduce to net zero by 2050, resulting in global average temperatures rising by 1.3 to 2.4°C by 2100, consistent with the Paris Agreement.	Exploration of an ambitious 2°C or lower scenario consistent with the Paris Agreement.

The majority of data underpinning the tool is derived from the Coupled Model Intercomparison Project (CMIP) 6 models, developed in support of the IPCC's Sixth Assessment Report (IPCC AR6). The Representative Concentration Pathways (RCPs) and Shared Socioeconomic Pathways (SSPs) referenced in the table above are combined for scenarios available in the CMIP6 version of the tool.

- The SSPs are based on distinct narratives for future economic development, using a consistent logic for the qualitative projections of land use, energy use, population, emissions, and other factors
- The RCPs are emission scenarios, driven primarily by projections of changes in factors such as GHG emissions and land use

Assets operational as of H2 2023 were in scope for the analysis. We mapped 28 UK Generation and North American Pellet Production locations, and four North American port locations onto the Climamomics tool.

We applied our analysis across four time horizons, the 2020s, 2030s, 2040s, and 2050s. The 2040 and 2050 time horizons allow us to explore how different climate-related risks may evolve into the long-term, and capture periods covering the useful life of assets and over which the impact of physical climate-related risks are expected to become more pronounced.

The Climamomics tool enables an analysis of eight physical climate change hazard types, and provides an estimate of the climate-related change in the level of

hazard exposure of an asset over time (relative to a historical baseline). The hazard types are: temperature extreme (heat), drought, wildfire, coastal flooding, fluvial flooding, tropical cyclone, water stress, and pluvial flooding.

Potential financial impact resulting from physical climate-related risks

Absolute risk (in £m) is the modelled potential financial impact of risk. It is a function of:

- Hazard: the likelihood and impact of the physical climate change hazard
- Vulnerability: the responses of the assets to the hazard
- Asset value: the combined value of the assets (we input the book value for each asset considered, as at September 2023)

Time frames over which Drax considers climate-related risks

- Short-term (1 year) – aligns to our time periods for assessing going concern
- Medium (2-5 years) – aligns to the period assessed for viability reporting
- Long-term (5+ years) – aligns to our 2030 BECCS ambitions and beyond

Corresponding time horizons explored for scenario analysis

- 2025 ⁽¹⁾
 - 2030
 - 2040
 - 2050
- (1) Representing sum of potential financial impact (absolute risk, £m) for 2020-2029 period, as a proportion of asset value

At the portfolio grouping level, the magnitude of potential financial impact (absolute risk, £m) is summarised for the Medium scenario, representing the mid-range results of the three scenarios considered.

The classification thresholds have been defined and are presented as follows:

Key:

Magnitude of potential financial impact (absolute risk, £m), as a proportion of asset value (%)

Low 1	0 to 3%
Low 2	3 to 6%
Low 3	6 to <10%
Medium	10-15%
High	>15%

- ▲ Increasing impact of physical hazard type
- ▼ Decreasing impact of physical hazard type

Generation (UK)

Physical hazard type	Magnitude of potential financial impact (absolute risk, £m), as a proportion of asset value (%)*				Financial Impact	
	2025	2030	2040	2050	Impact	Example of how the risk potentially manifests
Temperature extreme					▲	Cooling and ventilation costs and increased servicing costs; employee productivity; revenue impact
Drought					▲	Business interruption; water expenses; foundation damage
Flooding**					▲	Clean-up costs; repair costs; business interruption
Wildfire					▲	Employee health; business interruption; physical damage
Water Stress					▲	Business interruption; revenue impact

* Gradient according to absolute risk (£) which is a function of hazard, vulnerability, and asset value.

** Flooding is a combination of pluvial and fluvial flooding. No Drax Generation asset is at risk of coastal flooding or tropical cyclone and therefore these hazard types have not been included in this assessment.

Southern Pellet Production (US)

Physical hazard type	Magnitude of potential financial impact (absolute risk, £m), as a proportion of asset value (%)*				Financial Impact	
	2025	2030	2040	2050	Impact	Example of how the risk potentially manifests
Temperature extreme					▲	Cooling and ventilation costs and increased servicing costs; employee productivity; revenue impact
Flooding**					▲	Clean-up costs; repair costs; business interruption
Wildfire					▲	Employee health; business interruption; physical damage
Drought					▲	Business interruption; water expenses; foundation damage

* Gradient according to absolute risk (£) which is a function of hazard, vulnerability, and asset value.

** Flooding is a combination of pluvial and fluvial flooding, and tropical cyclone. No Drax Southern Pellet Production asset is at risk of coastal flooding or water stress and therefore these hazard types have not been included in this assessment.

Northern Pellet Production (Canada)

Physical hazard type	Magnitude of potential financial impact (absolute risk, £m), as a proportion of asset value (%)*				Financial Impact	
	2025	2030	2040	2050	Impact	Example of how the risk potentially manifests
Temperature extreme					▲	Cooling and ventilation costs and increased servicing costs; employee productivity; revenue impact
Flooding**					▲	Clean-up costs; repair costs; business interruption
Wildfire					▲	Employee health; business interruption; physical damage
Drought					▲	Business interruption; water expenses; foundation damage

* Gradient according to absolute risk (£) which is a function of hazard, vulnerability, and asset value.

** Flooding is a combination of pluvial and fluvial flooding. No Drax Northern Pellet Production asset is at risk of coastal flooding, water stress or tropical cyclone and therefore these hazard types have not been included in this assessment.

Port Operations (US and Canada)

Physical hazard type	Magnitude of potential financial impact (absolute risk, £m), as a proportion of asset value (%)*				Financial Impact	
	2025	2030	2040	2050	Impact	Example of how the risk manifests
Flooding**					▲	Clean-up costs; repair costs; business interruption
Temperature extreme					▲	Cooling and ventilation costs and increased servicing costs; employee productivity; revenue impact
Wildfire					▲	Employee health; business interruption; physical damage
Drought					▲	Business interruption; water expenses; foundation damage

* Gradient according to absolute risk (£) which is a function of hazard, vulnerability, and asset value.

** Flooding is a combination of pluvial and fluvial flooding, and tropical cyclone. No Drax Port Operations asset is at risk of coastal flooding or water stress and therefore these hazard types have not been included in this assessment.

Preliminary findings

- The top drivers of physical climate-related risks for the Drax assets considered are temperature extreme, drought and flooding.
- There is a relatively greater potential impact on our Northern and Southern Pellet Production Operations due to the physical risks of climate change. Generation operations are the least affected by the impacts of climate change.

- None of the risks arising from the physical climate change hazard types over the time horizons considered are modelled to have a material potential financial impact.

Assessment of resilience

While impacts on our business units and financial performance of the Group could materialise under particular climate scenarios in the long term (such as the High warming scenario), the geographical

diversity of our operational locations provides some mitigation against isolated risks. Management believe we have a range of strategic options and we expect to have the necessary capital to manage impacts, take opportunities and remain resilient under the wide range of scenarios considered.

Sustainable Development continued

Taskforce on Climate-related Financial Disclosures

Climate-related risks

1. Time frame:

- Short term (1 year) – aligns to our time periods for assessing going concern
- Medium (2-5 years) – aligns to the period assessed for viability reporting
- Long term (5+ years) – aligns to our 2030 BECCS ambitions and beyond

2. Significant impact:

Significant impact is assessed as an impact greater than 20% of 2023 Adjusted EBITDA (excluding EGL) of £1,214m. Assessment considers gross potential impact only, and not likelihood. Risks assessed as net low risk are not presented. Impacts of climate change are considered in the Viability Statement on page 92 and note 3.8 (Climate Change) to the consolidated financial statements.

3. Link to our strategic aims:



To be a global leader in carbon removals



To be a global leader in sustainable biomass pellets



To be a UK leader in dispatchable, renewable generation

Description	Time frame ⁽¹⁾	Significant impact ⁽²⁾	Our response (strategic mitigation)	Related metrics and targets	Link to our strategic aims ⁽³⁾
Risk category 1: Physical risks to our Pellet Production operations and supply chain in the US and Canada					
Acute and chronic climate hazards impacting: • Fibre availability to Canadian pellet production • Site operations in US pellet production sites • Site operations at Canadian pellet production sites	ST, MT and LT	No (direct impact on revenue and cost of sales)	• Proactive weather monitoring with appropriate mitigations taken to minimise the potential impact of extreme weather events • Pellet Production business has developed stockpiles to alleviate incidences of extreme weather-related production interruption • Diversification into new jurisdictions that reduce seasonal impact on the business • New build pellet mills positioned to minimise risk associated with potential future weather patterns • Continue monitoring systemic risks when moving to new geographies • Colleague training to respond to adverse climate effects • Smaller plants distributed in different fibre baskets	Strategic target: 8Mt pa of pellet production capacity by 2030 (see pages 30-31) Metric: Annual total volume of pellets produced (see page 89) Metric: Generation and Pellet Production assets: potential financial impact (absolute risk, £m) as a % of asset value (see page 89)	
Risk category 2: Physical risks to Drax Power Station operations and supply chain in the UK					
Physical risks to ports and shipping UK, including: • Extreme weather events and flooding at multiple UK port locations • Sea level rise impacting available port facilities, preventing the receipt of material into Drax's UK ports	ST, MT and LT	Yes (direct impact on revenue and cost of sales)	• Business continuity plans in place for ports in our supply chain, including response to weather events • Continue getting more detailed climate scenario analyses to look at supply chain risks • Engaged with the local authority climate risk plan to cover storm surges	Metric: Generation and Pellet Production assets: potential financial impact (absolute risk, £m) as a % of asset value (see page 89) Metric: Water consumed from areas of water stress (see page 89)	
• River water temperature at Drax Power Station rises to a level which could cause permit breach	ST, MT and LT	No (direct impact on revenue and cost of sales)	• Permit variation already in place for the summer months		
Risk category 3: Policy risks related to the transition to a low-carbon economy in the UK					
Future regulatory framework(s) no longer consider biomass to be renewable and/or require biomass generators to pay a carbon price on stack emissions or on supply chain emissions	ST, MT and LT	Yes (direct impact on revenue, cost of sales and operating expenses)	Due to the potential high impact of these unmitigated risks, we have a strong mitigation plan in place which is functioning well, lowering the risk to an acceptable level • BECCS ambitions are a key part of our strategy • Group decarbonisation plans in place to reduce biomass supply chain emissions • Engaging with regulators and industry bodies and wider stakeholders to understand their priorities, influence the strategic direction, and undertake scenario planning in preparedness for ensuring compliance • Targeted scenario planning and direct engagement with the RED III negotiation process and via Trade Associations suggesting alternative policy and regulatory solutions, to ensure workable outcomes • Seeking engagement with eNGOs to discuss issues of contention and potential areas of common ground, as well as challenging views where we believe they are inaccurate or misleading	Metric: Total non-renewable generation capacity (see page 89) Metric: Generation business revenue (see page 89) Metric: Generation business Adjusted EBITDA (see page 89)	
Updates to sustainability criteria on biomass cannot be met (UK)	ST	No (direct impact on revenue, cost of sales and operating expenses)	• Continued engagement with key stakeholders around our biomass sourcing and the benefits of using biomass from working forests • Alternative Fuels programme looking at options for alternative feedstocks	Metric: Total non-renewable generation capacity (see page 89)	

Description	Time frame ⁽¹⁾	Significant impact ⁽²⁾	Our response (strategic mitigation)	Related metrics and targets	Link to our strategic aims ⁽³⁾
Changes in UK Carbon Budget, Government strategy significantly limits or does not allow for unabated gas generation – risk to OCGTs projects	ST and MT	No (direct impact on revenue, cost of sales and operating expenses)	- Close liaison with UK Government on future policies. Group Market Analysis team modelling future generation scenarios and predicting future generation mix - Broad range of future options being developed - Drax's existing assets will either need to decarbonise or close. Any new gas assets will need to plan to decarbonise	Metric: Total non-renewable generation capacity (see page 89) Metric: Capital expenditure (see page 89)	
Risk category 4: Reputation and market risks related to the transition to a low-carbon economy in the UK					
UK BECCS is delayed or unable to progress at scale due to limited support mechanisms or absence of sufficient market for negative emissions	MT and LT	Yes (direct impact on revenue)	Close liaison with Government on future policies. Drax engages with a variety of MPs and political parties. The majority of these recognise the role of the technologies Drax is pursuing. In the event of a new government, we believe that deploying CCUS technologies will remain important.	Metric: Capital expenditure (see page 89)	
Market factors or reputation leads to a reduction in profitability of the Customers business	MT and LT	No (direct impact on revenue)	- All energy supply propositions now from renewable sources - Introduction of value-adding energy services. Offer non-generation system support and energy management services, such as the provision of decarbonisation services, including vehicle fleet electrification - Strategic Communications work ongoing to provide better data and transparency on BECCS and biomass	Metric: Customers business Adjusted EBITDA (see page 89)	
Conflicting requirements on reporting of carbon emissions require us to report multiple, varying estimates	ST, MT and LT	No (direct impact on costs)	- Establishment of a carbon alignment expert group to document all causes of variance for publication - Evidence book to contain a detailed, public explanation of the different accounting schemes that we are required to report against		

Climate-related opportunities

Each of our climate-related opportunities would impact on revenue, cost of sales and operating expenses.

Description	Time frame ⁽¹⁾	Significant impact ⁽²⁾	Our response (strategy to realise opportunity)	Related metrics and targets	Link to our strategic aims ⁽³⁾
Opportunity 1: Development of BECCS at Drax Power Station in the UK					
At Drax Power Station, we continue to develop an option for BECCS, with plans to add post-combustion carbon capture to two of the existing biomass units that use sustainable biomass and technology from our partner, Mitsubishi Heavy Industries (MHI) ⁽⁴⁾ . Achieving this could offer a model for further BECCS retrofit for adoption by other power generation plants.	LT	Yes	- At Drax Power Station, between 2018 and 2020, we completed two BECCS pilot projects. - In 2021, we completed a pre-Front End Engineering Design (pre-FEED) study. As part of our capital investment programme on BECCS, in 2022 Drax selected Worley Europe Limited to begin the FEED work. - In 2022 we signed a Memorandum of Understanding (MoU) with British Steel, and submitted our Development Consent Order (DCO). - In 2023 we commissioned a small sugar extraction plant and we remain an equity shareholder in C-Capture Limited which is developing solvent technology that could be used for BECCS and other applications. - We submitted our planning application for the UK Government consultation on greenhouse gas removals (GGR) business models, in 2022 with development consent being awarded in January 2024 by the Secretary of State for Energy Security and Net Zero, for two BECCS units. See CEO's Review, page 13, for further information. (4) The Group is developing a pipeline of projects that could contribute toward its ambition for 20Mt of carbon removals. As part of this, we are progressing plans for 7Mt of carbon removals through BECCS (4Mt would be in the UK, and 3Mt in the US). 7Mt by 2030 is a revision from 12Mt previously stated in the Annual Report and Accounts 2022, reflecting realistic timelines based on the progression of projects to date.	Metric: Generation business revenue (see page 89) Metric: Capital expenditure (see page 89)	

Sustainable Development continued

Taskforce on Climate-related Financial Disclosures

Description	Time frame ⁽¹⁾	Significant impact ⁽²⁾	Our response (strategy to realise opportunity)	Related metrics and targets	Link to our strategic aims ⁽³⁾
Opportunity 2: Development of Global BECCS in North America					
The US represents an attractive investment environment for large-scale carbon removals, in addition to a supportive investment horizon provided by the Inflation Reduction Act and associated schemes. The Group is developing a pipeline of projects that could contribute towards its aim of 20Mt of removals globally. We continue engaging with policymakers and are screening regions and locations for BECCS in North America.	LT	Yes	- Progressing with site selection, Government engagement and technology development, the Group is developing a pipeline of projects that could contribute towards its aim of 20Mt of removals globally - In September 2022 we announced an MoU with Respira, an impact-driven carbon finance business. Under the MoU, Respira could purchase up to 2Mt of CDRs over a five-year period from our North American BECCS projects. This would enable other corporations and financial institutions to achieve their own CO₂ emissions reductions targets, by purchasing CDRs from Respira - New-build BECCS enables a wider choice of biomass materials, including non-pelletised materials such as woodchips. Exploring plants in regions closer to the sources of sustainable biomass and carbon transportation and storage systems is expected to significantly reduce the cost of a new-build BECCS plant compared to retrofit, as well as emissions reductions in the supply chain¹ See CEO's Review, page 10, for further information.	Metric: Capital expenditure (see page 89)	
Opportunity 3: Development of new sustainable biomass pellet capacity and self-supply in North America					
Drax is targeting 8Mt p.a. of biomass pellet production capacity by 2030. This production will be used for third-party sales plus our own generation. This target also covers the balance of supply from other lower cost biomass sources and third parties. As a vertically integrated producer, user, buyer, and seller of biomass, we operate a differentiated biomass model from our peers. We see the current market as representing a balance of short-term risks and long-term opportunities for the Group.	ST, MT and LT	Yes	- We have progressed development opportunities with the expansion of Aliceville and a new-build pellet plant at Longview (Washington state) - These developments, taken with existing operations gives Drax a network of 18 pellet plants capable of 5.4Mt of capacity See CEO's Review, page 10, for further information.	Strategic target: 8Mt pa of pellet production capacity by 2030 (see pages 30 and 31) Metric: Annual total volume of pellets produced (see page 89) Metric: Pellet Production business revenue (see page 89) Metric: Capital expenditure (see page 89)	
Opportunity 4: Planned expansion of Cruachan Pumped Storage Power Station in the UK					
Pumped storage hydro assets provide vital support to the system, balancing supply and demand caused by the variability of intermittent generators like wind and solar. As reliance on intermittent generators increases, the system is likely to require more balancing services such as pumped storage. Meeting the full extent of expected demand will require the addition to and expansion of current power sources. Additional sources ensure dispatchable power and energy security and stability for consumers.	MT	No	- A planning application was submitted in May 2022 to expand our Cruachan facility. This, combined with the current facility, will increase generation capacity to over 1GW. The location, flexibility, and range of services it can provide makes Cruachan strategically important to the UK power system - The Scottish Government awarded planning consent for the expansion in July 2023, and subject to the right investment framework we are targeting a final investment decision to be taken in 2025 and commercial operation by 2030 See CEO's Review, page 10, for further information.	Metric: Capital expenditure (see page 89)	

Metrics and targets

Climate-related metrics

We have developed our approach to report across the TCFD seven cross-industry climate-related metric categories (see table below). For carbon emissions and energy use data, see page 50. For water use and waste data, see page 56. We are developing a baseline of direct operations land use data for future TNFD disclosure; see page 74 (summary of Catchment Area Analyses findings) for current available metrics related to land use in biomass sourcing catchment areas.

TCFD Metric Category	Metric	Unit	2023	2022	Link to climate-related risks and opportunities
GHG emissions	See Carbon and energy performance table, page 50 See Decarbonisation dashboard, page 52				Risks 1-4 and Opportunities 1-4.
Transition risks Amount and extent of assets or business activities vulnerable to transition risks	Total non-renewable generation capacity ⁽¹⁾	GW	0.1	1.4	Risk 3: Metric reflects the generation capacity potentially vulnerable to policy, legal, and/or market-related risks in the context of a transition to a low carbon economy. The non-renewable generation capacity reported for 2022 represents two coal-fired units at Drax Power Station; decommissioning commenced in March 2023. Value for 2023 represents gas-fired start-up capacity at Drax Power Station.
	Customers business Adjusted EBITDA	£m	72	26	Risk 4: Market factors or reputation leads to a reduction of profitability of the Customers business.
Physical risks Amount and extent of assets or business activities vulnerable to physical risks	Generation and Pellet Production assets, exposure to physical climate hazard risks: potential financial impact (absolute risk, £m) as a % of asset value ⁽²⁾	%	0.9	–	Risks 1-2: Proportion of Generation and Pellet Production asset value potentially vulnerable to physical climate-related risks. An interruption to biomass generation is considered to be the most likely way that physical risk could manifest. The impact of this could be greater than 20% of Adjusted EBITDA in a given year.
	Water consumed from areas of water stress ⁽³⁾	m ³	347	–	Risk 2: This metric considers water use across Drax's direct operations. The volume reported represents water use at our London office, the only location classified as baseline (current) 'high water stress'.
Climate-related opportunities	Generation business revenue (External)	£m	2,486	3,639	Risk 3 and Opportunity 1.
	Pellet Production business revenue (External)	£m	398	377	Opportunity 3: Development of new sustainable biomass pellet capacity and self-supply in North America.
	Generation business Adjusted EBITDA (excluding EGL)	£m	1,138	696	Risk 3: An interruption to biomass generation is considered to be the most likely way that physical risk could manifest. The impact of this could be greater than 20% of Adjusted EBITDA in a given year. Opportunity 1.
	Pellet Production business Adjusted EBITDA	£m	89	134	Opportunity 3: Development of new sustainable biomass pellet capacity and self-supply in North America. In 2023, the Pellet Production business contributed £89m Adjusted EBITDA.
	Development of new sustainable biomass pellet capacity: annual total volume of pellets produced	Mt	3.8	3.9	Risk 1: and Opportunity 3: Development of new sustainable biomass pellet capacity and self-supply in North America. Drax is targeting 8Mt pa of production capacity by 2030. Existing operations and developments will give Drax a network of 18 pellet plants (c. 5.4Mt of capacity).
	R&D relief: tax effect of RDEC credit	The Group has utilised the relief available under the RDEC regime. See pages 203-204.			
Capital deployment	Capital expenditure	£m	519	255	Risk 3: £189m of capital expenditure related to the Group's strategic developments of three OCGTs was recognised in 2023 (2022: £90m). Risk 4 and Opportunities 1-2: £18m of capital expenditure related to UK BECCS was recognised in 2023 (2022: £19m), with a total capitalised spend on the project to date of £43m, as of 2023. As of 2023, US BECCS costs have not been capitalised. Opportunity 3: £163m of capital expenditure related to Pellet Production was recognised in 2023, including £76m relating to pellet plant expansion projects (2022: Pellet Production capital expenditure, £66m). Opportunity 4: £6m of capital expenditure related to pumped storage was recognised in 2023 (2022: £2m).
Internal carbon prices	Generation Capex process, shadow carbon price: price used on each tonne of GHG emissions	GBP/tonne CO ₂ e	90	75-100	Opportunities 1-4. A major shadow carbon price annex is embedded within the capital expenditure decision-making process. It is principally used to modify NPV/IRR models used to assess new investment cases.
Remuneration	Proportion of remuneration linked to sustainability performance ⁽⁴⁾	%	20	–	The Safety and ESG element of the 2023 Group Scorecard (20% weighting) included KPIs on safety, decarbonisation, and a colleague inclusion index measure. See page 151.
	Proportion of remuneration linked to climate performance ⁽⁵⁾	%	6.7	–	The Safety and ESG element of the 2023 Group Scorecard included three KPIs (6.7% weighting) relating to three decarbonisation projects (with corresponding targets). See page 52.

(1) Total operational non-renewable generation capacity as at 31 December in the reporting year.

(2) Data source: S&P Global Climametrics. See page 84 for eight physical climate hazard types considered. Potential financial impact, as % of Generation and Pellet Production asset value (operational assets as of September 2023), is the presented value for 2023, which represents the annual average over the period 2020-2029.

(3) Total volume of water from areas of water stress, as classified by the WRI Aqueduct Water Risk Atlas (Aqueduct 4.0), baseline "water stress" indicator.

(4) Total percentage weighting for Safety and ESG element of the Group Scorecard.

(5) Total percentage of sub-weightings for climate-related KPIs within the Safety and ESG element of the Group Scorecard.

Sustainable Development continued

Taskforce on Climate-related Financial Disclosures

Climate-related targets

See Climate positive section, page 52, for our carbon reduction targets and progress in 2023.

Looking ahead

We are monitoring the developments of the International Sustainability Standards Board (ISSB), which the UK Government

intends to build upon for the forthcoming UK Sustainability Disclosure Standards (UK SDS). We support these initiatives to develop a comprehensive global baseline of sustainability-related disclosure standards.

Advocacy on climate

External commitments that support our three strategic aims and climate-related targets:

- Lobbying activities aligned with Paris Agreement (Direct government campaigning, indirect being part of the wider industry voice of BECCS and Drax methodology)
- Drax has joined the **World Economic Forum First Movers Coalition**, which includes a commitment to purchase 50,000 tonnes of durable and scalable carbon removals. The FMC is a coalition of companies using their purchasing power to create early markets for innovative clean technologies across eight hard to abate sectors. These in-scope sectors are responsible for 30% of global emissions – a proportion expected to rise to over 50% by mid-century without urgent progress on clean technology innovation
- Drax has joined the **Alliance of CEO Climate Leaders** – A group of 100+ CEOs who come together to encourage policymakers on an ambitious Paris agreement and to support bold climate action by setting ambitious targets, taking collective action, reducing own emissions, and inspiring others to do the same. Drax signed the open letter for world leaders at the United Nations Climate Change Conference (COP28)
- Drax has joined the **Carbon Business Council** and signed an Ethical Oath to restore the Earth
- Drax is part of the **C2ES** Carbon Removal working group. C2ES is an NGO whose mission is to secure a safe and stable climate by accelerating the global transition to net zero greenhouse gas emissions and a thriving, just, and resilient economy
- Drax is part of the **Sustainable Markets Initiative** and supports their taskforce work. The purpose of taskforces is to drive collective action towards a sustainable future within and across industries in line with the Terra Carta

Non-financial and sustainability information statement

We have summarised our policies and disclosures in relation to non-financial matters, in line with the Non-Financial Reporting (NFR) requirements of the Companies Act 2006.

Non-Financial Reporting requirement	Policies, due diligence processes and outcomes	Page
Environmental matters	Group Environment policy	
	Group Climate policy	
	Sustainability policy	
	Responsible Sourcing policy	
Our purpose is to enable a zero carbon, lower cost energy future. Our Environmental policy sets out how we will manage, monitor, and reduce the environmental impacts caused by our business through improvements of our operations wherever practical.	Climate positive	50
	Nature positive	56
	Climate-related Financial Disclosures, including TCFD and CFD	78
Employees	Code of Conduct	
	Supplier Code of Conduct	
We operate to a number of policies and guidance documents that encompass aspects of a colleague's experience at Drax, including the systems we use, our policies, our values, and our culture. We are committed to creating a work environment that promotes the importance of colleagues' health, safety, and wellbeing.	Group Safety, Health and Wellbeing policy	
	Human Rights policy	
	Gender Pay Reporting	
	Our people strategy	63
	Health and safety	67
Social matters	Community and Charity policy (internal policy)	
We aim to create a positive social impact within the communities where we operate. Our internal Community and Charity policy outlines opportunities for colleague engagement.	Community investment	69
Respect for human rights	Supplier Code of Conduct	
	Human Rights policy	
Our Human Rights policy sets out our commitment to respect human rights throughout our operations, and our expectation for suppliers and business partners to do the same.	Modern Slavery Act statement	
	Ethics and integrity	70
Anti-corruption and anti-bribery matters	Code of Conduct	
	Anti-Bribery and Corruption policy (internal policy)	
We do not condone any behaviour that could lead to actual or perceived bribery or corruption. Our Anti-Bribery and Corruption policy sets out Drax's approach to bribery and corruption.	Ethics and integrity	70
A description of the Company's business model	Business model	06
A description of the principal risks	Climate-related Financial Disclosures, including TCFD and CFD	78
	Principal Risks and Uncertainties	94
A description of the non-financial key performance indicators	Remuneration committee report	144
	ESG Performance Report 2023	

Limited assurance, PwC

We have engaged PricewaterhouseCoopers LLP (PwC) to perform an external independent limited assurance engagement over the ESG metrics denoted with Ø. For the results of that assurance, refer to page 10 in the ESG Performance Report (www.drax.com/esg-performance-report-2023) and for the Reporting Criteria refer to page(s) 12 to 46 in the ESG Databook (www.drax.com/esgdatabook2023).

Limited assurance, Bureau Veritas

Bureau Veritas UK Ltd has provided independent limited assurance to Drax Group Plc over its 'average biomass supply chain greenhouse gas emissions' data as reported in its Annual Report and Accounts 2023. The assurance process was conducted in accordance with International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (effective for assurance reports dated on or after 15 December 2015), issued by the International Auditing and Assurance Standards Board. Bureau Veritas' full assurance statement includes certain limitations, exclusions, observations, and a detailed assurance methodology and scope of work. The full assurance statement with Bureau Veritas' independent opinion can be found at www.drax.com/sustainability

London, 22nd February 2024

Viability Statement

Introduction

As part of the annual business planning process an assessment of viability was presented to the Board. This process, led by the CFO and CEO:

- Took the Board approved long-term forecast, which includes significant strategic capital expenditure and associated earnings,
- Sensitised the forecast to the strategic capital expenditure not occurring for any reason: removing the capital expenditure, revenues, associated costs and assuming no biomass generation at Drax Power Station after March 2027, to create a Viability base case. Note that Drax Power Station not generating after March 2027 is for viability modelling only, and is not the core assumption used in the Board approved long-term forecasts,
- Further sensitising the resulting forecast to reflect a decrease in power prices and an increase in biomass costs to produce a severe but plausible downside scenario, including considering the mitigating actions that could be employed to limit the impact and how these mitigating actions may be achieved.

This occurred in October, as part of the Board's strategy review discussions. There were two facets to the process, covering both the viability period (five years) and the longer-term period beyond this. The review was performed with regards to the principal risks facing the Group, as outlined in the Principal Risks and Uncertainties disclosure on page 94, and distinguished between those risks which are particularly relevant over the viability period, and those risks which could have an impact over a longer term time horizon. Further information was presented to the Audit Committee as part of their assessment of the viability statement.

The key assumptions made in this analysis were around:

- Power prices, including associated impact on collateral balances;
- Potential biomass pellet sales margins;
- Subsidies available to Drax Power Station after the end of the current arrangements in 2027; and
- No changes to markets and regulatory regimes other than those the Group was aware of at the time.

In addition to the analysis presented to the Board, forecasts were also subjected to certain additional events (stress tests) and longer-term changes in assumptions (sensitivities), to consider the resilience of the business. This information was presented to the Audit Committee as part of their review of viability.

Finally, a reverse stress test was performed by incrementally increasing the severity of the sensitivities forming the severe but plausible scenario presented to the Board, to determine whether any scenario that presented a threat to viability was considered plausible.

The conclusion of the above was that the Group remained viable under each of the individual stress tests and sensitivities. Whilst the impact of the severe but plausible scenario was significant the Group continued to be viable. The increases required under the reverse stress test to reach a scenario where the Group was not viable were not considered plausible.

Viability review

Period of assessment

Consistent with 2022, viability was considered over a five-year period. Factors contributing to this decision were:

- The Group's business plan includes a range of financial forecasts and associated sensitivities and is used for strategic decision making. This process covers one year in detail and then extends to 15 years. Five years was determined to be an appropriate mid-point in this range.
- The Group benefits from stable and material earnings streams available from current subsidies until 31 March 2027, covering three of the five years of the viability period.
- Within the forecast period, liquid commodity market curves and established contract positions, including those for pellet sales, are used. Liquid curves typically cover a one to two-year window and contracted fuel commitments with third parties extend out to five years. The Group's foreign exchange exposure is actively hedged over a rolling five-year period, taking account of expected generation levels. Selecting a five-year period balances short-term market liquidity whilst including medium-term contractual positions.
- The Group has a plan for strategic capital expenditure extending to 2030.
- A significant proportion of the Group's debt facilities mature in this period, with 95% maturing in the five-year window.

- There is limited certainty around the Group's markets and regulatory regimes. However, the Board has assumed no material changes to the medium-term regulatory environment and associated support regimes beyond those already announced at the date of this report.

Having considered the balance of arguments, five years was determined to be an appropriate time horizon given the level of visibility and certainty over future expected cash flows over that period. As set out in note 2.4 to the Consolidated financial statements, and in line with the requirements of accounting standards, the business considers longer-term forecasts for areas such as value in use analysis and estimates of useful economic lives.

Modelling performed

The key assumptions used in the modelling are set out in the 'Introduction' section of this report, and the table overleaf explains the further analysis performed over areas of risk. The scenarios presented were considered to be the most likely ways in which the principal risks would crystallise. Political and regulatory and Biomass acceptability principal risks do not appear in the table. However, these are captured through the Viability base case scenario already, as a no biomass generation at Drax Power Station after April 2027 scenario is likely to be a result of a crystallisation of these risks. A summary of the modelling performed can be found overleaf.

Further information on risks and opportunities related to climate change can be found in the TCFD section, on page 78. Quantitative climate change risk analysis on our operational Generation and Pellet Production assets suggested that asset exposure to impacts arising from physical climate-related risks remains low. This includes consideration over both the viability period time horizon and longer-term potential impacts, extending to 2050. Therefore, these have not been explicitly incorporated into the viability modelling but the potential impact of a climate event within the viability assessment period can be inferred from the plant availability scenario in the table overleaf.

The outcome of the modelling performed indicated that, whilst there may be plausible scenarios which would place the Group under significant financial pressure, these would not compromise its ability to meet its liabilities as they fall due. Further, it was noted that the scenario modelled for the Reverse stress test was implausible.

Principal risk	Scenario modelled	Stress test or sensitivity?	Mitigations (assumed or potential)	Impact over viability period > 20% of opening cash and committed facilities?
Trading and commodity	Reduction in market power prices of £40/MWh to 2027, based on gas reducing by c.30p/thm back to historic averages	Sensitivity	Re-optimize generation profile	Yes
Plant operations/ climate change	Decreased pellet sales margin/tonne by 29% by 2027, based on higher fibre prices and a smaller reduction to repairs and maintenance and port costs than forecast	Sensitivity	Potential to increase sales prices Long term fibre price hedges	No
	15% biomass generation forced outage rate (FOR), based on this being above the highest level of annual FOR experienced in the past 7 years.	Sensitivity	None assumed	No
	90-day outage on one biomass unit in 2024	Stress test	Re-optimize generation (to other units) or sell biomass Insurance proceeds	No
	Failure of a large supplier to deliver for one quarter in 2024	Stress test	Replace lost volume with merchant Re-optimize generation	No
	Pellet production volume decrease of 7% into perpetuity, approximating one pellet plant being unavailable at any given time	Sensitivity	Re-optimize generation	No
Combination	Severe but plausible – reduction in power prices and decreased pellet sales margin, as described above.	Sensitivities	Defer or cancel capital expenditure Reduction in dividends Reduction in operating expenditure	Yes
	Reverse stress test – incrementally reduce power prices, decrease pellet sales margin and increase FOR at Drax Power Station to levels that present a threat to viability.	Sensitivities	Defer or cancel capital expenditure Reduction in dividends Reduction in operating expenditure	Yes

Liquidity and solvency

The annual business planning process considers the Group's financial position, performance, cash flows, credit metrics and other key financial ratios. In particular, the Plan considered the solvency and liquidity of the Group, as defined in the Glossary. No issues were noted with solvency or liquidity, other than in the reverse stress test, which considers the point at which liquidity is inadequate to settle the Group's obligations. The reverse stress test scenario was not considered plausible. In particular, in the severe but plausible case, modelling suggests that the Group would still have the ability to settle outstanding debt facilities as they fall due.

The Group's financial performance in 2023 was strong, delivering improved profitability and a decrease in Net debt to Adjusted EBITDA to 0.9 times (2022: 1.6 times), against a long-term target of around 2 times. The Viability base case assumes the repayment of the Group's current borrowings as they fall due,

underpinned by the strong forecast cash flows to the end of the current subsidy regimes in March 2027.

Longer term risks

All of the risks considered as part of the review described above remain relevant over a longer-term time horizon. In addition, risks around strategy become more relevant over this period. Namely, that if returns from strategic capital expenditure are below forecast then this could present solvency and liquidity challenges because of the significant capital expenditure required to build these projects. However, management notes that these options will only be progressed after a Board approved final investment decision, which will include sensitivities in relation to potential returns. More detail on the emerging risk around capital construction is contained within the Principal Risks report on page 94.

Other risks

The remaining principal risks were considered and were not deemed to present a significant threat to viability over the assessment period. The impact of increased expenditure or a loss of margin as a result of one of these risks (e.g. a cyber-attack resulting in disruption to planned generation) can be inferred from the scenarios already modelled.

Expectations

Based on its review, the Board is satisfied that viability would be preserved in a range of scenarios, with various mitigating actions available to manage the risks, should they be required. Taking all of the above into account, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

Principal risks and uncertainties

The effective management of risk supports the delivery of our strategy

Our approach to risk management

Identifying, assessing, and managing risks across the Group is an integral part of enabling an informed assessment of the potential challenges in the delivery of our strategic objectives:

- To be a global leader in carbon removals
- To be a global leader in sustainable biomass pellets
- To be a UK leader in dispatchable, renewable generation

Our risk management framework underpins the Group's approach to the identification, management and governance of risks. Key components include a Board-led approach to determining risk appetite aligned to our strategic goals, and risk management policies and procedures to ensure a consistent approach across the Group. This approach is summarised below.

Risk appetite

The risk appetite is the level of risk that the Group is prepared to tolerate in seeking to realise its business objectives. The Board determines the Group's risk appetite to ensure current and emerging risks are appropriately managed, increasing the likelihood that the Group's business

objectives can be achieved whilst minimising the threat of adverse impact to the financial and operational performance and prospects of the Group. Where a risk facing the business has increased, the risk management governance process, discussed further on page 96, will assess what additional mitigating actions are required to ensure the risk remains within the Group's Board-defined risk appetite.

Risk appetite therefore informs the expected behaviours from our Board, senior executives, colleagues, contractors, and partners. Risk appetite can vary depending on the nature of the risk, the expected impact of that risk, the extent to which the risk is foreseeable and the potential benefits to the Group and its stakeholders from accepting a certain level of risk. For example, trading in commodities, where the Group has developed a commercial strategy that is designed to manage the Group's exposure to volatility in commodity prices whilst also reflecting the opportunity for commercial gain in this area. We deploy forward hedging strategies which seek to manage the volatility of commodity prices and limit the Group's exposure to future adverse movements, whilst also acknowledging that this same market volatility provides an opportunity for financial returns. We explore the issues and challenges associated with this risk further on page 103.

Risk identification and assessment

Risk reviews are undertaken bottom-up, through the maintenance of risk registers governed by risk management committees, as well as top-down, by the Executive Committee and Board, through review of the Group's risk profile to identify relevant external risks; for example, those caused by macro-economic factors such as geopolitical unrest.

Risks are assessed consistently across all areas of the Group, using a 5x5 matrix that considers both probability and impact. Individual risks are scored on a gross and net basis. A target risk rating is also maintained for each risk, reflecting the Group's risk appetite. Where net risk exceeds target risk, actions are taken to align these two measures, such as the introduction of additional mitigating controls.

The risk management approach intends to manage, rather than eliminate, the risk of failure to achieve business objectives, and provides reasonable, but not absolute, assurance in accordance with the Group's risk appetite and the inherent nature of the risk.

Group approach to risk management

The Group has a Risk Management Policy, which defines its approach to risk management. The key elements of the policy are detailed below:

Identification

Senior leadership and risk owners are collectively responsible for the identification of risks with the potential to threaten the achievement of strategic objectives.

Assessment

Risk owners assess likelihood and possible impact of risks occurring using the Group's risk scoring methodology.

They also seek to ensure appropriate mitigating controls are in place to manage identified risks to an acceptable level aligned to risk appetite and target risk.

Governance

Risk management committees undertake regular risk reviews and receive reports from business units and risk owners which reflect their specialist areas and technical knowledge.

Monitoring and Reporting

The Executive Committee undertakes deep-dive reviews of each Principal Risk on an annual cycle and receives reports from the risk management committees and Principal Risk owners.

The Audit Committee and the Board review the suitability and effectiveness of risk management processes and controls. They also review and challenge the proposed disclosures prepared by management on risk to consider whether they are fair, balanced and understandable, provide adequate links to the Group's strategy (including the ability to realise objectives over the near and longer term) and reflect adequately wider macro and emerging threats.



Emerging risks

Undertaking a holistic review to identify emerging risks involves judgement, and is undertaken by gathering the views of key internal stakeholders, including the Executive Committee and Board members who bring to bear significant levels of technical knowledge, industry experience and economic awareness. Where appropriate, management may also seek the views of external experts or stakeholders.

The execution of material capital projects, which will be required in future periods to deliver strategic objectives, was identified as an emerging risk for the first time in 2022. In addition to ongoing capital expenditure on the OCGT projects, and investment in the expansion of existing and new North American pellet plants, the business is approaching a pivotal point in relation to options for BECCS development.

This exposes the Group to increased risks associated with the execution of significant and complex programmes of innovative work, dependency on supply chains, availability of skills in the labour market, and other operational and safety risks associated with large scale construction. As these projects progress through 2024 and beyond, and final multi-million pound investment decisions are expected to be taken, the Board will consider whether this represents a new Principal Risk to the Group and continue to monitor for any other emerging risks facing the Group.

Internal control

The Group has a well-defined system of internal control which has been in place for the year under review and up to the date of approval of the Annual Report, supported by policies and procedures and documented levels of delegated authority which underpin decision-making by management. These internal controls operate as important mitigations of the risks identified via the Group's risk management processes. Therefore, the effective design and operation of these internal controls is critical to the achievement of the Group's strategic aims.

Annually, the Audit Committee review and challenge an assurance map prepared by management detailing the level of assurance obtained for each of the Group's Principal Risks across different lines of defence, including both internal and independent external assurance. This review considers whether any increase in the risks facing the Group require a respective enhancement in the level of assurance obtained. For example, an updated approach to HSE assurance was recently approved by the Audit Committee, including internal peer reviews, an external implementation review of Group HSE management systems in the business units and external assessments of compliance with local HSE legislation and regulation. Refer to page 67 for further information.

The Audit Committee approves and oversees a programme of internal audits covering all aspects of the Group's activities on a rotational basis, following an assessment of the key risks facing the business. Refer to page 143 for further information on this programme of work. The majority of internal audits are performed by KPMG, who provide a fully outsourced internal audit function to the Group, reporting to the Audit Committee. For some specialist areas, such as HSE, expert auditors may be employed to supplement this work.

The findings and recommendations from each internal audit are distributed to members of the Executive Committee and the Audit Committee. Where weaknesses are assessed, these are investigated and the impact on the business is identified, with remediation actions established. This is also reported to the Audit Committee. None of the findings reported during 2023 were individually or collectively material to the financial performance, results, operations, or controls of the business.

Drax Group plc Board		Audit Committee	
Group Executive Committee			
First line of defence	Second line of defence	Third line of defence	
Management of Risk Controls	Develop a Risk Management Framework	Internal Audit	
Internal Controls	Provide Independent Oversight of Risk	Limited or Reasonable Assurance Engagements	
Management Controls	Compliance	Independent Assurance of Risk Management Framework	

External audit

Principal risks and uncertainties continued

Risk management governance

The Group's risk management governance structure includes the Executive Committee and the Group's various risk management committees covering areas such as HSE, trading and security, who have responsibility for:

- Regularly assessing and understanding the risks that may impact our business to ensure any new, current or emerging risks are managed within the defined risk appetite and limits of the business
- Reviewing changes in the internal business and external macro environment and responding appropriately
- Driving completion of the actions required to improve the mitigation of risks and where possible reduce risk exposures to target levels
- Driving an appropriate risk management culture that promotes and creates balanced risk-taking behaviour and clear accountability

Risk management committees at the business unit and Group function level undertake risk reviews of operational and financial risks on a regular basis, receiving reports from subject matter specialists and risk owners to inform these reviews where appropriate.

The Executive Committee (from which owners are identified as accountable for each Principal Risk) undertakes deep-dive reviews of all the Principal Risks through an annual cycle and receives ad hoc reports from the risk management committees and Principal Risk owners. Please refer to the Audit Committee Report on page 132 to understand how the Committee oversees the Group's Principal Risks.

Review of effectiveness

The Board is responsible for determining risk appetite and ensuring the effectiveness of risk management and internal controls across the Group. The system of risk management and internal control is also reviewed against FRC guidance, and any significant gaps are highlighted to the Board. There were no instances in 2023 where management identified significant gaps in risk management or internal control that would have had a material impact on the Group's operational performance, financial performance or results. However, where opportunities for improvement were identified, the Audit Committee challenged management to enhance internal



Vanessa Simms
Audit Committee Chair

On behalf of the Board, the Audit Committee reviews the effectiveness of the system of risk management and provides challenge over the robustness of internal control. The Committee takes a keen interest in understanding the evaluation of the Group's Principal Risks, to ensure that internal controls remain appropriate and that the Group's overall exposure to risk aligns with the Board's risk appetite.

 You can read more about the Audit Committee's process of review and the resulting findings on **pages 134 to 136**.

processes. For example, as a result of the Audit Committee's review of regulatory reporting, with support from an external consultant, actions were established by management to improve the documentation and consistency of these review processes and the clear designation of roles and responsibilities associated with reporting to regulators. Refer to the Audit Committee Report on page 132 for further detail on the Audit Committee's review of internal controls.

Under the guidance and challenge of the Audit Committee, management undertake a process that targets continuous improvement with regards to risk management, and a quarterly update is provided at each meeting of the Committee. During 2023, enhancements to risk management included actions identified as part of the risk management maturity assessment undertaken by KPMG during 2022. Whilst this review did not identify any high priority actions, enhancements, such as the creation of a Sustainability Council responsible for review and challenge of related risks and the continued migration of the Group's risk registers onto a system-based solution to provide greater transparency and identification of trends in risk, were noted as opportunities for improvement.

Overall risk profile

The Group has identified nine Principal Risk categories which represent inherent risk areas with the potential to undermine the delivery of our strategy.

The year-end risk review, as described above on page 94, has taken account of changing external factors, such as volatility in energy prices, risks relating to the pricing and availability of biomass, political uncertainty, developments in Government policy and regulation relevant to our strategy, and the ongoing security impacts of geopolitical unrest in regions such as Russia, Ukraine and the Middle East. These factors, with the potential to materially alter the Group's risk exposure have been considered further below.

As a result of the below analysis, the Board noted that Trading and Commodity risk had significantly reduced during 2023. This is primarily due to the reduction in energy prices during 2023, which limits the business' exposure to an unplanned outage.

Conversely, Political risk is considered to have significantly increased due to uncertainty surrounding the potential impact on policy or regulation affecting the Group should there be a change in Government in either the UK or US as a result of the respective elections anticipated in 2024. The Board further noted that, despite consideration of the various external risk factors as discussed below, the other Principal Risks have not materially changed from the previous year.

Cyber security

Geopolitical uncertainty has been known to create not only volatile market conditions, particularly for energy, but also threats to operational activities; for example, from attacks on our systems and those of suppliers on whom the Group relies for integrity of service. In the prior year, it was concluded that due to the war in Ukraine, the cyber security risk facing the business was materially heightened. Conflict in areas such as the Middle East, combined with the ongoing war in Ukraine, means that cyber security risk continues to be higher than historical norms.

This view is supported by our engagement with a range of third parties in addition to publicly available information.

It is acknowledged that cyber-attacks are increasing in sophistication and complexity, requiring ongoing assessment and response to address any emerging vulnerabilities. Whilst currently we believe the mitigations in place sufficiently remediate the gross risk to the business, emerging threats require enhancement of key controls and investment to support a proportionate but effective response.

Market price volatility and biomass availability

During 2023, current and forward energy prices experienced a significant reduction from the highs of 2022, on the back of mild weather and reducing risk premiums associated with European gas storage levels. Despite prices remaining substantially higher than historical long-term averages, the reduction reflects a material decrease in the risk associated with having to buy back power at current energy prices should the business experience an unplanned outage. The significant changes in price can also present optimisation opportunities.

As a result, the Board concluded that the Trading and Commodity principal risk has significantly reduced from the heightened level reported in the 2022 Annual Report and Accounts. This assessment reflects information available at the time of reporting, including the fair value of forward power hedges as detailed in note 7; however, the Board and management recognise the need for continuous monitoring given the inherent volatility in commodity markets which could materially alter the Group's exposure.

The global biomass market remains under pressure, and while most of the third-party biomass we use is under long-term contracts, financial pressures on suppliers create risks to their ongoing viability. This is being monitored closely, and regular discussions are being held with key suppliers to understand the potential impact on their operations. In some instances, it has been necessary to incur additional costs to underpin the resilience of our supply chain; this could continue to be a factor in 2024.

UK Power-BECCS

Generation from biomass has continued to play a crucial role in UK energy security, and the case for the future role of BECCS in supporting UK energy independence and its net zero ambitions strengthened during 2023. However, achievement of the Group's strategic aim to become a global leader in carbon removals remains subject to significant Government support.

The UK Government's Biomass Strategy was published in 2023, reaffirming support for biomass, whilst also explaining the potential design of a Power BECCS business model, which includes a 15-year CfD with a dual payment mechanism linked to both low-carbon electricity and negative emissions.

During 2023, the UK Government also provided an update on the next steps of the cluster sequencing for carbon capture, usage and storage (CCUS) programme, being the Track-1 expansion and Track-2 cluster deployment for both of which the Group is eligible, and under which support contracts could be negotiated and awarded over the coming years.

The UK Government has confirmed that they intend to facilitate the transition from biomass to BECCS to support biomass generation after the expiry of existing subsidies until biomass generators have been able to transition to support under the power-BECCS business model. The 'bridging mechanism', as this is now known, is currently the topic of a public consultation launched in January 2024.

Despite this positive public support by the UK Government during 2023, both the bridging mechanism and cluster sequencing process remain subject to ongoing processes with the current UK Government, and the risk remains that Drax is not successful in either application. The Board does not believe there has been a material change in this risk during 2023.

Political and Regulatory uncertainty

It is anticipated that there will be both a UK General Election, and US Presidential Election in the next 12 months. A change in Government in either country could result in delays or changes to policy or regulation that could increase the cost to operate our businesses, impact investment or financial support, reduce operational efficiency, and affect our ability to realise our corporate strategy. We continue to see strong support from both UK and US Government officials in our areas of operation and in our prospective strategic goals; however, this level of increased uncertainty has resulted in the Board concluding that, as at the time of approval of the 2023 Annual Report and Accounts, political risk is heightened.

Regulators continue to apply a high level of scrutiny to the energy market, partly as a result of recent volatility in commodity markets. This includes ensuring we use sustainable biomass, especially in jurisdictions such as the UK where electricity generation from biomass benefits from public subsidies. This is particularly relevant to the Group given the potential expansion of the use of biomass for the purposes of BECCS. We remain confident in our compliance as regulations continue to evolve. The Board does not believe there has been a material change in the risk of compliance during 2023.

Potential escalation of Middle East conflict

The business is cognisant of the ongoing conflict in the Middle East and the potential for this to escalate further. The possible impacts on the business, based on the status of the conflict in the region at the time of signing the report, have been considered including market volatility, supply chain disruption and pricing pressures. Because of the mitigations and contingencies in place, the Board does not currently expect these impacts to be material. However, the Board notes that future events are uncertain, and any escalation of the Middle East conflict could change this assessment.

Set out below are the Group's nine Principal Risks:

- Strategic
- Health, Safety and Environment
- Political and Regulatory
- Biomass Acceptability
- Trading and Commodity
- People
- Climate Change
- Plant Operations
- Information Systems and Security

Principal risks and uncertainties continued

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Strategic risk

Context

The Group's purpose is to enable a zero carbon, lower cost energy future, with an ambition to become a carbon negative company by 2030. The Group has three strategic aims that underpin its purpose and ambition as detailed in the Group's business model on page 6. Strategic risks are defined as those that could materially undermine any of the Group's strategic aims, and thereby prevent the Group from delivering its stated outcomes and fulfilling its purpose.

The strategy execution team monitors the delivery of strategic initiatives and mitigates risks. A quarterly review is undertaken by the Executive Committee to gauge its confidence in delivery and determine the actions to be taken, should course correction or additional risk mitigation be required.

Strategic pillar: To be a global leader in carbon removals

To be a leader in the emerging carbon removals market, Drax is working to prepare Drax Power Station for BECCS, and developing projects to deliver BECCS globally. This requires the development

of an economically attractive business model within its target jurisdictions.

Risk and impact

- There is a risk that current or future governments do not provide the fiscal and legislative framework required to support the scale of the Group's BECCS plans and Drax's future investment decision. This could result in the potential impairment of circa £42.8 million of capitalised UK BECCS development costs if the project does not progress as detailed further in the critical accounting judgements on page 179.
- Over the last year we have observed increasing competition for sustainable fibre, particularly in the US South, as other bio-energy developers initiate projects, including biomass for Sustainable Aviation Fuel (SAF).
- The increased competition was stimulated in the US through the Inflation Reduction Act, which has also increased the competition in carbon removals technologies, with Direct Air Capture projects now moving through to execution and operation.
- The process and timetable in the UK for BECCS remains dependent on UK Government timelines. In the US, development and permitting complexities for new BECCS developments could slow down our ability to execute the strategy relative to competitors.
- There is a risk that Drax cannot build the right asset portfolio at sufficient scale to achieve a leading position.

Key mitigations

- We have developed options for the UK BECCS project at Drax Power Station, and are in ongoing engagement with UK Government and other stakeholders to secure the right commercial model for continued operation and bridging support in the interim. Refer also to Political and Regulatory risk on page 101.
- We have developed sets of options for BECCS projects in other jurisdictions providing resilience against various country-specific risks such as political and regulatory uncertainty.
- We continue the proactive development, marketing and sale of carbon removal products. We have produced a CDR standard and are seeking alignment and buy-in from other participants and accreditation bodies.
- The execution of a medium to long-term fibre strategy, actively engaging with fibre providers to establish longer-term contracts.
- Engagement with US regulatory and planning bodies.

Strategic enabler: Capital

Delivering any one of the strategic aims requires the ability to access and effectively allocate the capital required, whilst

maintaining a corporate credit rating in the BB range, to support power trading and B2B energy sales to customers.

Risk and impact

- The fact we continue to lack a longer-term view of support mechanisms post 2027 exposes the Group to increasing costs of financing.
- There is a risk that the Group is unable to raise sufficient finance to fund the execution of our strategy due to poor performance, illiquid capital markets or poor credit rating, leading to lack of investor appetite for the Group's credit and/or equity.
- Wider economic or geopolitical challenges may impact the availability of financing due to changes in market liquidity and costs of capital.

Key mitigations

- The Group's financial position including working capital and cash resources is strictly controlled.
- We continue to run a full investor relations programme, covering equity and debt markets.
- We are consciously managing the business and investment to accommodate a range of possible outcomes for UK Government support at Drax Power Station post-2027.
- The Group's capital allocation process provides rigour and consistency in assessing the technical, financial, and strategic justification of new projects across the Group, in particular when investment is related to new and emerging technologies.

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Strategic risk continued



Strategic pillar: To be a global leader in sustainable biomass pellets

Achieving a leading position requires delivering and growing our own production of sustainable biomass, at a sustainable economic cost whilst ensuring our sustainability requirements are met.

The primary objectives are to increase biomass production capacity to 8Mt p.a. and to continually improve the biomass pellet supply chain to maintain pellet costs at a sustainable economic level.

Risk and impact

- Increased fibre costs have led to a heightened cost of pellet production in recent years. In addition, there is risk that inflationary pressures will continue during 2024 especially if tensions in the Middle East escalate, creating the potential for disruption to, and increasing costs of, shipping.
- There is the risk that biomass does not have stakeholder support in our target markets (for example, Government, investors, economic and social) leading to a lower rate of adoption than our strategic plan assumes.
- We have observed an increased level of challenge to the use of biomass from external stakeholders including NGO groups over the last 12 months. However, the UK Government published its biomass strategy during 2023, which provided reassurance that biomass is considered to be a part of the decarbonisation and security of supply plan.
- Given ongoing discussions with the UK Government on a “bridging-mechanism” contract for Drax Power Station services to the power system post 2027, there is some uncertainty over the total Drax internal demand for pellets. We have therefore paused the development of new capacity beyond the current projects at Aliceville and Longview, pending further clarity on demand. There is a risk that should additional capacity be required, there is a limited availability of feasible expansion opportunities, and successful identification and delivery of initiatives to reduce the current cost of biomass.

Key mitigations

- Our vertically integrated business model provides a degree of protection from inflationary pressures on these production costs. As a producer, user, buyer and seller of biomass, the Group is able to balance short-term risks and long-term opportunities.
- Continued execution of the integrated plan to expand biomass production capacity at existing facilities through operational effectiveness, together with the development and execution of the pellet production cost reduction plan to maintain the cost of sustainable biomass pellets at an economically sustainable level.
- Government and stakeholder engagement in understanding the cost and benefits of sustainable biomass use as part of the power system and decarbonisation.
- The progression of third-party sales opportunities in new markets with higher value use, to create demand and additional options until we have certainty on major demands (e.g. from Drax Power Station, and other global BECCS projects).

Strategic pillar: To be a UK leader in dispatchable, renewable generation

To maintain the position as the leading provider of UK dispatchable, renewable power requires the right portfolio of assets and associated business models. These must operate

within a system that values the dispatchable characteristics of those assets at the right economic levels.

Risk and impact

- There is a risk that our asset portfolio is not appropriately valued by the market, is excluded from effective participation in power markets, or might be outperformed by a future technology.
- There is a risk that Drax Power Station does not receive the right economic support post 31 March 2027 required to operate and invest in assets which provide the dispatchable renewable power.
- There is the risk that the current market mechanism and incentives do not support additional long duration energy storage such as Cruachan II.
- There is a risk that unexpected changes to electricity supply and demand could reduce both demand and volatility, and therefore limit the market for dispatchable renewable assets.
- Some of the Group's assets are significantly aged and, as plants age, despite an established maintenance programme, their operational reliability and integrity is expected to reduce which may result in unplanned outages. Refer to page 106 for further detail.

Key mitigations

- We continue to actively engage with relevant UK Government departments and regulators in relation to obtaining the best mechanism through which we can provide dispatchable renewable power from Drax Power Station. We also engage actively with the UK Government on a range of measures that would facilitate the development of long duration energy storage.
- We continually evaluate the current and projected performance of our own portfolio of assets, and the value gained from changing the composition of the asset portfolio in line with the Group's view of the outlook for the market and emerging technologies.
- A comprehensive plant investment and reliability programme has been implemented. Refer to page 106 for further detail.

Principal risks and uncertainties continued

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Health, Safety and Environment



Context

The health and safety of our employees and contractors, and effective management of our environmental impact, remain priorities for the Group. Maintaining high operational and procedural safety standards is also an important contributor to the continued success of the business across all aspects of our activities. Safe, compliant and sustainable operations are integral

to the delivery of our strategy and crucial for sustained long-term performance. Safety and environmental management are foundational to our operational philosophy, and we continue to work across the Group to identify, implement and maintain high standards supported by a positive culture of safe working. We seek to respond proactively to emerging legislation and regulatory changes in both safety and environmental aspects.

Risk and impact

- Our operations involve a range of potential hazards which could affect colleagues, contractors, others attending our sites, and the wider environment, that arise from the materials and equipment we use and the processes we perform. This includes heavy plant and machinery across our sites in the US, Canada and the UK in the manufacture, storage and transportation of biomass pellets, and the generation of electricity from different sources, including biomass and hydro. Refer to page 67 for more information.
- The biomass we use to generate electricity, and the particulates that can occur if the biomass pellets degrade, are highly combustible, contributing to Health, Safety and Environment (HSE) risk unless appropriately mitigated.
- Our operations in North America may be disrupted by weather events such as wildfires or hurricanes. Refer to Climate Change risk on page 105.
- In the generation of electricity, supplied to the National Grid at up to 400kV, we operate various plants at high temperatures and pressures, as well as managing significant volumes of water used by our nine hydro plants in Scotland. These are inherent attributes of our operations which contribute to HSE risk.
- The day-to-day operation of our assets includes maintenance work on plant and machinery that is large and comprised of numerous parts. Work of this nature carries risks to our colleagues and contractors. The planned outage performed on two of the Power Station's biomass units during 2023, involved capital expenditure of £49 million, and was executed successfully.

Key mitigations

- Continued investment in safety equipment, environmental mitigation, and plant equipment and its regular maintenance.
- Maintaining robust management systems which are subject to periodic review, and are refreshed as appropriate.
- An effective governance framework including an executive-level Group HSE Committee, chaired by the CEO, to review and challenge the management of HSE across the Group.
- We report our safety performance including our total recordable incident rate (TRIR) monthly and share this with the Board regularly. This measure forms part of the safety metric in the Group's bonus calculation.
- Regular reporting to the Board on HSE matters as part of the CEO report, outlining trends, incidents, and initiatives to enable the Board to understand culture, behaviours, and the status of key HSE matters.
- Development of plans to align all business units on key focus areas to drive improvement in our HSE performance, whilst building upon the existing 'One Safe Drax' vision.
- Adoption of our HSE IT reporting system for tracking and reporting events and near misses, prompt investigations, and timely implementation of corrective actions by directing attention and encouraging continuous improvement.
- A programme of training, which aims to provide colleagues with an appropriate level of competence and awareness, enabling them to contribute to the effective management of HSE risks, including working practices to minimise risks.
- Health and Safety awareness events were held, including a two-day pre-outage event for employees and contractors at Drax Power Station.
- Raising awareness through shared experiences of events or near misses with colleagues across different sites, and seeking to adopt improved practices in response to incidents.

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Political and Regulatory

Context

Generation of electricity using sustainable biomass has continued to play a crucial role in UK energy security, and the case for the future role of BECCS in supporting UK energy independence and its net zero ambitions has continued to strengthen. During 2023, the UK Government published its Biomass Strategy in which it outlined the potential "extraordinary" role that biomass can play within power, heating and transport, including a priority role for BECCS, which is seen as critical for meeting net zero targets set by the UK Government due to its ability to facilitate large-scale carbon removals.

However, the Group remains conscious of the ongoing discussion associated with biomass (refer to Biomass Acceptability Principal Risk on page 102) and the need for further commitment and financial support from the UK Government, and other critical partners, in order to deliver the decarbonisation of UK power generation and enable the Group to realise its negative emissions strategy.

Global economic challenges and volatility in commodity markets have created the potential for an accelerated timeline for the UK Government's continuing review and reform of the detailed legislation and regulation that underpins the electricity market. In 2023, this included continuing work on the Review of Electricity Market Arrangements (REMA), introducing the Energy Bill Discount Scheme (EBDS) and the commencement of the Electricity Generator Levy (EGL). Through 2023 the UK Government also consulted on further reforms to the Capacity Market, in particular to strengthen the security of supply and provide greater clarity around the transition to net zero.

Refer to page 97 for further explanation of the material increase in Political Risk specifically.

Risk and impact

- The cost-of-living crisis, compounded by the residual effects of Covid-19 and other geopolitical issues, continues to have an impact on social and economic policy as well as UK Government funding. This has resulted in delays to the introduction of new legislation to deliver investment frameworks that support reducing carbon emissions. This could adversely impact the investment needed to support BECCS, which may result in material delays in the ability to realise Drax's strategy around carbon removals.
- It is anticipated that there will be both a UK General Election and US Presidential Election in 2024. Any resultant changes or delays to government policy at a regional and national level in the countries in which we operate, may increase the cost to operate our businesses, reduce operational efficiency, and affect our ability to realise our strategy.
- The UK Government, in their Biomass Strategy, confirmed that they intend to facilitate the transition from biomass to BECCS. In January 2024, the UK Government launched a public consultation on a bridging mechanism. Alongside this, the Government provided an update to industry on the next steps of the CCUS cluster sequencing programme (under which support contracts will be negotiated and awarded). Both the bridging mechanism and cluster sequencing process remain subject to ongoing processes with the current UK Government, and there is a risk that Drax is not successful in either application.
- Given the industry in which the business operates, the Group is subject to a large number of regulations which are broad ranging in nature. As a matter of course, there are many areas where regulators may see fit to request information on compliance frameworks, reporting processes, internal/external assurance and/or market interactions in relation to our regulatory obligations. For example, in May 2023, Ofgem opened an investigation into Drax Power Limited's compliance with reporting requirements under the Renewables Obligation. Please refer to page 75 for further detail.
- The global regulatory environment is evolving, which may result in additional costs and complexity. Our involvement in new international supply chains and pellet markets in Asia introduces additional challenges and costs in terms of compliance, regulatory change and misalignment of standards and legal frameworks between markets.

Key mitigations

- Engaging with politicians and Government officials, to both listen to and inform understanding and perception of Drax's business. This includes our commitments on sustainability and the creation of socioeconomic value (including jobs, training, and investment in communities), plus the critical role that Drax's strategy will play in supporting the UK's committed target to achieve net zero by 2050 and ensuring security of supply.
- Working with regulators and industry bodies to understand their priorities, provide constructive feedback that may contribute to their strategic direction, and undertake scenario planning and commercial impact analysis in response to potential reforms, and in preparedness for ensuring compliance.
- Exploring opportunities for the delivery of investment in BECCS globally, such as in the US. Working with leaders and key stakeholders in those regions, to identify areas of common purpose and share ideas for creating jobs, investment and new growth opportunities.
- Ensuring our compliance frameworks and internal guidance remain robust and continue to focus on best practice as regulation evolves and the business further expands its global operations.
- Investment in knowledge and experience through recruitment, to best support our global operations.

Principal risks and uncertainties continued

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Biomass Acceptability



Context

The use of sustainable biomass is a significant element of Drax's business and is important in the delivery of longer-term strategic objectives, enabling the Group to meet its carbon removal target and the UK to realise its net zero goal. During 2023, Drax sourced or produced, and shipped to the UK, 6.0Mt of biomass for use in the operational activity of generating electricity at Drax Power Station. Drax enters into commercial contracts to supply biomass to third parties. The supply of 2.6Mt of biomass from the Pellet Production and Generation businesses to third parties

represented 5.1% of revenue during 2023 and is expected to grow as demand for biomass increases.

Biomass Acceptability risk relates to the Group's exposure to unfavourable changes to biomass-specific Government policy or regulation as a result of high-profile campaigning by anti-biomass groups against the use of biomass. There continues to be clear and reiterated acceptance and recognition by the UK Government and other key organisations of the importance of biomass in enabling security of supply and in tackling climate change, seen predominantly within the supportive Biomass Strategy which was published during 2023.

Risk and impact

- Some parties, including certain environmental non-governmental organisations (eNGOs) continue to argue against the use of biomass. These groups seek to influence and challenge policy and lawmakers, which may result in reduced political, business, public, and financial support for the utilisation of biomass in energy generation.
- A UK General Election is expected in 2024. There may be increased protester activity immediately before and after the election with anti-biomass sentiment seeking to influence decisions associated with biomass and Drax's business model.
- The UK Government has demonstrated their awareness of additional policy decision-making that will be required as a result of the support shown for biomass in the UK Government's Biomass Strategy published in 2023, in particular, how biomass sustainability can be assured when the CfD regime closes to biomass from 2027 onwards. If the UK Government's support for biomass as a renewable technology changes, this may negatively impact the Group's UK operations and revenues.
- Regulatory frameworks associated with the sourcing of biomass materials are under development, including in regions where we currently conduct business and others where we may seek to develop our business in the future. It is possible that future regulatory frameworks may conflict with our strategy. This could result in reduced support for certain types of biomass as a renewable energy source, increased costs of doing business, or the introduction of barriers to entry which may adversely impact our growth plans and financial returns versus expectations. For example, the EU has completed its 'Fit for 55' legislative package, including updates to the Renewable Energy Directive (RED III) and a new EU Deforestation Regulation. Both pieces of legislation impose additional restrictions and requirements that may impact our ability to supply biomass to Europe. The EU Deforestation Regulation is entering into application in December 2024. RED III, as a Directive, will need to be transposed into national legislation of the EU Member States by 21 May 2025; Member States will have some flexibility in implementing RED III requirements.
- A new proposal on Certification of Carbon Removals (including BECCS) is currently going through the EU legislative process. We continue to engage with EU policymakers to reflect Drax's perspective during the implementation phase of the legislation and offer views for consideration in finalising the certification legislation.
- 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; reduced sales in the Customers business; delays to our strategy (for example, more stringent qualifying regimes or approval processes linked to developing existing or new facilities, risk from legal challenge by eNGOs to our development or operational activities, or to government action which is supportive of BECCS and sustainable biomass through the use of judicial review); and challenges with employee recruitment and retention. Refer to People risk on page 104.

Key mitigations

- Engagement with stakeholders in all regions in which we operate, to understand their concerns, requirements and expectations around sustainability, as well as improving readiness to produce evidence of compliance.
- Proactive education of stakeholders on the science of our sustainability practices and benefits of sustainable biomass.
- Increased resource within teams to develop and maintain strong relationships with policymakers in the UK, EU, North America and Asia via targeted engagement across institutions.
- Targeted planning and engagement with the RED III negotiation process and via Trade Associations suggesting alternative policy and regulatory solutions, to ensure workable outcomes.
- Where possible, seeking engagement with eNGOs to discuss issues of contention and potential areas of common ground, in support of more constructive engagement on delivering change that is responsible and sustainable. Equally, where we believe the views of eNGOs are inaccurate or misleading, providing appropriate challenge and explaining Drax's approach.
- The Independent Advisory Board (IAB) made up of experts in the field of forestry and associated disciplines provide Drax with advice on sustainable biomass and its role in Drax's transition to net zero emissions. The IAB provides feedback on Drax's approach to sourcing, including feedstock options, procurement practices, forest science and how Drax can optimise carbon benefits. Using the latest scientific analysis, the IAB make recommendations on Drax's approach to sustainable biomass sourcing, helping Drax become climate, nature and people positive. Drax has also commissioned analysis by third parties to analyse the business' BECCS strategy, such as the recently published report 'The Value of BECCS at Drax Power Station' which was authored by Baringa.
- New governance structure introduced, consisting of the Sustainability Council and Biomass Leadership Team. Both are concerned with the oversight and deliverability of Drax's activity on sustainability of biomass and BECCS.
- Scenario and contingency planning and direct engagement with voluntary certification schemes, notably SBP, at Board and technical levels to provide feedback in the preparation of revised standards and suggest alternative options where necessary.
- Continued assessment of new markets from which to source sustainable biomass.

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Trading and Commodity

Context

The Group is exposed to volatility across a range of commodity prices, impacting both revenues and expenditures. Effectively managing these fluctuations, their interconnections, and the resulting balance of opportunity and risk is fundamental to the successful financial performance of the business. Despite remaining above historical levels, system prices have significantly reduced since 2022 and, therefore, the level of exposure to the business of an unplanned outage is materially decreased as at the time of reporting. However, this remains under continuous scrutiny given the recent volatility in commodity markets.

Our portfolio strategy focuses on optimising assets to extract maximum value while adhering to our risk management framework, which comprehensively addresses the unique aspects of each commodity. We use forward hedging of varying lengths to mitigate the impact of commodity price fluctuations on both revenue and expenses. Furthermore, we have implemented multiple routes for market access to effectively manage liquidity constraints.

Refer to page 96 for further explanation of the material decrease in Trading and Commodity risk.

Risk and impact

- The risk that the present CfD subsidy regime concludes in 2027 without being extended or a suitable alternative being implemented would fundamentally impair the ability of Drax Power Station to be operationally viable. The uncertainty associated with this could impact Drax's ability as a route to market for its Customers division, and increase the price and supply risk of the associated biomass fuel for the power station.
- Despite power prices reducing materially since their peak at the end of 2022, they remain subject to significant volatility. Short-term elevated power prices in excess of hedged rates may result in losses should an unplanned outage occur on one or more of the Group's generating units, as the Group could be required to buy back at spot rates (or the current market price) which could be higher than the price that Drax had originally been paid for supplying that power.
- Delivery of commercial value from the flexibility of our portfolio, and the optimisation of a complex supply chain against an uncertain running regime, requires effective execution of our trading strategy and opportunities to trade being available through sufficient liquidity. Errors in execution, delays in carrying out planned trading or interruptions to our trading platform could all materially adversely affect the Group's performance.
- Falling power prices can lead to increased market exposures across market participants, which could potentially reduce the market's appetite to trade.
- There remains a risk to the availability of sufficient volumes of biomass due to supply chain challenges. Inflation and other cost increases have inversely impacted several suppliers. As a result, Drax could face shortages in the biomass needed to maintain the generating operations at Drax Power Station and/or significant additional costs which could materially impact its operational and financial performance.
- The Generation business may fail to secure future system support services contracts or the value in providing those services may reduce due to increased competition.
- Inability to fulfil pellet sales contracts may result in an exposure to the difference between the contracted and market price of the pellets. This could result in significant additional costs as a result of the need to buy the pellets from a third party to fulfil contracts, particularly when wider supply of pellets is restricted.
- The fibre market is very dynamic and is impacted by both our suppliers and competitors. This makes it difficult to forecast the probability and impact of associated risks. The industries that use residuals (and other fibre classes) continue to develop. Whilst biofuel technology is still an early concept it is likely that this market will develop in the longer-term, further increasing demand for fibre.
- There is continued pressure in the Canadian fibre market due to a decrease in the lumber industry. There has been a reduced harvest as a result of an increase in protected areas and a reduction in Annual Allowable Cut levels. This may impact Drax's ability to source fibre for its pellet plant operations.

- Across the international markets we trade in, we are exposed to foreign currency exchange risk, primarily in relation to the sterling cost of pellets to the Generation business, which is typically contracted in USD or EUR.
- There is a risk of continuing energy supplier failures from volatile commodity prices, which results in greater cost mutualisation, whereby the cost of supply failure is spread across the remaining industry participants.

Key mitigations

- We are in discussions with the Department for Energy Security and Net Zero on the extension of Drax Power Station beyond March 2027 and a potential support mechanism.
- Our hedge levels for 2024 to 2026 are above historical levels and we continue to build on these high levels of forward power hedges (sales). The CfD on one of our biomass generation units also helps to reduce our exposure to volatility.
- Our UK portfolio of I&C electricity customers provides an effective route to market for forward power and renewable certificate sales from the Generation business. Any power price exposure within the supply contracts is hedged.
- The majority of our larger I&C contracts operate under flexible purchasing agreements, which provide a framework under which the customer locks in the power price according to their own risk management strategy rather than at the point the contract is signed. We are able to regularly reforecast the usage under these contracts and the customer absorbs the costs or benefits of reforecasting.
- Under our hedging strategy, our exposure to buying back power at higher prices in the short term is mitigated by holding back a percentage of generation. This provides back-up should there be an unplanned outage.
- Real-time monitoring of the Group's credit exposure, both cash and non-cash, and identification of a number of levers that could be utilised should the Group's market exposure move outside of our defined levels.
- The continued intention to increase self-supply of biomass will allow the Group to better manage the supply chain to meet both forecasted generation requirements at Drax Power Station and also third-party supply contracts and respond quickly to changes in these demand profiles.
- Operating three biomass units under a single ROC cap for Drax Power Station provides increased opportunities for flexibility of generation and can create additional value.
- The Group has long-term fibre contracts to supply the Pellet Production business. We also actively engage with third-party pellet suppliers to ensure delivery schedules are met and any changes to agreed schedules are understood, to limit the impact on power generation.
- Foreign exchange risk is mitigated by significant hedging of forecast exposures over a five-year horizon.

Principal risks and uncertainties continued

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

People

Context

During 2023, we continued to face significant challenges due to the competitive markets in which we operate. Resources for certain skill sets remain scarce and salaries for in-demand skills are increasing.

To fulfil our international growth plans we need to undertake recruitment programmes in sectors with which we are less familiar. The expansion into new states and jurisdictions requires extensive forward planning to ensure we are compliant with regulatory and legal requirements which impact the costs of doing business.

Plans to understand the long-term skills and capabilities required are underway, such as supporting work on new technologies like BECCS, alternative fuels, and the expansion of our biomass facilities in the US. Whilst addressing these market pressures and growth plans, keeping our colleagues safe is paramount in our planning and decision-making. It is imperative that our workforce has the skills required as the Group expands its presence.

The UK political uncertainty, and high-profile and heightened campaigning by anti-biomass groups during 2023 have the potential to impact our reputation, engagement with prospective candidates, and workforce attrition.

Risk and impact

- In addition to ensuring we retain the core skills that will be required to run our business, the growth plans of the organisation will require new skills and capabilities. As such, we require people with skills and capabilities which are adaptable to addressing new and emerging aspects of sustainable power generation and associated markets. Our performance and the delivery of our strategy is dependent upon having a robust talent pipeline at all levels of the organisation which importantly also reflects the diversity in the wider societies in which we operate.
- As we grow into new territories we also have to become familiar with the relevant laws, regulations and customs associated with conducting business in these regions, including the empowerment of people. This process can impact our pace of execution and creates the potential for non-compliance where the level of understanding of specific requirements for doing business is immature. These risks can impede our progress, result in unforeseen costs and impact our reputation.
- Union organisation could lead to complex pay negotiations with both our direct workforce, and in contracting companies, with an associated cost of establishing appropriate contingencies to mitigate against any threat of potential strike action.
- Changing ways of working allows colleagues more choice about where and how they work. This means we have to be competitive on all fronts with our employee value proposition. The failure to adequately respond to changing colleague expectations could result in the loss of existing colleagues or failure to attract new colleagues with the skills the Group needs for future growth.
- The Group is undertaking significant change associated with implementing our strategy and improving operational effectiveness. Such change can have an impact on employee engagement, wellbeing, stress and retention, with subsequent impacts on colleague turnover and productivity.
- International growth brings with it increased complexity, which requires an understanding and appreciation of cultural, legal and diversity matters in those territories.
- Reputation and market risks related to the transition to a low-carbon economy may result in challenges with employee recruitment and retention. Refer to Climate Change risk on page 105.

Key mitigations

- Working with colleagues across all aspects of our business to understand and determine our skills and capability needs, for the near, medium and longer term. Supporting the more immediate needs through reskilling programmes whilst also looking at the medium/longer term through our early careers offering.
- We are progressing our employee value proposition and strategic workforce planning approach to fulfil our growth plans. Current growth needs are being met by increasing the overall capacity of the resourcing team and outsourcing recruitment processes where required to manage the increased demand.
- Contingencies are in place to mitigate against the risk of operational interruption caused by strike action.
- Recruiting specialists in talent management to ensure strategic planning for the attraction of people with the current and future expected skill sets. Additionally, development of targeted training and development programmes for colleagues.
- Enhancing our diversity and inclusion strategy to ensure it is responsive to stakeholder views, provides equality of opportunity and aligns to our organisational vision and goals. You can read more about our work in this area on pages 65 and 129.
- Introduction of an Inclusive Leadership Programme, and an Inclusive Management Programme, aligning to the business' strategy to educate and inspire colleagues to make Drax a more inclusive place to work.
- Regular reviews of our succession and key talent cover, mapped to our development programmes and talent offering.
- Broadening of our benefits and wellbeing offering to help colleagues take more preventative measures in areas such as financial wellbeing.

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Climate Change



Context

Given the pervasive nature of the potential impact of climate change on various parts of the business and its Principal Risks, the resilience of the Group's strategy and operations to climate risks is important to the functioning and long-term value creation of the Group. We identify climate risks in two main categories – physical and transitional. Physical impacts of climate change include event-driven, acute impacts such as flooding, and chronic impacts such as sea-level and temperature rises which may pose challenges to our operations. Transitional impacts of climate change include policy, regulatory, technology and market-related

changes associated with the transition to a low-carbon economy that could affect the Group's business model, but also serve as opportunities for growth. In the analysis of the risks we therefore assess differing factors: those where the Group needs to mitigate against adverse events which could impact our ability to conduct our business, and those where, through effective and constructive engagement with third parties, the Group will be able to deliver a combination of commercial and sustainability benefits through its activities. We provide further detail on climate-related risks and opportunities in our TCFD disclosure on page 78.

Risk and impact

- Physical risks to our Pellet Production operations and supply chain in the US and Canada include increased frequency, variability and severity of weather events, such as hurricanes, extreme low temperatures and wildfires. These have the potential to cause damage to assets, impact on the supply and production of raw material and finished goods, and create challenges in executing work on site, for example, having to regularly operate Canadian plants at sub-zero temperatures. Overall, we observe a continued rise in frequency of severe weather events with increased likelihood going forward that such events could cause greater disruption to North American Pellet Production operations.
- Physical risks to our Generation operations and supply chain include sustained rising water temperatures, and increased frequency and severity of extreme weather events, such as heavy rainfall, flooding and high winds, with potential to cause damage to assets, breach of permits, interruption to operations, and impact on transport infrastructure that could restrict or reduce access to sites.
- Policy and regulatory risks related to the transition to a low-carbon economy include changes in government and cross-border climate or emissions policies that may negatively impact our Generation and Pellet Production businesses. Refer to Political and Regulatory, and Biomass Acceptability risks on pages 101 and 102 respectively.
- Technology risks related to the transition to a low-carbon economy include technology and innovation, such as BECCS, not developing as expected, or faster than expected development of competing technologies, such as direct air capture, impacting delivery of the Group's carbon negative ambition and business strategy.

Key mitigations

- In recognition of the increased likelihood and frequency of severe weather events, the Pellet Production business has increased its planning for outage periods. Mitigations include development of stockpiles to alleviate the risk of harvesting or delivery disruption and the increase in geographic diversity of pellet plant asset locations across the US and Canada should minimise the impact of production interruption due to extreme weather.
- Continue to comply with the TCFD recommendations, including physical and transitional scenario analysis and modelling of reservoir spillway capacities at Cruachan Dam, to understand capacity for extreme weather events.
- The Group's carbon negative ambition, three strategic aims, near-term Science Based Targets initiative (SBTi) targets, and Climate Policy, underpin a business strategy consistent with UK and international climate change policies. Refer to pages 1 and 52. Discussions with governments and policymakers continue with increasing recognition of the role the Group's strategy can play in combatting the adverse effects from climate change.
- Sourcing from a wide geographical range of third-party biomass suppliers and continued evaluation of alternative fuels, using different feedstock types and considering wider sourcing geographies.
- Constructively challenging the views of eNGOs where we believe those views are inaccurate or misleading. Seeking engagement with eNGOs on carbon accounting and reporting, and liaising with the UK Government on future policies. Establishment of an internal Science and Evidence function to collate and examine the science underpinning our activities related to BECCS and biomass.
- An internal Innovation team track technology advances and the development of new technologies, and compare this against the Group's projects.

Principal risks and uncertainties continued

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Plant Operations

Context

The reliability and safe operation of our facilities is critical to our ability to create value for the Group as well as fulfilling our contracted obligations in the generation of power for the UK power system. The Plant Operations risk profile is influenced by a number of key activities, including the safe management of ageing assets, building inherent reliability and safety by design for new

installations, management of change, and operating equipment within intended design limits and parameters. The Group's facilities are highly complex and require careful management, identification, control and mitigation of risk to operate safely throughout the full life cycle (from design through to decommissioning). The operational risk profile is varied and continually changing due to growth in the business, with the construction of new assets and decommissioning of older assets.

Risk and impact

- Severe weather events (such as hurricanes, fires and floods) across North America and in the UK could result in interruption to operations and hinder the supply of required materials to operate our assets. Refer also to Climate Change risk on page 105.
- Drax Power Station, located in Selby in Yorkshire, was built approximately 50 years ago and some of our hydro assets, located in Scotland, nearly 100 years ago. As plants age, their operational reliability and integrity is expected to reduce. Furthermore, there is an inherent linkage between physical infrastructure and the systems that play an integral role in supporting them. These systems also require continuous upgrade and investment to ensure operational reliability. Refer to Information Systems and Security risk on page 107.
- Loss of experience due to planned restructuring or leavers could lead to loss of knowledge and increasing reliance on processes and procedures to operate plant and maintain quality. In particular, the Pellet Production business saw a high colleague turnover in 2023.
- An increase in the cost of fibre resulting from supply chain pressure could cause challenges in maintaining maximum biomass pellet production levels at a viable cost.
- An inherent risk of handling biomass is the potential for fire and explosion during its storage, production, transportation and on-site delivery. Such events have the potential to cause significant disruption to operations. Refer to Health, Safety and Environment risk on page 100.
- There are also threats across our biomass supply chain due to the reliance on the complex coordination of transportation at various stages of the process. Therefore, Drax Power Station could be exposed to unplanned interruption in supply.
- Decommissioning and demolition activities on a site that remains operational brings unique challenges which may introduce additional safety and operational risk to people, plant and the environment. Such work is ongoing at our sites, including Drax Power Station, following cessation of coal operations.
- Cyber security threats to networks and systems continue to be heightened as a result of geopolitical tensions, with the potential to compromise key plant and equipment. Refer to Information Systems and Security risk on page 107.

Key mitigations

- Business continuity plans are in place for all plants, ports and other logistics which cover weather impacts and other factors. This enables Drax to be better placed to respond to abnormal and one-off weather events.
- A comprehensive plant investment and reliability programme has been implemented, including successful major outages of generating Units 2 and 4 at Drax Power Station.
- The potential cost of an outage is considered when determining the running regime of our generation plant. For example, when prices are higher, lower risk running options will be utilised, whereas when prices are lower, we may look to take the opportunity to perform short maintenance outages.
- Proactive reliability management including planned, rather than breakdown, maintenance and imbedding several condition monitoring tools (infrared, vibration, spark detection) works to minimise unplanned outages.
- Maintaining stringent safety procedures for sourcing, acceptance and handling biomass, and the control of dust management from both a respiratory, health, and fire and explosion perspective.
- Maintaining plant standards and investment in plant to As Low As Reasonably Practicable (ALARP) levels has been established, such as for the chemical suppression systems at Drax Power Station. In areas of the plant where engineering controls cannot yet meet required standards, Personal Protective Equipment (PPE) is used to ensure individuals are not exposed to harmful levels of dust.
- Insurance is in place to cover potential material losses from significant plant failure, where possible.
- Maintaining robust management systems, designed to identify and mitigate risks with the potential to prevent the safe operation of our assets and manage process safety across operating assets utilising the SAI360 system.
- Providing the required training and development for our colleagues in conjunction with recruiting people with the right skills and experience to safely and effectively operate the Group's plant.

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Information systems and security



Context

Our Information and operational technology systems and the integrity of the data we use are essential to supporting the day-to-day business operations of the Group, in addition to contributing to the delivery of our growth strategy. As part of the UK's critical national infrastructure, we are required to maintain availability of our systems and the capability to adapt and respond to evolving external threats. We have a clearly defined technology and security roadmap, which sets out the means by which the Group should invest and enhance further its available technology to ensure it is capable of meeting current and projected future requirements and ensuring our financial, legal, regulatory and compliance obligations are met.

Managing these risks in an environment where threats and challenges are continually evolving requires careful understanding and assessment. We use internal and external expertise, including engagement with regulators, auditors and industry groups to update our understanding of the IT and Security risk environment.

Risk and impact

- Geopolitical tensions have in the past been known to result in increased cyber-related threats. The ongoing conflicts in Russia-Ukraine and the Middle East have increased the Group's risk exposure to attacks from private groups, including so-called cyber-criminals, state-sanctioned attacks on our systems and those of suppliers on whom we rely for integrity of service.
- Successful cyber-attacks have the potential to compromise our systems, affecting the confidentiality, integrity and availability of our data (including personal data). Current attack methodologies seek to deny access, which may cause operational and financial impacts and regulatory non-compliance.
- Evolving regulatory requirements present ongoing challenges and costs to the Group. Operators such as Drax are required to broaden the scope of systems that are deemed 'at risk' and focus continues to be placed on establishing adequate resilience, the capability to respond and recover quickly from disruptions, and ensuring the continuation of safe and secure operations.
- Our partnerships with third parties support our information and operational systems. If those businesses were themselves to suffer systems failure, cyber-attack or financial difficulties, this could in turn impact our business, operations and performance.
- Legacy systems are more difficult to maintain and are more susceptible to cyber-attacks. Subsequent operational issues, such as reduced performance, may impact the availability of systems, data and facilities, adversely affecting our operations.
- The availability of experienced IT and Security personnel in the labour market has tightened. This may result in not being able to retain and/or hire people with the necessary skills to manage these risks.
- The effective function of our cyber-based resilience and oversight of our information and operational technology systems requires that the Group employs people with the requisite skills, knowledge and experience. Such capabilities are in high demand and the Group may not be able to recruit and retain the people needed. Refer to page 104 for further information.
- Identifying and responding to emerging threats requires access to people, industry experts and collaboration with organisations able and willing to work with the Group. Whilst such collaboration has been strong across multiple jurisdictions and agencies in the past, changes in geopolitical interests and willingness to share information, whether on a timely basis or at all, would impact how the Group is able to respond to events.

Key mitigations

- As an Operator of Essential Services, Drax is obliged to meet the security of Network and Information Systems (NIS) Regulations and is subject to regulatory inspection by a competent authority to ensure we meet control requirements.
- We seek to maintain a close working relationship with Ofgem and other Government agencies, responding quickly to changing threat levels and responding to such agencies' advice and requirements.
- Maintenance of effective and up-to-date cyber security measures, including a prevent, protect, detect, respond and recover strategy, which evolves to address known and emerging threats.
- We work with external experts and also develop our internal capabilities so that we are able to respond to changing regulations and standards. We continue to develop technology, security controls, and resilience measures to maintain compliance.
- Regular campaigns and training events are undertaken to improve cyber security awareness.
- Maintenance of a robust supplier onboarding methodology.
- Periodic internal and independent external assessment of the integrity, adequacy and compliance status of our IT and cyber security controls.
- Exercising and refreshing of business continuity, disaster recovery and crisis management plans.
- Periodic technical refresh programmes to address legacy infrastructure and systems, and adoption of secure-by-design principles and design patterns.

The strategic report is set out on pages 1 to 107 and was approved by the Board of Directors on 28 February 2024.

Will Gardiner
CEO

Governance

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Good governance is integral to the success of our business. It informs our purpose and values, and is fundamental to the way in which everyone, from the Board down, is expected to act. It supports the Board in decision-making and helps us realise our goals.

Andrea Bertone, Chair

Corporate Governance Report

Letter from the Chair



Andrea Bertone, Chair



Good governance throughout the business is vital in helping the Company to achieve its long-term strategy and purpose.

Our purpose, strategic objectives and values

Our purpose and ambition

Our purpose is to enable a zero carbon, lower cost energy future.

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

Our strategic objectives

Safety, sustainability and cost reduction underpin our three strategic objectives:

To be a global leader in sustainable biomass pellets
Pellet sales, self-supply, cost reduction, fibre sourcing and technology

To be a global leader in negative emissions
Development of projects in UK and internationally
Carbon negative by 2030

To be a leader in UK dispatchable, renewable power
Flexible renewable power – biomass, hydro, pumped storage
Renewable power and energy services to strategic customers

Our Values

- We care about what matters
- We're a can-do kind of place
- We see things differently
- We listen carefully
- We do what we say we'll do

I am pleased to present our Corporate Governance Report.

I joined the Board in August 2023 as a Non-Executive Director and Chair Designate, taking over from Philip Cox as Chair of the Board on 1 January 2024 following the completion of his nine-year term as a Non-Executive Director. I want to start this report by thanking Philip for the time he spent with me, offering valuable information and insight about Drax and assisting in my induction. It is clear that Philip, and the rest of the Board at Drax consider good governance as central to the success of our business, as do I and which was a factor in my joining. The realisation of our strategy requires as an integral feature, continued attentiveness to conducting the various aspects of Drax's activities in a manner which has the right values and in compliance with the laws, regulations and codes which apply across the Group.

The information presented in this section reflects the Board's assessment on the application of the Code of Corporate Governance. Here and in the rest of the Annual Report we address how the Group has reflected stakeholder expectations on issues, including application of practices according to laws and standards. Importantly also, how the actions that have been taken ensure decision making, sound policies and procedures support management and the Board in effective controls and oversight. In this Corporate Governance report, I refer to other sections of the Annual Report where relevant. The Board, management and our colleagues across the Group recognise that as Drax continues to grow and evolve, we will face challenges and scrutiny in the way we deliver against the expected standards. We accept that we need to continue to question and evaluate the extent to which our procedures, policies and practices need to evolve in order to respond to the changing circumstances of our global business. That is a key function of the Board and forms an integral part of how it also evaluates the plans, decisions and actions across the Group.

Drax has a clear purpose and strategy and the Board regularly reviews the performance of the business against its strategic and financial objectives. The Group has established KPI's and at each Board meeting the Directors are able to review the status across a portfolio of projects, discussing with management progress and assessing both the opportunities associated with expected execution as well as the risks which might impact delivery.

As we explain in our Principal Risks section (page 94), wider macro-economic conditions and political uncertainty can have a material impact on the realisation of the Group's objectives. The Board regularly considers those matters along with the principal and emerging risks and believes that a robust assessment is in place. During 2023 this included assessment of the Group's BECCS programme and ongoing engagement with key partners including UK Government. The Board has given careful consideration to the status of such discussions, as well as wider and associated matters including announcements made by the UK Government on biomass as a sustainable and renewable resource for use in power generation.

At its meeting in October, the Board considered in detail the strategic objectives, which included assessment of the status of engagement with stakeholders in regions where the Group is seeking to further its aims. The Board continues to consider that the stated strategy for developing BECCS both in the UK and US, combined with expansion of capacity in the production of sustainably sourced biomass pellets in North America is appropriate and offers opportunities for growth. The Board has also considered the appropriate governance, internal controls, and infrastructure required to support delivery of the strategy. The Board continues to hold management to account on the importance of such frameworks, which the Board considers represents a critical part of enabling the proper execution of the Group's strategy. More information can be found in the report of the Audit Committee on page 132.

2023 was a year of continuing global economic challenges, inflationary pressure, volatile commodity prices, alongside challenging climate changes. 2023 brought a number of weather events that adversely affected both our US and our Canadian sites. The seasonal effects of wildfires as well as tornados impacted our pellet business of which the most significant was a micro-burst at the Baton Rouge site where an intense wind vortex resulted in serious damage to the Port's crane. For more information on weather related challenges please see page 105. Thanks to the efforts of colleagues in the Pellet Operations business we were able to mitigate the business impact of these events. Throughout the year the Board received updates on operational challenges and risks as well as the steps taken to mitigate issues and ensure continuity of pellet supply in order to allow the Group to meet its generation commitments and sales contracts. This included implementing alternative measures for loading pellets to ships as well as effecting the required repairs to the Baton Rouge site.

The Board welcomed the continuing expansion at Cruachan following confirmation that the site had achieved development consent from the Scottish Government in July 2023. My Board colleagues had a successful visit to Scotland in June 2023 which comprised site visits and meeting colleagues during which the opportunities for our hydro business were considered. We have continued to devote time during regular meetings and in our visits to understanding performance in activities such as health, safety and sustainability and these also formed part of the discussions in Scotland in understanding how management were addressing local requirements. Safety of course is a key focus for management and the Board across all parts of the Group and for more information about safety and how we embed key actions into assessing management's performance, please see page 100.

When visiting the pumped storage site at Cruachan, the hydro sites at Lanark and the waste treatment plant at Daldowie, the Board recognised that a crucial element is the opportunity to meet with colleagues where we can discuss our successes as well as the challenges experienced. Some of the local issues we considered included people priorities such as recruitment, diversity, engagement (including how we attract female talent to join as apprentices) and understanding how wellbeing initiatives were being offered to colleagues as part of their benefits. We also discussed ongoing engagement with key stakeholders in understanding their views on the proposed Cruachan expansion project. It is pleasing to learn of the pride with which our colleagues work as members of the local community, combining their knowledge and passion for Drax and what we do, with interest and care for the locations in which we operate and in which colleagues live.

During the year the Board also reviewed proposals and ongoing actions to decarbonise and reduce emissions, including within the hydro business. Our aim to be a carbon negative company by 2030 is a key part of the Group's strategy, and progress made since our original baseline has been largely due to the elimination of the use of coal from our generation business. However, if we are to continue to achieve our stated objectives, it is essential that decarbonisation goals become embedded into the breadth of our activities and include stretching but attainable targets. In December 2023 the Board reviewed and discussed the Group's decarbonisation targets and flightpath to 2030 which have been validated by the Science Based Targets initiative ("SBTi"). More information on the SBTi targets and how we track such performance can be found on page 52.

Corporate Governance Report: Letter from the Chair continued

Our duty to stakeholders

The Board recognises the duty it owes to a range of stakeholders, including employees, contractors, partners, communities and shareholders to safeguard the operational integrity and prospects of the core business and strategy. Particularly as we grow internationally, we feel it is vital we are informed by the views of stakeholders. More information on how stakeholder views were considered as part of our UK BECCS strategy is included on page 124. Engagement with stakeholders is a two-way process and we value discussion and challenge. One of the most valuable pieces of feedback the Board receives each year from internal stakeholders is through the My Voice employee survey. Some of the areas covered by the survey include safety, leadership, engagement and wellbeing. The Board also places real importance on engagement levels for our diverse employee groups and challenges management's programmes for improvements. Will Gardiner's CEO report, which is a standing item in Board packs, contains regular updates on engagement with various stakeholders.

In July, the Board received a scheduled deep-dive presentation from the External Affairs team and discussed, assessed and challenged the quality of the team's engagement in satisfying Section 172 of the Companies Act. The Board also sought to gain a better understanding of what matters most to our stakeholders, and of how management seeks to address these issues. This requires attentiveness to local issues, as well as those of a strategic nature. For example, time was devoted in the July 2023 meeting to community engagement work taking place in different business locations and contributions made to groups via the Drax Foundation, which was established in 2023. More information about the Foundation can be found on page 40. The Board received a second deep-dive presentation on stakeholder engagement at the January 2024 Board meeting. The presentation included a detailed update on the community work taking place in different locations with local groups and NGOs, and plans for 2024 engagement. The process of listening and building trust with stakeholders can take time in order to become effective. The Board recognises the importance of investing that time and that more needs to be done. It will continue to be an area of focus in 2024.

During 2023 Ofgem, announced it was opening an investigation into industry regulator compliance by Drax Power Limited ("DPL") with reporting regulations. Ofgem's announcement stated that the opening of an investigation did not imply any finding of non-compliance and separately confirmed that as of that date it had not established any non-compliance that would affect the issuance of Renewable Obligation Certificates (ROCs) to Drax, and therefore the associated financial benefit. Like all energy generators, as part of normal business Drax receives regular requests from Ofgem, and the Board and wider business understand the importance of full and transparent co-operation. In the latter part of 2022, a third party was appointed to independently verify the accuracy of DPL's biomass sustainability and profiling data as part of an ongoing process, which the Board scrutinised during 2023. From the findings, and based on the assessment and challenges undertaken through the various stages conducted in the year, the Board has been assured in the compliance with the Renewables Obligation criteria of biomass used by DPL. However, we recognise that there is always room for improvement to governance-related processes throughout the business. The Board and its Committees regularly challenge management on the ongoing implementation of proposed actions arising from the reports provided by the third party, together with associated governance structures and processes that enhance compliance with regulations.

In line with the Board's expectations for a full and thorough stakeholder engagement process, the Cruachan expansion work during 2023 involved a broad consultation with relevant stakeholders. During the year, the Board received updates on progress and discussed the structure of engagement. The project received development consent from the Scottish Government in July 2023, which is an important and exciting step in the process. The expansion represents a key part of enabling the supply of secure, renewable energy in England, Scotland and Wales and it will become a focus for education and job creation in the local communities.

Will Gardiner and Philip Cox met each quarter with the chairs of the MyVoice Forums, our invaluable workforce engagement initiative. These meetings allow the Board to hear from colleagues, via their representatives, on a range of topics. It is a forum where everyone can speak openly, holding discussions on the key issues that are important for our colleagues, with topics including the rising cost-of-living and progress on business strategy. Will and Philip then reported to the Board, supporting all directors in understanding employee interests and concerns while also providing an opportunity for directors to offer informed guidance and reflections on our possible responses. I attended my first meeting of the MyVoice Forum chairs in November 2023, and was impressed by the open and constructive engagement. I very much look forward to listening to and working with the MyVoice Forums during 2024. You can read more about this on page 64.

The Board recognises the value of interaction across various media with colleagues. In keeping with prior practice, and as part of my induction, I recorded a video addressed to colleagues. I welcomed the opportunity to introduce myself to the wider business in a more personal video form and also talked about some of the exciting projects that Drax has in the pipeline, in order to achieve our strategy. This has augmented my visits to Drax locations at London and Yorkshire in England and Vancouver in Canada. Throughout 2023, our Non-Executive Directors met with various colleagues to provide guidance based on their own experience. For example, ahead of our December 2023 Board meeting, our Group HSE Director met with several Non-Executive Directors on a one-on-one basis to discuss some of the health, safety, and environmental issues being addressed. These discussions helped the Board and management in considering proposals for working with external advisors on different parts of health, safety and environment pertaining to our Group.

In 2023 Philip Cox, as Chair, held virtual and in-person meetings with some of our largest shareholders. The Senior Independent Director (SID), David Nussbaum, also met with two major shareholders in person to discuss the Board's approach to governance, sustainability, and the wider business. In addition, Philip and David participated in a virtual meeting with investors hosted by the Investor Forum – an institutional investor-led group which aims to facilitate engagement with corporates and good stewardship.

Diversity and inclusion

In the 2022 Annual Report and Accounts, we outlined our work enhancing diversity and inclusion at Board level and throughout the Group and we are pleased with our progress during 2023. Even so, we recognise there is always more work to do. We welcomed the ambition of the FCA to improve transparency, as announced in its April 2022 Policy Statement on “Diversity and inclusion on company boards and executive management”. It included targets that appear in our own Board Diversity Policy, which is approved annually and covers our main Board and Board Committees. As at 31 December 2023 Drax met two of the FCA’s three board diversity targets. From 1 January 2024 with Andrea Bertone formally replacing Philip Cox as Chair, we met all of the FCA’s board diversity targets. In collecting the data to measure progress against the FCA’s three board diversity targets, Board Directors were asked to self-report against ethnicity categories as defined by the Office for National Statistics. Set out below is how we comply with the FCA board diversity targets and we provide further diversity figures in the tables on page 123:

1. **At least 40% of the board are women. Met:** As at 31 December 2023 50% of the Board were women. From 1 January 2024 Andrea Bertone formally became Chair, following Philip Cox’s retirement, at which point 56% of the Board are women. In addition, 37.5% of the Executive Committee are women.
2. **At least one of the following senior board positions is staffed by a woman - Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO). Met** with effect from 1 January 2024 when Andrea Bertone became Chair.
3. **At least one board member is from a minority ethnic background, defined by reference to the categories recommended by the Office for National Statistics, excluding those listed as coming from a White ethnic background. Met:** The Board currently has one director from an ethnic minority background.

In March 2023, the Parker Review published a new target for FTSE 350 companies which sought disclosure on the target percentage of senior management positions to be occupied by ethnic minority executives by 2027. We fully support the Parker Review’s ambitions and as part of changes being implemented at Drax (see page 129), we will during 2024 consider an appropriate target for 2027.

In other sections of this Annual Report and Accounts (see page 65), we detail activity during 2023 to support positive change for diversity, equity and inclusion. These include leadership development, more transparency in career progression, and awareness-raising through events. We are continuing to build our Colleague Resource Groups (“CRGs”) to give members of all communities an opportunity to communicate in a safe place. We are also evolving our recruitment strategies to attract candidates from under-represented groups. We continued to build our CRGs and celebrated LGBTQ+Pride across Drax. It is pleasing how these activities have increased membership of the CRGs to hundreds of colleagues. During 2023, we also rolled out our DEI learning resources for colleagues across sites and regions. In November 2023, we commenced the Inclusive Managers Programme across North America with DEI workshops taking place across the region in November and December 2023.

Culture and governance

The Board leads the Company’s culture and is responsible for setting the right tone within the business. The Board recognises the importance of having the right culture, understanding that good governance can only exist in places that have the right culture and values. With this in mind we continued to focus on culture, values and our colleagues’ experience of working at Drax in the differing locations and this is also forms part of the feedback to the Board, mentioned above.

The Board and management continue to place particular emphasis on the wellbeing of our people. In April 2023 we decided to provide all employees with a “wellbeing day”, which was an additional day of paid leave, to recognise the contribution of all colleagues towards the success of our business. We also continued to engage our financial wellbeing partner, called “nudge”. Through a web application, nudge offers colleagues personalised financial guidance that aims to help them navigate a range of financial matters, including responding to the increased costs of living through to planning for retirement.

In the UK, Drax offers a Sharesave programme giving employees the opportunity to save towards purchasing Drax shares at a 20% discount to the market price. To help colleagues navigate the tax and investment implications of their maturing options, Drax partnered with Wealth at Work on a comprehensive financial education programme which ran in the first half of 2023. Feedback about the programme was very positive. Responding to feedback from colleagues in North America, in 2023 we also launched a new all-employee plan in the US and Canada – the Employee Stock Purchase Plan – under which colleagues can save to purchase discounted Drax shares every six months.

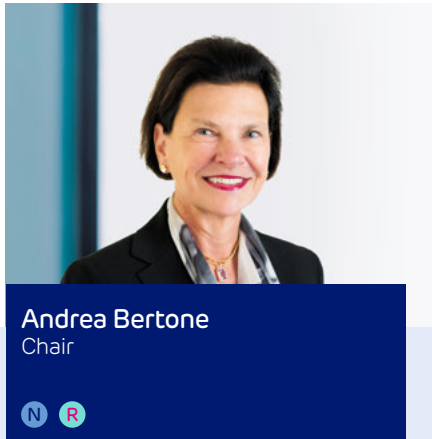
In October, I visited Drax Power Station with Philip Cox as part of my induction. We met with members of management and colleagues to enable introductions and to discuss issues such as the station performance, the My Voice Forums and employee groups, and health and safety matters. More information on my induction is included in the Nomination Committee Report on pages 128.

Looking to the future, we will continue to focus our efforts on strategy for biomass acceptability, carbon removal, and secure renewable power. Drax has experienced many challenges during 2023 and the Board recognises the significant work by all colleagues, in response to those challenges. We very much appreciate everyone’s positive contribution in delivering our day-to-day operations while progressing our strategy. It’s only by working together, informed by our values and our continuing commitment to realising our ambitions responsibly, that we can deliver our purpose.

Andrea Bertone
Chair

Corporate Governance Report: Board of Directors

The Board shapes our purpose, strategy, culture and values to generate long-term sustainable value and provide strong stewardship of the Group.



Andrea Bertone
Chair



Contribution and experience

Andrea is an experienced leader of large, listed businesses, having held both executive and non-executive roles at international energy companies. She has a deep understanding of global markets, including the US, and their underpinning regulation.

Andrea is the former President of Duke Energy's international division ('DEI'). She spent 15 years at Duke Energy, including seven years as President of DEI with executive responsibility for hydro and thermal assets across countries in Latin America. Prior to her role as President, Andrea held senior executive legal positions at DEI, including as associate General Counsel between 2003 and 2009. Andrea also served as Latin America counsel with Baker McKenzie. Andrea has non-executive director appointments at Waste Connections, Inc., Amcor plc and Peabody Energy Corporation. Andrea was previously a non-executive director at DMC Global Inc. and Yamana Gold Inc.

Andrea has dedicated her career to successfully leading international teams with diverse cultures and backgrounds. Andrea earned a Bachelor of Law from the University of Sao Paulo Law School in Brazil and a Master of Law in International and Comparative Law from Chicago-Kent College of Law at the Illinois Institute of Technology. She is a member of the Brazilian Bar Association.

Appointment to the Board:

August 2023

Appointment as Chair:

1 January 2024



Will Gardiner
CEO

Contribution and experience

Will has driven the vision and operations of the company since becoming CEO in January 2018, inspiring Drax's transformation from a leading UK renewable energy company to global leadership in sustainable biomass with the ambition to be a global leader in carbon dioxide removals.

Sustainability considerations are at the core of everything at Drax. Will is driving Drax's sustainability agenda, taking a thought leadership role in defining sustainability criteria for woody biomass. Working with stakeholders across the spectrum, Will is creating a purpose led company at Drax to ensure outcomes that are positive for people, nature and the climate.

In addition to being CEO of Drax, Will is a Commissioner of the Energy Transitions Commission, a member of the World Economic Forum's (WEF) Alliance of CEO Climate Leaders and a member of Conservation International's European Council.

Will joined Drax in 2015 as CFO and was appointed as CEO in January 2018. He has a wealth of experience in finance and technology, having held CFO and divisional Finance Director roles at a number of major companies, including CSR plc (acquired by Qualcomm, Inc in 2015) and Sky. He has dual US-UK citizenship and has lived and worked in the UK since 1998.

Appointment to the Board:

November 2015



Andy Skelton
CFO

Contribution and experience

Using his strong financial and commercial skills built over 25 years, Andy provides the financial oversight and controls that have supported the growth of Drax from a renewable energy company to an international company with a differentiated portfolio.

Andy is highly values driven, with a personal commitment to Drax's climate, nature and people positive ambitions. Andy represents Drax as a member of the Northern Powerhouse Partnership, helping create more opportunities and a better economy for the people of the North of England, where he also lives.

Previously Andy was CFO at Fidessa Group plc and has held a number of senior finance positions at CSR plc, Ericsson and Marconi, including two years as CFO of Ericsson Nikola Tesla. Andy has a BA in accounting and finance and qualified as a chartered accountant in 1994.

Appointment to the Board:

January 2019

Key to Committees

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



David Nussbaum
Senior Independent
Non-Executive Director

A N

Contribution and experience

David holds a portfolio of Board appointments, including as Chair of Anthesis Group, of International Alert and of the Joffe Trust. He also serves as a member of the Board ('Council') of Chatham House, and of the International Budget Partnership; is President of the Advisory Council of Transparency International UK; and is a member of the Ethical Investment Advisory Group of the Church of England.

David's executive career included being the Chief Executive of The Elders, WWF-UK, and Transparency International. He was previously Finance Director and Deputy CEO of Oxfam, and CFO of Field Group plc. In a Non-Executive capacity, David has been Deputy Chair of the International Integrated Reporting Council, Deputy Chair of Shared Interest Society, a Non-Executive Director of Low Carbon Accelerator Limited, and Chair of Traidcraft plc.

David is a chartered accountant, and has a Masters in Theology from both Cambridge and Edinburgh universities, and a Masters in Finance from London Business School.

David's extensive experience in international development and environmental matters, in addition to his prior experience as CFO of a UK listed industrial company, is of significant value to Drax and contributes to the Board's discussions and understanding of the perspectives of and engagement undertaken with stakeholders.

Appointment to the Board:

August 2017



Vanessa Simms
Independent Non-Executive
Director

A N R

Contribution and experience

Vanessa has extensive experience in senior finance roles across several different, and capital intensive, industries, including real estate, medical devices and telecommunications.

Vanessa is CFO of Land Securities Group plc and has worked in finance for over 30 years. Prior to her role at Land Securities Group plc, Vanessa was CFO of Grainger plc, held a number of senior positions within Unite Group plc, including Deputy Chief Financial Officer, and was UK Finance Director at SEGRO plc. Vanessa is a Fellow of the Association of Chartered Certified Accountants and has an Executive MBA from Ashridge.

Vanessa has broad and expert level experience in strategic capital allocation, finance, risk and internal controls at highly successful companies in the UK which is invaluable in her role as Chair of the Audit Committee. She has a comprehensive understanding of large, listed companies' requirements and brings a rich insight into a broad range of stakeholder perspectives.

Appointment to the Board:

June 2018



Nicola Hodson
Independent Non-Executive
Director

A N R

Contribution and experience

As Chair of the Remuneration Committee Nicola brings to the role a wide range of experience of international business, government organisations, and dealing with a variety of stakeholders.

Nicola is currently Chief Executive of IBM UK and Ireland and Deputy President of TechUK. Previously she was Vice-President, Global Sales and Marketing, Field Transformation at Microsoft, Chief Operating Officer of Microsoft UK, and previously held P&L and sales roles at Siemens, CSC (now DXC) and EY. Nicola is a Non-Executive Director of Beazley plc.

Nicola brings expert level technology knowledge, with her current working experience at the forefront of global organisations. She is also skilled in business and digital transformation, and sales. Nicola is committed to inclusivity and enabling people to realise their full potential, irrespective of their background.

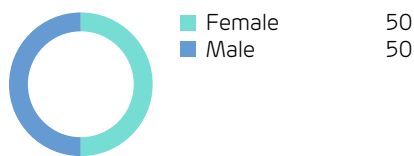
Appointment to the Board:

January 2018

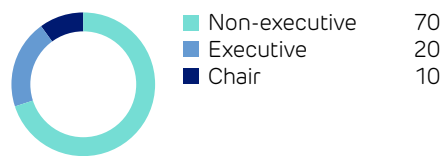
Corporate Governance Report: Board of Directors continued

Board statistics (As at 31 December 2023)

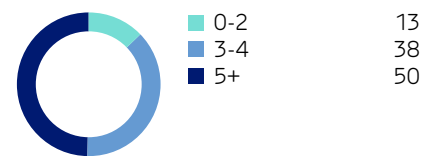
Gender diversity (%)



Composition (%)



NED tenure in years (%)



John Baxter CBE
Independent Non-Executive Director



Contribution and experience

John has over 45 years working across the nuclear, electricity, oil and gas sectors. John was previously at BP plc, most recently as Group Head of Engineering & Process Safety, prior to which he worked at the UK utility Powergen plc as Group Engineering Director, as well as roles as a UKAEA Board member and also as a nuclear submarine engineer officer. He is a Non-Executive Director of Sellafield Ltd and chairs the Sellafield Board Remuneration Committee.

He is a Chartered Engineer, Fellow of both the Royal Academy of Engineering and the Royal Society of Edinburgh. John was President of both the Institution of Mechanical Engineers and The Welding Institute.

John has broad and expert level experience in engineering, health and safety, and energy generation experience. John is passionate about people development, particularly advancing the opportunities for young people in STEM careers, including via apprenticeships. His dedication to charity work and fundraising to support young people, provides a depth of understanding during Board discussions on stakeholder engagement and culture matters. Also, having been born and brought up in Scotland he brings important insights to Drax on the local environment and culture.

Appointment to the Board:

April 2019



Kim Keating
Independent Non-Executive Director



Contribution and experience

Kim is a Professional Engineer with over 25 years of broad international experience in the oil and gas, nuclear, hydropower, and mining sectors. Most recently, Kim was the Chief Operating Officer of the Cahill Group, one of Canada's largest multi-disciplinary construction companies. Prior to joining the Cahill Group in 2013, Kim held a variety of progressive leadership roles from engineering design through to construction, commissioning, production operations and offshore field development with Petro-Canada (now Suncor Energy Inc.).

Kim is currently Board chair of Major Drilling International Inc. and a Non-Executive Director of Pan American Silver Corp and Victoria Gold Corp. Kim is also a founding member of Makwa-Cahill Limited Partnership, a nuclear qualified indigenous fabrication company. Kim is a Fellow of the Canadian Academy of Engineering, holds a Bachelor of Civil Engineering degree and an MBA. She also holds the Canadian Registered Safety Professional (CRSP) designation and Diligent Climate Leadership certification. She is a graduate of the Rotman-Institute of Corporate Directors Education Program and was awarded her ICD.D designation.

Throughout her career, Kim has made significant engineering and project management contributions to complex major projects. She has a deep appreciation and insight into the value of community partnerships particularly with indigenous groups.

Appointment to the Board:

October 2021



Erika Peterman
Independent Non-Executive Director



Contribution and experience

Erika's extensive experience is gained from over 25 years working in global organisations. Her broad knowledge has been built serving various sectors of the chemicals industry including plastics, petrochemicals, agriculture and pharma.

Erika is currently serving as Senior Vice President of Global I&D Manufacturing & Oxyfuels at multi-national chemical company LyondellBasell. Most recently, Erika was Senior Vice President at BASF Corporation, where she led the North American Chemical Intermediates business. Erika held other senior executive roles with BASF, covering manufacturing and production, engineering, strategy, and commercial business management. Passionate about STEM and DEI, she actively supports community workforce development programs, as well as a range of diversity and inclusion initiatives.

Erika sits on a variety of College of Engineering Advisory Boards, including those for the University of Houston and the Georgia Institute of Technology. She serves as a Board Trustee for The Chatfield Edge, a scholarship foundation based in Cincinnati, Ohio. She is also a member of the Executive Leadership Council, a non-profit organization whose mission is to globally accelerate the development of black executives over the lifecycle of their careers. Erika holds a BSc in chemical engineering from the Georgia Institute of Technology and an MBA from the University of Houston.

Appointment to the Board:

October 2021

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

Drax Group plc Board

The Board is responsible for leading the Group and ensuring long-term value creation for shareholders and wider stakeholders. It also establishes and reviews the Group's purpose and values, assesses and monitors culture, and takes responsibility for setting and overseeing the Group's strategy and risk appetite. It monitors performance too, making sure the necessary controls and resources are in place to deliver the Group's plans and that the Group meets its responsibilities to its stakeholders.

Audit Committee

This committee oversees financial reporting, key accounting judgements, internal controls and risk management systems, plus internal and external audit effectiveness.

Page 132

Nomination Committee

The tasks of this committee include making recommendations on the size, diversity and composition of the Board, and succession planning for the Directors and senior executives.

Page 127

Remuneration Committee

This committee oversees the Group's approach to remuneration, ensures remuneration policies support the purpose and strategy, and sets pay for the Executive Directors and members of the Executive Committee in alignment with the shareholder approved Remuneration Policy. It also considers the alignment of reward across the wider business.

Page 144

Executive Committee

The focus of this committee is the Group's strategy, financial structure, planning, operational and financial performance, and governance framework. It also closely considers culture and diversity, succession planning and organisational development below Board level.

Page 120

Ethics and Business Conduct Committee

This committee monitors ethical behaviour and practices across the business.

Financial Risk Management Committee

This committee provides oversight and challenges the effective management of all financial risks, including trading, commodity, treasury and currency.

IT Board

This board provides oversight and co-ordination of IT activities and strategy, information systems and security risk.

Operating Review Committees (Pellet Production, Generation, Core Services and Customers)

These committees review the operational and financial performance of the business units.

Group HSE Committee

This committee reviews and challenges the management of process and people safety, health, environment and wellbeing risks.

Corporate Governance Report: Compliance with the UK Corporate Governance Code 2018 (Code)

At two meetings during 2023, the Board formally considered reports on how Drax, the Board and its Committees applied the Principles and complied with the Provisions of the Code. The meetings included discussions about the steps being taken and how they might evolve, as well as the effectiveness of stakeholder and colleague engagement. We also discussed how the Board assesses, monitors

Board Leadership and Company Purpose	The Board has clearly articulated the Group's purpose (to enable a zero carbon, lower cost energy future), ambition (to become carbon negative by 2030) and business model. The Board promotes a culture of openness and collaboration, setting a clear and positive tone to promote our values. This underpins the Group's strategy: to be a global leader in both sustainable biomass and in negative emissions, and to be a leader in UK dispatchable, renewable power. It also supports the UK's ambition to achieve net zero by 2050. Items such as health, safety and wellbeing, ethics and employee engagement are regularly considered at monthly Executive Committee and Board meetings. This provides oversight and identifies areas for improvement and practices that enable positive engagement, underpinning the culture of respect. The workforce engagement forums meet quarterly. Key issues discussed in 2023 included BECCS; wellbeing of employees; inflation and general market conditions; energy costs; and the rising cost of living. Chair, Philip Cox, and CEO, Will Gardiner, met quarterly with the chairs of the workforce forums, with support from	Hillary Berger, who is Group General Counsel and also an Executive Committee member. The subsequent CEO report to the Board included information about these meetings. Typically, the Company undertakes employee engagement surveys annually with the 2023 survey taking place in the fourth quarter of 2023. In early 2023, anonymised data behind the 2022 My Voice Survey Speak Up-related question was analysed and presented to the EBCC and Board, along with action plans for relevant items, and areas for improvement. In January 2024, the Board discussed the results for the 2023 My Voice survey. Our engagement for 2023 remained at 79%. With inclusion being a priority for Drax, our 2023 survey included questions to give us an inclusion index score, which is a Key Performance Indicator (KPI) on our Group Scorecard. The score for 2023 was 81%. In June 2023 the Board visited a number of sites in Scotland. This gave Directors the opportunity to discuss key projects, meet colleagues, and gain invaluable insight into the local issues relevant to the business. The visit included learning about Cruachan development work, carbon reduction efforts, health and safety and process safety.
Division of Responsibilities	The Board comprises the Chair of the Board, two Executive Directors and six independent Non-Executive Directors. All six were considered independent on appointment from whom one, David Nussbaum, acts as Senior Independent Director. The Senior Independent Director led the Non-Executive Directors in a review of the Chair's performance and then provided feedback to the Chair. The SID also led the	process for selection and appointment of a new Chair. Non-Executive Directors routinely scrutinise performance against business objectives (including financial, strategic and other measures captured in the Group Scorecard). They hold management to account while providing challenge and guidance in an open and constructive environment. Examples from 2023 include requests for deep dives into the
Composition, Succession and Evaluation	The Nomination Committee comprises the Chair of the Board (who also chairs the Committee) and six independent Non-Executive Directors. All appointments to the Board are subject to a formal, rigorous and transparent process, and all new Directors undergo a thorough induction programme. Each year the Nomination Committee reviews the Group's succession plan, identifying colleagues who have the potential to progress	to more senior roles in one to five years. Based on merit and objective criteria, the review focuses on various aspects such as technical skills, experience, behaviours, attitudes and diversity. This ensures the business has the right leaders in place to deliver our purpose and strategy. The most recent review, conducted in January 2024 for the 2023 year, also assessed the capabilities required to support progress in delivering the breadth of projects across key functions of the Group.
Audit, Risk and Internal Control	The Audit Committee comprises four independent Non-Executive Directors. The Committee chair was considered independent on appointment in that role and has recent and relevant financial experience. The Audit Committee provides oversight and challenge of the Group's financial statements to ensure they provide a fair, balanced and	understandable assessment of the Group's position and performance. The Board has procedures in place to manage risk and oversee the internal control framework. Its procedures also determine the nature and extent of the principal risks the Group is willing to take to achieve its long-term strategic objectives. Details of the approach to risk
Remuneration	The Remuneration Committee comprises five independent Non-Executive Directors including the Chair. The Committee chair was considered independent on appointment as chair and has relevant experience of serving as a member of a remuneration committee.	Shareholders approved the current Directors' Remuneration Policy ("Policy") at the 2023 AGM. A review of the remuneration consultants was most recently conducted in early 2021 and concluded in April 2022 with Korn Ferry being approved as the new remuneration consultants. This process was run for good governance, alongside the external audit tender, and was not

You can find the Code on the Financial Reporting Council website at www.frc.org.uk

and constructively influences culture. In addition, we considered the actions taken in addressing recommendations from the most recent, externally-led Board and Committee performance evaluation in 2022. The Board's view is that the Company has applied the Principles and complied with the Provisions of the Code throughout 2023.

The Board ensures that both it and colleagues across the business actively engage with a wide range of stakeholders to encourage meaningful two-way participation. This also ensures the Group makes a positive contribution to wider society. Board papers submitted for material decisions, and the assessment undertaken at Board meetings, consider the impact on wider stakeholders, and the Board routinely receives updates on stakeholder engagement. You can read more about this on page 124. The Chair, Senior Independent Director and Chairs of the Audit and Remuneration Committees are all available for engagement with shareholders and we have responded to such requests by arranging meetings with the Chair, SID, and chair of the Remuneration Committee. Diversity, equity and inclusion are important to the work of the Board. The Board assesses actions being taken in the three core areas of the DE&I strategy: (1) Data – understanding and tracking changes being made to the socio-economic and cultural balance of colleagues working across the Group	(2) Educate – positive steps to inform behaviours as part of driving change (3) Inspire and recruit – encourage people throughout the organisation to participate and recognise the importance of their involvement in realising shared objectives The Diversity and Inclusion Steering Committee reviews progress in each pillar monthly, with the CEO providing regular updates to the Board. You can read more about this work on page 65. The Group's confidential whistleblowing telephone hotline and web-portal enable colleagues and third parties to raise matters of concern. The Board oversees Speak Up and whistleblowing and receives regular updates; it also discusses findings from investigations. Our Culture, Values and Employer Value Proposition for Growth programme began in January 2023. The objectives of the programme are to further strengthen talent attraction, retention and to develop engagement metrics, which can measure progress and support improved personal and collective performance as enablers to delivery	of our business strategy. During the first half of 2023 our research phase was completed, with findings from over 300 colleagues and leaders representing all Business Units and markets. Their responses showed a strong emotional connection to Drax (due to our Purpose), divergent experiences (with colleagues describing our culture as caring using words like 'open', 'respectful' and 'inclusive' whilst leaders focused more on the pace of change and transformation and growth outstripping people and infrastructure. This, alongside additional external research, has helped create our Employer Value Proposition: 'Together, we make it happen' with three key pillars: 'Clear and bold ambition', 'Caring about positive outcomes' and 'The Future is shaped by You' and we are in the process of creating an employer brand and updating our values and behaviours programme with the launch planned for the first half of 2024. The Board has received regular updates on these matters and this will continue in 2024 as we transition to the implementation phase.
digital strategy and also a discussion on management's assessment of the acquisition and integration of Pinnacle. In addition, there were discussions about the cost tracking and status of projects associated with programmes such as US BECCS. Before regular Board meetings, the Chair and Non-Executive Directors meet without the Executive Directors being present, giving them the opportunity to consider and discuss matters in a separate forum. The Audit	Committee, which the Board Chair, attends by invitation, also provides routine agenda time to discuss matters in the absence of management. The Audit Committee members also routinely meet with the external and internal auditors. The Board considers additional external appointments involving any Director, taking into account the additional demands on their time. No Executive Director has a non-executive position in a FTSE company.	All Directors have full access to the services of the Company Secretary, who works closely with the Chair. This ensures the Board has the policies, processes, information, time and resources it needs to function effectively and efficiently. The whole Board approves the appointment or removal of the Company Secretary.
All Directors seek re-election at (or following their initial appointment to the Board, election at) the Annual General Meeting. An internal performance evaluation of the Board and its Committees was conducted in 2023. The most recent external review was in 2022. You can read more about this, and the status of key actions from the 2022 evaluation, on page 130.	More about the composition and activities of the Nomination Committee is in the Nomination Committee Report, on page 127.	
management, the process controls and principal risks, together with mitigation strategies, appear on pages 94 to 107. Details about the composition and activities of the Audit Committee are within the Audit Committee Report, on page 132.		
reflective of any concerns with the standards of service provided by PwC. The Remuneration Committee scrutinises performance-related pay at the point of completing a measurement period. It has discretion to ensure that remuneration outcomes are adjusted where it	considers such adjustment more appropriately aligns reward outcomes to Group performance. No Directors are involved in making decisions regarding their own remuneration.	You can find the composition and activities of the Remuneration Committee, and remuneration outcomes in the Remuneration Committee Report on page 144.

Corporate Governance Report

Role of the Executive Committee

The Executive Committee focuses on the delivery of the Group's strategy, assessing the adequacy of the Group's financial structure, operational and financial performance, innovation, organisational development, and management of change. These activities are informed by engagement with the workforce and other external stakeholders, including the UK Government and NGOs, that could impact the Group's ability to execute its strategy. There are more details about such engagement on page 32. During 2023, there were several changes to the membership of the Executive Committee, due to the evolution within the business to prepare for international success, revise our leadership structure and to support the required breadth, depth and expertise. In September 2023 Miguel Veiga-Pestana joined as Chief Sustainability Officer and a member of the Executive Committee. From 1 December 2023 Penny Small was appointed to the new role of interim Chief Operating Officer ("COO"). The COO role will provide strategic leadership for our operational assets and capital projects and represent them at the Executive Committee and as part of this change, effective 1 December 2023 Matt White and Esa Heiskanen stepped down from the Executive Committee, whilst retaining their prevailing operational responsibilities for Pellet Operations and capital projects respectively, supporting the growth of our assets.

The Executive Committee develops and considers policies and procedures that provide an effective framework for operating in line with required standards, laws and regulations. These policies and procedures include our Code of Conduct, Supplier Code of Conduct and Diversity and Inclusion Policy.

The Executive Committee considers business performance against the annual plan, and reviews progress in realising longer-term objectives. It receives reports on each of the business units, covering financial and non-financial metrics. The latter include matters affecting the safety and wellbeing of our workforce, which is the opening agenda item for each meeting.

In 2023, the Executive Committee completed an in-depth review of all nine principal risks; each of which is the responsibility of a member of the Executive Committee. You can read more about our principal risk processes on pages 94 to 107.

The Executive Committee meets informally most weeks, in addition to holding 10 monthly meetings. Where relevant to agenda items, Committee members are provided with the briefing papers in advance of meetings. To support specific discussions senior managers within the business units also attend.

The Committee meets with management teams three times each year for deep dives into operational and financial performance matters. Typically such meetings are held over the course of two days and allow for a more detailed review of key programmes and initiatives, to assess delivery against the Group's strategy.

Biographies of the Executive Committee members are on the website: drax.com/about-us/corporate-governance/board-and-committees/.

Role of the Board

The Board determines the Group's purpose, strategy and business model for long-term value creation, and its appetite for risk and risk management policies. The Board also determines the annual plan and its budget, considering whether the Group has the necessary resources to deliver the strategy. In addition, the Board sets the key performance indicators to measure performance in realising strategic objectives (for example, tracking cost reduction targets in the self-supply of pellets). It also reviews and advises on stakeholder engagement, including with shareholders, the workforce, Government, NGOs as well as communities where the Group's businesses are operated. The Board considers management proposals for acquisitions, disposals, and other transactions outside ordinary delegated limits. The Board also evaluates significant financial decisions. Such decisions include investment in large scale projects such as BECCS, the Group's capital structure and capital allocation policy of which the dividend policy is one aspect. For more information on these see the Financial Review which starts on page 22. The Board provides challenge to management on the means by which the Group's priorities and initiatives related to sustainability and environmental practices are being realised. The Board reviews the effectiveness of the Group's governance structure, commenting on how it should be revised to reflect the evolution of the business. Reviews may cover: business conduct, ethics and whistleblowing; the prosecution, defence or settlement of material litigation; and Directors' Remuneration Policy. They may also include the terms of reference of Board committees, and the Board structure, composition and succession planning.

Terms of reference

The Board has a schedule of Matters Reserved for its decisions, and formal terms of reference for its committees (which it reviews periodically). The terms of reference of the committees of the Board are available to view on the Group's website at drax.com/about-us/corporate-governance/board-and-committees/.

Matters not specifically reserved to the Board and its Committees under their terms of reference, or for shareholders in General Meeting, are delegated. Delegation is to the Executive Committee, or otherwise in accordance with a schedule of delegated authorities. The most recent review of the Matters Reserved for the Board occurred in December 2020. This review informed a detailed assessment of the Group's wider delegations of authority, which was completed in 2021.

Culture

How does management monitor and assess culture?

The Executive Committee

- The subject of ethics and values is regularly discussed at the Executive Committee. The Group General Counsel, who was Chair of the EBCC – see below – and Committee sponsor during 2023, supports the CEO's regular updates to the Board.
- The Executive Committee develops plans for Board consideration on matters such as responding to workforce engagement feedback (My Voice Forums and annual My Voice Survey) promoting diversity and inclusion, and dignity at work.
- The CEO sends a weekly Group-wide "Ask Will" email with Q&A (allowing colleagues to ask/comment about what's on their mind).

The Group Ethics and Business Conduct Committee (EBCC)

- A sub-committee of the Executive Committee, the EBCC meets quarterly to monitor, support and challenge a range of activities across the Group. It considers initiatives to maintain, enhance and assess ethical behaviour and business conduct across Drax.
- Current members of the EBCC include the Group General Counsel who chaired her first meeting in January 2023 (EBCC Chair) and four other Executive Committee members. They are the: Chief Financial Officer; Chief Sustainability Officer; Chief Commercial Officer and Group Generation Director. The Executive Vice President (North America), the Group Company Secretary and the Group Regulation and Compliance Director make up the remaining members. This ensures that related Executive Committee discussions are well-informed and that there is strong senior engagement in the Group's culture. The EBCC supports the Group's commitment to doing the right thing in its business practices. Steps by which it achieves this include making sure there are appropriate communications to raise awareness and providing appropriate training that informs behaviours in accordance with our Code of Conduct. For more information, see page 70.
- The EBCC also assesses an annual review and risk assessment of each compliance programme. These cover anti-bribery and corruption (including conflicts of interest), corporate criminal offences (tax evasion), ethical due diligence, fair competition, privacy, sanctions, Speak Up (whistleblowing), and supply chain human rights.
- The EBCC oversee our Business Ethics programmes which are also reviewed as part of the Group's internal audit programme cycle, findings from which are reported to management and the Audit Committee. In 2023, our Financial and Trade Sanctions programme was reviewed by internal audit.

How the Board functions

Routinely, before the formal meeting of the Board, the Chair and the Non-Executive Directors meet in private without management being present. This allows them to exchange views, share any concerns and discuss matters of priority before the meeting starts. At each Board meeting, the CEO gives a report on key business, operational and safety matters and the CFO reports on the Group's financial performance. The Board also receives regular reports on performance against the business plan, as well as operational and financial performance. In addition, it receives regular business reports from senior management across the Group, and updates on investor relations and wider stakeholder engagement. The Chair is responsible for ensuring adequate time is allocated to each agenda item, to support effective discussion and challenge by Directors and this is periodically reviewed whether as part of a formal annual performance evaluation or during the time allowed for discussion prior to the formal agenda. The Board also holds dinners before a number of the meetings to allow more informal consideration of topics, to which from time to time other members of the executive and management or an external speaker may contribute.

During 2023, there was a consideration of the principal risks associated with the decision to postpone investment in BECCS at Drax Power Station. You can read more about the Board's decision process and stakeholder engagement on page 124 and in the Principal Risks and Uncertainties section on pages 94 to 107.

Linked to energy security, the Board received regular updates during 2023 on macro-economic factors influencing energy providers, availability of capital and cost of debt, which included considering how these impacted realisation of the Group's objectives, for example how prevailing inflation continued to affect costs spanning the procurement of raw materials in the production of sustainable pellets; and in day to day operations through to the execution of capital projects in the UK and North America supporting the Group's growth, both of which have been also further impacted by shortages of supply. The Board regularly assesses the best use of the Group's resources including its cash and in early 2023 concluded that sufficient cash was available for the Company to continue to meet its financial obligations whilst also undertaking a buyback of the Company's issued shares. In reaching its determination, the Board discussed the views of stakeholders and analysts and, following careful consideration, authorised a £150 million share buyback programme. The buyback concluded in September 2023 with 26,426,259 ordinary shares having been purchased.

Corporate Governance Report continued

The Board receives regular industry, regulatory and topical updates from internal specialists as well as external experts and advisers. One example in 2023 was a deep-dive on the trading and optimisation strategy which included consideration of the related risks. The significant increase in gas prices in 2022, was a major factor in higher power prices that saw higher financial returns across the energy sector. In response to these circumstances the UK Government introduced the Electricity Generator Levy (EGL) – a levy on renewable power revenue over a certain threshold. The EGL applies to our biomass RO (“Renewable Obligation”) and run of river hydro assets but not the biomass CfD unit (“Contract for Difference”) or Cruachan. The EGL impacts the economics of our RO units versus the CFD unit and this is considered when making trading and optimisation decisions.

The core activities of the Board and its Committees are planned on a forward agenda that the Chairs of each Committee consider and regularly review. The Group Company Secretary maintains a list of matters arising from each meeting and reports on how these are being addressed at subsequent meetings. The Group Company Secretary also advises the Board on governance matters, ensuring good information flows within the Board, its committees, the Executive Committee and senior management. The Group Company Secretary assesses and advises the Board on compliance with the Listing, Prospectus, Disclosure Guidance and Transparency Rules, the Corporate Governance Code and the Companies Act. An important part of this is effective collaboration with other parties across all Group functions. Good training, regular discussions on key issues, and support in evaluating the potential for change from those in areas of critical operational risk are also imperative.

All Board Committees are authorised to obtain legal or other professional advice as necessary to perform their duties. This includes securing the attendance of external advisers at meetings and seeking required information from any member of the Group’s workforce.

The Company’s Articles of Association (the Articles) give the Directors power to authorise conflicts of interest when presented with such matters for their review. The Board has an effective procedure to identify potential conflicts of interest, consider them for authorisation and record them. In 2023, no conflicts of interest were identified. The Articles also allow the Board to exercise voting rights in Group companies without restriction (for example, to appoint a director to a Group company). The Articles are available on the Group’s website at <https://www.drax.com/wp-content/uploads/2021/04/2021-Articles-of-Association.pdf>.

The Business Ethics team oversees our Speak Up (whistleblowing) programme. This includes the external, confidential (and anonymous, should reporters so wish) reporting service which is available in multiple languages 24 hours a day, 365 days a year. The Ethics and Business Conduct Committee reviews the Speak Up programme and its annual risk assessment (most recently completed in 2023). In the 2023 My Voice engagement survey, 84% of colleagues responded positively when asked whether they “feel comfortable to speak up or report any concerns”. For more information on Speak Up, see page 71.

Our various Speak Up reporting channels are promoted to internal stakeholders across several platforms, and to third parties via our Supplier Code of Conduct. When applicable, the Business Ethics team responds to any reports from within Drax, as well as those referred via the external service. The Group Company Secretary is the Whistleblowing Officer with oversight of related investigations, as appropriate. Speak Up matters continue to be reported to the Board, Audit Committee and EBCC at the respective meetings, with an annual report of the broader EBCC activities provided to the Audit Committee. The Audit Committee also receives a quarterly report on Speak Up.

As stated in our 2021 Annual Report, our Speak Up programme received a positive internal audit in May 2021 (reported to the Audit Committee in July 2021). Most actions raised in the audit were completed within 2021, although one that the Audit Committee was tracking – related to creating an investigation procedure – was carried over into 2022. To close this action, the EBCC created and approved three principle-based guides in June 2022.

The Speak Up (whistleblowing) policy was last reviewed and an updated version approved by the Board in September 2023. Our guides and other Speak Up related material were also updated. This was communicated to colleagues in late 2023.

Our Princeton colleagues in Canada received a copy of the Speak Up policy (in place at the time) as part of their orientation activity which took place in 2023. Our new BMM colleagues who joined the Group in September 2023 also received initial information on our Speak Up processes as part of their orientation activity. They will receive further information in the first quarter of 2024.

As recipients of relevant Drax new starter onboarding material, it was concluded that colleagues at our newer Tokyo and Houston offices do not require separate deployment of our Speak Up programme, nevertheless, such colleagues have received awareness raising on the topic in 2023.

A Code of Conduct eLearning refresher with a spot light on Speak Up (whistleblowing) was deployed in quarter four of 2023 to all colleagues with the exception of those at BMM.

Diversity

We explain our work promoting diversity of all kinds on page 65. The tables below (and on p123) show the gender and ethnicity representation on the Board, and in the wider workforce, at 31 December 2023.

Gender diversity of the Board and wider workforce

Gender	Male		Female		Total	
	No.	%	No.	%	No.	%
Board members ⁽¹⁾	5	50	5	50	10	100
Senior managers ⁽²⁾	36	63	21	37	57	100
All employees ⁽³⁾	2,375	68	1,111	32	3,486	100
Total	2,414⁽⁴⁾	68	1,137	32	3,551	100

(1) Philip Cox stood down on 31 December 2023. He has been included in the figures.

(2) Direct reports of the Board (i.e. Executive Committee) and their direct reports.

(3) Excluding Board members and senior managers.

(4) Two Executive Directors are also members of the Executive Committee (“Senior Management”). They are included in both sets of figures to ensure the correct diversity is reflected, but have been removed from the total to ensure the correct headcount is reflected.

Gender representation on the Board and Executive Management

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	5	50%	4	5	62.5%
Women	5	50%	0	3	37.5%
Other categories	0	0%	0	0	0%
Not specified/prefer not to say	0	0%	0	0	0%

Ethnicity representation on the Board and Executive Management

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority white groups)	8	80%	3	8	100%
Mixed/Multiple Ethnic Groups	0	0%	0	0	0%
Asian/Asian British	0	0%	0	0	0%
Black/African/Caribbean/Black British	1	10%	0	0	0%
Other ethnic group, including Arab	0	0%	0	0	0%
Not specified/prefer not to say	1	10%	1	0	0%

Directors' development and induction

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

The Board's programme includes presentations from management, and informal meetings, that build an understanding of the business and sectors, or in areas recognised as being technically complex. Such training is intended to support a deeper understanding and equip the Non-Executive Directors with insight into how the Drax approach compares with the practices of its peers.

All new Directors receive a comprehensive and tailored induction programme. It includes meetings with key managers, international site visits, briefings on key operational matters and training with external and internal providers on Board procedures and governance matters. Following her appointment in August 2023, Andrea Bertone undertook her induction programme in the second half of 2023. Information on her induction is included in the Nomination Committee report on page 127.

Throughout 2023, the Directors also had access to the advice and services of the Group Company Secretary. Directors may take independent advice at the Company's expense, when they judge it necessary to discharge their responsibilities effectively. No such independent advice was sought in 2023.

Number of meetings held

The Board and its Committees have regular scheduled meetings and hold additional meetings as required. The Board has eight scheduled meetings each year, with the Board also meeting at least annually to specifically consider strategy. Directors are expected, where possible, to attend all Board meetings, relevant Committee meetings, the Annual General Meeting (AGM) and any other General Meetings.

Board leadership of stakeholder engagement

The Board is responsible for engagement with stakeholders. It ensures that appropriate time is given to discussing the views and feedback from stakeholders and that sufficient resources are available for the Group to effectively engage. The Corporate Affairs team maintains a detailed map of our key stakeholders, and the concerns which have been raised, and the date of each meeting with them.

During 2023, the Board received reports on the engagement strategy from a range of stakeholders. The topics included BECCS, the expansion of the Cruachan pumped storage power station, biomass acceptability and strategy, and the Board-approved a £150 million share buyback programme.

The Board has a duty to promote the success of the Company, as set out in Section 172 of the Companies Act 2006. Supporting this, Board discussions – and supporting papers – for material decisions consider the likely impact on any stakeholders affected by the decisions. This helps to ensure the interests of all relevant stakeholders, and the need to act fairly towards members of the Company, are considered in decision-making. On page 124 you can see examples of stakeholder considerations in action, in respect of Board decisions related to BECCS project developments in the UK and globally.

For our Section 172 Statement, and more detailed information on our stakeholders and how we engage with them, please refer to our "Stakeholder" section on page 32.

Corporate Governance Report continued

Case study

Board decision-making and stakeholder considerations – BECCS project developments in the UK and globally

In our 2022 Annual Report we explained how delivery of BECCS at Drax Power Station is reliant on the Government financial model that supports BECCS. The Board has always recognised the importance of engagement with the Government and other stakeholders to highlight the value of BECCS to the UK's energy system. In 2023 Drax representatives attended the World Economic Forum for the first time where our CEO, Will Gardiner, met with a number of world leaders, business leaders and influential journalists. We also attended the Conference of the Parties (COP28) for the second year in a row and the Clean Energy Ministerial Summit where the CEO and colleagues spoke with delegates to explain why BECCS is a critical technology to tackle climate change.

In March 2023, due to Drax not receiving "Track-1" status from the UK Government, after careful consideration the Board felt that, due to the ongoing uncertainty, proceeding with on-site investment in enabling works to deliver BECCS at Drax Power Station would not be in the best interests of stakeholders. We therefore announced that the Board had decided to pause such on-site investment until sufficient certainty is gained from the UK Government in the support mechanism and the timing of BECCS at Drax Power Station. In reaching the decision the Board gave careful consideration to the impact on stakeholders, including partners and employees. The Government's decision that precludes Drax from delivering BECCS at Drax Power Station in line with the intended 2027 commissioning date represented a change to our strategy, and so engagement with key stakeholders in the immediate aftermath and subsequent periods following the Government's announcement occurred. The Board considered the related risks to delivery of UK BECCS programme, with 2030 now the targeted delivery date for the first unit of UK BECCS, and set out the requirements to allow for the viability of Drax Power Station beyond the end of the present subsidy regime in 2027, until BECCS can be delivered. The importance of a form of bridging mechanism is fully recognised and discussions have continued with relevant stakeholders to attain the required clarity and commitments. In January 2024 the Board welcomed the approval by the UK Government of the

Development Consent Order for BECCS at Drax Power Station. Also in January 2024, the UK Government launched a consultation, which closes on 29 February 2024, on options for a bridging mechanism, which is another key milestone for enabling UK BECCS. The bridging mechanism would, if implemented, provide important revenue certainty to support Drax Power Station until the realisation of BECCS in the UK, in turn enabling the UK to meet its legal commitments to reduce CO₂ emissions by 2050. Failure to secure an appropriate bridging mechanism would have a material impact on the viability of Drax Power Station and consequently BECCS in the UK. The Board and management will continue to monitor the evolution of the support environment in the UK, the views of different stakeholders, as to how they inform future steps and what that could mean for investment decisions related to BECCS at Drax Power Station.

Despite the timing challenges in the UK, the Board continues to recognise the attractive options for international BECCS projects and has continued to assess BECCS options globally, with a focus on the US. The Board has regularly considered progress in delivering against key project milestones and has challenged management to focus resources on those projects that are most likely to enable the timely fulfilment of the Company's strategy. During the year our team worked to further advance our relationships and a significant number of meetings were organised with senior policymakers at regional and national Government levels – as well as NGOs, think tanks and academia. Directors have reviewed the US BECCS options project pipeline and received updates on prospective development sites. Updates included those on project-specific people developments to support BECCS. During 2023 several people were hired to support global BECCS projects, and a significant internal resource of colleagues are currently solely focused on BECCS delivery. This includes Laurie Fitzmaurice who joined us on 5 February 2024 as President of Global BECCS. The Board continues to pay careful attention to the appropriate resourcing needs of projects, including personnel needs to effect execution.

Workforce engagement

The Board believes the MyVoice Forums (MVs) are the most appropriate means to facilitate workforce engagement. The MVs have demonstrated they operate as a constructive method by which to address important issues, through which the business has built a Group-wide framework of effective and direct engagement between the Board and the workforce.

Each business unit has a MVF, comprising approximately 10 colleague representatives. Across the Group, we have approximately 50 representatives, drawn from across career levels and jobs roles, and representing a range of diversity and experience. Collectively, the MVFs ensure colleagues' voices and views can be heard.

A member of the senior leadership team and an HR representative support these forums and attend each meeting. The MVF chairs meet quarterly with the Board Chair and CEO to discuss colleague sentiment and to provide feedback on key topics. Each of these meetings features a discussion about the feedback on topics previously agreed to be important to the Board and workforce. Following each meeting, the Chair and

CEO provide updates to the Board, to make sure all Directors can consider the views of colleagues. Engagement with the MVF chairs has been valuable in helping the Board gain ongoing feedback as the Group continues to evolve.

Topics discussed in 2023 included BECCS, the ongoing cost-of-living crisis, wellbeing of employees, and the new community strategy. The forums offer a safe space in which to answer direct questions raised by the MVF chairs, and to discuss important issues.

The MVFs continue to be a key part of our listening strategy and work in tandem with the My Voice engagement survey. The forums provide valuable, deeper insight to the survey themes and deliver further input to the resulting action plans.

Each week, the CEO sends an email to the entire workforce with an update on what he and the business have been doing, and with answers to colleague questions. During 2023, the CEO answered over a thousand questions on topics including sustainability, BECCS, and employee wellbeing.

Board roles

The key responsibilities of Board members are as follows:

Position	Role
Chair	Responsible for leading and managing the Board, its effectiveness, and governance. Makes sure Board members are aware of, and understand, the views and objectives of major shareholders and other key stakeholders. Helps to set the tone from the top in terms of the purpose, goal, vision and values for the whole organisation.
CEO	Responsible for the day-to-day management of the business, developing the Group's strategic direction for consideration and approval by the Board and implementing the agreed strategy.
CFO	Supports the CEO in developing and implementing strategy. Responsible for the financial management and performance of the Group.
Senior Independent Non-Executive Director	Acts as a sounding board for the Chair and a trusted intermediary for other Directors. Available to discuss any concerns with shareholders that cannot be resolved through the normal channels of communication with the Chair or the Executive Directors.
Independent Non-Executive Directors	Responsible for bringing sound judgement and objectivity to the Board's deliberations and decision-making process. Constructively challenge and support the Executive Directors. Monitor the delivery of the strategy within the risk and control framework set by the Board.

Time commitment

Directors' commitments outside of Drax are kept under review to make sure they have sufficient time to dedicate to the business and effectively perform their role. Under the terms of the Chair's letter of appointment, the Chair is expected to commit between 50 and 70 full days a year to this role. Under the Non-Executive Directors' letters of appointment, each is expected to commit 12 to 15 full days a year. That includes attendance at Board meetings, the AGM, one annual Board strategy off-site event, and at least one site visit each year.

In addition, Non-Executive Directors are expected to devote appropriate preparation time ahead of each meeting. The time commitment expected in respect of their membership of the Audit, Nomination and Remuneration Committees is an additional three to four full days a year in each case. However, in practice, considerably more time is devoted, particularly by the Chairs of the Committees.

Executive Directors may, with the prior approval of the Chair, take on one additional role in an external listed company. Neither of the Executive Directors have taken on such a role. Non-Executive Directors may, with prior approval from the Board, take on additional roles provided the individual can continue to devote sufficient time to meet the expectations of their role.

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

Board composition and independence

The Board has reviewed the independence of each Non-Executive Director. None of the Non-Executive Directors who served during the year had any material business or other relationship with the Group. In addition, there were no other matters likely to affect their independence of character and judgement. The Board recognises that, in view of the characteristics of independence set out in the Code, length of service is an important factor when considering the independence of Non-Executive Directors. It also recognises that Directors who have served more than nine years may not be considered independent. The Board considers all the Non-Executive Directors to be independent.

Corporate Governance Report continued

Board attendance 2023

The table below shows the number of meetings held and the directors' attendance during 2023.

Director	Date appointed as a director and member of the Board	Scheduled meetings ⁽¹⁾	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	8	8	100%
Andrea Bertone	24 August 2023	3	3	100%
Philip Cox	1 January 2015	8	8	100%
Will Gardiner	16 November 2015	8	8	100%
Nicola Hodson	12 January 2018	8	8	100%
Kim Keating	21 October 2021	8	8	100%
David Nussbaum	1 August 2017	8	8	100%
Erika Peterman	21 October 2021	8	7	87.5%
Andy Skelton	2 January 2019	8	8	100%
Vanessa Simms	19 June 2018	8	8	100%

Notes:

(1) The scheduled meetings that each individual was entitled to, and had the opportunity to, attend.

Summary of the Board's activities in 2023

In addition to the topics discussed earlier in the Corporate Governance Report, the Board considered the following key items in 2023.

Board strategy event

- Over a two-day period in October 2023, the Board conducted its annual deep dive into strategy formulation and execution. The event facilitated presentations and discussions involving various internal stakeholders from across the organisation. The sessions provided insight into market context, opportunities for the growth of the Group, including international BECCS site options and deployment progression and an explanation of key stakeholders involved in supporting the Group's plans. The strategy to achieve pellet production and sales targets, sustainability principles and commitments and the Group's plans for growth using sustainable biomass were also discussed.

Health, safety and wellbeing

- As detailed in the 2022 Annual Report, the 2023 bonus Scorecard reintroduced a safety KPI, reflecting the importance of continuing to reduce safety related incidents. At each Board meeting, updated statistics regarding health and safety are included for discussion. In April 2023 the Board discussed safety progress. The Board endorsed initiatives encouraging sharing experiences of incidents and making time for safety discussions in daily team meetings as a means by which to enforce awareness and enable positive changes in behaviours. Awareness events were also organised, such as a two day pre-outage event held for employees and contractors at Drax Power Station.

Operations

- Considered and approved the continuing development of, and investment in, global BECCS.
- Considered and decided to pause ongoing investment in UK BECCS, as discussed in the case study on page 124.
- Discussed the pellet production, uses and sales strategy.
- Discussed the Cruachan upgrade following planning permission from the Scottish Government which allows Drax to progress our ground-breaking plans to build a new c.£500m underground pumped storage hydro plant.
- Considered and approved additional investment at Cruachan units 3 and 4.

Nomination Committee report



Andrea Bertone, Chair

Committee members

Andrea Bertone (Chair)
John Baxter
Nicola Hodson
Kim Keating
David Nussbaum
Erika Peterman
Vanessa Simms

Attending by invitation

CEO

Number of meetings held in 2023: Two

The Group Company Secretary is Secretary to the Committee.

Attendance in 2023⁽¹⁾

Committee member	Date appointed a member	No. of scheduled meetings	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	2	2	100%
Andrea Bertone	24 August 2023	0	–	–
Philip Cox ⁽²⁾	22 April 2015	2	2	100%
Nicola Hodson	12 January 2018	2	2	100%
Kim Keating	21 October 2021	2	2	100%
David Nussbaum	1 August 2017	2	2	100%
Erika Peterman	21 October 2021	2	2	100%
Vanessa Simms	19 June 2018	2	2	100%

(1) The table shows the scheduled meetings of the Committee within the ordinary annual cycle of the Committee's activities. There were additional meetings held during the course of the year which considered candidates for the position of Board Chair. For more information on the recruitment process see page 128.

(2) Philip Cox did not attend meetings outside of the ordinary annual cycle of the Committee's activities in order to maintain an orderly independent search for a new Board Chair. Philip Cox stepped down from the Board and as Chair of the Nomination Committee on 31 December 2023.

Terms of reference

The Committee's terms of reference are reviewed annually, most recently in February 2023. The terms of reference are available on the Group's website at www.drax.com/governance



As the Group grows and evolves, having leaders and colleagues with the right mix of skills and capabilities to deliver our strategy and purpose, is key.

Role of the Committee

The Nomination Committee has responsibility for:

- Reviewing the Board's structure, size and composition (including requisite skills, diversity, knowledge and experience) so that it is effective in delivering the Group's strategic priorities and promoting long-term success of the Group
- Ensuring that a succession planning process is in place for the Board and executive management, including the identification of candidates based on merit and objective criteria, and taking into account the need for diversity with regards to gender, social and ethnic backgrounds, cognitive and personal strengths
- Undertaking a search and selection process for new Directors, taking advice from independent search consultants as appropriate
- Monitoring and challenging initiatives and progress in addressing diversity and inclusion

Nomination Committee activities since the last report

- Search for a new Chair
- Recommendation for the renewal of David Nussbaum's letter of appointment for a third term
- Considered a report on succession planning at executive and senior management levels
- Reviewed the Board Diversity Policy as part of a Board meeting

Nomination Committee report continued

Introduction

I am pleased to present the Nomination Committee Report for the year ended 31 December 2023.

A key focus for the Nomination Committee during 2023 was to conduct a search for a new Chair. I was appointed to the Company as a Non-Executive Director and Chair Designate in August 2023, with my appointment as Chair of the Board and Nomination Committee taking effect from 1 January 2024. The search was led by David Nussbaum, Senior Independent Director. More information about the search process can be found below.

I was fortunate to have some time before taking over as Chair to further enhance my understanding of Drax, its operations, culture and people. My sincere thanks to those colleagues who have been very generous with their time and knowledge during my

induction. I have had productive engagement with people in the London office, Drax Power Station in Selby, and Vancouver office. Drax has a well-established business delivering renewable power to millions of people in the UK, and I was very impressed during my tour of the Drax Power Station, not only with the quality of the assets, but with the commitment and enthusiasm of the team responsible for providing power to UK consumers and businesses.

As part of my onboarding, I have been learning more about our strategy and the contribution from colleagues across our regions to deliver our objectives. The timing of my appointment meant I was able to participate in the annual strategy meeting held in October. I am also getting a sense of the passion and pride that Drax have in doing what is right in supporting each other and communities in which we work to deliver positive outcomes for nature, people and the climate.

The search for a new Chair

Report of the Senior Independent Director

In planning for the completion of Philip Cox's nine-year tenure as a Non-Executive Director, we began the search process for a new Chair in August 2022. Led by me, as Senior Independent Director, the Nomination Committee carried out an assessment of potential external firms with the capability to conduct an international search for a diverse range of candidates, reflecting the structure of our growing Group across the US, Canada, Asia and Europe. Following this assessment Heidrick & Struggles, which is signed up to The Voluntary Code of Conduct for Executive Search Firms (which ensures it factors diversity considerations into its recruitment advice), was appointed in October 2022 to assist with the search. Heidrick & Struggles had no other engagement with the Group or any other conflict which would impact their role.

Heidrick & Struggles supported refinement of our search criteria for suitable candidates for the role of Chair. This included an ability to be a strong and effective leader of the Board, to set the appropriate tone which informs our vision, values and culture. The Board was also conscious of the value of a Chair who understood the Group's strategic objectives and would be an enabler of appropriate challenge as well as an effective supporter of their realisation. The Group continues to undergo significant change as an integral part of implementing that strategy and the Committee therefore considered carefully the relative strengths of candidates who could help steer the Group through a period of international growth and transformation. This included a successor to Philip Cox who would be able to engage with colleagues across our Group and be supportive of engagement with external stakeholders. An appreciation and understanding of the energy sector and experience in enabling change including large-scale capital investment programmes, were also important attributes.

From the longlist of candidates provided by Heidrick & Struggles, in January 2023, six candidates were selected to progress. First interviews were conducted with a panel comprising the Senior Independent Director, the CEO, and at least one Non-Executive Director for the majority of candidates, with all interviews attended and supported by the Chief People Officer. Following these interviews, three candidates were taken forward.

The second stage required each candidate to undertake psychometric tests and a Board Culture Survey. The candidates' Culture Survey results were compared with the results of the Culture Survey completed by all Board members in 2022. Interviews were then completed between April and June 2023 which consisted of a panel interview with two or three Non-Executive Directors and the Chief People Officer. Two finalist candidates were selected and had individual meetings with the CEO and CFO as well meetings with other executive management, the current Chair and the Group Company Secretary.

At the end of June 2023, both candidates met with a panel of Non-Executive Directors, the Senior Independent Director and the Chief People Officer. They presented their perspectives on the Chair role for discussion with the panel and had a further opportunity to ask questions.

Following conclusion of this process, the Nomination Committee made a recommendation of appointment to the Board. The Board considered and approved the appointment of Andrea Bertone as a Non-Executive Director and Chair Designate in August 2023, allowing sufficient time for a comprehensive handover from Philip Cox before taking up the role of Chair on 1 January 2024.

David Nussbaum
Senior Independent Director

Skills and knowledge of the Board

A key responsibility of the Nomination Committee is ensuring the Board maintains a balance of skills, knowledge, and experience appropriate to the long-term operation of the business and strategy delivery. The Nomination Committee has reviewed the Board's composition, considering whether it has:

- The right mix of skills, experience and diversity
- An appropriate balance of Executive Directors and Non-Executive Directors
- Non-Executive Directors who can commit sufficient time to the Company to discharge their responsibilities effectively

That review has been an active aspect of the work in appointing a new Chair and the Committee remains satisfied that the Board continues to have an appropriate mix of skills and experience to operate effectively, now and for the future. All the Directors have many years of experience, gained from a broad variety of businesses. Collectively they bring a range of expertise and sector knowledge to Board deliberations, which encourages constructive, challenging and insightful discussions. More on the respective skills and experience of the Directors can be found on pages 114 to 116.

Succession planning and diversity

The Nomination Committee is responsible for ensuring that there is an effective succession plan process in place for the Board and executive management, which includes the identification of candidates based on merit and objective criteria, and which takes into account the need for diversity with regards to gender, social and ethnic backgrounds, cognitive and personal strengths.

Given the growing international presence and complexity of Drax, the Nomination Committee recognises the importance of having effective measures in place to identify skills, capabilities and experience needed to deliver our strategy, as well as contribute to the appropriate culture, ethos and practices necessary to deliver change whilst maintaining sound practices which enable more established elements of the Group's activities. Reviews include identifying colleagues with the potential to progress into more senior roles, across a timeframe of one to five years. It also incorporates factors such as technical skills, experience, behaviours and attitudes.

Our sustainability credentials and our reputation will play a critical role in the Group's ability to deliver on our corporate strategy, including generating dispatchable renewable power in the UK, delivering UK BECCS and becoming a leader in the production and sale of sustainable biomass. The Board considered the need for a Chief Sustainability Officer to lead our sustainability efforts and build upon our global reputation with stakeholders. Following a recruitment process, Miguel Veiga-Pestana was appointed in September 2023.

In October, we announced the creation of the Chief Operations Officer (COO) role. This role will help us to ensure the efficient, safe, and sustainable operation of our energy assets and pellet operations, whilst delivering our multi-billion-pound capital investment programme. Consolidating our operational assets and associated capital projects into one integrated business unit will enable greater collaboration, co-ordination and efficiency. Penny Small, who has served as Group Transformation Officer and Group Generation Director, was appointed as interim COO in December 2023. In December, the EVP Pellet Operations, EVP Capital Projects and Director of Generation stepped down from the Executive Committee and report to the interim COO. A recruitment process is underway to identify a permanent COO, who is expected to be appointed to the Executive Committee in 2024.

In October, the Board also reviewed progress on the Group's strategic workforce planning which includes a review of the key skills required across the Group to deliver the Group's strategy

over a term of up to five years. Strategic workforce planning helps develop our longer-term internal talent management strategy as well as identify any external recruitment needs.

In the final quarter of 2023, the Board considered and endorsed the Board Diversity Policy (the Policy) which had been approved in 2022. The Policy has due regard for the FCA Policy Statement on diversity and inclusion on Boards and in executive management and confirms the Group's support for the recommendations of the FTSE Women Leaders Review and the Parker Review. The Policy also confirms the Group's objective to maintain at least 40% female director representation and to have at least one director from an ethnic minority. As at 31 December 2023 there was 50% female representation on the Board, rising to 56% from 1 January 2024, and at least one director from an ethnic minority. More information on gender and ethnicity reporting can be found on page 123.

The Board and executive management continue to recognise that Drax needs to do more to support people from diverse backgrounds. In March 2023, the Parker Review published a new target for FTSE 350 companies which seeks disclosure on the target percentage of senior management positions to be occupied by ethnic minority executives by 2027. We fully support the Parker Review's ambitions and the Group is currently preparing an ethnicity objective appropriate for the succession pipeline of an internationally growing business. We also continue to expand our diversity related activities, rolling out our Diversity, Equity and Inclusion (DEI) action plans, embedding DEI into our recruitment, talent and retention processes. We have also rolled out DEI workshops across North America and have provided additional bite-sized learning for all colleagues to understand more about DEI. In 2023, we also celebrated events such as LGBTQ+Pride, Jamaica Day, Black History Month, World Menopause Day, Passover, Hispanic History Month, Indigenous People's Day and Canada's National Day for Truth and Reconciliation.

Non-Executive Directors: terms of appointment

Under the Board's policy, Non-Executive Directors are appointed for an initial term of three years, which can be renewed by mutual agreement. The Board must be satisfied with the Director's performance and commitment, in order to recommend that each Director be put forward for re-election at each annual general meeting. The Board will not normally extend the aggregate period of service of any independent Non-Executive Director beyond nine years. Also, the Board will review any proposal to extend a Non-Executive Director's aggregate period of office beyond six years.

In 2023, the Board considered the re-appointment of David Nussbaum, for a third term of three years. The Board considered David's skills and contribution, together with the feedback from the evaluations of the Board and Committees. David has extensive experience working in NGOs which has included executive leadership in such organisations. He provides insight and constructive challenge to the Group's activities and brings to bear his in-depth knowledge of effective governance and the views of external stakeholders to inform Board discussions. On the recommendation of the Non-Executive Directors, the Board approved the extension of his appointment for a further three years, taking effect from 1 August 2023.

Board and Committee evaluation

The Board conducts an annual performance evaluation, ensures there are ongoing Board development activities, and provides a comprehensive induction for new Board members. In 2022, an externally facilitated evaluation of the Board and its Committees was conducted by Board Alchemy. The table on pages 130 and 131 summarises the recommendations and how we responded to them during 2023.

Nomination Committee report continued

A summary of the key recommendations from the 2022 Board and Committee evaluations, and how we acted upon them during 2023, is provided below:

	2022 External recommendation	Action taken during 2023
1.	Provide "refresher" development to Non-Executive Directors in areas relating to hedging strategy plus trading and commodity markets. Adopt a structured approach to determining training needs for Board members.	At the September Board meeting, internal experts from the Trading and Optimisation team delivered a refresher training session to the Board. The future Trading and Optimisation strategy was also discussed. The Board confirmed in the 2023 internally led evaluation that deep-dive refresher training on complex topics is helpful and will continue to assess further training opportunities.
2.	Enable Board members to visit Drax assets more regularly, particularly since this has been difficult in recent years. Members should use visits as an opportunity to engage with staff.	The Board visited the Cruachan Power Station site in June 2023 and met with colleagues. Andrea Bertone also visited offices in London, Selby (Drax Power Station) and Vancouver and met with colleagues at those sites. More information can be found on page 128. Erika Peterman and John Baxter also visited the Ipswich office in October 2023. The Board agree that it is beneficial for Directors to visit operational sites and support the continuance of this practice.
3.	Consider using the Chair succession exercise to meet new requirement for a woman to hold one of the four senior roles on the Board.	Our newly appointed Chair, Andrea Bertone, fulfils this recommendation. More information about our Board and executive management gender and ethnic diversity can be found on page 123. Diversity was actively considered as part of the recruitment process for a new Chair. The external recruitment advisers, Heidrick & Struggles, who assisted with the search for a new Chair, are signed up to the Voluntary Code of Conduct for Executive Search Firms, which ensures it factors in diversity considerations into its recruitment advice.
4.	Obtain specific feedback from Board members about how to further improve papers submitted to the Board.	A question seeking feedback in respect of Board papers was included in the 2023 internal evaluation questionnaire. The Board commented that the quality of Board papers has improved but the length of papers was highlighted as requiring attention with management encouraged to be more succinct.
5.	Ensure less-experienced members of the management team who present papers to the Board are consistently well-briefed and adequately prepared.	There is ongoing support for presenters to ensure they are well-briefed and adequately prepared prior to presenting papers to the Board.
6.	Consider the formal terms of reference for the Independent Advisory Board (IAB) to Drax, then regularly review and update them.	Terms of reference are in place. They were reviewed by the Board in April 2023.
7.	The Board should discuss the merits of establishing a Sustainability Committee and, if the decision is to proceed, consider the timing of its launch and its remit.	During 2023, the Board established a Sustainability Council. The Sustainability Council has Group-wide responsibilities for matters relating to sustainability. In addition, the IAB, led by scientists and chaired by the UK Government's former chief scientific adviser Professor Sir John Beddington, provided independent and impartial advice.
8.	Give attention to the development of a digital strategy to support the broader business strategy and purpose of Drax.	In October 2023, the Board discussed the Group's digital strategy to support the Group's broader business strategy and purpose.

2022 External recommendation		Action taken during 2023
9.	At Board level, undertake a “lessons learned” review of the Pinnacle acquisition and establish the practice of conducting similar reviews on a regular basis.	A review paper was presented at the July 2023 Board meeting. The shareholder circular at the time of the transaction set out five key benefits: (i) it would establish Drax as major producer and supplier of good quality low-cost sustainable biomass; (ii) it would provide a large and geographically diversified asset base; (iii) there would be potential for long-term biomass revenues with access to Asian and European markets; (iv) it would allow Drax to develop global growth opportunities for sustainable biomass; and (v) return on investment. It was concluded that key aspects of these objectives had been met. The Board endorsed the significant work of colleagues to date in making improvements and helping to raise standards.
10.	Consider resuming the practice of holding occasional Board meetings away from the London head office.	The Board agree that at least one Board meeting each year should be held at a different site. The Board visited and held a meeting at Cruachan Power Station in June 2023.
11.	The Board should seek management views about how the Non-Executive Directors might better support the Executive in stakeholder management.	A strategy as to how the Non-Executive Directors might better support the Executive in stakeholder management is being prepared and considered.
12.	The Board should discuss how to evolve support for local communities, particularly through the creation of employment opportunities for minority groups.	Updates on stakeholder engagement and support for local communities are provided to the Board and include information on work with minority or under-represented groups in our communities. For more information see pages 32 to 41.
13.	The Remuneration Committee’s terms of reference should include a responsibility to annually review the performance of the remuneration consultants.	The terms of reference were updated and approved at the February 2023 Remuneration Committee.

In 2023, the Board also completed an internally led evaluation which gathered feedback via questionnaire on a range of topics including culture, strategy, performance, Board and Committee decision-making, sustainability and engagement with stakeholders. The Board concluded that it continues to operate effectively but there is scope for deeper engagement with stakeholders in respect of sustainability to further enhance the Group’s TCFD’s capabilities. The Board also concluded that it was satisfied with the progress made on the recommendations provided by BoardAlchemy in 2022. Details of the progress can be found in the table on pages 130 to 131.

Renewal and re-election

Any newly appointed Director may hold office until the first AGM following their appointment. At that meeting, they must submit themselves for election by shareholders. Accordingly, Andrea Bertone will offer herself for election at the forthcoming AGM.

In accordance with the Company’s Articles of Association, and in line with the recommendations of the Code, each of the Directors will retire annually and offer themselves for re-election by shareholders at the AGM. The evaluation and review of the Board and its Committees, described above, concluded that each Director continues to demonstrate commitment, management and business expertise in their particular role. They continue to perform effectively. Accordingly, John Baxter, Will Gardiner, Nicola Hodson, Kim Keating, David Nussbaum, Erika Peterman, Vanessa Simms, and Andy Skelton will all retire at the forthcoming AGM. Being eligible, they will offer themselves for re-election.

The Executive Directors’ service contracts and Non-Executive Directors’ letters of appointment are available for inspection (by prior arrangement) during normal business hours at the Company’s registered office. They will also be available for inspection at the venue of the AGM, before that meeting takes place. Details are contained in the Notice of Meeting.

During the year, Philip Cox met regularly with the Non-Executive Directors in the absence of the Executive Directors. Separately, the Senior Independent Director held a meeting with the Non-Executive Directors without Philip being present, as required by Provision 12 of the Code.

This report was reviewed and approved by the Nomination Committee.

Andrea Bertone
Chair of the Nomination Committee

28 February 2024

Audit Committee report



Vanessa Simms, Chair

Committee members

Vanessa Simms (Chair)
Nicola Hodson
David Nussbaum
Erika Peterman

The Board is satisfied that the Committee's membership has the appropriate level of independence, skills, and recent and relevant financial experience. Vanessa Simms, a chartered certified accountant, is CFO of Land Securities Group plc. David Nussbaum is a chartered accountant who has served in several senior financial roles. Details of the skills and experience of the Committee members can be found on pages 115 to 116.

Attending by invitation

Chair of the Board, CEO, CFO, Group Financial Controller, internal auditor (KPMG), external auditor (Deloitte), incoming external auditor (PwC), others as required. The Group Company Secretary is Secretary to the Committee

Number of meetings held in 2023: Four

In addition to the meetings mentioned in the table below, Vanessa attended several planning meetings with management in advance to discuss key agenda items, plan for papers and ensure that her expectations were satisfactorily reflected in the matters discussed and explained. Vanessa also held meetings with the external auditor and internal auditor at intervals throughout the course of the year to discuss planning for future work, responses to recommended actions from previous reports, and other specific items as required.

Attendance in 2023

Committee member	Date appointed a member	No. of scheduled meetings	No. of meetings attended	% of meetings attended
Nicola Hodson	12 January 2018	4	4	100%
David Nussbaum	1 August 2017	4	4	100%
Erika Peterman	21 October 2021	4	4	100%
Vanessa Simms	19 June 2018	4	4	100%



The Committee continues to fulfil its responsibilities to provide oversight of the financial reporting process, the internal and external audit process, and the Group's system of risk management and internal control.

Introduction

Dear shareholders,

On behalf of the Audit Committee, I am pleased to present our report for the 2023 financial year. During 2023 the Committee continued to provide oversight of the financial reporting process, the internal and external audit process, the Group's system of risk management and internal control, whistleblowing, and compliance with laws and regulations. This report outlines aspects of those activities and the primary areas of focus, consistent with fulfilling the Committee's obligations, and should be read in conjunction with the section on our compliance with the UK Corporate Governance Code on pages 118 to 119, Principal Risks and Uncertainties on pages 94 to 107 and our Viability Statement on pages 92 to 93.

The Group's purpose positions Drax to play an important role in responding to the risks, opportunities and potential impact of climate change faced by society. In fulfilling our purpose and executing our strategy, sustainability is a key area of focus for the Group. The Committee increased its focus on this area during 2023, receiving regular updates on the assurance processes and controls associated with a sustainable business model incorporating financial, operational, and regulatory considerations.

Terms of reference

The Committee's terms of reference are reviewed annually by the Committee and then by the Board. The terms of reference are available on the Group's website at www.drax.com.

This included a review, supported by KPMG, of the sourcing of sustainable biomass, how Drax complies with relevant laws and regulations, and the level of assurance surrounding the associated reporting to regulators. Whilst this review did not highlight issues with the accuracy of underlying reporting, it did identify some specific areas for improvement. This included the clear designation of roles and responsibilities and in the documentation of reviews being performed before data is submitted to regulators. Management has designed a programme of work to ensure actions are taken to address these findings during 2024. The Committee will track and hold management to account on progress.

The Committee also received updates on implementing the requirements of the Task Force on Climate-related Financial Disclosures (TCFD), the evolving requirements of the Taskforce on Nature-related Financial Disclosures (TNFD), and wider climate change risks and risk mitigations. I am pleased to report that the Financial Reporting Council (FRC) included some of our 2022 TCFD disclosures as examples of good practice in its 'Thematic review of climate-related metrics and targets' (July 2023). In a letter received in December 2023, covering a review of our TCFD disclosures of metrics and targets and the adequacy of net zero commitment disclosures in the 2022 Annual Report and Accounts, the FRC confirmed they had no questions or queries in respect of these areas. The FRC did raise some suggestions, which we have sought to reflect in this Annual Report.

The Committee regularly reviews and considers the effectiveness of the Group's internal controls, which includes cyber risk assessment and mitigation activities. In July 2023, the Committee considered a report from the cyber security function on developing the security strategy to meet enhanced cyber capabilities, and management's recommendations on how these could be realised. The Group's generation assets form part of the UK's critical national infrastructure, and Drax Power Station is designated as an Operator of Essential Services (OES). As an OES, Drax Power Station is required to maintain a certain level of resilience to defend against potential cyber-attacks. That level of resilience is defined in the Network and Information Systems Regulations (NIS Regulations), introduced in 2018, which set out the work expected by OESs to achieve certain minimum standards by 31 December 2023. Operators are required to provide annual reports to Ofgem detailing their cyber defence maturity progress.

In common with many other businesses, Drax faces evolving cyber security threats. During discussions with management, the Committee and Board provide challenge on the risk assessment, adequacy of prevailing systems, investment, and internal controls, as well as making clear their support of implementing enhancements where deemed necessary. The status of response to these threats was considered in January 2024. Through this process, the Board considered that as at 31 December 2023 Drax Power Station had not fully achieved the required minimum standards as defined in the NIS Regulations; however, the Board approved a plan from management to address these requirements during 2024. The status report submitted to Ofgem in January 2024 identified the need for further work and outlined these plans to address the remaining areas.

The Committee seeks to ensure transparent, robust, and accurate external reporting that covers financial and operational performance, future prospects, and the wider business controls required for the day-to-day conduct of the business. The Committee assesses whether stakeholders can gain a fair and balanced understanding of how the Group is performing, its underlying resilience, and the effectiveness of the governance and control applied. Through these assessments, as well as receiving reports from external experts, the Committee considers the Group's reporting meets expected standards.

Throughout 2023 the Committee continued to monitor risks and challenges and their potential impact on the Group's strategy and viability. Examples of areas considered were the ongoing conflicts in Ukraine and Gaza, political uncertainty, biomass acceptability, challenges in the global pellet supply market, and support for BECCS. This included the assessment of emerging risks, particularly as the Group expands operationally and geographically, such as the expansion of business in the US as part of progressing opportunities with BECCS. The Committee continued to evaluate the appropriateness of controls and mitigation activities in responding to these challenges. You can read more about this throughout this report and in the sections on Principal Risks and Uncertainties and the Viability Statement on pages 94 and 92 respectively.

As previously reported, and subject to shareholder approval at the 2024 AGM, PwC will become the Group's external auditor for the financial year ending 31 December 2024. During 2023, the Committee has been working with the Group's current external auditor, Deloitte, and with PwC, on the transition planning. As part of this planning, PwC has been working with management to build its knowledge of the Group, and shadowing Deloitte in respect of its audit of the Group's 2023 Consolidated financial statements.

As Chair of the Committee, I report to the Board on the Committee's activities and considerations following each meeting. I hold regular meetings with the CFO, external auditor, and internal auditor, separate from the formal meetings of the Committee. I also attend planning meetings with those preparing for forthcoming Committee meetings, to discuss relevant papers and key matters. Committee members have access to the services of the CFO and the Group Company Secretary, and the resources of their teams, as well as access to external professional advice as necessary.

The Committee allows time at each meeting to speak in the absence of management or advisers. In addition, the Committee meets both the external auditor and the internal auditor without management present. This allows the Committee members to discuss areas for attention and identify potential areas of challenge. The Committee's understanding with both the external and internal auditor is that, if they should at any time become aware of any matter giving them material concern, they are able to promptly draw it to the Committee's attention via the Chair of the Committee. No such issues were raised during 2023.

Role of the Committee

The role of the Committee is to assist the Board in fulfilling its oversight responsibilities. This includes undertaking the following:

- Monitoring the integrity of the Consolidated financial statements and other information provided to shareholders
- Reviewing significant financial reporting matters and judgements contained in the Consolidated financial statements, including application of accounting policies, and inviting challenge from the external auditor on the approach taken
- Advising the Board on whether the Committee believes the Annual Report and Accounts and other periodic financial reporting are fair, balanced and understandable
- Reviewing the systems of risk management and internal control, including consideration of emerging risks
- Supporting the Board in establishing a culture of honesty and ethical behaviour, including oversight of whistleblowing and Speak Up procedures, fraud risk and controls
- Assessing the requirement for, and reviewing the outputs from, independent external assurance and verification
- Maintaining an appropriate relationship with the Group's external auditor and reviewing the effectiveness and objectivity of the external audit process

Audit Committee report continued

- Maintaining and monitoring the non-audit services policy to ensure the external auditor's ongoing independence and objectivity
- Making recommendations to the Board (to put to shareholders for approval) regarding the appointment of the external auditor
- Monitoring and reviewing the effectiveness of the internal audit function

Review of Committee effectiveness

In line with the FRC's Guidance on Committees, the effectiveness of the Audit Committee is considered annually. For 2023, this took the form of an internal review (see page 131 for further details). The review concluded that the Audit Committee continued to function effectively. Meetings are well chaired; there is good engagement between Committee members; and there are positive relationships with management and both the external auditor and the internal auditor. High quality papers are produced to support the meetings and Committee members have fed back positively on the information they receive. An internal review will be conducted in 2024, followed by an externally-led review in 2025. In addition to this review, the Committee has considered the FRC's publication 'Audit Committees and the External Audit: Minimum Standard' issued in May 2023, and believes that there are no areas of non-compliance in respect of 2023.

Committee activities in 2023

The Committee follows a programme of work designed to ensure that sound risk management processes, a robust system of internal control, and fair and balanced external reporting are all in place. In addition, where appropriate to activities in the Group or to reflect changes in applicable regulations or external conditions, agenda items are incorporated to ensure members of the Committee have the opportunity to consider and contribute to an analysis of material issues. The main areas of work undertaken by the Committee during 2023 at its routinely scheduled meetings are set out in the table below.

Reviewing the effectiveness of the system of risk management and internal controls

The Committee received updates on the Group's risk management and internal control environment and reviewed internal audit reports at each of its four meetings during 2023. There was continued focus on geopolitical tensions, including their impact on global commodity markets and the associated development of regulatory policies concerning energy.

At its April and November meetings, the Committee considered the energy markets, and how management was responding to prevailing volatility. Global energy markets are complex and interconnected, with significant areas of direct and indirect impact across the differing sources of man-made and naturally occurring energy sources. This level of overlap can mean that heightened risks can emerge as a result of quite disparate events. For example, shortages in supply of natural gas can affect markets in other sectors, such as those for biomass.

During 2023, the Committee considered risks, and possible mitigations, in relation to potential challenges in safeguarding biomass supplies, which remain heightened following a period of significant global inflation and challenges faced by certain suppliers in sourcing raw material. The Committee also considered the Group's credit exposure to its customers, which increases when market prices fall below contracted prices. The oversight and management of these risks falls under the remit of the Financial Risk Management Committee, (as detailed on page 117). The Audit Committee was satisfied with the controls implemented to manage the underlying risks, and that potential future scenarios were being considered, with appropriate plans and potential mitigations identified.

As in many sectors, regulation and compliance is a continuing area of scrutiny. The Committee discussed the regulatory landscape as pertains to the Group, the internal controls that

February	April	July	November
Item under review			
• The 2022 year-end review of key financial and reporting matters • An update on going concern and viability • Final report from Deloitte on its 2022 audit findings • The 2022 Annual Report and Accounts and preliminary results announcement • A deep-dive review of TCFD disclosures in the 2022 Annual Report and Accounts • The verification process undertaken to support the 2022 Annual Report and Accounts • An update on the effectiveness of risk management and internal controls • Year-end principal risk review, including ongoing risks and mitigations arising from the conflict in Ukraine • An update on whistleblowing • Summary of internal audit reviews for the period and outstanding actions, and the final internal audit plan for 2023	• Management update on key financial and reporting matters • Group policy on exceptional items and certain remeasurements • Deloitte's management letter for the 2022 audit, and management responses • An update on the effectiveness of risk management and internal controls • An update on the Group assurance map • An update on risk management and internal controls around health, safety and environment • An update on whistleblowing • Summary of internal audit reviews for the period and outstanding actions • The effectiveness of the 2022 external audit process • Senior Accounting Officer reporting to HMRC • An update on the Group tax strategy	• The 2023 interim review of key financial and reporting matters • Deloitte's report on its half year review • The 2023 Half Year Report announcement • An update on the effectiveness of risk management and internal controls • An update from the Ethics and Business Conduct Committee • An update on the risk management and internal controls around regulation and compliance, including sustainability • An update on cyber security, including scenario testing • An update on internal controls around sustainability data, plus external review • An update on the external audit transition by PwC • An update on whistleblowing • Summary of internal audit reviews for the period and outstanding actions • The Audit Committee's terms of reference and Auditor Independence Policy	• Management update on key financial and reporting matters affecting 2023 • Plan and timetable for the 2023 Annual Report and Accounts • Year-end planning report from Deloitte • Summary of internal audit reviews for the period, outstanding actions, and the proposed plan for 2024 • An update on the effectiveness of risk management and internal controls during the period • An update on the Group assurance map • A review of the Group's principal risks • An update on external auditor transition by PwC • An update on sustainability reporting and assurance for the 2023 Annual Report and Accounts • A deep-dive review of regulatory reporting and controls, including sustainability • An update on whistleblowing • The effectiveness of the internal audit process

are in place to ensure compliance with existing regulations and associated regulatory reporting, and also the potential impact of new or changing regulation on the Group's operations and future strategy. This assessment included reviewing announcements during the year that impacted the Group's UK BECCS project. Having completed this review, the Committee was satisfied that the risks were being appropriately managed and reported on, both internally and within the Annual Report and Accounts, whilst identifying and agreeing upon the required areas of focus for 2024.

The Committee undertook deep-dive risk management and internal control reviews during 2023 covering topics including cyber security, ethics and business conduct, HSE, and regulatory reporting. Where the Committee feels it is of value, external parties are appointed to support with these reviews and those parties may be asked to attend Committee meetings to provide additional expertise and insight. For example, the cyber security review was supported by an external party that ran specific scenario tests, whilst the regulatory reporting review was supported by a team from KPMG with specific knowledge around effective governance and compliance frameworks. The findings and actions arising from these deep-dive reviews are evaluated by the Committee, which also reviews and approves the deadlines for implementation.

As part of the review of regulatory reporting, an analysis of the supporting processes and controls was performed across certain areas, including sustainability and environmental reporting. KPMG was engaged to support management with this review, which highlighted that a good level of awareness and an appropriate governance structure were in place, incorporating review and sign-off of key reporting prior to submission. However, areas of control improvement were also identified, including the documentation and consistency of these review processes, and the clear designation of roles and responsibilities associated with reporting to regulators. Management has designed a programme of work to address these areas, and progress will be reported to the Committee at each of its meetings during 2024. The Committee also agreed that this area would form part of KPMG's internal audit plan for 2024. See below for more detail on the work of the internal auditor during 2023.

Alongside the expert support provided by these external parties, management co-ordinates ongoing self-assessment and review of risk management and internal control activities covering the Group's principal risks. Control owners are required to provide an assessment on the operation of key controls at least twice annually, and to report on any gaps or control failures identified. These responses are then reviewed by a separate internal team, and the assessments of control operation and effectiveness are periodically challenged. The outputs from the self-assessment process are reported to the Committee at each meeting.

This self-assessment is performed against the broader context of changes in both the underlying risks and also the environment in which the Group is operating, and considers whether prevailing controls remain appropriate. To support this, the Committee regularly reviews a detailed assurance map for the Group, covering each of the principal risks. The assurance map reports on the levels of assurance that are in place, acting as different lines of defence, as outlined on page 95. It also provides management's assessment of whether the level of assurance is appropriate, and highlights areas that require addressing.

Having reviewed the latest assurance map at their meeting in November 2023, the Committee was satisfied that there were no significant gaps in the levels of assurance. Progress made during 2023 included the introduction of a new Sustainability Council to provide Group-wide oversight of sustainability-related matters,

and development of a consistent internal standard for second-line HSE reviews being conducted across the Group, together with a planned programme of such reviews.

The Committee challenged management on the assurance associated with the Biomass Acceptability and Political and Regulatory principal risks during 2023, as these are areas experiencing rapid change and are recognised as having the potential to significantly impact the Group. The complex nature and interaction of the rules in different jurisdictions was discussed, in the context of the Group's strategy and planned expansion. Management has identified a series of measures to be implemented in 2024 in response, including the further strengthening of second-line assurance and the ongoing enhancement of process documentation. Additional detail on the Group's principal risks and key mitigations can be found on page 94.

During 2023 the Committee also undertook a deep-dive review on the requirements of TCFD, and how these had been addressed in the Annual Report and Accounts. This review was supported by an external party, who provides the prescribed level of limited assurance over data which forms part of the TCFD report. The Committee discussed the level of assurance that was being provided and options for how this might be enhanced in future. Having reviewed the sustainability disclosures, and considered the supporting controls and assurance in place, the Committee was satisfied with the approach being taken to manage the underlying reporting risks, but confirmed it expects management to review this and report on areas for potential improvement in future reporting cycles.

The continued enhancement of the Group's wider internal control framework formed part of the overall response to the then proposed corporate governance reforms ("Restoring trust in audit and corporate governance"). At each of its meetings during 2023, the Committee received updates from the internal auditor on the latest developments in this area and discussed the Group's planned approach in responding to potential future changes. Management presented progress reports and an action tracker to the Committee, as well as an assessment of the areas likely to require most focus in future.

Whilst the UK Government subsequently withdrew the secondary legislation associated with the proposed reforms, the Committee considered the impact assessment produced from management's underlying work at its November meeting, noting the FRC's policy statement during November 2023 and its continued focus on internal controls. This assessment included a proposal from management on the key actions that would continue to help enhance governance and control frameworks. Following their review, the Committee agreed the areas that would be a focus for management during 2024, including the continued formalisation of the internal control framework. This work will take into account any further updates or guidance issued by the FRC, including the revisions to the Corporate Governance Code announced in January 2024.

The Committee also works with the internal auditor, KPMG, to assess the overall system of risk management and internal control. The annual internal audit plan is designed with input from the Committee and wider management, and focuses on key areas of risk for the Group. The appointment of KPMG provides the Committee with an additional external perspective on whether the key controls designed to mitigate these risks remain effective. Where appropriate, the internal auditor will provide detailed recommendations to improve the systems of risk management and internal control. Further detail on the role of the internal auditor is provided on page 143.

Audit Committee report continued

The Committee routinely considers information arising from internal Speak Up and whistleblowing reports. It discusses with management the scope of investigations, providing feedback and, where relevant, challenge on the appropriateness of the steps being taken in response. The Committee seeks to understand how matters identified in incidents inform training for colleagues to address findings that effect positive change, and how actions by management can improve culture within the Group's operations. An explanation of the Group's Whistleblowing Programme can be found on page 71. The Board was also separately updated on responses to such reports.

The Committee reviews and discusses findings and action points arising from each of the internal and external reviews that are performed, to assess whether improvement plans are suitably robust and have appropriate delivery targets. None of the findings discussed during 2023 were considered individually or collectively material to the financial performance, results, operations, or controls of the business. Taking this into account, the Committee was satisfied that the systems of risk management and internal control have continued to operate effectively. However, the assessments performed during 2023 did identify opportunities for future improvements. In addition to those areas noted above, areas highlighted include how communications are managed during a business continuity event, and the need to continue maturing trade surveillance capabilities as the Group's activities grow.

Description

Accounting for derivative financial instruments

As described on page 251, the Group makes use of derivative financial instruments to help manage the key financial risks to which it is exposed.

The Group's balance sheet includes significant assets and liabilities arising from these contractual arrangements that are measured at fair value by virtue of being within the scope of IFRS 9 (Financial Instruments). Judgement is required around which contracts meet specific criteria and which do not (and therefore remain outside the scope of IFRS 9) and may also be required in the valuation methodology applied, where different approaches or sources of input information may be possible.

A judgement is made that biomass contracts continue to fall outside the scope of IFRS 9, primarily due to the illiquid nature of the market and the contractual terms in place between counterparties. The market remains immature and there is not a readily accessible source of supply and demand at present.

Where a fair value calculation is required, this typically involves a mark-to-market calculation, comparing the contractual price to prevailing market rates. Whilst volatility in several of the markets most relevant to the Group, including power and foreign currency, reduced during 2023 compared to 2022, the balances relating to these contracts remain significant, as described on page 251. The size and scope of the Group's derivative portfolio means that small errors in the valuation or disclosure process could have a material impact on the amounts included in the Consolidated financial statements.

Whilst the inputs to these calculations are largely taken from observable market prices or data points, in certain cases more than one potential source of information is available. Whilst differences in these forward-looking assumptions are typically relatively small, the impact can become material when applied to a large portfolio of contracts.

The accounting and disclosure requirements in relation to derivative financial instruments are inherently complex and, as a result, the controls in this area remain a key area of focus for the Committee.

Reviewing key judgements and financial reporting matters

Explanations of all the Group's material accounting policies, critical accounting judgements, areas of significant estimation uncertainty and other material financial reporting matters are set out in the notes to the Consolidated financial statements. The Committee reviewed these aspects of the Consolidated financial statements, with a particular focus on the areas it deemed the most complex or subjective, as highlighted in the table below. In addition, the Committee considered how these matters are disclosed within the Annual Report and Accounts, to ensure that appropriate context and explanation are provided.

At each of its meetings, the Committee receives a Financial Reporting and Accounting update from management, covering any key changes in the period, as well as emerging issues. These papers also incorporate any relevant updated guidance or clarifications issued by bodies such as the FRC or FCA, and management's assessment of the impact on the Group and the timing of any planned actions in response. These updates are discussed with the external auditor in advance of the Committee meetings, ensuring that they have the opportunity to consider and provide their own views on the matters raised. This includes highlighting alternative approaches or accounting treatments to assist the Committee in their consideration of management's conclusions and proposals.

Audit Committee review and conclusion

At each of its meetings, the Committee receives an update on any new classes of derivative financial instrument that the Group has entered into, and the proposed accounting treatment. During 2023, there were no new classes of instrument that required review.

Ahead of each reporting date, the Committee reviewed management's assessment that biomass contracts continue to fall outside the scope of IFRS 9. This involved comparing the requirements of the financial standard with the current situation in terms of observable practice and market conditions, taking into account developments during the period in question.

Having completed this review, the Committee was satisfied with management's assessment. However, it was noted that this remains a critical judgement given the potential impact on the Consolidated financial statements should biomass contracts be deemed to be within the scope of IFRS 9.

At each of its meetings, the Committee was also updated on the overall valuation of the Group's derivative portfolio, and the movements in the period. The Committee considered the operation of the financial control framework with respect to the valuation process, any enhancements made during the period, and the output from a rolling self-certification process. Improvements noted during 2023 included simplification of certain valuation models, and development of internal valuation tools for inflation contracts.

Consideration was given to the disclosures made in the Annual Report and Accounts, including the impact from a change during 2023 to present certain derivative assets and liabilities on a net basis, as opposed to a gross basis. The Committee was satisfied that the change was appropriate, and that the disclosures included in the Consolidated financial statements clearly explained the impact of this change and the reasons for it.

Based on these reviews, the Committee was satisfied that the reporting and controls in place around derivative financial instruments were robust. In reaching this conclusion, the Committee considered the opinion and recommendations of the external auditor, and the analysis performed by its specialist teams.

Description

Electricity Generator Levy (EGL)

As described on page 179, following an announcement in December 2022, the EGL received Royal Assent in July 2023. The EGL applies to the period 1 January 2023 to 31 March 2028 and is an additional charge that applies to the Group's biomass units operating under the Renewables Obligation scheme and its run-of-river hydro operations.

An assessment of the scheme was required, to determine whether the EGL represents a tax under IAS 12 (Income Taxes) or a levy under IFRIC 21 (Levies). Several factors needed to be considered in making this determination, including the structure of the scheme and any applicable reliefs or deductions. This assessment concluded that the scheme should be accounted for under IFRIC 21, and recognised as an expense in line with the underlying generation, as outlined on page 179.

The EGL expense recognised in the Consolidated financial statements for 2023 is £205 million. Due to the materiality of this charge, both in quantum and in nature (being the first year of applicability) clear disclosure and explanation is required in the Consolidated financial statements. Further detail is provided on page 179.

Determining the expense to be recognised in the Consolidated financial statements requires interpretation of new legislation, and the creation of new models and calculations. There are various inputs to these calculations, some of which require assumptions and judgements to be made.

Audit Committee review and conclusion

At its meeting in July 2023, the Committee reviewed management's conclusion in respect of the accounting classification of the EGL. Having discussed all relevant factors, and considered feedback from the external auditor, the Committee concluded that the assessment was appropriate and that the EGL should be accounted for as a levy under IFRIC 21.

At the same meeting, the Committee also considered the disclosure included within the 2023 Half Year Report, being the first external reporting published by the Group since the EGL was announced. In particular:

- The EGL charge was not presented as an exceptional item or a critical accounting judgement
- The EGL charge was separately presented on the face of the Consolidated income statement
- Key alternative performance measures (see page 139) were presented both inclusive and exclusive of the EGL charge

Having completed this review, the Committee was satisfied with the disclosures and that they would aid understanding of the impact of the EGL on the Group. Equivalent disclosures are also included within the 2023 Annual Report and Accounts.

At its meeting in November 2023, the Committee was updated on the processes and controls that had been introduced in order to calculate the EGL charge, and to ensure that legislation had been appropriately reflected. Based on this review, and feedback from the external auditor, the Committee was satisfied with the approach taken to calculate the EGL charge.

Audit Committee report continued

Description

Impairment of goodwill and fixed assets

The Group reviews its goodwill and fixed assets (or, where appropriate, groups of assets in cash-generating units (CGUs)) for potential impairment. Impairment reviews are triggered by either the existence of potential indicators of impairment at a given point in time or, in the case of goodwill and other intangible assets with indefinite useful lives, are conducted at least annually.

As part of its annual review, management considers the classification of CGUs. For 2023, the Drax Energy Solutions and Opus Energy CGUs were updated to reflect the fact that certain activities, including the embedded renewables business, have now formally transferred between CGUs. The Pellet Production business, previously split into two CGUs (Northern and Southern operations) is now considered a single CGU, reflecting the continued integration and increased interdependence of the Group's pellet plants. Further detail on these changes is provided on page 196.

When an impairment review is deemed to be required, the recoverable amount of the asset or CGU is assessed. This assessment is made with reference to the present value of the future cash flows expected to be derived from its value in use, or its expected fair value on sale.

Assessments of value in use for each CGU are based on the most recent Board-approved forecasts. The forecasts include all the necessary costs expected to be incurred to generate the cash inflows from the relevant assets in their current state and condition.

Various assumptions are required in determining these forecasts, and the reviews performed therefore also include sensitivity and scenario analysis to help the Board understand how changes in key assumptions impact the assessment. Where these reviews suggest a potential risk of impairment, further detailed work is undertaken.

The discount rates applied to the underlying forecasts (to take account of future risk and the time value of money) represent an important assumption, and are impacted by market volatility, interest rates and inflation. These rates are reviewed annually with input from external experts.

Impairment arises where management determines, and the Audit Committee concludes, that the carrying amount of an asset (or group of assets) exceeds its recoverable amount. Further detail on this process and the assumptions made is provided in note 2.4 to the Consolidated financial statements.

Audit Committee review and conclusion

At its meeting in November 2023, the Committee considered management's review process and initial conclusions in respect of CGUs and impairment for the 2023 financial year.

Having considered and challenged management's reports, process and key assumptions, the Committee concluded that the overall approach to impairment reviews was appropriate, as were the proposed changes to the Group's classification of CGUs and the allocation of goodwill between these CGUs. The Committee was satisfied that the only potential impairment necessary during the year was in relation to the Opus Energy CGU, given the changes in that business during 2023, as described in more detail on page 200.

The Committee also considered management's review of capitalised costs associated with the UK BECCS project, given that these are material to the Consolidated financial statements. This included consideration of external announcements made during 2023 in relation to wider carbon capture and storage (CCS) projects in the UK, progress with the Group's own project, and potential future scenarios.

Based on this review, the Committee was satisfied that no indicators of impairment were identified during the year, and accordingly no impairment of these capitalised costs was required. The Committee also noted that this continued to warrant inclusion as a significant judgement in the Consolidated financial statements.

At its meeting in February 2024, the Committee reviewed a roll forward of the analysis from November 2023 and considered any significant internal or external changes. This incorporated further analysis of the Opus Energy CGU and the final calculated impairment charge of £69 million. This review did not indicate any changes in the conclusions from the November 2023 meeting, and the Committee was satisfied with management's assessment and the impairment charge proposed.

Further scenarios and analysis were also considered to support the review of going concern and viability conducted by the Committee, discussed in more detail on page 92. This analysis did not suggest any further indicators of impairment, and supported the conclusions reached.

The Committee reviewed the impairment disclosures in the Annual Report and Accounts and concluded that the key assumptions and sensitivities had been appropriately disclosed, and that all statements made were supportable. The Committee was satisfied that this area should be highlighted as a key source of estimation uncertainty within the Annual Report and Accounts, given the sensitivity of the conclusions reached to certain assumptions, as described in more detail on page 180.

Description

Calculation and presentation of alternative performance measures

As described on page 206, the Group presents Adjusted results excluding the impact of exceptional items and certain remeasurements. Adjusted results are consistent with the way Executive management and the Board review and assess the performance of the Group. The effects of exceptional items and certain remeasurements are presented separately in a column on the face of the Group's Consolidated income statement.

The Group has a clear policy that sets out the transactions considered as exceptional, and the determination of certain remeasurements. However, the classification of transactions as exceptional and the separate presentation of certain remeasurements requires judgement. The definition of appropriate alternative performance measures such as Net debt also requires judgement.

A full glossary of alternative performance measures referenced throughout the Annual Report and Accounts, including the closest equivalent IFRS measure and an explanation of why the measure is considered important, is provided on page 285. Supporting reconciliations of certain alternative performance measures from relevant IFRS measures are provided in note 2.7 to the Consolidated financial statements.

Audit Committee review and conclusion

At each Committee meeting, management presents a paper that sets out the transactions proposed to be classified as exceptional in the period. The Committee reviews this paper, and challenges each of the individual items. Formal approval of the classification is provided at reporting dates.

At its meeting in April 2023, the Committee reviewed and approved updates to the Group's policy in respect of exceptional items, noting that the changes to the policy added further guidance and did not change the underlying principles applied. As part of the review, it was confirmed that the updated policy would not have changed the classification of exceptional items in the previous period.

In addition, the Committee reviews and approves the definition of alternative performance measures. At its meeting in July 2023, the Committee considered the presentation of the EGL within the Half Year Report, as outlined on page 137. Having completed this review, the Committee was satisfied that the presentation of certain alternative performance measures as both inclusive and exclusive of the EGL, in particular Adjusted EBITDA, was appropriate.

At its meeting in November 2023, the Committee considered the Group's definition of Net debt in detail, noting external focus on the calculation of this metric. Having reviewed each of the Group's key working capital arrangements, the Committee was satisfied with their treatment within the Group's calculation of Net debt, and that the calculation remains consistent with the Group's covenant reporting requirements. The Committee was also satisfied with the proposed accounting and disclosure in the 2023 Annual Report and Accounts, and the additional definitions included to assist users.

At its meeting in February 2024, the Committee reviewed the final classification of transactions as exceptional or certain remeasurements in the 2023 Annual Report and Accounts. It also reviewed the final calculation and presentation of alternative performance measures. Having considered analysis from management, and the opinion of the external auditor, the Committee was satisfied that the approach taken is appropriate and that the policy in respect of exceptional items and certain remeasurements had been applied appropriately. The Committee also considered these areas when reaching its overall conclusion on whether the 2023 Annual Report and Accounts are fair, balanced and understandable, as discussed further on page 141.

Audit Committee report continued

Description

Review of other significant judgements and estimates

The other areas of significant judgement and key sources of estimation uncertainty in the Consolidated financial statements are set out on pages 179 to 181. Management regularly reviews these other areas to ensure they are kept up to date, and also considers whether other items should be included.

As part of the preparation for the 2023 Annual Report and Accounts, management considered the level of provision required for expected credit losses in the Customers business. This took account of market conditions, the reduction in UK Government support for customers during the year, and any observed changes in customer behaviour. Management also considered whether the provision represents a key source of estimation uncertainty as defined by IAS 1.

The Group is currently in the process of developing several large capital projects, as part of its overall strategy. These projects include the development of BECCS at Drax Power Station, the expansion to Cruachan (pumped storage) Power Station in Scotland, and several BECCS projects in North America. Judgement is required to determine if the expenditure associated with these projects meets the criteria to be capitalised under IAS 16 or IAS 38, or whether it should be expensed as incurred.

In November 2023, the Committee reviewed and discussed a paper from management outlining how the potential future impacts of climate change had been considered in preparation of the Consolidated financial statements, covering areas such as impairment reviews and the useful economic lives of the Group's fixed assets. This review also considered the treatment of these areas as significant judgements and key sources of estimation uncertainty, and whether the relevant criteria had been met.

Audit Committee review and conclusion

At each of its meetings, the Committee reviews a paper prepared by management that includes a summary of significant accounting judgements and key sources of estimation uncertainty, and an update on any changes in the period. In particular, any material emerging issues are discussed in detail.

During 2023, the Committee reviewed the approach taken to calculate expected credit loss provisions in the Customers business. It noted the impact of UK Government support, and the performance of cash collection against billing seen during the year as a whole. In addition, the Committee considered management's review of the provision calculation, in response to recommendations from the external auditor, and was satisfied that these factors had been reflected and had not materially impacted the overall level of provision.

Having completed this review, the Committee was satisfied that the approach adopted in the calculation was appropriate. The Committee also concluded that the risk of a material change in the estimated carrying value of related assets within the next financial year was unlikely, and that therefore this does not represent a key source of estimation uncertainty under IAS 1.

The Committee reviewed management's assessment that capitalisation of certain costs associated with the UK BECCS project remained appropriate. As well as internal progress on the technical development, the Committee considered external developments during the year, including Government support for the project and the wider UK Biomass Strategy, published in August 2023. Having completed this review, the Committee was satisfied that ongoing capitalisation was appropriate.

The Committee also noted that judgements were being made to not yet capitalise costs associated with other potentially significant future projects, such as the expansion of the Cruachan (pumped storage) Power Station and BECCS projects in North America. The Committee was satisfied that the proposed disclosure incorporated sufficient detail to cover these areas and that the ongoing treatment within the Consolidated financial statements was appropriate.

Having considered the other matters raised in management's papers, the Committee was satisfied that the items disclosed as critical accounting judgements and key sources of estimation uncertainty on pages 179 to 181 are appropriate and complete. In addition, the Committee was satisfied that the descriptions clearly and accurately reflect the matters disclosed and the positions taken.

Reviewing the 2023 Annual Report and Accounts

At its meeting in November 2023, the Committee received reports from management on its planning for the various elements of the 2023 Annual Report and Accounts. This included a timetable for preparing drafts and for the contributions, including peer review and commentary, being made by members of the wider management and Executive teams. The Committee also discussed how such review would support the task of ensuring the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable.

Between the year-end date and the date of the approval of the Annual Report and Accounts, the Committee Chair was updated on progress with the year-end audit process and key financial reporting matters. Updates were also provided by the external auditor and the internal auditor. At its meeting in February 2024, the Committee reviewed both the external auditor's findings and the draft 2023 Annual Report and Accounts.

At its meeting in November 2023, the Committee also reviewed and approved management's proposed plan for internal and external assurance over the different parts of the Annual Report and Accounts, considering the complexity of the information and the key focus areas for stakeholders. This included TCFD reporting, for which the Committee considered both the requirements of the disclosure, and the data points that would be included. As part of this review, the Committee approved a change in assurance provider to PwC, to provide an alternative perspective on the reporting. There was no significant change in the scope of assurance being provided, as outlined on page 91. The change to PwC was considered within the context of their proposed appointment as the Group's external auditor for the financial year ending 31 December 2024, as discussed further on page 142. The results of this assurance were presented by management and evaluated by the Board at their meeting in February 2024.

The Committee also reviewed and approved the verification process undertaken by management around key information included in the Annual Report and Accounts. This process was enhanced for the 2023 Annual Report and Accounts, with the introduction of specialist software to support a streamlined verification process and provide a clear audit trail. Having completed this assessment, the Committee was satisfied that the verification process was robust and that appropriate assurance had been obtained over key information and statements included within the Annual Report and Accounts.

As part of its review, the Committee also considered the internal controls, forecasts and relevant assumptions underpinning the Viability Statement and the ongoing adoption of the going concern basis in preparing the Consolidated financial statements. This included assessing a scenario analysis prepared by management, reviewed by the external auditor, which considered the potential future impact of the Group's principal risks on its financial projections. Particular focus was given to the scenarios relating to plant operations and commodity price risks, given the potential medium to long-term impacts they could have. This is discussed in further detail on page 94.

The Committee challenged the assumptions made around availability of finance and covenant compliance, and considered the appropriateness of the period of assessment for viability. Whilst management and the Board consider longer-term forecasts for other purposes, including strategic planning and capital allocation, the Committee concluded that it was appropriate for the viability assessment period to remain at five years.

The Committee was satisfied that the proposed Viability Statement was robust, fair and balanced, including consideration of the disclosure around longer-term risks extending beyond the viability assessment period. This included reviewing the assumptions and disclosure around long-term biomass generation at Drax Power Station, and the impact of this on the viability modelling. In addition, the Committee was satisfied that the level of assurance, challenge and verification was appropriate, taking into account the work undertaken by the external auditor. Consequently, it was also concluded that the ongoing use of the going concern basis of preparation for the Consolidated financial statements was appropriate.

As noted above, the Committee considered and reviewed management's disclosure on certain remeasurements and exceptional items (see page 181) and the presentation of these items in the Consolidated income statement. This included a review of the calculation and presentation of alternative performance measures. The Committee was satisfied that the use of alternative performance measures and the way in which they are presented remains appropriate, and that they provide helpful information to the users of the Annual Report and Accounts.

Fair, balanced and understandable

As a result of the Committee's review, it advised the Board of its conclusion that the 2023 Annual Report and Accounts, taken as a whole, are fair, balanced and understandable. This view is underpinned by the Committee's discussions with operating and finance management regarding the Strategic Report, and with the finance team regarding the Consolidated financial statements. In addition, the Committee believes that the Annual Report and Accounts provide the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy, and that statements made are supported by appropriate verification and assurance, including those made around the systems of risk management and internal control.

External audit

Effectiveness of external audit

The Committee reviewed the effectiveness of the external auditor during the year and does so annually. Deloitte LLP (Deloitte), who has performed the role of external auditor continuously since 2005, was reappointed at the AGM in April 2023. Makhan Chahal became lead Audit Partner in 2021 and has significant listed company and sector-specific auditing experience.

The Committee's review primarily considered the independence and objectivity of Deloitte, its professional competence and past performance. The Committee also considered the robustness of the audit process including, in particular, the level of challenge given to critical management judgements and the professional scepticism being applied. This took account of the Committee's discussions with the external auditor around areas of highest audit risk, and the basis for the auditor's conclusions on those areas. During 2023, this included a particular focus on the annual impairment review process and the calculation and presentation of the charge related to the EGL. The Committee was satisfied with the level of ongoing challenge applied by Deloitte, and its consideration and presentation of possible alternative approaches.

Audit Committee report continued

The annual review of effectiveness also incorporated feedback from members of the finance and wider management teams. The Committee sought their views on matters including the quality of audit work and engagement whilst planning and executing the audit, both at a Group and business unit level. An area highlighted in the 2023 review was the use of specialist teams within Deloitte, such as financial instruments and sustainability specialists, and how to incorporate their work efficiently and effectively into the overall audit process. Actions that were agreed included allowing more time earlier in the audit process to scope the work of these specialist teams, and the introduction of more regular standing meetings with relevant members of management. The Committee acknowledged the benefit that such specialist teams brought to the overall quality of the audit.

In addition to completing an annual review, the Committee considers the effectiveness of the external auditor throughout the year and discusses this at each meeting. This ongoing review incorporates any relevant external information, such as the FRC's annual Audit Quality Inspection and Supervision Report, which was published in July 2023 and included an assessment of Deloitte and other large audit firms.

Based on its overall review, the Committee is satisfied that the external auditor and its audit has continued to be effective. The Committee agreed that the external auditor's work demonstrated an ongoing commitment to audit quality, that the audit process was robust, and that Deloitte had shown strong levels of technical knowledge and appropriate professional scepticism in its work.

External auditor transition

As reported in the 2022 Annual Report and Accounts, following a tender process, in accordance with the UK Statutory Auditors and Third Country Auditors Regulations 2016 (SATCAR), the Board agreed to appoint PricewaterhouseCoopers LLP (PwC) as the Group's auditor for the financial year ending 31 December 2024, subject to shareholder approval.

Following this decision by the Board in January 2022, a process was undertaken to review all non-audit work being performed for the Group by PwC, to ensure its independence. This process was concluded by June 2023, and reviewed by the Audit Committee at its meeting in July 2023, at which point the Committee deemed PwC to be independent. PwC also confirmed to the Committee at this meeting that all of its internal independence policies and procedures had been satisfactorily completed. Since this date, PwC has been working with management to build its knowledge of the Group, and has shadowed Deloitte in respect of its audit of the Group's 2023 Consolidated financial statements.

PwC has also attended each meeting of the Audit Committee since July 2023, and has provided updates to the Committee on its transition planning. Having considered the transition plan, and the progress being made, the Committee is satisfied that it should ensure an orderly transition of external auditor.

Independence of external audit

The Group has an Auditor Independence Policy (AIP) that defines procedures and guidance under which the Company's relationship with its external auditor is governed. The AIP also facilitates the Committee being able to satisfy itself that there are no factors that may, or may be seen to, impinge upon the independence, objectivity and effectiveness of the external audit process. The Committee reviews the AIP annually and last did so in July 2023. As part of this annual review, the Committee considers areas of development in best practice and guidance. The main features of the current AIP (which is available at www.drax.com) are:

- A requirement to review the quality, cost effectiveness, independence and objectivity of the external auditor
- A requirement to rotate the lead Audit Partner every five years, and processes governing the employment of former external auditor employees
- A policy governing the engagement of the auditor to conduct non-audit activities, which is expected to occur in very limited circumstances and is kept under review at each meeting of the Committee

The external auditor also reports to the Committee on its own processes and procedures to ensure independence, objectivity and compliance with the relevant standards. In light of the planned transition of external auditor, noted opposite, from 30 June 2023 the AIP was deemed to apply to both PwC and Deloitte, whilst they remain the Group's external auditor.

The amounts paid to the external auditor during each of the financial years ended 31 December 2023 and 2022 for audit and non-audit services are set out below and in note 2.3 to the Consolidated financial statements (page 195).

	Year ended 31 December 2023 £000's	Year ended 31 December 2022 £000's
Schedule of fees paid to Deloitte LLP		
Audit fees:		
Statutory audit of Drax Group	1,500.0	1,375.0
Statutory audit of the Company's subsidiaries	40.0	40.0
Total audit fees:	1,540.0	1,415.0
Interim review	140.0	115.0
Assurance services provided to non-material affiliates	18.3	18.0
Other services	47.0	46.2
Corporate refinancing fees	130.0	65.0
Total non-audit fees:	335.3	244.2
Total auditor's remuneration	1,875.3	1,659.2

As noted opposite, the external auditor should not provide non-audit services where it might impair its independence or objectivity. Therefore, any engagement for the provision of non-audit services requires prior approval from the Audit Committee or Committee Chair. Agreement to allow the external auditor to perform additional non-audit services is taken only after considering two key factors. Namely, that the non-audit services policy has been fully applied, and that any engagements are in the best interests of the Group and its key stakeholders.

During 2023 there was an increase in the level of non-audit fees paid to Deloitte, with the most significant items being the Group's interim review and work performed in relation to a corporate refinancing project.

In all cases, the Committee was satisfied that the work was best handled by the external auditor because of its knowledge of the Group, and that the services provided did not give rise to threats to independence, given the nature of the work and level of fees payable. The Committee was also satisfied that the overall levels of audit and non-audit fees were not of a material level relative to the income of Deloitte as a whole, and that the level of non-audit fees was below the 70% cap, based on the average audit fee for the preceding three years.

Auditor appointment

The Group has fully complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Committee Responsibilities) Order 2014. The Committee discussed the appointment of an external auditor at its meeting in February 2024 and recommended to the Board that a resolution to appoint PwC as the Group's external auditor should be put to shareholders at the AGM in April 2024.

Internal audit

The Group has adopted a fully outsourced model for internal audit. KPMG has acted as the Group's main internal auditor since 2020, supported by an internal team which acts as an interface with the wider business. The internal auditor presents an annual plan to the Committee for approval at its final meeting of the preceding year. This proposed programme of work is based on the assessment of the internal auditor, considering input from interviews with key internal stakeholders across finance, risk and wider management.

The Committee reviews and approves this plan to ensure that priority is given to the areas of highest risk for the Group, whilst maintaining appropriate coverage of all other key risks, including those that are emerging. Fees are agreed on an audit-by-audit basis depending on the scope and any requirement for specialist input, whilst being managed within an overall annual budget.

The Committee receives reports at each meeting regarding the internal audit reviews completed since its last meeting, and progress against the overall annual plan. The Committee reviews the findings and agrees the recommended actions and delivery dates for improvements, taking into consideration supporting analysis from management on the root causes of any weaknesses.

Key topics reviewed by the internal auditor during 2023 included Payroll, Project Management and Tangible Fixed Assets. These reviews each provided recommendations to the Committee and management on how to further improve the systems of risk management and internal control, including suggested enhancements around the structure and formality of post-investment reviews. The recommendations, and suggested timelines, were agreed between management and the internal auditor before being presented to Committee. As part of their review, the Committee considers the significance of findings and will discuss whether the proposed timeline for addressing them is appropriate. All proposed actions and target dates were subsequently approved by the Committee.

In conjunction with reports from the internal auditor on reviews completed during the period, the Committee also receives reports from management detailing progress on implementing recommendations from previous reviews, tracking this against the originally agreed implementation dates. This allows the Committee to effectively monitor management's response. Having reviewed these reports, and received assurance from the internal auditor around the effectiveness of the overall tracking process, the Committee was satisfied that actions were being implemented on a timely basis.

The Chair of the Committee, independent of management, maintains direct contact with the internal auditor, allowing open dialogue and feedback.

Health, safety and environment

Where relevant, and agreed between the Committee and the internal auditor, additional external parties may be engaged to support with internal audit reviews. This is typically in highly specialised areas, to increase the overall level of assurance obtained from the programme of internal audit work.

An external consultant DNV Limited (DNV) has been appointed by the Committee to provide an ongoing assessment of the Group's health, safety and environment practices. The Committee received an update from DNV at its meeting in April 2023, which included a detailed site-by-site analysis, and benchmarking against a peer group. The Committee approved the recommended actions from this review, and received a further update from management on progress being made on implementation at its meeting in November 2023.

DNV's work during 2023 noted improvements in areas including process safety and major accident hazard management. Opportunities for further improvement identified include refining the processes by which risk exposures from work conducted by external third parties in close proximity to the Group's sites are both managed and assessed. Having considered these reports, the Committee was satisfied that the agreed actions were being completed in a timely manner.

Effectiveness of internal audit

The Committee reviewed the overall effectiveness of the approach to internal audit, and in particular the effectiveness of KPMG as internal auditor, at its meeting in November 2023. This review considered the improvements made in response to the detailed effectiveness review completed in November 2022. Changes implemented during 2023 include allocating more time to the up-front scoping of internal audit reviews, and ensuring clear communication of key findings to senior stakeholders. KPMG also provided its feedback on interactions and engagement with management, having updated the Committee on this at each meeting during the year.

Based on its review, the Committee is satisfied that the approach to internal audit remains effective and that KPMG, as the Group's main internal auditor, continues to provide the requisite quality, experience, and expertise in both its work and reporting to the Committee.

This report was reviewed and approved by the Audit Committee.

Vanessa Simms
Chair of the Audit Committee

28 February 2024

Remuneration Committee report



Nicola Hodson, Chair

Committee members

Nicola Hodson (Chair)
John Baxter
Andrea Bertone
Kim Keating
Vanessa Simms

Attending by invitation

CEO, Chief People Officer, Group Reward Director, David Nussbaum (Senior Independent Director) and external remuneration advisers. The Group Company Secretary is the Secretary to the Committee.

Number of meetings held in 2023: Three

The table below shows the scheduled meetings of the Committee within the ordinary annual cycle of the Committee's activities. There was an additional meeting held to consider how the Group's strategy should be reflected within the performance-related components of total reward. In addition, Nicola regularly attended planning meetings to consider key agenda items.

Attendance in 2023

Committee member	Date appointed a member	No. of scheduled meetings	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	3	3	100%
Andrea Bertone ⁽¹⁾	24 August 2023	1	1	100%
Philip Cox ⁽²⁾	22 April 2015	3	3	100%
Kim Keating	21 October 2021	3	3	100%
Nicola Hodson	12 January 2018	3	3	100%
Vanessa Simms	19 June 2018	3	3	100%

Notes:

- (1) Andrea Bertone was appointed as a Director on 24 August 2023 and joined the Committee on this date. In line with the UK Corporate Governance Code, Andrea Bertone was considered to be independent on appointment and was therefore permitted to join the Committee.
- (2) Philip Cox stood down as a Director on 31 December 2023.

This Report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended (the Regulations) and the provisions of the Code. Relevant sections of the Report have been audited as required by the Regulations and the full Report will be subject to an advisory vote by shareholders at the AGM to be held on 25 April 2024.



The Group delivered strong financial performance in 2023 and made important progress on delivering on its key strategic objectives. The remuneration outcomes for the Executive Directors and senior management appropriately reflect this.

Role of the Remuneration Committee

The principal responsibilities of the Remuneration Committee (the Committee) are to:

- Develop the Directors' Remuneration Policy (the Policy)
- Keep under review the implementation of the Policy to ensure that it operates as intended
- Determine the remuneration strategy and framework for the Executive Directors and Executive Committee members, ensuring that executive remuneration is aligned to the Group's purpose, values and strategy
- Determine, within that framework, the individual remuneration packages for the Executive Directors and senior management
- Approve the design of annual and long-term incentive arrangements for Executive Directors and senior management, including agreeing targets and payments under such arrangements
- Determine and agree the general terms and conditions of service and the specific terms for any individual within the remit of the Committee, either upon recruitment or termination
- Oversee any major changes in colleague remuneration throughout the Group, ensuring there is consistency with the culture and values of Drax

Terms of reference

The Committee regularly reviews its Terms of Reference, as does the Board. The most recent review was in November 2023. The Terms of Reference are available on the Company website at www.drax.com/governance



Key Remuneration Committee activities in 2023

The key matters considered, and decisions reached, by the Committee in 2023 are shown in the table below:

Our workforce	Executives and senior management	Committee governance
- Received updates on broader remuneration matters relating to the wider workforce - Reviewed the application of the increases from the annual pay review effective 1 January 2024 - Reviewed and approved the reporting of the 2023 Gender Pay Gap statistics - Approved the outcome of the 2022 Group Scorecard and in turn the outturn of the 2022 Group Bonus Plan - Adopted the 2023 Group Scorecard for the purpose of determining the 2023 Group Bonus Plan - Approved the operation of the 2023 Sharesave Share Plan for UK colleagues - Approved the implementation of a new Employee Stock Purchase Plan for colleagues in US and Canada	- Considered and approved the remuneration on appointment for Andrea Bertone and change in remuneration in her appointment to the role of Chair. Andrea Bertone was not involved in these discussions - Considered and approved the remuneration of Executive Directors and senior management. - Approved Executive Director and Executive Committee member annual bonus awards for 2022 - Approved the Deferred Share Plan awards for Executive Directors and the LTIP awards for 2023 - Approved the grant of the 2023 LTIP awards for those below Board level - Approved the vesting of the 2020 LTIP awards	- Reflected on feedback received from shareholders on remuneration resolutions presented to the 2023 AGM - Considered and approved the Committee's Annual Report on Remuneration for 2022 - Reviewed the fees paid to Korn Ferry, as the Committee's remuneration advisers in 2023, together with fees paid by the Group to Korn Ferry for other HR matters

Annual Statement to Shareholders

Dear shareholders,

On behalf of the Committee, I am pleased to present the Directors' Remuneration Report for the 2023 financial year. In April 2023 our shareholders approved the changes proposed to the Directors' Remuneration Policy with 97% of those votes cast in favour. Shareholders also approved the Annual Report on Remuneration for 2022 with over 86% of those votes cast in favour. The Committee and I are grateful to our shareholders for their engagement on remuneration matters and their ongoing support.

Andrea Bertone was appointed as an independent Non-Executive Director on 24 August 2023 and from that date she became a member of the Committee. Andrea was subsequently appointed Chair of the Board on 1 January 2024. Philip Cox stood down from the Board on 31 December 2023 and I would like to thank Philip for his valuable contribution to the Committee over the nine years in which he was a member.

As noted elsewhere in this Annual Report, the Group continued in 2023 to deliver strong financial performance in challenging market conditions. In addition, the Group made significant progress on the Group's key strategic objectives, including, but not limited to, progressing options for US BECCS and carbon dioxide removals (CDR) commercial opportunities.

The Committee firmly believes that the remuneration outcomes must be fair, appropriate in the context of business performance. The remuneration outcomes for 2023 have been assessed in line with these principles.

Review of decisions made during 2023

Annual assessment of performance

The Committee determines the remuneration of the Executive Directors, members of the Executive Committee and wider workforce against the objectives and priorities of the Group. For 2023 we assessed performance against a combination of financial, strategic and safety and ESG metrics. A number of these metrics formed the basis of our 2023 Group Scorecard (2023 Scorecard).

The Generation and Commercial businesses performed in line with expectations in 2023. In a more challenging operating environment for Pellet Production, our integrated global biomass supply chain has also delivered robust performance, albeit below the 2023 Scorecard threshold. Further detail on Pellet Production performance can be found in the CEO review on page 11 and a detailed review of the achievement against all performance metrics in the 2023 Scorecard can be found on pages 151 and 153.

The final outturn of the annual bonus plan was 1.40 and this score results in 70% of the maximum annual bonus being paid to the Executive Directors.

The Committee determined that the overall performance outcome of the 2023 Scorecard represented a fair reflection of the business performance during 2023. The Committee also assessed whether the level of pay-out is commensurate with the experience of both shareholders and colleagues over this period and concluded that this is the case. On this basis the Committee determined that no adjustments to the formulaic outcome were required.

In accordance with the Policy, 40% of the overall bonus award for Executive Directors will be deferred into shares and 60% will be paid in cash in March 2024.

Remuneration Committee report continued

Long-term assessment of performance

Vesting of awards granted in 2021 under the Long Term Incentive Plan (LTIP) was determined based on performance against two measures over the three-year period from 1 January 2021 to 31 December 2023. The measures were Total Shareholder Return (TSR), relative to the FTSE 350, and Cumulative Adjusted Earnings Per Share (EPS), each accounted for 50% of the award respectively. TSR over the three-year period was above the upper quartile (a rank of 21 out of the FTSE 350). The EPS outcome was 231.2p, which was over 80% ahead of the maximum target of 128.2p. The TSR and EPS performance resulted in 100% vesting of the award.

The Committee determined that the vesting outcome was appropriate in the context of performance by the Group over the three-year performance period. As part of assessing the extent to which the performance targets were met, the Committee considered the impact of the share buyback programme which was undertaken during 2023 and concluded that, even if the impact of the share buyback programme was removed, EPS performance would still have exceeded the maximum EPS target. The Committee was also satisfied that the outcome had not benefitted by windfall gains. In reaching this conclusion the Committee noted that the share price used to convert the awards, which are set as a multiple of salary, into shares was £4.293. This share price was materially in excess of the Company's share price immediately prior to the onset of the Covid pandemic. The Committee therefore determined not to apply discretion to adjust the overall vesting.

Drax's share price at 31 December 2023 was 28% higher than the start of the performance period. Given the averaging periods over which TSR has been calculated, this equates to a return of 87.1% based on the six-month averaging period prior to the start and end of the performance period. The Committee believe these returns, and the associated performance vesting of the 2021 LTIP achieved, is reflective of the very strong shareholder returns over the period.

All-employee remuneration

Whilst the rate of Inflation generally decreased during the course of 2023, the cost-of-living remained a challenge for many colleagues, particularly in the UK. This impact was compounded by rising interest rates.

For the 2024 pay review (increases effective 1 January 2024), a budget of 5% applied for UK-based colleagues and a slightly lower budget applied for colleagues in the US and Canada (4%) and Japan (3%). This was to reflect the lower rates of inflation in those countries. The salary budget set in each location reflected the prevailing rate of inflation at the time the salary budget was set.

On 31 August 2023, Drax completed the acquisition of BMM Energy Solutions Limited which is based in the UK. Careful consideration was given at that time to ensure that the new colleagues transitioned smoothly into the Group's remuneration and broader HR policies, where it was deemed appropriate.

Application of Remuneration Policy in 2024

Base pay review

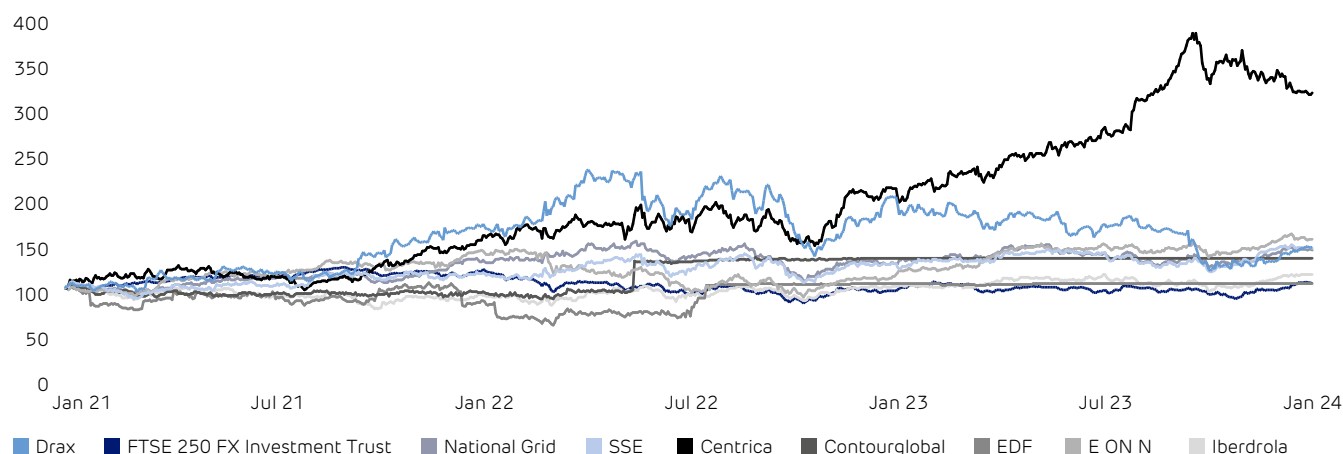
For the 2023 pay review, base pay increases took effect from 1 January 2023. Will Gardiner and Andy Skelton received an increase of 4%, which was below the average increase of the wider workforce of 8%. The Committee took this decision as it was mindful of the knock-on impact on the quantum of variable pay, and the relativity of Executive Directors' base pay to that of the wider workforce.

For 2024, base pay increases took effect from 1 January 2024. Will Gardiner and Andy Skelton received an increase of 4%, which was lower than the average increase of the UK wider workforce of 5%.

Pension

As noted in last year's report, effective 1 January 2023, the pension contribution rates of Will Gardiner and Andy Skelton reduced to 10% of base salary which is aligned with the rate of new joiners to the UK wider workforce. No Executive Director was a member of a defined benefit pension scheme.

Drax's TSR over the 2021 LTIP performance period versus other energy companies



Annual bonus

The 2024 annual Group bonus will be based on performance against the metrics in the 2024 Scorecard. This will apply to all colleagues which participate in the plan, including the Executive Directors. The majority of the bonus remains subject to the delivery of challenging financial targets (55%). This includes 40% based Group Adjusted EBITDA and 15% on Net Cashflow, which replaces Leverage which in previous years has been the secondary financial KPI in the Scorecard. The remaining 45% is subject to the delivery of a range of strategic, safety and ESG targets. More information on the targets for performance metrics can be found on page 28 and 29.

Long-Term Incentive Plan

It is intended that the 2024 LTIP grant is made in accordance with the normal timetable in March 2024, and there are no changes proposed to the existing LTIP structure. For the TSR element, performance will continue to be assessed against the constituents of the FTSE-350, with threshold vesting (25% of maximum) for performance in line with the median and maximum vesting for performance in line with the upper quartile. The targets for the EPS element are provided on page 159.

Appointment of Andrea Bertone

On 31 December 2023, Philip Cox stepped down as Chair and Non-Executive Director, having served nine consecutive years. During 2023 a comprehensive search for his replacement was undertaken, further details of which can be found in the Nomination Committee report. Andrea Bertone joined the Board on 24 August 2023 as a Non-Executive Director and assumed the role of Chair on 1 January 2024. From the date of her appointment, Andrea received the Non-Executive Director base fee pro-rated for the portion of the year she served on the Board. Effective 1 January 2024 Andrea received the Chair's base fee.

As Andrea is based in the US her fees are converted and paid in US dollars. As is the case with other overseas based Non-Executive Directors, Andrea received a travel allowance to recognise the additional time incurred for attending overseas Board meetings. The travel allowance for Andrea is \$30,000 per annum.

Workforce engagement

We believe engagement with our colleagues is extremely important in informing decisions of the Committee and also in communicating how the Committee reaches decisions. There are several ways we engage with our colleagues on remuneration matters.

During 2023 there were four MyVoice Forum meetings with the respective Forum chairs, Will Gardiner and Philip Cox. At these meetings, a variety of matters were discussed and this feedback has helped to inform HR decisions. As noted in last year's report, one of the key feedback themes from meetings which took place in 2022 was the need to improve recognition of the contribution of colleagues beyond our reward programmes. In 2023, the Forum chairs supported HR in developing comprehensive proposals to address this which we hope to be in position to implement across the Group in 2024.

In 2023, the feedback from the Forum chairs also played an important role in helping to shape and communicate a financial education programme, which supported around 900 UK colleagues who had a Sharesave contract maturing in 2023. This programme was very successful and I am pleased to report that Drax subsequently received two awards for the Sharesave education programme at the Pro Share Awards in December 2023. To note, new Sharesave plan rules will be submitted to shareholders for approval at the 2024 AGM.

Throughout 2023, colleagues continued to have the opportunity to put questions to Will Gardiner on any topic, with his responses made available to all colleagues. The Group also undertook its annual engagement survey with colleagues across the Group. As part of improving the survey, increased facility for colleagues to provide their comments on topics which matter to them was included. The results of the survey were considered by the Board at its meeting held in January 2024.

Shareholder engagement

Drax engages with shareholders on executive pay in advance of a new Policy and on any material changes to the implementation of the existing Policy. In December 2022 we wrote to our leading shareholders to share the proposed revisions to the Policy and our thinking behind them, and in January and February 2023 we met with some of these shareholders to discuss their feedback. As mentioned in last year's Annual Report, the Committee took this feedback into consideration, and it helped to inform our final Policy proposals. The Policy was subsequently approved by shareholders at the 2023 AGM.

Summary

The Committee recognises the strong financial and operational performance of the Group in 2023. Our colleagues across all areas of the Group have contributed to that performance. We believe the 2023 remuneration outcomes for the Executive Directors and senior management fairly reflect performance, provide a fair and consistent approach to remuneration across the Group, and is appropriate to the shareholder experience. I hope that having read this report you will vote in support of the Annual Report on Remuneration for 2023 at the AGM on 25 April 2024. More details on all resolutions to be put to shareholders at the AGM can be found on the Drax website at www.drax.com.

Remuneration Committee report continued

Implementation of the Policy in 2023

Below is a summary of the Directors Remuneration Policy (Policy) which was approved by shareholders at the AGM on 26 April 2023 and became effective from that date. The full Policy can be found on Drax's corporate website at www.drax.com. Also outlined below is a summary of the implementation of the Policy in 2023.

Element	Key features of the Policy in 2023	Implementation of the Policy in 2023	Will Gardiner (CEO) 000s	Andy Skelton (CFO) 000s
Base salary	- The Committee targets market level, as determined by reference to appropriate comparator companies with consideration for factors such as sector, size and international presence - An Executive Director in post at the start of the Policy period, and who remains in the same role throughout it, would normally receive an increase in line with the average annual percentage increase applied to the workforce in their location of employment	The base pay increases in January 2023 were made as part of the annual pay review process which resulted in Executive Directors receiving an increase in base pay of 4.0%. This was below the average increase of the wider workforce of 8.0%	£663	£422
Pension and other benefits	- An Executive Director is entitled to a contribution to the Group's defined contribution pension plan, a cash payment in lieu of pension, or a combination of pension contribution and cash in lieu of pension - Pension contribution rates for Executive Directors are aligned to the rates of new joiners to the UK wider workforce - Other benefits provided as appropriate	- The employer pension contribution rate for Will Gardiner and Andy Skelton in 2023 was 10% of base salary, which is aligned with the rate for new joiners to the UK wider workforce - Other benefits received include a car benefit, life assurance, income protection, the opportunity to participate in all-employee share plans, and private medical cover	£86	£59
Annual bonus	- The maximum opportunity is 175% of base salary for Will Gardiner and 150% for Andy Skelton - Majority weighting of the bonus award is measured on financial metrics and the remaining on strategic metrics. 40% of the total bonus outcome will be deferred into shares which are subject to a three-year vesting period - Clawback and malus provisions apply	- The 2023 annual bonus outcome as a percentage of maximum opportunity was 70% - In line with the Policy, for the Executive Directors, 40% of the overall bonus award will be deferred into shares under the DSP for three years	£812	£443
Long-term incentive plan (LTIP)	- For awards made under the LTIP, the maximum award level is 200% of base salary for Will Gardiner and 175% for Andy Skelton - Vesting is subject to long term performance conditions, measured over a three-year performance period - Shares must be retained for a further two years from the date of vesting and clawback and malus provisions apply	- The 2023 LTIP award is measured over a three year performance period to 31 December 2025, and against equally weighted TSR, relative to the FTSE 350, and Cumulative Adjusted EPS - The 2021 LTIP is scheduled to vest on 1 April 2024 at 100% of the award	£1,301	£742
Shareholding requirements	- The requirement is 250% of base salary for Will Gardiner and 200% for other Executive Directors - A post-cessation shareholding requirement, equal to the employment shareholding requirement, applies for a two-year period after cessation. Only shares for awards granted after the 2020 AGM will be included	Will Gardiner and Andy Skelton have both met their shareholding requirements, with a shareholding at 31 December 2023, equivalent to 838% and 591% of base salary respectively. This includes shares which Will Gardiner and Andy Skelton have bought in the open market	>250% of base pay requirement	>200% of base pay requirement

Alignment of Remuneration of Executive Directors and wider workforce

Many aspects of the remuneration for Executive Directors are also applicable to the wider workforce, such as the basis of the annual bonus award through the Group Scorecard, pension, and benefits entitlements. Below is a summary of the remuneration arrangements broken down by the colleague grouping. In this table as indicated in the key below, specific areas of remuneration which are not highlighted represent remuneration which is fully aligned across all colleagues for 2023, whilst those highlighted in blue are not aligned.

Key

○ Aligned across workforce ● Unique to a specific colleague group

Remuneration element		Executive Directors ⁽¹⁾	Executive Leadership and Senior Management ⁽²⁾	Wider workforce ⁽³⁾
Base salary	Approach	To target the appropriate market rate, as determined by comparisons with appropriate companies.		
	Increases	Keep pay for colleagues consistent with market rate and reviewed in line with inflation; base salary increases for Executive Directors will generally be in line with those for the UK workforce.		
Pension	New hires	All UK colleagues have the option to participate in the Company's defined contribution pension plan, with company contribution rate for new hires of up to 10% of base salary. Some colleagues choose to take a cash payment in lieu of their pension, or a combination of pension contribution and cash in lieu of a contribution. All colleagues outside of the UK have the option to participate in a retirement savings plan with a contribution from the company.		
Benefits	Health and wellbeing	All colleagues outside of Japan receive medical cover, and access to an annual private health assessment or a local equivalent arrangement.		
	Risk and protection	All colleagues have company-funded life assurance and income protection, or a local equivalent arrangement, unless they are covered under alternative collective bargaining arrangements.		
	Car benefit	£12,000	Not applicable. Some colleagues have a car as job requirement.	Not applicable. Some colleagues have a car as job requirement.
Bonus	Eligibility	Drax colleagues are eligible to take part in the annual bonus programme, unless precluded by alternative arrangements with their respective trade union group or acquisition agreement. The bonus plan is designed to reward the delivery of targets and objectives directly linked to the financial and strategic performance of the Group set each year and detailed in a Scorecard.		
	Metrics	Bonus awards are conditional on achieving thresholds set in the Scorecard, which combines financial and strategic metrics. These metrics are the same for all Drax colleagues, so there is Group-wide consistency.		
	Deferral	40% of the total bonus outcome will be deferred into shares in the form of nil cost options or conditional awards under a Deferred Share Plan (DSP). The period over which shares are deferred is normally three years. Vesting is subject to continued service or "good leaver" termination provisions.	Not applicable, no deferral.	Not applicable, no deferral.
Long-term incentive plan (LTIP)	Eligibility	Discretionary annual grant of shares, under the LTIP.	Discretionary annual grant of shares, under the LTIP.	One Drax Awards are a discretionary grant of share awards made to certain employees in recognition of their performance and to aid retention of key talent below Executive Leadership and Senior Management level.
	Metrics	For awards made under the LTIP, vesting is subject to long-term performance conditions, and typically are measured over a three-year performance period.	For awards made under the LTIP, vesting is subject to long-term performance conditions, and typically are measured over a three-year performance period.	The vesting is not subject to meeting performance conditions.
	Shareholding requirement	Requirements of 250% and 200% of salary for the CEO and CFO respectively. A post-cessation shareholding requirement, equal to the employment sharing requirement, applies for a two-year period after cessation.	Not applicable.	Not applicable.
All-colleague plans		All UK colleagues have the option to buy shares in Drax at a discounted price (after a three-year or five-year saving period elapses) under the Sharesave plan. Eligible colleagues across US and Canada are able to participate in the Employee Stock Purchase Plan (ESPP).		

Notes:

(1) The Executive Directors are the CEO and CFO.

(2) Executive Leadership and Senior Management includes all colleagues in the three most senior job grades, excluding the CEO and CFO.

(3) Wider workforce includes all colleagues in job grades below the three most senior job grades.

Remuneration Committee report continued

Corporate Governance Code

In developing the existing Policy, the Committee considered a number of factors, including the provisions of the existing UK Corporate Governance Code:

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

Clarity

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

Simplicity

- Annual bonus: a simple Scorecard structure focusing on a limited number of financial and strategic metrics, including safety and ESG metrics, which provides clarity, focus and ease of understanding
- The vesting of the LTIP is conditional in part on cumulative adjusted EPS, which reflects the capability to deliver stable earnings, and TSR, which ensures strong alignment with the shareholder experience

Risk

- A significant proportion of remuneration is linked to the longer-term performance of the Group
- A significant shareholding requirement for Executive Directors during and post-employment
- Malus and clawback provisions mitigate behavioural risks by enabling payments to be reduced or reclaimed in specific circumstances. This applies to the Executive Directors and members of the Executive Committee

Predictability

- Transparent performance measures and targets make clear the possible range of remuneration outcomes and these potential outcomes are illustrated in the Policy.

Proportionality

- Performance measures are linked to Drax's strategy and aligned with long-term creation of value for shareholders.
- Stretching targets ensure that payments are only made for strong corporate performance.
- The Committee has discretion to override formulaic outcomes to ensure that remuneration appropriately reflects overall performance, the interests of stakeholders and shareholder experience.

Alignment to culture

- In 2023 the annual bonus metrics for all employees, including Executive Directors, were the same so that all participating colleagues are focused collectively on, and rewarded for, the delivery of financial and strategic goals and Drax's purpose. In 2024 the majority of employees will still participate in the Group Scorecard.
- The annual bonus contains metrics related to safety, the environment and people which underpin Drax's values and business strategy.

Annual Report on Remuneration

The relevant sections of this Report have been audited as required by the Regulations.

Single total figure of remuneration – Executive Directors (audited information)

The table below sets out the single figure of remuneration and the breakdown for each Executive Director for the financial year to 31 December 2023, together with comparative earnings for 2022. Figures are rounded to the nearest £1000.

Director	Year	Salary (£000)	Benefits ⁽¹⁾ (£000)	Bonus ⁽²⁾ (£000)	Long-Term Incentives ⁽³⁾ (£000)	Pension ⁽⁴⁾ (£000)	Other ⁽⁵⁾ (£000)	Total Remuneration (£000)	Total Fixed Pay (£000)	Total Variable Pay (£000)
Will Gardiner	2023	663	19	812	1,301	66	0	2,862	749	2,113
	2022	631	19	966	3,799	126	0	5,540	775	4,765
Andy Skelton	2023	422	16	443	742	42	0	1,665	480	1,185
	2022	401	16	527	2,166	64	0	3,174	481	2,693

Notes:

(1) Benefits include car allowance, private medical insurance, life assurance and permanent health insurance.

(2) Bonus is the value of the award from the 2022 and 2023 annual bonus plans. It includes the value of bonus deferred and paid in shares after three years subject only to continuous service. 40% of the overall bonus for 2022 and 2023 was deferred.

(3) The 2023 numbers represent the indicative value of the 2021 LTIP award which should vest on 1 April 2024, together with the dividend equivalent shares in relation to those vested shares. The value of the award is calculated based on the average share price over the last quarter of 2023, which was £4.414. The value of the award attributable to share price appreciation for Will Gardiner is £32k and for Andy Skelton is £18k. This is based on the growth in the value of the shares due to vest (excluding dividend equivalent shares) from the grant share price to the average share price over the last quarter of 2023 (£4.414). The 2022 number (for the 2020 LTIP award which vested in May 2023) are restated to reflect the actual share price on vesting of £6.067 on 10 May 2023. This had been calculated in the 2022 Annual Report on Remuneration based on the average share price over the last quarter of 2022, which was £5.798.

(4) The pension contribution rate for Will Gardiner reduced from 20% to 10% and for Andy Skelton reduced from 16% to 10%, effective 1 January 2023.

(5) Other includes the value of Sharesave awards granted. Note no Sharesave awards were made in 2022 or 2023 as both Will Gardiner and Andy Skelton had maximum contributions under an existing contract.

Annual bonus outcome (audited information)

A summary of the Committee's assessment in respect of the 2023 Group Scorecard is set out in the following table:

Key Performance Indicator	Measure	Weighting	Plan Targets			Scoring	
			Threshold	Target	Stretch	Outturn	Score (out of 2)
Financial	Group Adjusted EBITDA (excl. EGL) (£m)	40.0%	977	1,086	1,195	1,180	1.87
	Leverage (£m)	20.0%	(1,100)	(1,000)	(900)	(976)	1.24
Strategic	BECCS	10.0%	Partially Achieved	Achieved	Strongly Achieved	Between Partially Achieved & Achieved	0.50
	Cruachan Expansion	5.0%	Partially Achieved	Achieved	Strongly Achieved	Between Achieved & Strongly Achieved	1.66
	Delivery of Pellet Volume	5.0%	4.002mt	4.327mt	4.652mt	3.781	0.00
	Total Recordable Injury Rate (TRIR)	6.7%	0.42	0.33	0.24	0.38	0.44
	Near Miss & Hazard Incidents Rate (NMHIR)	6.7%	85	110	130	129.26	1.96
	Carbon – Reduction Milestones	6.7%	Partially Achieved	Achieved	Strongly Achieved	Between Achieved & Strongly Achieved	1.66
	Inclusion Index	6.7%	76%	80%	84%	81%	1.25
100%			2023 Bonus Outturn:				
			1.40				
			Overall bonus outcome: (70.00% of maximum)				

Remuneration Committee report continued

The targets for the 2023 Scorecard metrics aligned with the Group's strategy and the 2023 business plan. They were reviewed regularly by the Board as part of their ongoing oversight of business and executive performance. No adjustment to the performance targets were made during 2023. Below is a summary of the Scorecard targets and commentary on how the Group performed on each.

Group Adjusted EBITDA (excl. EGL)	This was the principal financial metric, combining the performance of each business to give a Group outcome. The outturn for this metric for 2023 was £1,180 million, close to the high target (score of 1.87). The outturn reflects Group Adjusted EBITDA with a downward adjustment for inflation in ROC buyout which was not fully reflected in targets. The Committee applied its judgement to remove the additional benefit from the outturn of this metric to ensure that the target and the outturn could be appropriately assessed, therefore ensuring the targets fulfilled their original intent.
Leverage (Average Net Debt)	A progressive and sustainable structural reduction in debt is a key objective for the Group with progress assessed against weighted average net debt targets measured within the financial year. Average net debt was £976 million which was between the target and the stretch target (score of 1.24). The outturn and target excluded the impact of collateral payments made to or received from counterparties. The Committee considered the impact of the share buyback programme undertaken in 2023. The decision to undertake this programme was taken subsequent to setting targets in spring 2023, in the context of the timing of investment in UK BECCS CAPEX, and the delayed implementation of the EGL levy. As the decision to proceed with the share buyback programme was made after the targets for the Leverage metric were set in February 2023, the impact was not factored into the targets. The Committee applied its judgement to remove the impact of the share buyback from the outturn of this metric to ensure the target and outturn could be appropriately assessed, therefore ensuring that the targets fulfilled their original intent.
Progress on Strategic Projects	Progress on key projects is of critical importance for Drax in delivering the Group's strategy. There were two projects which were included for 2023. The first project was advancing options for our BECCS strategy, with objectives reflecting progress in 2023 on all critical path activities of our UK BECCS strategy and in advancing our options for BECCS in North America. As noted in this Annual Report, our ambitions for the deployment of new build BECCS across sites in North America are now a key part of Drax's long-term strategic aims (score of 0.50). The second project was progress on advancing the expansion of the Cruachan (pumped storage) power station. Significant progress was made on this project in 2023, as evidenced by the approval of the S36 application by the Scottish Government and subsequent signing of a Grid Connection offer with National Grid ESO (more can be read on this subject on pages 13 and 15). In addition, significant progress was made across other critical path activities (score of 1.66). The choice of projects, and assessment of performance of them in 2023 was subject to the Committee's scrutiny and approval.
Pellets	The production of sustainable pellets is essential for the generation of power at Drax Power Station and also to serve our customers of pellets globally. In 2023, 3.781Mt of pellets were produced, relative to the target of 4.327Mt. It was a challenging year at our Southern Plants due to a variety of reasons (see page 11) but robust performance was still delivered albeit below the Scorecard threshold.
Carbon Reduction, People and Safety	The Board and the Committee believe a material element of the Scorecard must incorporate the realisation of goals addressing environmental, safety and people targets. These should reflect not only strategic goals but also inform the right behaviours as well as aligning with our TCFD commitments. - The assessment of our carbon reduction aims was focused on three elements. The first was to achieve a 25% reduction in emissions at the Hydro assets from the 2020 baseline of 3,810 tonnes in carbon emissions by the end of 2023. A reduction of 96% was achieved through the surrendered REGOs. The second was to achieve a 50% reduction of supply volumes in the Opus Gas portfolio by the end of 2023. A reduction of 59% was achieved through a carefully managed offboarding process of consuming customers. The final element was the roll out of electric vehicle (EV) charging infrastructure across all Drax's UK owned sites by the end of 2023 and thereby providing employees, visitors and contractors with the opportunity help reduce Drax's carbon emissions by choosing to make the switch to an EV. EV charging infrastructure was installed and commissioned at all in-scope sites. A final score of 1.66, which reflects all three elements, was achieved for the carbon reduction metric. - The assessment of our people aims was measured against an independent rating intended to provide an understanding of to what extent our colleagues considered Drax to provide a culture of inclusivity. The rating is derived through an all-employee survey administered by a leading and globally recognised management consultancy. Drax's score for 2023 was 81% (score of 1.25) which is considered a good overall score and represents an improvement on the score achieved for 2022 of 80%. - The assessment of our safety performance focused on one leading and one lagging indicator. The first was TRIR – measured at a Group level, and with the target built up based on local business area targets. This measured the performance of both employees and contractors, including both operating assets, business and construction sites. As at the end of 2023, Drax had a TRIR of 0.38, relative to a target of 0.33 (score of 0.44). The second focus was near miss and hazard identification reporting rate (NMHIR) provided by colleagues measured across all operations and locations, and included environmental, safety and process safety observations. The report of near misses and hazard identification are an integral part of an effective managed health and safety system and a positive culture of reporting can reduce the likelihood of actual incidents taking place. At the end of 2023, Drax had a NMHIR of 129.26, relative to a target of 110.00 (score of 1.96).

The Committee completed an in-depth review of the score for each of the metrics to ensure that the result was appropriate individually and in aggregate. The Committee believes that the outcome reflected the strong financial, strategic and ESG performance of the Group, as well as wider employee and shareholder experiences. As noted in the Chair's letter, no discretion was exercised by the Committee in determining the final 2023 Scorecard outcome.

Bonus earned for 2023 (audited information)

The table below sets out the bonuses earned for the 2023 financial year and the split between cash and deferred elements.

Director	Max bonus opportunity (as % base salary)	Total bonus outcome (as % of maximum)	Total bonus outcome (as % base salary)	Total bonus outcome (£000)	Amount paid in cash (£000)	Amount deferred in shares (£000)
Will Gardiner	175%	70.0%	122.5%	812	487	325
Andy Skelton	150%	70.0%	105.0%	443	266	177

40% of the total bonus award for 2023 will be deferred into shares for a period of three years and the remaining 60% will be paid in cash in March 2024. The deferral element will in ordinary circumstances vest in March 2027, subject to the Executive Director being employed by Drax at that time. If the Executive Director leaves, other than as a "good leaver", the deferred element will be forfeited.

LTIP incentive outcomes (audited information)

The vesting outcome for awards granted in 2021 under the LTIP, which were subject to performance conditions over the three-year period from 1 January 2021 to 31 December 2023, and scheduled to vest on the 1 April 2024, is provided in the tables below.

Performance Condition	Weighting	Performance for threshold vesting (25% vesting)	Performance for maximum vesting (100% vesting)	Actual performance
Relative TSR vs FTSE 350 constituents	50%	Median	Upper Quartile	87.1% (rank of 21 out of FTSE 350)
Cumulative Adjusted EPS	50%	104.9p	128.2p	231.2p

The Committee considered the Group's overall performance for 2023 and felt no discretion to the 2021 LTIP outcome was required. The share buyback programme was not envisaged when the targets for 2021 LTIP grant were set and it did have a modest benefit to the EPS outturn by decreasing the number of shares in issue. The Committee took this into consideration and felt discretion to the EPS target or outturn position was not required given that the maximum EPS target was exceeded even if the impact of the share buyback programme was removed.

The table below provides the awards due to vest based on this vesting result.

Director	Awards Granted (as % of base salary)	Awards granted	Awards vesting	Dividend shares earned	Total shares due to vest	Total value (£000) ⁽¹⁾
Will Gardiner	200%	266,650	266,650	28,096	294,746	1,301
Andy Skelton	175%	152,022	152,022	16,017	168,039	742

Note:

- (1) Represents the value of the 2021 LTIP award which should vest on the 1 April 2024, together with the dividend shares in relation to those vested shares. The value of the award is calculated based on the average share price over the last quarter of 2023, which was £4.414. The value of the award attributable to share price appreciation for Will Gardiner is £32k and for Andy Skelton is £18k. This is based on the growth in value of the shares due to vest (excluding dividend shares) from the grant share price £4.293 to the average share price over the quarter of 2023 (£4.414). The value of dividend shares earned on the awards vesting for Will Gardiner is £124k and for Andy Skelton is £71k based on the average share price over the quarter of 2023 (£4.414).

LTIP awards granted in 2023 (audited information)

The table below shows the conditional awards granted under the LTIP to Executive Directors on 31 March 2023.

Director	Award granted (as % of salary)	Number of shares granted	Face value of awards granted (£000) ⁽¹⁾
Will Gardiner	200%	225,830	1,326
Andy Skelton	175%	125,698	738

Note:

- (1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £5.872. In accordance with the LTIP rules, dividend shares are awarded at the time and in the event that awards actually vest. No dividend shares are awarded where the initial awards lapse.

The performance conditions that apply to the LTIP awards granted in 2023 are set out below.

Performance Condition	Weighting	Performance for threshold vesting (25% vesting)	Performance for maximum vesting (100% vesting)
Relative TSR vs FTSE 350 constituents	50%	Median	Upper Quartile
Cumulative Adjusted EPS	50%	322.8p	394.6p

Straight line vesting occurs between performance levels for both conditions. Performance for both conditions is measured over three financial years to 31 December 2025.

Remuneration Committee report continued

DSP awards granted in 2023 (audited information)

The table below shows the deferred conditional share awards granted under the Deferred Share Plan (DSP) to Executive Directors on 31 March 2023 in respect of bonus earned for performance in the financial year ending 31 December 2022. These shares will vest on 31 March 2026.

Director	Value of deferred bonus (£000)	Number of shares granted ⁽¹⁾
Will Gardiner	386	65,783
Andy Skelton	211	35,874

Note:

(1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £5.872. In accordance with the DSP rules, dividends in respect of the deferred shares are reinvested in additional shares, which vest when the deferred shares vest.

Sharesave options granted in 2023 (audited information)

No grants of Sharesave options were made to Will Gardiner or Andy Skelton in 2023. Both have ongoing Sharesave contracts to the maximum permitted monthly savings.

Pension entitlements for defined contribution schemes (audited information)

Executive Directors are entitled to receive a contribution to the Group's defined contribution pension plan, cash in lieu of pension contributions or a mixture of these. The employer contributions for Will Gardiner and Andy Skelton in 2023 were 10% of base salary, which is aligned with the rate of contributions provided to new joiners to the UK wider workforce. Will Gardiner's employer contributions were delivered as cash in lieu of pension. Andy Skelton's were in part delivered as contributions to the Group defined contribution pension plan (£3,454) and the remaining part as cash in lieu. No Executive Director was a member of a defined benefit pension scheme.

Payments to former Directors (audited information)

There were no payments to former Directors.

Payments for loss of office (audited information)

There were no payments to Directors with respect to loss of office.

Statement of Directors' shareholding and share interests (audited information)

The shareholding guidelines under the current Directors' Remuneration Policy require Executive Directors who receive shares by virtue of share plan awards, or who receive deferred bonus share awards under the DSP, to retain 50% of the shares received net (i.e., after income tax and national insurance contributions) until the value of shares held is equal to at least 250% of salary for the CEO and 200% of salary for other Executive Directors. Only shares that are not subject to performance conditions count towards the shareholding requirement (shares owned by the Director and unvested awards subject to service only – DSP awards – on a net of tax basis).

Directors' interests in shares

The table below shows the shareholdings of the Directors, and their connected persons, as at 31 December 2023. The value is based on the mid-market quotation on 31 December 2023 of £4.897. There was no movement in share interests between 31 December 2023 and the last practicable date for recording changes prior to the date of publication.

Director	Beneficially owned ⁽¹⁾	LTIP awards ⁽²⁾⁽³⁾	DSP awards ⁽³⁾⁽⁴⁾	SAYE options ⁽⁵⁾	Shareholding requirement as a % of salary	Shareholding as a % of salary at 31 December 2023 ⁽⁶⁾	Shareholding requirement met at 31 December 2023
Executive Directors							
Will Gardiner	1,085,411	666,599	166,090	23,603	250%	838%	Yes
Andy Skelton	471,055	374,627	91,905	23,603	200%	591%	Yes
Non-Executive Directors							
Andrea Bertone ⁽⁷⁾	0	–	–	–	–	–	–
Philip Cox ⁽⁸⁾	60,000	–	–	–	–	–	–
John Baxter	17,500	–	–	–	–	–	–
Nicola Hodson	0	–	–	–	–	–	–
Kim Keating	0	–	–	–	–	–	–
David Nussbaum	0	–	–	–	–	–	–
Erika Peterman	0	–	–	–	–	–	–
Vanessa Simms	0	–	–	–	–	–	–

Notes:

- (1) The figures include 448,382 shares subject to a post-vesting holding period for Will Gardiner and 267,315 shares subject to a post-vesting holding period for Andy Skelton.
- (2) LTIP awards are conditional share awards subject to ongoing performance conditions.
- (3) Shares representing dividend equivalents are added on vesting.
- (4) A proportion of annual bonus is deferred into shares which are not subject to further performance conditions.
- (5) The 2020 five-year SAYE option is due to mature on 1 June 2025 with an option price of £1.271.
- (6) The calculation for Will Gardiner includes 1,085,411 shares owned, plus 88,028 unvested DSP shares on a net of tax basis. The calculation for Andy Skelton includes 471,055 shares owned, plus 48,710 unvested DSP shares on a net of tax basis.
- (7) Andrea Bertone was appointed to the Board on 24 August 2023.
- (8) Philip Cox stood down from the Board on 31 December 2023.

Service agreements or contracts for services

The following table shows, for each Director of the Company as at the date this Annual Report and Accounts is published, or those who served as a Director of the Company at any time during the year ended 31 December 2023, the start date and term of the service agreement or contract for services, and details of the notice periods. A new contract for services was agreed with David Nussbaum in 2023 and a new contract for services was agreed with Nicola Hodson in January 2024.

Director	Date appointed as a Director and member of the Board	Contract start date/ renewal date	Permitted Contract term (years)	Notice period by the Company (months)	Notice period by the Director (months)
Will Gardiner	16 November 2015	16 November 2015	Indefinite term	12	12
Andy Skelton	2 January 2019	2 January 2019	Indefinite term	12	12
Andrea Bertone ⁽¹⁾	24 August 2023	24 August 2023	3 years	6	6
Philip Cox ⁽²⁾	1 January 2015	1 January 2021	3 years	6	6
John Baxter	17 April 2019	17 April 2022	3 years	1	1
Nicola Hodson	12 January 2018	12 January 2024	3 years	1	1
Kim Keating	21 October 2021	21 October 2021	3 years	1	1
David Nussbaum	1 August 2017	1 August 2023	3 years	1	1
Erika Peterman	21 October 2021	21 October 2021	3 years	1	1
Vanessa Simms	19 June 2018	19 June 2021	3 years	1	1

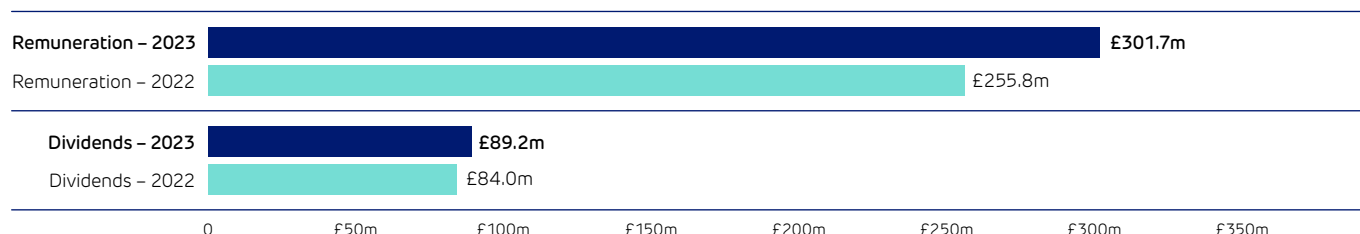
Notes:

- (1) Andrea Bertone joined the Board as a Non Executive Director on 24 August 2023 and was appointed Chair on 1 January 2024.
- (2) Philip Cox stood down as a Director on 31 December 2023.

Remuneration Committee report continued

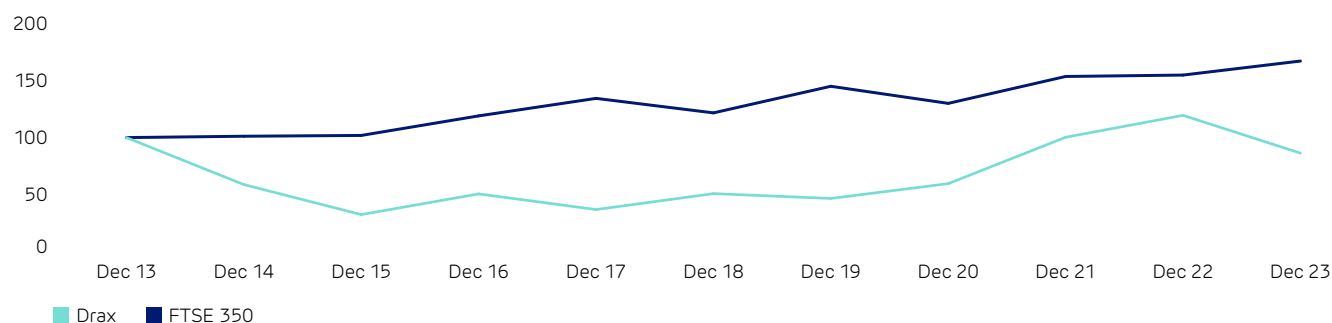
Relative importance of spend on pay

The table below illustrates the relative importance of spend on pay compared to distributions to shareholders. At the AGM on 25 April 2024 the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2023. The cost with respect to dividends for 2023 in the table below relates to the interim dividend, which was paid in October 2023, and the final dividend to be paid in May 2024, subject to approval at the AGM.



Drax 10 year Total Shareholder Return performance to 31 December 2023

The graph below shows how the value of £100 invested in both Drax and the FTSE 350 Index (Index) on 31 December 2013 has changed. This Index has been chosen as a suitable broad comparator against which Drax's shareholders may judge their relative returns given that Drax is a member of the Index. The graph reflects the TSR for Drax and the Index referred to on a cumulative basis over the period from 31 December 2013 to 31 December 2023.



CEO's pay – last 10 financial years

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022 ⁽²⁾	2023
Group CEOs total single figure (£000) ⁽¹⁾	1,854	1,248	1,581	1,236	1,885	1,121	2,013	3,226	5,540	2,862
Bonus % of maximum awarded	73.00%	46.00%	88.00%	53.00%	53.00%	45.00%	45.00%	80.50%	87.50%	70.00%
LTIP award % of maximum vesting	40.52%	21.66%	15.43%	0.00%	57.63%	18.00%	57.20%	77.28%	100.00%	100.00%

Notes:

- (1) Dorothy Thompson stood down as CEO on 31 December 2017 where she was replaced by Will Gardiner. The information reported from 2014 to 2017 relates to the remuneration Dorothy Thompson earned over this period; the information reported from 2018 to 2023 relates to the remuneration Will Gardiner earned over this period.
- (2) The 2022 Group CEO total single figure, which includes LTIP, has been restated to reflect the actual share price on vesting of £6.067 on 10 May 2023.

Percentage change in Directors' remuneration compared with the wider employee population

The table below shows how the percentage change in the Directors' salary/fees, benefits and bonus (where applicable) between 2020 and 2023 compares with the percentage change in the average of each of those components of pay for a group of employees. There are several employer entities but no employees who are specifically employed by Drax Group plc. As a result, the Committee has selected all Group employees below Executive Director level based in the UK, as the majority of employees are based in the UK and this provides the most appropriate comparison.

	Salary/fees (percentage increase)				Taxable benefits (percentage increase) ⁽¹⁾				Bonus (percentage increase) ⁽²⁾			
	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
Will Gardiner	3.0%	2.0%	10.7%	4.0%	0.0%	0.0%	0.0%	0.0%	19.2%	82.9%	20.3%	-15.9%
Andy Skelton	3.0%	2.0%	8.1%	4.0%	0.0%	0.0%	0.0%	0.0%	9.4%	82.9%	17.5%	-15.9%
Andrea Bertone ⁽³⁾	-	-	-	-	-	-	-	-	-	-	-	-
Philip Cox	0.0%	2.0%	4.5%	4.0%	-	-	-	-	-	-	-	-
John Baxter	0.0%	2.0%	4.5%	4.1%	-	-	-	-	-	-	-	-
Nicola Hodson	0.0%	2.0%	4.5%	6.5%	-	-	-	-	-	-	-	-
Kim Keating ⁽⁴⁾	N/A	N/A	4.5%	4.1%	-	-	-	N/A ⁽⁵⁾	-	-	-	-
David Nussbaum	0.0%	2.0%	4.5%	6.5%	-	-	-	-	-	-	-	-
Erika Peterman ⁽⁴⁾	N/A	N/A	4.5%	4.1%	-	-	-	N/A ⁽⁵⁾	-	-	-	-
Vanessa Simms	0.0%	2.0%	4.5%	6.5%	-	-	-	-	-	-	-	-
Average for UK employees	3.0%	2.0%	4.5%	8.0%	0.0%	0.0%	0.0%	0.0%	0.0%	78.9%	8.7%	-13.6%

Notes:

(1) With respect to taxable benefits, there has been no material change to Drax's existing benefits policies over the reporting years.

(2) The bonus Scorecard outcome for 2023 (1.40) is lower than it was for 2022 (1.75) and this is reflected in the negative difference. For the 2023 pay review, Will Gardiner and Andy Skelton both received a smaller increase than the wider UK workforce which has resulted in a difference in overall bonus payment.

(3) Andrea Bertone joined the Board on 24 August 2023 and therefore the percentage change in her fees has not been provided.

(4) Kim Keating and Erika Peterman joined the Board on 21 October 2021 and therefore the percentage change in their fees has not been provided for 2020 and 2021.

(5) N/A refers to a nil value in the previous year, meaning that the year-on-year change cannot be calculated. Both Kim Keating and Erika Peterman received a travel allowance from April 2023 following approval of the new Directors' Remuneration Policy by shareholders at the 2023 AGM.

CEO pay ratio

The table below sets out the CEO pay ratio for 2023, along with the comparative ratios since 2019. The pay ratios have been calculated using actual earnings for the CEO and UK employees. The CEO total single figure remuneration is given on page 151 of this report.

Financial Year	Methodology	25th Percentile Pay Ratio (P25)	50th Percentile Pay Ratio (P50)	75th Percentile Pay Ratio (P75)
2023	Option A	76:1	46:1	30:1
2022	Option A	114:1	79:1	57:1
2021	Option A	84:1	52:1	34:1
2020	Option A	65:1	38:1	25:1
2019	Option A	42:1	25:1	16:1

The methodology used for calculating all pay ratios was the same. For 2023, the total remuneration of all UK employees of the Group on 31 December 2023 has been calculated on a full-time (and full-year) equivalent basis using the single figure methodology and reflects their actual earnings for 2023. The only exception is for employees with Defined Benefit (DB) pensions, where the employer contribution to the respective schemes has been used in the calculation (rather than the single figure methodology) to reduce the administrative complexity. This is likely to undervalue the DB pension value. No adjustments, other than to achieve full-time and full-year equivalent rates, were made and no components of remuneration have been omitted. Of the three options permitted to calculate the percentiles, the Committee has chosen option A (the calculation of the total pay and benefits for 2023 for all UK employees on an FTE basis), as we believe it is the most robust and most statistically accurate method of the options permitted.

Remuneration Committee report continued

Set out in the table below is the base salary and the total pay and benefits for each of the identified employees in respect of 2023.

Element	25th Percentile (P25)	50th Percentile (P50)	75th Percentile (P75)
Base Salary	£26,040	£41,366	£59,400
Total Pay and Benefits	£37,541	£61,948	£94,359

Base salaries of all employees, including Executive Directors, are set with reference to a range of factors including market practice, experience and performance in role. The CEO has a larger portion of his pay based on performance of the business than the individuals at P25, P50 and P75. The Committee believe that our senior executives should have a significant portion of their pay directly linked to the performance of the business but recognise that this does mean the pay ratios will fluctuate each year depending on business performance and associated outcomes of incentive plans.

The 2023 pay ratios report a narrower gap between actual earnings of the CEO and UK employees (than compared to 2022 CEO pay ratios). This is ultimately due to a lower Scorecard outcome for 2023 than for 2022 (1.40 versus 1.75) and due to the lower number of shares vesting under the 2021 LTIP versus the 2020 LTIP.

The Group is comprised of different business units and teams with different levels of pay, including call centre staff, support staff and engineers. The Committee reviews information about employee pay, reward and progression policies of the Group and (given the relative differences in responsibilities of the roles, the pay relativities between grades within the organisation, and the positioning of pay versus the wider market) is comfortable that the median pay ratio is consistent with these policies.

Single total figure of remuneration – Non-Executive Directors (audited information)

The fees for the Chair and Non-Executive Directors were reviewed at the start of 2023 and were subsequently increased. A 4% increase to the base fee was applied for the Chair and a 4.1% to the base fee for the Non Executive Directors; both increases took effect from 1 January 2023. Their increase was broadly a 50% discount to the average increase of the wider workforce as part of the 2023 annual pay review. Following a comprehensive external benchmarking exercise, the additional fees for chairing a committee, excluding the Nominations Committee, and the additional fee for the Senior Independent Director were increased by 19.6%, effective 1 January 2023. The additional fee for chairing the Nominations Committee was increased by 59.5%, although it is noted the Chair is also the chair of the Nominations Committee and does not receive a fee for this. For completeness, the table below sets out the single figure of remuneration and breakdown for each Non-Executive Director for 2023 together with comparative figures for 2022. The figures are rounded up to the nearest £1000.

Director	Year	Base fee (£000)	Travel Allowance (£000)	Additional fee for Senior Independent Director (£000)	Additional fee for Chairing a Committee (£000)	Total (£000)
Andrea Bertone ⁽¹⁾	2023	22	8	–	–	30
	2022	–	–	–	–	–
Philip Cox ⁽²⁾	2023	277	–	–	–	277
	2022	267	–	–	–	267
John Baxter	2023	61	–	–	–	61
	2022	59	–	–	–	59
Nicola Hodson	2023	61	–	–	13	74
	2022	59	–	–	11	70
Kim Keating ⁽³⁾	2023	61	8	–	–	69
	2022	59	–	–	–	59
David Nussbaum	2023	61	–	13	–	74
	2022	59	–	11	–	70
Erika Peterman ⁽⁴⁾	2023	61	7	–	–	69
	2022	59	–	–	–	59
Vanessa Simms	2023	61	–	–	13	74
	2022	59	–	–	11	70

Notes:

- (1) Andrea Bertone joined the Board as a Non Executive Director on 24 August 2023 and from this date received the Non Executive Director base fee. Upon appointment to Chair on 1 January 2024, her base fee increased to that of the Chair's base fee. Andrea did not receive any fees for 2022 and her fees for 2023 are pro rata. As Andrea is based in the US, her fee was paid in US dollars. Her base fee was in line with the fee structure in the Policy and was converted into US dollars based on the exchange rate £1=\$1.37. From her start date, Andrea received an annual travel allowance of USD 30,000 which was pro-rata for 2023.
- (2) Philip Cox stood down as a Director on 31 December 2023 and received his base fee for 2023. No further payments were received in connection for Philip stepping down from the Board.
- (3) Kim Keating is based in Canada and her fee was paid in Canadian dollars. Her base fee was in line with the fee structure in the Policy and was converted into Canadian dollars based on the exchange rate £1 = C\$1.72. Effective April 2023, Kim received an annual travel allowance of CAD 20,000.
- (4) Erika Peterman is based in the US and her fee was paid in US dollars. Her base fee was in line with the fee structure in the Policy and was converted into US dollars based on the exchange rate £1=\$1.37. Effective April 2023, Erika received an annual travel allowance of USD 15,000.

Statement of Implementation of the Remuneration Policy in 2024

This section sets out the proposed implementation of the Directors' Remuneration Policy in 2024. No deviations from the procedure for the implementation of the Policy are proposed.

Base Salary

Below are the base salaries of the Executive Directors which took effect from 1 January 2024. There are no further planned increases for 2024. The base salary increase in January 2024 was 4% and this was made as part of the annual pay review process. This increase was below the average increase of the UK wider workforce of 5%.

	Base Salary as at 1 January 2023 (£000)	Base Salary as at 1 January 2024 (£000)	Percentage increase
Will Gardiner	£663	£690	4.0%
Andy Skelton	£422	£439	4.0%

Benefits and pension

There are no changes intended to the benefits provided to the Executive Directors. The employer contributions for Will Gardiner and Andy Skelton will remain at 10% of base salary which is aligned with the rate of new joiners to the UK wider workforce.

Annual bonus

The targets for the 2024 Group Scorecard were approved by the Committee in February. The bonus awards for the vast majority of colleagues across the Group in 2024 will be subject to the performance against the 2024 Group Scorecard. Financial metrics make up the majority weighting of 55%. The remaining 45% is equally split on the delivery of critical strategic milestones which represent progress on Drax's three core strategic objective and on the delivery of safety and ESG performance. The metrics in the 2024 Group Scorecard are presented on pages 28 and 29 of this Annual Report, along with an explanation of why each metric has been selected. The performance targets for these metrics are commercially sensitive, therefore disclosure would not be in the best interest to stakeholders. The outcome of the 2024 Scorecard will be disclosed in the 2024 Annual Report on Remuneration.

LTIP

The Committee intends to grant LTIP awards to Executive Directors of 200% of salary for the CEO and 175% of salary for the CFO.

For the TSR element, performance will be assessed versus the constituents of the FTSE 350 with threshold vesting (25% of maximum) for performance in line with the median and maximum vesting for performance in line with upper quartile. TSR performance will be measured over the period 1 January 2024 to 31 December 2026.

For the EPS element, targets for the 2024 grant have been agreed by the Committee at the meeting in February. The targets were considered similarly challenging to those set in prior years having had regard to current commercial circumstances. The EPS target was set after considering the Company's internal forecasts, market expectations and sector peers. The EPS target is "Adjusted EPS", derived from Adjusted Results as reported in the Company's audited financial statements. Instances where such adjustments might apply include acquisition and restructuring costs, asset obsolescence charges and certain remeasurements on derivative contracts. EPS performance will be measured over the period 1 January 2024 to 31 December 2026 and vesting will be in accordance with the following schedule. Note, vesting between the threshold and maximum will be on a straight-line basis.

Performance	Target	% of Award Vesting (of EPS performance condition)
Below threshold	<286.7p	0%
Threshold	286.7p	25%
Maximum	350.4p	100%

With regards to targets set in 2023 for each of the performance related incentives, the Committee retains discretion to restate or make adjustment to those targets in appropriate circumstances (such as material acquisitions, divestments, changes in capital structure or capital returns to shareholders). This would take account of the importance of such performance targets fulfilling their original intent and that they are not more or less challenging than intended when set and considering the impact of relevant events in the performance period. Any amendments would be disclosed in the Remuneration Report at the relevant time.

Remuneration Committee report continued

Non-Executive Directors' fees

The annual fee structure for the Non-Executive Directors for 2024 is shown in the table below. The fee structure for 2023 is also provided for reference. The base fee for the Chair and Non-Executive Directors was increased by 4%, effective 1 January 2024. This is consistent with the increase that the Executive Directors received as part of the 2024 annual pay review process (which was less than the 5% average increase of the wider UK workforce). There was no change to the additional fees for chairing a committee or to the additional fee for the Senior Independent Director.

Following shareholder approval of the Directors' Remuneration Policy at the 2023 AGM, a travel allowance was introduced, effective from the date of the AGM to the overseas based Non-Executive Directors. This was to recognise the additional time incurred by Non-Executive Directors based overseas in providing services to a UK-based listed company. This will remain in place for 2024 and there is no change to the quantum of the travel allowance.

Director	Fees at 1 January 2023 (£)	Fees at 1 January 2024 (£)	Percentage increase (1 January 2024)
Chair ⁽¹⁾	277,250	288,340	4.0%
Non-Executive Director base fee ⁽¹⁾	61,000	63,440	4.0%
Senior Independent Director	12,750	12,750	0.0%
Audit Committee Chair	12,750	12,750	0.0%
Remuneration Committee Chair	12,750	12,750	0.0%
Nomination Committee Chair ⁽²⁾	12,750	12,750	0.0%

Notes:

(1) The 2024 fees for the Chair and the two Non-Executive Directors based outside of the UK will continue to be paid in their respective local currency.

(2) No fee was paid for chairing this sub-committee as the Chair is also the Nomination Committee Chair.

Shareholder voting

The table below shows the voting outcome at the 2023 AGM on the 2022 Annual Report on Remuneration. The votes cast represent 73.76% of the issued share capital. In addition, shareholders holding 573,349 shares withheld their votes.

Voting on the 2022 Annual Report on Remuneration	For	Against
Number of votes	254,280,546	41,287,652
Proportion of votes	86.03%	13.97%

The table below shows the voting outcome for the Directors' Remuneration Policy at the 2023 AGM. In addition, shareholders holding 563,770 shares withheld their votes.

Voting on the 2023-2025 Directors' Remuneration Policy	For	Against
Number of votes	287,599,357	7,978,420
Proportion of votes	97.30%	2.70%

Adviser to the Committee

The adviser to the Committee for the year was Korn Ferry. Korn Ferry are an independent adviser and were appointed by the Committee in May 2022. Korn Ferry were paid in fees in 2023 in relation to advising the Committee and on broader HR matters, such as recruitment. Korn Ferry were paid £67,068, excluding VAT, during 2023 in respect of advice given to the Committee determined on a time and material basis. Korn Ferry is a member of the Remuneration Consultants Group and a signatory to its Code of Conduct. The Committee is satisfied that the advice it receives from Korn Ferry is objective and independent. Korn Ferry has no other connection with the Company other than stated here, or individual Directors, and Korn Ferry has confirmed that there are no conflicts of interest.

This report was reviewed and approved by the Remuneration Committee.

Nicola Hodson

Chair of the Remuneration Committee

28 February 2024

Directors' report

This report contains information which the Company is obliged to disclose and which cannot be found in the strategic, financial, sustainability or corporate governance reports of this document.

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and Auditor's report for the year ended 31 December 2023. The Directors' report required under the Companies Act 2006 is comprised of this report, the Corporate Governance Report and the Audit, Nomination and Remuneration Committee reports.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 7.1 to the Consolidated financial statements on page 251.

Directors

The following Directors held office during the year:

Philip Cox	Nicola Hodson
Will Gardiner	Kim Keating
Andy Skelton	David Nussbaum
John Baxter	Erika Peterman
Andrea Bertone	Vanessa Simms

The appointment and replacement of Directors is governed by the Company's Articles of Association (Articles), the UK Corporate Governance Code, the Companies Act 2006 and related legislation. See Articles 77 to 86 of the Company's Articles, available on the Company's website at www.drax.com/about-us/corporate-governance/compliance-and-policies/.

Annual General Meeting (AGM)

The AGM will be held at 10am on Thursday 25 April 2024 at 133 Houndsditch, London EC3A 7BX. A separate document contains the notice convening the AGM and includes an explanation of the business to be conducted at the meeting.

Dividends

An interim dividend of 9.2 pence per share was paid on 6 October 2023 (2022: 8.4 pence), to shareholders on the register on 25 August 2023.

The Directors propose a final dividend of 13.9 pence per share (2022: 12.6 pence), which will, subject to approval by shareholders at the AGM, be paid on 17 May 2024, to shareholders on the register on 19 April 2024.

Details of past dividends can be found on the Company's website at www.drax.com/investors/shareholder-information/dividends/.

Share capital

Drax Group plc has a Premium Listing on the London Stock Exchange and currently trades as part of the FTSE 250 Index, under the symbol DRX and with the ISIN number GB00B1VNSX38.

The Company has only one class of equity shares, being ordinary shares of 11¹⁶/₂₉ pence each, with each ordinary share having one vote. Shares held in treasury do not carry voting rights.

Details of movements in the Company's issued share capital can be found in note 4.4 to the Consolidated financial statements on page 232.

Shares in issue

At 1 January 2023	414,872,491
Issued in period	10,050,915
At 31 December 2023	424,923,406
Treasury shares at 31 December 2023	40,258,547
Total voting rights at 31 December 2023	384,664,859
Issued between 1 January and 28 February 2024	17,706
At 28 February 2024	424,941,112
Treasury shares at 28 February 2024	40,258,547
Total voting rights at 28 February 2024	384,682,565

Directors' report continued

Authority to purchase own shares

At the AGM held on 26 April 2023, shareholders authorised the Company to make market purchases of up to 10% of the issued ordinary share capital. At the 2024 AGM, shareholders will be asked to renew the authority to make market purchases of up to 10% of the issued ordinary share capital. More details on resolution 19 can be found in the Notice of Meeting. During 2023, the Company purchased a total of 26,426,259 ordinary shares between 18 May 2023 and 15 September 2023 as part of the Company's £150 million share buyback programme.

Interests in voting rights

Information provided to the Company in accordance with the Financial Conduct Authority's Disclosure and Transparency Rules (DTR) is published in a timely manner on the London Stock Exchange's Regulatory News Service – a Regulatory Information Service – and on the Company's website.

As at 28 February 2024, the following information had been received in accordance with DTR5 from holders of notifiable interests in the voting rights of the Company. The information provided below was correct at the date of notification. However, investors are only obliged to notify the Company when a notifiable threshold is crossed and therefore it should be noted that the holdings below may have changed but without crossing a threshold.

	Date last notification made	Number of voting rights directly held	Number of voting rights indirectly held	Number of voting rights in qualifying financial instruments	Total number of voting rights held	% of the issued share capital held ⁽¹⁾
Bank of American Corporation	23 Feb 2024	–	15,758,557	25,348,143	41,106,700	10.69%
Invesco Limited	22 Oct 2020	–	38,578,024	–	38,578,024	9.71%
Schroders plc	29 Jun 2021	–	38,333,806	67,765	38,401,571	9.64%
Orbis Holdings Limited	08 Jan 2024	–	19,274,154	–	19,274,154	5.01%

Notes:

(1) As at the date of the last notification made to the Company by the investor, in compliance with DTR.

Rights and obligations attaching to shares

The rights attaching to the Company's Ordinary Shares are set out in the Articles, available on the Company's website at www.drax.com/about-us/corporate-governance/compliance-and-policies/. The Articles may only be changed by shareholders by special resolution.

Attention should be given to the following sections within the Articles, covering the rights and obligations attaching to shares:

- Variation of rights – which covers the rights attached to any class of shares that may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of the relevant class (excluding any shares of that class held as treasury shares), or with the sanction of a special resolution passed at a separate General Meeting of the holders of shares of the class duly convened and held in accordance with the Companies Act.
- Transfer of shares – provides detail of how transfers of shares may be undertaken. It also sets out the Directors' rights of refusal to effect a transfer and the action that Directors must take following such refusal. It should be noted that a shareholder does not need to obtain the approval of the Company, or of other holders of shares in the Company, for a transfer of shares to take place.
- Voting, deadlines and proxies – these sections of the Articles deal with voting on a show of hands and on a poll. They also cover the appointment of a proxy or corporate representative. In respect of appointment of a proxy or corporate representative, the Articles provide for the submission of proxy forms not less than 48 hours (or such shorter time as the Board may determine) before the time appointed for the holding of the meeting. It has been the Company's practice since incorporation to hold a poll on every resolution at Annual General Meetings and General Meetings.

Disabled employees

The Company gives full consideration to applications for employment by disabled persons, bearing in mind the aptitudes of the applicant concerned. In the event of employees becoming disabled, every effort is made to ensure that their employment with the Group continues, and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, so far as possible, be identical to that of other employees.

Colleague engagement

Engaging with our colleagues is critical to creating a supportive, diverse, and inclusive culture where colleagues feel they belong and can contribute to delivering our purpose, strategy, and long-term success. Details of how the Company has engaged with employees during the year can be found in the Stakeholder Engagement section on page 33, in People Positive on page 64, and in the Corporate Governance Report on pages 123 to 124. In addition, details of how the Board has considered the interests of employees in key decision making can be found in the section 172 statement on page 32.

Political donations

Drax is a politically neutral organisation and, as further explained below, did not make any political donations or incur any political expenditure (within the ordinary meaning of those words) in 2023. The Company regularly engages with regulators and policymakers (including those associated with political parties and governments) to listen and contribute to discussions on a wide range of matters. Such engagement is an important part of our strategy and contributing to initiatives enabling the UK in its goal of reaching net zero by 2050. Further information on how we engage with stakeholders can be found on pages 32 to 41, and our Political Engagement Policy can be found on the Company's website at: www.drax.com/about-us/corporate-governance/compliance-and-policies/drax-political-engagement-policy/. Due to the broad definition of political donations under the Companies Act 2006 (the Act), and as a matter of good governance and transparency, we have provided information on areas of expenditure incurred as a result of this engagement which may be regarded as falling within the scope of the Act.

During the year ended 31 December 2023, Drax exhibited at, sponsored, and held events at, conferences organised by political parties, spending a total of £67,274 (2022: £94,572). This included, the buying of attendance passes to the Scottish Labour Conference (£640), Labour Party Conference (£3,740), and the Scottish Labour Business Gala (£360). It also included the hiring of an exhibition space at the Conservative Party annual conference, with advertising and the sponsoring of events (£47,746), the sponsoring a Scottish Conservative event at Conservative Party Conference (£6,000), and the sponsoring of an event at the Scottish Conservative Conference (£3,500). It also included attendance passes to the Liberal Democrat Annual Conference (£1,500) and Scottish National Party Annual Conference (£3,788). These events allow Drax to present its views on a non-partisan basis to politicians from across the political spectrum and non-political stakeholders such as NGOs and other listed and non-listed companies. These payments do not indicate support for any political party. Overall, the recipients were the Conservative Party (£57,246), the Labour Party (£4,740), the Scottish National Party (£3,788), and the Liberal Democrats (£1,500).

At the 2024 AGM, Drax will be seeking renewal from shareholders of the existing authority approved at the 2023 AGM. More details are contained in the Notice of Meeting.

Other significant agreements

- A £300 million facility agreement dated 20 December 2012 (as amended and restated on 10 December 2015 and 21 April 2017, as further amended and restated on 18 November 2020 and as further amended and restated on 14 September 2021) between, amongst others, Drax Corporate Limited and Barclays Bank PLC (as facility agent) (the Facility Agreement) as extended pursuant to an extension request dated 2 November 2023.
- An indenture dated 26 April 2018 (as amended and supplemented from time to time, including by a supplemental indenture dated 12 February 2019 and a supplemental indenture dated 16 May 2019) between, amongst others, Drax Finco plc and BNY Mellon Corporate Trustee Services Limited (as Trustee) governing \$500 million 6.625% senior secured notes due November 2025 (the 2018 Indenture).
- An indenture dated 4 November 2020 between, amongst others, Drax Finco plc and BNY Mellon Corporate Trustee Services Limited (as Trustee) governing €250 million 2.625% senior secured notes due 2025 (the 2020 Indenture and, together with the 2018 Indenture, the Indentures).
- A £375 million term loan facilities agreement dated 24 July 2019 between, amongst others, Drax Corporate Limited and Banco Santander S.A., London Branch (as facility agent) as amended and restated on 20 September 2021 (the 2019 Private Placement).
- A £98 million and €126.5 million term loan facilities agreement dated 18 August 2020, amongst others, Drax Corporate Limited and Banco Santander S.A., London Branch (as facility agent) as amended and restated on 21 September 2021 (the 2020 Private Placement).
- A loan facilities agreement dated 12 July 2021 between, amongst others, Pinnacle Renewable Energy Inc. and Royal Bank of Canada (as facility agent) which includes a C\$300 million term loan facility and C\$10 million revolving credit facility (2021 Facility Agreement) as further amended on 31 October 2023 and as further amended and restated on 22 December 2023.
- A £200,000,000 revolving credit facility agreement dated 9 December 2022 made between amongst others Drax Corporate Limited and Lloyds Bank plc as facility agent (the 2022 RCF Agreement).

Under the Indentures, a change of control (a Notes Change of Control) occurs if any person other than Drax Group plc becomes the ultimate beneficial owner of more than 50% of the voting rights of Drax Group plc's direct subsidiary, Drax Group Holdings Limited (unless replaced by a successor parent company), or else if all or substantially all of the assets of Drax Group Holdings Limited are disposed of outside of the Group. No later than 60 days after any change of control, Drax Group Holdings Limited must offer to purchase any outstanding notes at 101% of the principal amount of such notes plus accrued interest and other unpaid amounts.

Under the Facility Agreement, the 2019 Private Placement, the 2020 Private Placement, the 2021 Facility Agreement, and the 2022 RCF Agreement, a change of control occurs if any person or group of persons acting in concert gains control of Drax Group plc or if Drax Group plc no longer holds directly 100% of the issued share capital of Drax Group Holdings Limited (subject to carve-outs for the interposition of an intermediate holding company) or else if a Notes Change of Control occurs. Following a change of control, if any lender requires, it may by giving notice to the relevant Group entity within 30 days of receiving notice from such Group entity that a change of control has occurred, cancel its commitments and require the repayment of its share of any outstanding amounts within three business days of such cancellation notice being given.

Further information in respect of the Group's financial risk management programme (including commodity risk, foreign currency risk, interest rate risk, inflation risk, liquidity risk, and credit risk) appears in note 7 to the Consolidated financial statements on page 251.

Directors' report continued

Directors' interests and indemnity arrangements

Other than a service contract between the Executive Directors and a Group company, no Director had a material interest at any time during the year in any significant contract with the Company or any of its subsidiary undertakings. There are no agreements between the Group and its Directors providing for compensation for loss of office or employment because of a takeover bid. The Company has appropriate indemnity insurance cover in place in respect of legal action against Directors of the Company and its subsidiaries.

Strategic report

The Strategic report on pages 1 to 107 contains disclosures in relation to workforce engagement, stakeholder engagement, diversity, Greenhouse Gas emissions, streamlined energy and carbon reporting requirements (SECR), future development and research activities.

Post balance sheet events

None to report.

Auditors and the disclosure of information to the auditor

So far as each person serving as a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing the report, of which the auditor is unaware. Having made enquiries of fellow directors, each Director has taken all steps that they ought to have taken as a Director to ascertain any relevant audit information and to establish that the auditor is aware of that information. This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act.

Deloitte LLP, who have performed the role of external auditor continuously since the Company's listing in 2005, will step down as the external auditor upon completion of their work for the financial year ending 31 December 2023. Following a tender process in 2021, PricewaterhouseCoopers LLP (PwC) were appointed as the new external auditor. Resolutions will be proposed at the 2024 AGM (i) for the appointment of PwC as the auditor of the Group, to take effect from, and including, the financial year ending 31 December 2024; and (ii) authorising the Directors to determine the auditor's remuneration. The Audit Committee reviews the appointment of the auditor, the auditor's effectiveness and its relationship with the Group, including the level of audit and non-audit fees paid to the auditor. Further details on the work of the auditor and the Audit Committee are set out in the Audit Committee report on pages 132 to 143.

Disclosures required under Listing Rule 9.8.4R

The information required to be disclosed in accordance with Listing Rule 9.8.4R of the Financial Conduct Authority's Listing Rules can be located in the following pages of this Annual Report and Accounts:

Section	Information to be included	Location
1	Statement of the amount of interest capitalised	Note 2.5 on page 202
2, 4 – 14		Not applicable

The Directors' report was approved by the Board on 28 February 2024 and is signed on its behalf by:

Brett Gladden
Group Company Secretary

Registered office: Drax Power Station, Selby, North Yorkshire, YO8 8PH

Registered in England and Wales Number 5562053

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted International Accounting Standards and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), set out in FRS 101 Reduced Disclosure Framework. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 28 February 2024 and is signed on its behalf by:

Will Gardiner
CEO

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In 2023 we delivered a strong financial and operational performance. We did so while continuing to play a critical role supporting energy security in the UK through the provision of dispatchable, renewable generation for millions of homes and businesses.

Will Gardiner, CEO

Independent Auditor's report to the members of Drax Group plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Drax Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the basis of preparation and the material accounting policies on pages 177 to 182;
- the notes in Section 2.1 to 8.3 related to the consolidated financial statements; and
- the notes in Section 1 to 10 related to the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group for the year are disclosed in Section 2.3 of the notes to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • valuation of goodwill and other intangible assets; • valuation of commodity, inflation and foreign exchange contracts; • estimation of Customers' accrued income; and • estimation of expected credit loss provision in Opus Energy Limited (Opus Energy). Within this report, key audit matters are identified as follows: ⚠ Newly identified ⬆ Increased level of risk ↔ Similar level of risk ⬇ Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £21m (2022: £15m), representing approximately 2% (2022: 2%) of current year's Adjusted EBITDA including EGL ⁽¹⁾ .
Scoping	As further explained in Section 7.1, we performed full scope audits on the parent company and a further ten components, as well as audits of specified account balances on five non-significant components. These components represent the group's principal business units and account for substantially all the group's net assets, revenue, and profit before tax.
Significant changes in our approach	There have been no significant changes in our approach for the current period.

(1) Adjusted EBITDA including EGL is Earnings before Interest, Taxation, Depreciation and Amortisation but including the Electricity Generator Levy, and excluding the impact of exceptional items and certain remeasurements as disclosed on page 285.

4. Conclusions relating to going concern

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

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- evaluating the availability of adequate funding, repayment terms and covenants;
- assessing the historical accuracy of forecasts prepared by management and key assumptions underpinning the forecasts;
- checking the mathematical accuracy of the model used to prepare the forecasts;
- challenging the assumptions used in the forecasts, including performing sensitivity analyses in relation to assumptions for future commodity prices;
- checking the amount of headroom in the forecasts;
- assessing whether the directors have considered and reflected the impact of climate risks and opportunities in the group's going concern assessment; and
- evaluating the appropriateness of the going concern disclosures in the financial statements.

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

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of goodwill and other intangible assets

Key audit matter description	As at 31 December 2023, the carrying amount of the group's goodwill and intangible assets amounted to £416.7m (2022: £424.2m) and £81.5m (2022: £142.3m) respectively. An impairment of £69.1m gross of deferred tax was recognised in relation to the Opus cash generating unit ("CGU") as at 31 December 2023, following the cessation of the gas offering and reorganisation of the Customers business. The group's impairment assessment of the carrying value of each cash generating units CGU to which goodwill is allocated, is performed in accordance with IAS 36 Impairment of Assets ("IAS 36"). The recoverable amounts of the group's goodwill and intangible assets were assessed by reference to value in use calculations which require estimates, including significant assumptions regarding future cash flows and discount rates. The cash flow forecasts are derived from the group's business plan which considers variables such as margins, supply volumes and inflation. The forecasts also reflect relevant impact of climate risks such as future commodity prices on cash flows. Goodwill and intangible assets are disclosed in Sections 2.4 and 5.2 of the notes to the financial statements, and the key sources of estimation uncertainty on page 180. Climate change and biomass acceptability risks are disclosed in the principal risk section of the strategic report.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls related to the impairment review of goodwill and other intangible assets. We checked the mathematical accuracy of the impairment models and whether the impairment methodology including the duration of the cash flows applied by management was acceptable under IAS 36. We evaluated the key assumptions including margins, future commodity prices and inflation rates, and assessed retrospectively whether prior year assumptions were appropriate. With the assistance of our valuation specialists, we evaluated the reasonableness of management's discount rates and the methodology applied. We benchmarked the discount rate and developed an independent range for a reasonable discount rate using relevant comparable companies and considering the underlying assumptions based on our knowledge of the group and its industry. We compared management's calculated rate to our reasonable range. We evaluated all changes to key assumptions between the prior year impairment review and the current year's review, and challenged whether market conditions in the current year had been appropriately considered in the assumptions.

Independent Auditor's report to the members of Drax Group plc continued

How the scope of our audit responded to the key audit matter (continued)	In respect of the reorganisation of the Customers business and the subsequent impairment recognised, we assessed management's conclusion that a change in CGU is appropriate, reviewed the methodology applied, assessed and recalculated the reallocation of a portion of goodwill, and checked the allocation of the impairment to the remaining assets. We assessed the accuracy of management's cash flow forecasts by comparing historical forecasts with actual cash flows and external industry benchmarks. We checked whether projected cash flows were consistent with Board approved forecasts. We also assessed whether management's impairment forecasts are consistent with other forecasts, including the going concern model. In respect of climate-related risks, we assessed whether key assumptions, such as future commodity prices, relating to the group's principal climate change risks had been incorporated into the group's forecasts. We further considered whether the forecasts and related cash flow sensitivities are consistent with the scenarios applied in the group's Task Force on Climate-Related Financial Disclosures (TCFD) and the group's own-stated climate commitments. Furthermore, we performed sensitivity analyses, including the impact of physical and transition climate change risks such as extreme weather events and policy risks related to the transition to a low-carbon economy, as part of our overall evaluation of the forecasts. We also assessed the completeness and accuracy of the financial statements' disclosures and compliance with the requirements of IAS 36, in relation to the impairment assessments performed.
Key observations	We conclude that the valuation of goodwill and intangible assets as well as the relevant disclosures are appropriate based on the results of our work.

5.2. Valuation of commodity, inflation and foreign exchange contracts

Key audit matter description	Net losses on derivative contracts amounted to £204.8m (2022: £302.4m), with related derivative assets of £622.0m (2022 as restated: £757.9m) and liabilities of £538.2m (2022 as restated: £1,264.7m) recognised as at 31 December 2023. In the current period, management have restated the 2022 derivative assets and liabilities to offset certain derivatives, as disclosed in Section 7.1 of the notes to the financial statements. The group uses a variety of derivative contracts, including commodity contracts and cross currency swaps to mitigate its exposures to financial risks such as foreign exchange risk and commodity price risk. The valuation of derivative contracts is complex and requires selection of appropriate valuation methodologies and relevant assumptions, including future market prices, credit risk factors, the time value of money and spread adjustments. As a result, we have identified the risk of error in this regard. Specifically, this risk has been pinpointed to valuation of inflation swaps, and the application of credit risk data calculations as part of deriving overall fair value estimates for derivative contracts; these are manually applied and involve the manipulation of large volumes of data. In the prior year we communicated that the critical accounting judgement with regard to scoping of biomass contracts under IFRS 9 Financial Instruments was included in this key audit matter. There has been no material change in the biomass market since the prior year, therefore we no longer consider this to be a key audit matter for the year ended 31 December 2023. Further detail of the key judgements is disclosed in the audit committee report section on page 132. Financial risk management disclosures are set out in Section 7.1 of the notes to the financial statements.
How the scope of our audit responded to the key audit matter	We tested the operating effectiveness of relevant controls related to the valuation of commodity, inflation and foreign exchange contracts. With the involvement of our financial instrument specialists, we tested management's key judgements and calculations. This included testing a sample of trades undertaken to trade tickets and checking key contractual terms such as volumes and contracted prices. We assessed the valuation models used by management, including any manual adjustments to determine the fair value of the derivative instruments, and performed independent valuations on a sample of commodity and foreign exchange contracts. We checked the appropriateness of management's assumptions by benchmarking these to third party sources. We also evaluated the consistency of these assumptions against other relevant areas of the financial statements such as asset impairment. We challenged management's approach and assumptions for assessing fair value adjustments such as credit risk, the time value of money and spread adjustments through consideration of third-party data. We considered the appropriateness of the relevant complex derivative energy contracts disclosure, including the key source of estimation uncertainty disclosures. We also challenged management's assessment of offsetting of financial instruments required under IAS 32 Financial Instruments: Presentation and tested the calculation and disclosure of the restatement of comparative amounts.
Key observations	The valuation of commodity, inflation and foreign exchange contracts are reasonable based on the results of our audit. We consider the valuation methodologies used by management to be appropriate and the valuations are within acceptable ranges for all instruments. Management's calculation and disclosure of restated comparative valuations are reasonable.

5.3. Estimation of Customers' accrued income

Key audit matter description	The recognition of retail energy revenue requires an estimation of customer usage between the date of the last billing and year end, which is known as accrued income. Across the Customers business, accrued income at year-end amounted to £277.8m (2022: £342.6m). The method of estimating accrued income requires assumptions for both the volumes of energy consumed by customers and the related value attributed to those volumes in the range of tariffs. Therefore, we identified the risk of error and the risk of fraud on the estimation of accrued income. Furthermore, the business undertook a change in the IT environment in the current year. Accrued income is disclosed in Section 3.5 of the notes to the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls over the estimation of accrued income, including the reconciliation of meter readings provided by the energy markets and used by management to estimate the power supplied, and the controls over the price per unit applied in the valuation of certain aspects of accrued income. Working with our IT specialists, we tested controls associated with the IT system migration exercise and validated the accuracy and completeness of the balance migrated from the legacy systems. We recalculated the unbilled income balance at the year end and tested the integrity of the underlying data that is used in preparing the estimate, including expected rates and volumes as well as the manual adjustments applied. We agreed the volume data for customer usage of energy in the year used in the calculation to external industry settlement systems and agreed the volume data in relation to customer billings for the year to internal billing systems in order to assess for consistency, and then assessed any residual estimation risk. When external market information was not available at the balance sheet date, our data analytics specialists assisted us in testing the accuracy of the volume of power transferred from meter readings and the recalculation of estimated revenue supplied in order to assess whether accrued income as at 2023 year end was subsequently billed. We compared the unbilled unit pricing by agreeing historical pricing to sample bills and sensitising the pricing to understand the impact of different pricing assumptions. We evaluated the historical accuracy of management's forecasting of accrued income by comparing estimates to final billed and settlement amounts.
Key observations	The estimation of Customers' accrued income is reasonable based on the results of our audit.

5.4. Estimation of expected credit loss provision in Opus Energy

Key audit matter description	The current macro-economic conditions including heightened energy bills, increases in the cost of living, and high inflation have increased the rate of credit defaults across several industries. The group is therefore required to make estimates on its expected credit loss provision for trade receivables. Opus Energy is an entity within the Customers business whose customers are small and medium enterprises ("SMEs") – including retail, entertainment, and hospitality businesses – where the range of judgement that could apply is far broader relative to the other group entities. The group uses a machine learning algorithm to calculate expected credit losses for its SME customer base. The algorithm predicts the future performance of debt on an individual account basis using a broad range of indicators and that are specific to the customer. Due to the complexity of the estimate and its impact on the allocation of resources in the audit, we identified this as a key audit matter. Total trade receivables associated with Opus Energy were £155.8m (2022: £189.1m) against which a total credit loss provision at the balance sheet date amounted to £50.6m (2022: £54.9m). Further detail on the estimation of expected credit loss model is provided in note 3.5 of the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls related to the estimation of expected credit losses in line with the requirements of IFRS 9. We tested the completeness and accuracy of the data used in the expected credit loss model. With the involvement of our expected credit loss specialists and data analytics specialists, we evaluated the appropriateness of the model parameters and output of the expected credit loss model, including its mathematical accuracy. Further we challenged the group's assumptions, including forward-looking assumptions regarding ongoing macro-economic conditions, and whether they reflect the lifetime expected credit outcomes for the amount receivable at year end. In challenging management's assessment, we considered factors including current levels of write-offs and disputes, levels of corporate insolvencies across the UK economy, wider macro-economic data including GDP forecasts, SME insolvency rates and consumer confidence levels, as well as energy price forecasts. This included engagement with our economic consulting specialists to understand the key drivers of credit risk. We challenged the overall reasonableness of the provisions recognised at year end by assessing trends in cash payments and cancellations of direct debits. We also benchmarked the recorded provision against alternative valuation models, cash collection rates and external valuations. We tested the historical accuracy of management's estimation of the expected credit loss provision by comparing previous estimates to actual write offs.
Key observations	Based on the work performed we concluded that the expected credit loss provision has been appropriately stated.

Independent Auditor's report to the members of Drax Group plc continued

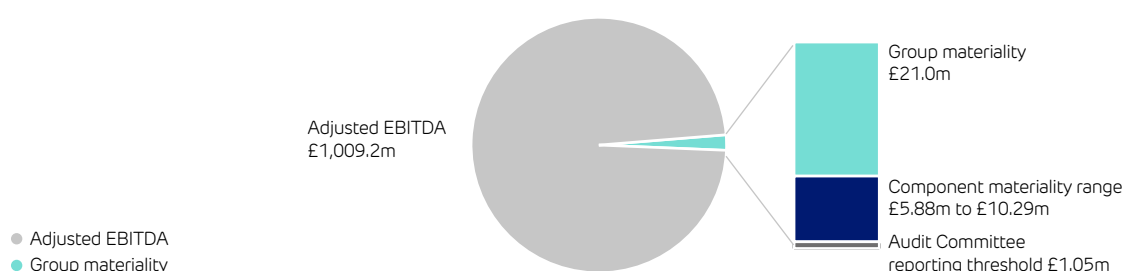
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£21.0m (2022: £15.0m)	£8.4m (2022: £6.0m)
Basis for determining materiality	Approximately 2% of current year's Adjusted EBITDA including EGL (2022: 2% of Adjusted EBITDA) and corresponds to 3% of the last three years' average Adjusted EBITDA.	0.5% of net assets (2022: 0.5%) capped at 40% (2022: 40%) of the materiality identified for the group.
Rationale for the benchmark applied	Adjusted EBITDA including EGL was applied as it is considered to be of particular relevance to users of the financial statements as a key profit-based measure of performance used by the group. This measure allows the underlying profitability of the group's core business activities to be assessed year on year. It excludes fluctuations caused in particular by the remeasurements of derivative contracts and exceptional items, defined as those transactions that, by their nature, do not reflect the trading performance of the group in the period. However, it includes EGL as this is a recurring charge for the group.	Net assets is considered the relevant benchmark as the principal activity of the parent company is to be an investment holding entity for the group.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2022: 70%) of group materiality	70% (2022: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a) our cumulative experience from prior year audits; b) our risk assessment, including our assessment of the overall control environment and that we consider it appropriate to rely on controls over a number of business processes; c) the nature of the entity's business during the year which would impact on our ability to identify potential misstatements; and d) the history, nature and size of corrected and uncorrected misstatements identified in the previous audits and management's willingness to correct those adjustments.	

6.3. Error reporting threshold

We agreed with the audit committee that we would report to the committee all audit differences in excess of £1.05m (2022: £0.75m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the audit committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. In addition to the statutory audit of the parent company financial statements, we performed full scope audits at ten components: Drax Power Limited, SMW Limited, Drax Hydro Limited, Drax River Hydro Limited, Drax Pumped Storage Limited, Drax Energy Solutions Limited, Drax Finco plc, Drax Corporate Limited, Drax Group Holdings Limited, and Opus Energy Limited. Audits of specified account balances were performed at Southern Pellet Operations, Northern Pellet Operations, Hirwaun Power Limited, Progress Power Limited, and Millbrook Power Limited. These components represent the group's principal business units and account for substantially all of the group's net assets, revenue, and profit before tax.

The group audit was performed by the group audit team in the UK and a component Deloitte team in Canada under the supervision of the Senior Statutory Auditor. The full scope entities are all based in the United Kingdom and audited by the group audit team. Our audit work at all significant component locations was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £5.88m to £10.29m (2022: £4.20m to £9.50m). Component materiality levels were set based on the size and nature of each component on a range of applicable metrics.

In addition to the work performed at a component level, the group audit team performed audit procedures the consolidated financial statements, including entity-level controls, the consolidation and financial statement disclosures. The group team also performed analytical reviews to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

7.2. Our consideration of the control environment

Our audit approach was to place reliance on management's relevant controls over revenue and financial instruments business cycles. We tested controls through a combination of inquiry, observation, inspection, and re-performance. Where controls were deficient and there were not sufficient mitigating or alternative controls on which we could rely, we considered the impact and updated our audit plan accordingly.

We also involved our IT specialists in assessing relevant controls over the group's IT systems. Working with IT specialists we obtained an understanding of the IT environment to assess the relevant risks of material misstatement arising from each relevant IT system and the supporting infrastructure technologies based on the role of each application in the group's flow of transactions. For the assessed risks on key IT systems, we tested relevant automated and general IT controls. See pages 134 – 136 of the Audit Committee Report for the audit committee's assessment of the control environment.

7.3. Our consideration of climate-related risks

The group has considered climate change risks, including biomass acceptability risk, as part of their risk assessment process when considering the principal risks and uncertainties facing the group. This is set out in the strategic report (including TCFD) on pages 78 to 90 and Section 3.8 of the notes to the financial statements on page 225. Based on our risk assessment, the areas of the financial statements that are notably impacted by climate-related considerations are associated with future forecasts in the medium to long term. These include the valuation of property, plant and equipment, goodwill, and other intangible assets, which is consistent with management's assessment. Our response is highlighted in section 5.1 above. In addition, we have:

- assessed and challenged management's assessment of the key financial statement line items and estimates which are more likely to be materially impacted by climate change risks given that the more notable impacts of climate change on the business are expected to arise in the medium to long term;
- challenged how the directors considered climate change in their assessment of going concern and viability based on our understanding of the business environment and by benchmarking relevant assumptions with market data;
- involved our Environmental Social and Governance (ESG) specialists in challenging the group's climate change assessments, including biomass acceptability. The ESG specialists were also involved in reviewing the Sustainable Development section of the annual report and assessing TCFD on pages 78 – 90 against the recommendations of the TCFD framework. We considered if any of the information disclosed was inconsistent with the information we obtained through our audit;
- assessed whether climate risk assumptions underpinning specific account balances were appropriately disclosed; and
- read the climate change risk disclosures, including biomass acceptability risk, included in the strategic report section of the annual report for consistency with the financial statements and our knowledge of the business environment.

7.4. Working with other auditors

The group audit team are responsible for the scope and direction of the audit process and provide direct oversight, review, and coordination of our component audit teams. The group audit team interacted regularly with the component teams during each stage of the audit and reviewed key working papers. The group audit team maintained continuous and open dialogue with the component teams in addition to holding formal regular meetings so that the group audit team were fully aware of their progress and the results of their procedures. The group audit team also sent detailed instructions to the component audit teams and attended audit closing meetings.

Independent Auditor's report to the members of Drax Group plc continued

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our inquiries of management, internal audit, the directors and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed with our internal fraud specialists, as part of our initial fraud risk assessment and our engagement team discussions, including fraud schemes that had arisen in similar sectors and industries; and
- the matters discussed among the audit engagement team including the component audit team and relevant internal specialists, including forensics, tax, pensions, IT, valuations, financial instruments and ESG specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: estimation of Customers' accrued income, as well as cut-off of bilateral sales. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override of controls.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty, including regulations established by regulators in the key markets in which the group operates, including the Office of Gas and Electricity Markets ("Ofgem") and biomass-related regulations.

11.2. Audit response to risks identified

As a result of performing the above, we identified estimation of Customers' accrued income as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains these matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- inquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with Ofgem;
- in addressing the risk of fraud in cut-off of bilateral sales, in addition to our testing described above we have performed focussed testing on trades close to the year-end combined with analytical review procedures to assess accuracy and completeness of revenue recognised; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 92 and 93;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on pages 92 and 93;
- the directors' statement on fair, balanced and understandable set out on page 165;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 92 and 93;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 94 and 95; and
- the section describing the work of the audit committee set out on page 132.

Independent Auditor's report to the members of Drax Group plc continued

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders at the Annual General Meeting on 26 April 2023 to audit the financial statements for the year ending 31 December 2023 until the conclusion of the next Annual General Meeting. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 19 years, covering the years ending 31 December 2005 to 2023. The year ending 31 December 2023 will be the last year of our appointment as auditor.

15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.15R – DTR 4.1.18R, these financial statements will form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This auditor's report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R.

Makhan Chahal, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

28 February 2024

Financial statements

Introduction

The Consolidated financial statements provide detailed information about the financial performance (Consolidated income statement and Consolidated statement of comprehensive income), financial position (Consolidated balance sheet), reserves (Consolidated statement of changes in equity), and cash flows (Consolidated cash flow statement) of Drax Group plc (the Company) together with all entities controlled by the Company (collectively, the Group).

The notes to the Consolidated financial statements provide additional information on the items in the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity and Consolidated cash flow statement. The notes include explanations of the information presented. In general, the additional information in the notes to the Consolidated financial statements is required by law, International Financial Reporting Standards (IFRS) or other regulations to facilitate increased understanding of the primary statements set out on pages 183 to 187, as well as voluntary information which management believes users of the accounts may find useful, in line with the principles of IFRS.

Basis of preparation

The Consolidated financial statements have been prepared in accordance with the United Kingdom adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Consolidated financial statements have been prepared on the historical cost basis, except for certain assets and liabilities that are measured at fair value (principally derivative financial instruments) and the assets and liabilities of the Group's defined benefit pension scheme (measured at fair value and using the projected unit credit method respectively).

The Consolidated financial statements are presented in pounds sterling, the functional currency of the Company and the Group's presentational currency, rounded to the nearest million to one decimal place unless stated otherwise.

Foreign currency transactions

Each entity in the Group determines its own functional currency and items included in the results of each entity are measured using that functional currency. Transactions in currencies other than an entity's functional currency are initially recorded in the transaction currency and translated into the entity's functional currency at the average monthly exchange rate to the extent that this approximates the exchange rate prevailing at the date of the transaction. If the average monthly exchange rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, income and expenditure are translated at the rates prevailing at the date of the transaction.

At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items measured at historical cost are translated at the date of the transaction using the average monthly exchange rate to the extent that this approximates the rate prevailing on the date the transaction occurred. Non-monetary items that are measured at fair value are translated at the exchange rate at the date when the fair value was determined. Foreign exchange gains and losses arising on such translations are recognised in the Consolidated income statement within foreign exchange gains or losses. Foreign exchange gains or losses on qualifying cash flow hedges are recognised in other comprehensive income (OCI) within the Consolidated statement of comprehensive income, and deferred

within equity to the extent the hedges are effective, until the hedged item impacts the Consolidated income statement.

Foreign operations

The assets and liabilities of foreign operations with a functional currency other than sterling are translated into sterling using the exchange rates prevailing at the reporting date. The income and expenditure of such operations are translated into sterling using the average monthly exchange rate to the extent that this approximates the exchange rates prevailing at the date of the transactions. If the average monthly exchange rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, income and expenditure are translated at the rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the retranslation of the operation's net assets, and its results for the year, are recognised in OCI within the Consolidated statement of comprehensive income.

Climate change

The impact of climate change has been considered throughout the preparation of the Annual report and accounts. In particular, in the Strategic report and in compliance with FCA Listing Rules 9.8.6(8), the Task Force on Climate-Related Financial Disclosures (TCFD) section contains information on the four recommendations and 11 recommended disclosures of TCFD. Consideration in respect of the Consolidated financial statements focused on:

- Critical accounting judgements
- Impairment of assets
- Going concern and viability
- Useful economic lives of fixed assets
- Present value of decommissioning provisions
- Fair value of contingent consideration

Further information on these considerations can be found in note 3.8 to the Consolidated financial statements.

Going concern

The Group's business activities, along with future developments that may affect its financial performance, financial position and cash flows, are discussed on pages 1 to 107 of this Annual report and accounts. The current market conditions and financial performance of the Group are considered in the Financial review on page 22.

In assessing going concern the Directors have considered the period up to 31 March 2025, as this period extends beyond the Group's debt repayment of a £122.5 million tranche of the 2019 UK infrastructure private placement facility in early 2025. Subsequent to the reporting date and prior to the signing date of the Consolidated financial statements, a separate £122.5 million tranche of the 2019 UK infrastructure private placement facility due in January 2024 has been repaid, as well as €25.0 million of the 2020 UK infrastructure private placement facility. The Group's committed £300 million revolving credit facility (RCF) which was also due to expire in January 2025 has been extended by 12 months to January 2026. On 22 February 2024, the Group signed a new secured committed Term Loan facility for £209 million (sterling equivalent) and a further £50 million on 27 February 2024. All of these factors have been included in the Group's going concern assessment. See note 4.2 for further details on the Group's borrowings.

The Directors have also considered any significant events, including any committed outflows beyond this period, in forming their conclusion. The going concern assessment primarily focuses on cash flow forecasts, available liquidity and continued compliance with banking covenants over the period assessed. The cash flow forecasts used to assess going concern are modelled for the impact of severe but plausible scenarios,

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consistent with the viability assessment detailed on pages 92 and 93. The scenarios modelled included a decrease in power prices and an increase in biomass costs. At 31 December 2023 the Group had cash and committed facilities of £639.4 million (see note 2.7) and borrowings of £1,425.3 million (see note 4.2). Under all scenarios modelled, the Group maintained sufficient liquidity and continued to remain in compliance with its covenants. The Directors have therefore concluded that they have a reasonable expectation that the Group will continue to meet its liabilities as they fall due for a period of at least 12 months from the date of signing these Consolidated financial statements and have adopted the going concern basis in preparing these Consolidated financial statements.

See the Viability statement on pages 92 and 93, for details of the Directors assessment that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next five years based on forecasts and projections that take into account reasonably possible changes in trading performance and other key assumptions.

Basis of consolidation

These Consolidated financial statements incorporate the financial results of the Company and of all its subsidiaries made up to 31 December each year. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which the Group obtains control to the date control ceases. Accounting policies of subsidiaries have been aligned where necessary to ensure consistency with the policies adopted by the Group.

All intra-group assets and liabilities, equity, income, expenses, unrealised profits and cash flows relating to transactions between the members of the Group are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Non-controlling interests in subsidiaries are identified separately from the Group's equity. The interests of non-controlling shareholders that are current ownership interests, entitling their holders to a proportionate share of net assets upon liquidation, may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss and each component of OCI are attributed to the owners of the parent company and to the non-controlling interests. Profit or loss and each component of OCI are attributed to the owners of the parent company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

See note 4.5 for the accounting policy and further details on the Group's accounting for non-controlling interests.

Joint arrangements are contractual arrangements where two or more parties have joint control over the arrangement. Joint arrangements are classified as either a joint operation or a joint venture based upon an analysis of the rights and obligations of the parties in the normal course of business. If the parties to the joint arrangement have direct rights to the assets, and direct obligations for the liabilities, relating to the arrangement, then it is a joint operation. If the parties to the joint arrangement have rights to the net assets of the arrangement, then it is a joint venture.

The Group currently has one joint operation and no joint ventures. The Group recognises its direct right to assets, liabilities, revenue and expenses of the joint operation, as well as its share of any jointly entitled assets, liabilities, income and expenditure.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. This is generally the case where the Group holds between 20% and 50% of the voting rights of an entity.

Associates are accounted for using the equity method. Investments in associates are initially recognised at cost, which includes transaction costs. Goodwill is not separately recognised in relation to associates. Subsequent to initial recognition, the carrying amount of investments in associates is adjusted to recognise the Group's share of after-tax profit or loss and each component of OCI of equity-accounted associates, that are recognised in the Consolidated income statement and Consolidated statement of comprehensive income respectively. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment. If the carrying amount of an associate reaches £nil, the Group only recognises its share of losses of the associate to the extent it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated against the investment to the extent of the Group's percentage ownership in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of impairment. Accounting policies of equity-accounted associates have been aligned where necessary to ensure consistency with the policies adopted by the Group.

Associates are tested for impairment whenever there are any indicators of impairment. An impairment loss is recognised to the extent that the carrying amount of the investment exceeds its recoverable amount. Impairment losses on associates are recognised within share of profits or losses from associates in the Consolidated income statement.

Accounting policies

The material accounting policies for the measurement of an individual item in the Consolidated financial statements are described in the note to the Consolidated financial statements relating to the item concerned (see contents on page 166).

The accounting policies adopted in the preparation of the Consolidated financial statements are consistent with those followed in the preparation of the Group's Consolidated financial statements for the year ended 31 December 2022, except for the adoption of new standards and amendments effective as of 1 January 2023. The Group has not early-adopted any standard, interpretation or amendment that has been issued but is not yet effective.

A full listing of new standards, interpretations and pronouncements under IFRS applicable to these Consolidated financial statements is presented in note 8.2. The application of these new requirements has not had a material effect on the Consolidated financial statements.

Offsetting

IAS 32 requires financial assets and financial liabilities to be offset and the net amount presented in the Consolidated balance sheet when the Group has both a current legally enforceable right to offset the recognised amounts, and also has the intention to settle on a net basis. The offsetting requirements and relevant guidance is based on the principle of reflecting the entity's expected future cash flows, and requires careful assessment around how the requirements should be applied to derivative contracts that will be settled in part through physical delivery of a non-financial asset.

Previously, the Group did not consider derivatives that resulted in physical delivery of a non-financial asset and were not settled solely in cash or another financial instrument to meet the requirements for offsetting. During the current year, the Group has revised its application of how the offsetting criteria are applied to derivative contracts that are physically settled. This has resulted in a number of physically settled derivatives now being deemed to meet the offsetting criteria. The Group has applied offsetting based on a contract level unit of account.

The Consolidated balance sheet for the comparative periods have been restated to reflect the revised application. The impact of this change is summarised in the tables below. There is no impact from this change on the Group's net assets or shareholders' equity, nor any impact on the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity or Consolidated cash flow statement.

	As at 31 December 2022 Previously reported £m	Restatement £m	As at 31 December 2022 Restated £m
Non-current assets			
Derivative financial instruments	421.7	(60.7)	361.0
Total non-current assets	3,597.2	(60.7)	3,536.5
Current assets			
Derivative financial instruments	796.3	(399.4)	396.9
Total current assets	2,797.2	(399.4)	2,397.8
Current liabilities			
Derivative financial instruments	(989.4)	399.4	(590.0)
Total current liabilities	(2,607.6)	399.4	(2,208.2)
Non-current liabilities			
Derivative financial instruments	(735.4)	60.7	(674.7)
Total non-current liabilities	(2,462.6)	60.7	(2,401.9)
Net assets	(1,324.2)	-	(1,324.2)

	As at 31 December 2021 Previously reported £m	Restatement £m	As at 31 December 2021 Restated £m
Non-current assets			
Derivative financial instruments	357.5	(167.3)	190.2
Total non-current assets	3,476.0	(167.3)	3,308.7
Current assets			
Derivative financial instruments	888.6	(478.5)	410.1
Total current assets	2,348.4	(478.5)	1,869.9
Current liabilities			
Derivative financial instruments	(962.7)	478.5	(484.2)
Total current liabilities	(2,232.9)	478.5	(1,754.4)
Non-current liabilities			
Derivative financial instruments	(541.8)	167.3	(374.5)
Total non-current liabilities	(2,284.7)	167.3	(2,117.4)
Net assets	(1,306.8)	-	(1,306.8)

See the Critical accounting judgements section below and note 7.5 for further details on the Group's offsetting of financial assets and financial liabilities.

Electricity Generator Levy

In December 2022, the UK Government confirmed the details of a windfall tax – the Electricity Generator Levy (EGL) – on renewable and low-carbon generators, for implementation in 2023. The levy applies to the Group's three biomass units operating under the Renewables Obligation (RO) scheme and

its run-of-river hydro operations. It does not apply to the Group's Contract for Difference (CfD) biomass unit or its pumped storage hydro operations. The EGL applies at a rate of 45% to receipts from in-scope forms of wholesale electricity generation that exceed a defined benchmark level, after the deduction of certain costs, from 1 January 2023 to 31 March 2028.

After consideration of the legislation underpinning the EGL, the Group has determined that it should be treated as a levy under IFRIC 21 'Levies', rather than as a tax under IAS 12 'Income taxes'. Therefore, the cost is recognised above gross profit. Due to the materiality of the charge, in terms of both its quantum and nature (being the first year of applicability), it was determined that the EGL should be presented as a separate line on the face of the Consolidated income statement. A reconciliation of Adjusted EBITDA including EGL to Adjusted EBITDA excluding EGL can be found in note 2.7.

In accordance with IFRIC 21, a liability for a levy is recognised once the obligating event, being the activity that triggers the payment of the levy, has occurred. A liability to pay a levy is recognised progressively if the obligating event occurs over time. If an obligation to pay a levy is triggered when a minimum threshold is reached the corresponding liability is recognised only when that minimum activity threshold is reached. The EGL is triggered based on average generation receipts for in-scope revenue schemes over a reporting period being higher than the threshold set in the legislation. A liability is therefore recognised if the average actual generation receipts to date in a financial period are above the threshold. The threshold for 2023 is £75 per MWh. The assessment is based on receipts above this threshold after adjusting for allowable costs.

Judgements and estimates

The preparation of these Consolidated financial statements requires judgement to be made in selecting and applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenditure. 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.

In accordance with IAS 1 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 analyses where appropriate for the key estimates and assumptions, is included in the related notes.

Critical accounting judgements

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

Accounting for biomass purchase and sale contracts

The Group buys and sells biomass for operational requirements in its Pellet Production and Generation segments. The Group's risk management policies also permit some flexibility in activity to optimise the overall portfolio position and potentially release value in certain circumstances. As such, at each reporting date the Group undertakes an assessment of whether contracts it holds to buy and sell biomass are within the scope of IFRS 9. If the contracts were deemed to be within the scope of IFRS 9, this could result in these contracts being recognised at fair value as derivative financial instruments from inception.

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The Group assessed both biomass purchase and sale contracts and concluded that 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. The Group concluded this due to the contractual terms having no net settlement provisions and the highly illiquid nature of the biomass market meaning contracts cannot be readily converted into cash. The lack of an active spot market means market participants cannot readily seek to make trading profits from short-term price fluctuations as prices and contracts are negotiated bilaterally with no active market price and no guarantee there will be a willing buyer or seller to trade with. Accordingly, biomass contracts are not recognised as derivative assets or liabilities in the Consolidated balance sheet prior to delivery, consistent with the accounting in prior years.

Had the Group concluded biomass purchase contracts were within the scope of IFRS 9, a £1 per tonne increase or decrease in the market price of biomass would result in a £17.4 million fair value gain or loss respectively being recognised on these contracts. The Group continues to assess developments in the biomass market on an ongoing basis to identify any impact on this assessment.

Capitalisation of development project costs

As the Group executes its strategy, significant investment is likely to be required in large development projects, including bioenergy with carbon capture and storage in the UK (UK BECCS) and the expansion of Cruachan. In accounting for this expenditure, judgements are required to determine whether these costs meet the criteria to be capitalised, or whether they should be expensed as incurred. The capitalisation of costs under IAS 16 and IAS 38 is based around the expectation that it is probable that economic benefit will flow to the Group as a result of the costs incurred to bring the asset into working condition. This judgement can be complex as it is dependent on several qualitative factors, including technological feasibility, economic feasibility and availability of finance. These factors can change over time and so any judgements are continually reassessed.

At 31 December 2023 the Group had capitalised a total of £42.8 million relating to the UK BECCS development project, including £18.3 million in 2023. Had it been judged that the criteria for capitalisation had not yet been met, these costs would have been expensed as incurred. Should expectations around the qualitative factors noted above change in future, then the amounts capitalised may need to be impaired. For further details on UK BECCS see the Development of BECCS at Drax Power Station in the UK opportunity in the Climate-related opportunities on page 87. The Group has not yet capitalised any costs in relation to the expansion of Cruachan or any BECCS projects outside of the UK, as the recognition criteria have been judged not to have been met.

Offsetting of financial assets and financial liabilities

IAS 32 requires financial assets and financial liabilities to be offset and the net amount presented in the Consolidated balance sheet when the Group currently has both the legally enforceable right to offset the recognised amounts, and the intention to settle on a net basis. The offsetting requirements and relevant guidance is based on the principle of reflecting the entity's expected future cash flows. Whilst the offsetting criteria can be met in relation to derivative financial instruments that will be settled through physical delivery of a non-financial asset, there is an interpretation required on how the offsetting criteria should be applied. Namely, an interpretation is required around the appropriate unit of account where there are a number of both physical deliveries and cash flows that collectively settle financial instruments, and how the offsetting requirements should be applied to each of these settlements, either individually or at a contract level.

If management had not applied offsetting on physically settled derivative contracts in the current year then a number of derivative balances that are currently presented net in the Consolidated balance sheet would have been presented gross resulting in an additional £172.0 million of current derivative assets and liabilities and £52.1 million of non-current derivative assets and liabilities. See note 7.5 for further details on the Group's offsetting of all financial assets and financial liabilities.

In the financial statements issued in the prior year, management presented all physically settled derivatives gross. See the offsetting section above for further details on the change in presentation applied in the current year, with a restatement of the prior year.

Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty that carry a significant risk of resulting in a material adjustment to the carrying values of assets and liabilities within the next financial year. These are the items where actual outcomes in the next 12 months could vary materially from the estimates made in determining the reported amount of an asset or liability within the Consolidated financial statements.

Impairment

An impairment review is conducted annually on cash-generating units (CGUs) with associated goodwill or intangible assets with an indefinite life, and as required for other assets and CGUs where an indicator of possible impairment exists. In 2023, an impairment assessment has been completed for six of the Group's CGUs which all have allocated goodwill (Drax Energy Solutions, Opus Energy, Pellet Operations, Lanark, Galloway and Cruachan). The assessment of future cash flows that underpin the impairment reviews are based on management's best estimate of a number of assumptions (see note 2.4 for further details of these key assumptions). Pellet Operations was identified as the only CGU where a reasonably possible change in certain assumptions could lead to a material adjustment to its carrying value as at 31 December 2023.

The key assumptions to which the Pellet Operations CGU is sensitive to a reasonably possible change in are increases to the cost of production and decreases in production volumes. A \$10 per tonne increase in the cost of production, with no corresponding impact on revenues, would lead to an impairment of £105.1 million. A 12% decrease in production volumes would lead to an impairment of £47.2 million.

See note 2.4 on page 195

Property, plant and equipment

Property, plant and equipment at Drax Power Station is depreciated on a straight-line basis over its useful economic life (UEL). UELs are estimated based on past experience, anticipated future replacement cycles and other available evidence and are reviewed at least annually.

Given the continued focus on climate change, renewable sources of energy and transitioning to a net zero economy, the power generation industry is going through a period of transformation, which can impact on the UELs of assets. As the UK Government's net zero strategy continues to evolve and become clearer, particularly in relation to UK BECCS, the Group will continue to assess any potential impact of these developments on UELs in relation to Drax Power Station. Once sufficient certainty over UK BECCS at Drax Power Station is achieved, UELs will be reassessed. The net book value of fixed assets being depreciated at Drax Power Station as at 31 December 2023 is £974.1 million and depreciation on these assets in the year, based on the UELs disclosed in note 3.1, was £77.2 million. If the UEL of assets that are limited to the current assumed end of station life of 2039

were to increase by 10 years, the impact on the depreciation charge for the year would be a reduction of approximately £16.6 million. If the assumed end of station life of 2039 were to decrease by 10 years to 2029, the impact on the depreciation charge for the year would be an increase of approximately £72.9 million.

[See note 3.1 on page 213](#)

Pension liabilities

The Group records a net surplus or liability in its Consolidated balance sheet for the fair value of assets held by the defined benefit pension scheme, less its obligation to provide benefits under the scheme. The actuarial valuations of the scheme's liabilities are performed annually by an independent qualified actuary and contain assumptions regarding interest rates, inflation, future salary and pension increases, mortality, and other factors, all of which are subject to future change. Three of the key estimates within the valuation are the discount rate, inflation rate, and life expectancy. Sensitivities in the valuation are discussed in note 6.3. The value of the pension surplus recognised by the Group at 31 December 2023 is £18.4 million.

[See note 6.3 on page 245](#)

Alternative performance measures (APMs)

The Group uses APMs throughout the Annual report and accounts that are not defined within IFRS but provide additional information about financial performance and position that is used by the Board to evaluate the Group's performance. These measures have been defined internally and may therefore not be comparable to similar APMs presented by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself a measure defined by IFRS. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

Each year management confirms the judgements made regarding the Group's definition of APMs, including exceptional items and certain remeasurements and Net debt. The assessment as to whether a transaction or group of transactions should or should not be classified as an exceptional item or a certain remeasurement can have a significant impact on the Adjusted results of the Group. Deciding which items to include or exclude from an APM's definition can have a significant impact on the APM presented. An internal policy governs the judgements made by management and in all instances, these judgements are approved by the Audit Committee as set out on page 136.

Defined below are the key APMs used by the Board to assess performance. The APMs glossary table on page 285 provides details of all APMs used, including the APM's closest IFRS equivalent, the reason why the APM is used by the Group and a definition of how each APM is calculated.

Adjusted results

The Group's financial performance for the period, measured in accordance with IFRS, is shown in the Total results column on the face of the Consolidated income statement. Exceptional items and certain remeasurements are deducted from the Total results in arriving at the Adjusted results for the year. The Group's Adjusted results are consistent with the way the Board and Executive management assess the performance of the Group. Adjusted results are intended to reflect the underlying trading performance of the Group's businesses and are presented to assist users of the Consolidated financial statements in evaluating the Group's trading performance and performance against strategic objectives.

Exceptional items and certain remeasurements

Exceptional items are those transactions that, by their nature, do not reflect the trading performance of the Group in the period. For a transaction to be considered exceptional, management considers the nature of the transaction, the frequency of similar events, any related precedent, and commercial context. Presentation of a transaction as exceptional is approved by the Audit Committee in accordance with an agreed policy.

During the year ended 31 December 2022, the application guidance for this policy was enhanced, in particular, setting de minimis thresholds for classifying items as exceptional. These de minimis thresholds were applied during the second half of 2022 and throughout 2023. The policy has been reviewed by the Audit Committee during the year ended 31 December 2023. This review did not result in any significant changes to the policy.

Certain remeasurements comprise fair value gains and losses on derivative 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, interest payable and similar charges or foreign exchange gains or losses. Management believes adjusting for fair value gains and losses recognised on derivative contracts provides readers of the accounts with useful information, as this removes the volatility caused by movements in market prices over the life of the derivative. The Group regards all of its forward contracting activity to represent economic hedges and, therefore, the contracted price at delivery or maturity is relevant to the Group and its performance, rather than how the contracted price compares to the prevailing market price, as the Group is not seeking to make trading profits on these contracts through market price movements.

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) in Adjusted results in the period the transaction takes place, and also to take into account the impact of associated financial derivative contracts (such as forward foreign currency purchases) in Adjusted results on maturity, being the period these contracts are intending to hedge.

Further information on exceptional items and certain remeasurements in the current and comparative periods is included in note 2.7.

Adjusted EBITDA including EGL and Adjusted EBITDA excluding EGL

The Group previously presented Adjusted EBITDA. Due to the introduction of EGL in the current year, the Group is presenting both Adjusted EBITDA including EGL and Adjusted EBITDA excluding EGL to enable comparability between prior and future periods. Both Adjusted EBITDA including EGL and Adjusted EBITDA excluding EGL are primary measures used by the Board and Executive management to assess the financial performance of the Group as they provide a comparable assessment of the Group's trading performance period-on-period. They are also key metrics used by the investor community to assess the performance of the Group's operations.

Adjusted EBITDA including EGL is earnings before interest, tax, depreciation, amortisation, other gains or losses and impairment of non-current assets, excluding the impact of exceptional items and certain remeasurements (defined above). Adjusted EBITDA including EGL excludes any earnings from associates and Adjusted EBITDA directly attributable to non-controlling interests. Adjusted EBITDA excluding EGL is consistent with the definition of Adjusted EBITDA including EGL, apart from it does not include the cost of EGL.

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Adjusted basic earnings per share

Adjusted basic earnings per share (Adjusted basic EPS) is Adjusted profit attributable to the owners of the parent company divided by the weighted average number of shares outstanding during the period. Repurchased shares held in the Treasury shares reserve are not included in the weighted average calculation of shares. This is the same denominator used when calculating Total basic EPS. This metric is used in discussions with the investor community.

Net debt

The Group defines Net debt as borrowings less cash and cash equivalents. Borrowings denominated in foreign currencies to which the Group has entered into hedging arrangements associated with this currency exposure are translated at the hedged rate for the purposes of calculating Net debt. This is to take into account the effect of financial instruments entered into to hedge movements in, for example, foreign exchange rates in relation to debt principal repayments. Borrowings that have no hedging instruments attributed to them are translated at the closing rate.

Borrowings includes external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities (RCFs) (see note 4.2), net of any deferred finance costs. Borrowings does not include other financial liabilities such as pension obligations (see note 6.3), trade and other payables (see note 3.5), lease liabilities calculated in accordance with IFRS 16 (see note 3.2) and working capital facilities linked directly to specific payables (such as credit cards and deferred letters of credit) that provide short extension of payment terms of less than 12 months (see note 4.3). The Group does not include balances related to supply chain financing in borrowings as there are no changes to the Group's payment terms under this arrangement, nor would there be if the arrangement was to cease (see note 3.7).

Net debt excludes the proportion of cash and borrowings in non-wholly owned entities that would be attributable to the non-controlling interests. Net debt includes the impact of any cash collateral receipts from counterparties or cash collateral posted to counterparties.

As noted above, the Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of Net debt. This reflects the nature of the contracts included in this balance which are predominantly entered into for operating purposes rather than as a way to finance the purchase of an asset. The exclusion of lease liabilities from the calculation of Net debt is also consistent with the Group's covenant reporting requirements.

Net debt is a key metric used by debt rating agencies and the investor community as a measure of liquidity and the ability of the Group to manage its current obligations.

Net debt to Adjusted EBITDA including EGL ratio

This metric is the ratio of Net debt to Adjusted EBITDA including EGL, expressed as a multiple. The Group has a long-term target for Net debt to Adjusted EBITDA including EGL of around 2.0 times.

The Net debt to Adjusted EBITDA including EGL ratio gives an indication of the size of the Group's Net debt in relation to its trading performance and is a key metric used by the investor community to assess the performance of the Group's operations.

Net debt to Adjusted EBITDA excluding EGL ratio

The Group also presents a Net debt to Adjusted EBITDA excluding EGL ratio to enable readers to compare, on a consistent basis, the Net debt ratio in prior periods in which EGL was not applicable.

[See note 2.7 on page 206](#)

Section 1: Consolidated financial statements

Consolidated income statement

	Notes	Year ended 31 December 2023			Year ended 31 December 2022		
		Adjusted results ⁽¹⁾ £m	Exceptional items and certain remeasurements £m	Total results £m	Adjusted results ⁽¹⁾ £m	Exceptional items and certain remeasurements £m	Total results £m
Revenue	2.2	7,842.4	282.9	8,125.3	8,159.2	(383.9)	7,775.3
Cost of sales		(5,884.4)	(82.7)	(5,967.1)	(6,837.7)	85.7	(6,752.0)
Electricity Generator Levy		(204.6)	–	(204.6)	–	–	–
Gross profit		1,753.4	200.2	1,953.6	1,321.5	(298.2)	1,023.3
Operating and administrative expenses	2.3	(711.7)	–	(711.7)	(542.8)	–	(542.8)
Impairment losses on financial assets		(32.5)	–	(32.5)	(48.0)	–	(48.0)
Depreciation	3.1	(195.6)	–	(195.6)	(208.0)	–	(208.0)
Amortisation	5.2	(29.4)	–	(29.4)	(31.4)	–	(31.4)
Impairment of non-current assets	2.4	(1.7)	(69.1)	(70.8)	(16.6)	(24.9)	(41.5)
Other gains/(losses)		0.7	(4.5)	(3.8)	(5.8)	–	(5.8)
Share of (losses)/profits from associates		(1.6)	–	(1.6)	0.5	–	0.5
Operating profit/(loss)		781.6	126.6	908.2	469.4	(323.1)	146.3
Foreign exchange (losses)/gains	2.5	(14.3)	4.9	(9.4)	14.8	(3.8)	11.0
Interest payable and similar charges	2.5	(115.2)	(0.3)	(115.5)	(83.1)	(0.4)	(83.5)
Interest receivable	2.5	13.1	–	13.1	4.3	–	4.3
Profit/(loss) before tax		665.2	131.2	796.4	405.4	(327.3)	78.1
Tax:							
– Before effect of changes in tax rate	2.6	(195.2)	(37.3)	(232.5)	(64.5)	62.2	(2.3)
– Effect of changes in tax rate	2.6	(0.6)	(2.4)	(3.0)	(2.9)	9.6	6.7
Total tax (charge)/credit		(195.8)	(39.7)	(235.5)	(67.4)	71.8	4.4
Profit/(loss) for the period		469.4	91.5	560.9	338.0	(255.5)	82.5
Attributable to:							
Owners of the parent company		470.7	91.5	562.2	340.6	(255.5)	85.1
Non-controlling interests	4.5	(1.3)	–	(1.3)	(2.6)	–	(2.6)
Earnings per share:		Pence		Pence	Pence		Pence
For net profit for the period attributable to owners of the parent company							
– Basic	2.8	119.6		142.8	85.1		21.3
– Diluted	2.8	116.8		139.5	82.2		20.5

(1) Adjusted results are stated after adjusting for exceptional items (including impairment of non-current assets, proceeds from legal claims, change in fair value of financial instruments and impact of tax rate changes), and certain remeasurements. See note 2.7 for further details.

Section 1: Consolidated financial statements continued

Consolidated statement of comprehensive income

	Notes	Year ended 31 December	
		2023 £m	2022 £m
Profit for the period		560.9	82.5
Items that will not be subsequently reclassified to profit or loss:			
Remeasurement of defined benefit pension scheme	6.3	(28.8)	(24.4)
Deferred tax on remeasurement of defined benefit pension scheme	2.6	7.2	6.1
Gains on equity investments		0.4	–
Net fair value losses on cost of hedging	7.4	7.5	(19.0)
Deferred tax on cost of hedging	2.6	(1.9)	2.2
Net fair value (losses)/gains on cash flow hedges	7.3	(80.2)	205.5
Deferred tax on cash flow hedges	2.6	20.1	(49.5)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations attributable to owners of the parent company	4.4	(10.3)	42.4
Exchange differences on translation of foreign operations attributable to non-controlling interests		(0.4)	3.4
Net fair value gains/(losses) on cash flow hedges	7.3	346.7	(593.1)
Net gains on cash flow hedges reclassified to profit or loss	7.3	256.1	432.9
Deferred tax on cash flow hedges	2.6	(150.8)	43.9
Other comprehensive income		365.6	50.4
Total comprehensive income for the year		926.5	132.9
Attributable to:			
Owners of the parent company		928.2	132.1
Non-controlling interests		(1.7)	0.8

Consolidated balance sheet

		As at 31 December		As at 1 January
	Notes	2023 £m	Restated ⁽¹⁾ 2022 £m	Restated ⁽¹⁾ 2022 £m
Assets				
Non-current assets				
Goodwill	5.2	416.7	424.2	416.3
Intangible assets	5.2	81.5	142.3	188.6
Property, plant and equipment	3.1	2,698.8	2,388.0	2,310.7
Right-of-use assets	3.2	122.2	138.3	119.8
Investments		8.9	6.9	5.5
Retirement benefit surplus	6.3	18.4	38.5	48.9
Deferred tax assets	2.6	52.9	37.3	28.7
Derivative financial instruments	7.1	293.6	361.0	190.2
		3,693.0	3,536.5	3,308.7
Current assets				
Inventories	3.4	328.4	348.1	199.1
Renewable certificate assets	3.3	292.2	187.8	301.4
Trade and other receivables and contract assets	3.5	976.9	1,227.0	641.9
Derivative financial instruments	7.1	368.4	396.9	410.1
Cash and cash equivalents	4.1	379.5	238.0	317.4
		2,345.4	2,397.8	1,869.9
Liabilities				
Current liabilities				
Trade and other payables and contract liabilities	3.7	(1,539.6)	(1,527.9)	(1,211.1)
Lease liabilities	3.2	(25.1)	(22.7)	(15.1)
Current tax liabilities		(20.6)	(23.3)	(3.4)
Borrowings	4.2	(264.2)	(44.3)	(40.6)
Provisions	5.3	(6.6)	–	–
Derivative financial instruments	7.1	(231.6)	(590.0)	(484.2)
		(2,087.7)	(2,208.2)	(1,754.4)
Net current assets		257.7	189.6	115.5
Non-current liabilities				
Borrowings	4.2	(1,161.1)	(1,396.6)	(1,320.4)
Lease liabilities	3.2	(110.7)	(130.4)	(110.8)
Provisions	5.3	(72.2)	(58.6)	(86.4)
Deferred tax liabilities	2.6	(317.1)	(141.6)	(225.3)
Derivative financial instruments	7.1	(306.6)	(674.7)	(374.5)
		(1,967.7)	(2,401.9)	(2,117.4)
Net assets		1,983.0	1,324.2	1,306.8
Shareholders' equity				
Issued equity	4.4	49.1	47.9	47.7
Share premium	4.4	441.2	433.3	432.2
Hedge reserve	7.3	207.4	(152.0)	(177.4)
Cost of hedging reserve	7.4	18.7	40.1	78.5
Other reserves	4.4	588.2	747.7	706.0
Retained profits	2.10	666.4	193.8	198.3
Total equity attributable to owners of the parent company		1,971.0	1,310.8	1,285.3
Non-controlling interests	4.5	12.0	13.4	21.5
Total shareholders' equity		1,983.0	1,324.2	1,306.8

(1) Comparative amounts have been restated to reflect the Group's revised application of the offsetting criteria to physically settled derivative contracts. See the offsetting section on page 178 for further details on this restatement.

The Consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 28 February 2024.

Signed on behalf of the Board of directors:

Andy Skelton
CFO

Section 1: Consolidated financial statements continued

Consolidated statement of changes in equity

	Issued equity £m	Share premium £m	Hedge reserve £m	Cost of hedging £m	Other reserves £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2022	47.7	432.2	(177.4)	78.5	706.0	198.3	21.5	1,306.8
Profit/(loss) for the year	–	–	–	–	–	85.1	(2.6)	82.5
Other comprehensive income/(expense)	–	–	39.7	(16.8)	42.4	(18.3)	3.4	50.4
Total comprehensive income/(expense) for the year	–	–	39.7	(16.8)	42.4	66.8	0.8	132.9
Equity dividends paid (note 2.9)	–	–	–	–	–	(78.9)	–	(78.9)
Issue of share capital (note 4.4)	0.2	1.1	–	–	–	–	–	1.3
Contributions from non-controlling interests	–	–	–	–	–	–	1.3	1.3
Acquisition of non-controlling interests without a change in control (note 4.5)	–	–	–	–	(0.7)	(9.3)	(10.2)	(20.2)
Total transactions with the owners in their capacity as owner	0.2	1.1	–	–	(0.7)	(88.2)	(8.9)	(96.5)
Movements on cash flow hedges released directly from equity (note 7.3)	–	–	(19.1)	–	–	–	–	(19.1)
Deferred tax on cash flow hedges released directly from equity (notes 7.3 and 2.6)	–	–	4.8	–	–	–	–	4.8
Movements on cost of hedging released directly from equity (note 7.4)	–	–	–	(28.8)	–	–	–	(28.8)
Deferred tax on cost of hedging released directly from equity (notes 7.4 and 2.6)	–	–	–	7.2	–	–	–	7.2
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	9.5	–	9.5
Deferred tax on share-based payments released directly from equity (note 2.6)	–	–	–	–	–	7.4	–	7.4
At 1 January 2023	47.9	433.3	(152.0)	40.1	747.7	193.8	13.4	1,324.2
Profit/(loss) for the year	–	–	–	–	–	562.2	(1.3)	560.9
Other comprehensive income/(expense)	–	–	391.9	5.6	(10.3)	(21.2)	(0.4)	365.6
Total comprehensive income/(expense) for the year	–	–	391.9	5.6	(10.3)	541.0	(1.7)	926.5
Equity dividends paid (note 2.9)	–	–	–	–	–	(86.3)	–	(86.3)
Issue of share capital (note 4.4)	1.2	7.9	–	–	–	–	–	9.1
Contributions from non-controlling interests	–	–	–	–	–	–	0.3	0.3
Repurchase of own shares (note 2.11)	–	–	–	–	(149.2)	–	–	(149.2)
Total transactions with the owners in their capacity as owner	1.2	7.9	–	–	(149.2)	(86.3)	0.3	(226.1)
Movements on cash flow hedges released directly from equity (note 7.3)	–	–	(43.4)	–	–	–	–	(43.4)
Deferred tax on cash flow hedges released directly from equity (notes 7.3 and 2.6)	–	–	10.9	–	–	–	–	10.9
Movements on cost of hedging released directly from equity (note 7.4)	–	–	–	(36.0)	–	–	–	(36.0)
Deferred tax on cost of hedging released directly from equity (notes 7.4 and 2.6)	–	–	–	9.0	–	–	–	9.0
Movement in equity associated with share-based payments	–	–	–	–	–	13.4	–	13.4
Tax on share-based payments released directly from equity (note 2.6)	–	–	–	–	–	4.5	–	4.5
At 31 December 2023	49.1	441.2	207.4	18.7	588.2	666.4	12.0	1,983.0

Consolidated cash flow statement

	Notes	Year ended 31 December	
		2023 £m	2022 £m
Cash generated from operations	4.3	1,111.0	320.3
Income taxes paid		(180.0)	(38.7)
Interest paid		(106.1)	(77.2)
Interest received		10.7	3.3
Net cash from operating activities		835.6	207.7
Cash flows from investing activities			
Purchases of property, plant and equipment		(429.8)	(163.9)
Purchases of intangible assets		(11.3)	(10.8)
Proceeds from the sale of property, plant and equipment		–	1.6
Acquisition of businesses net of cash acquired	5.1	(9.0)	(7.6)
Purchases of equity in associates		(1.7)	–
Net cash used in investing activities		(451.8)	(180.7)
Cash flows from financing activities			
Equity dividends paid	2.9	(86.3)	(78.9)
Contributions from non-controlling interests		0.3	1.3
Acquisition of non-controlling interests without a change in control		–	(19.6)
Proceeds from issue of share capital		8.6	1.2
Repurchase of own shares	2.11	(149.2)	–
Drawdown of facilities	4.2	140.0	188.5
Repayment of facilities	4.2	(125.3)	(186.4)
Payment of principal of lease liabilities		(25.8)	(18.0)
Other financing costs paid		(0.2)	–
Net cash absorbed by financing activities		(237.9)	(111.9)
Net increase/(decrease) in cash and cash equivalents		145.9	(84.9)
Cash and cash equivalents at 1 January		238.0	317.4
Effect of changes in foreign exchange rates		(4.4)	5.5
Cash and cash equivalents at 31 December	4.1	379.5	238.0

Non-cash transactions recognised in the Consolidated income statement are reconciled to operating cash flows as part of the disclosure provided in note 4.3. Further details of the cash flow impact of exceptional items can be found in note 2.7.

Section 2: Financial performance

The Financial performance section gives further information about the items in the Consolidated income statement. It includes a summary of financial performance by each of the Group's businesses (see note 2.1), analysis of certain Consolidated income statement items (notes 2.2–2.6) and information regarding Total and Adjusted results, dividends, retained profits and the share buyback (notes 2.7–2.11). Further commentary on the Group's trading and operational performance during the year can be found in the Strategic report on pages 1 to 107, with particular reference to key transactions and market conditions that have affected the results.

2.1 Segmental reporting

Reportable segments are presented in a manner consistent with internal reporting provided to the chief operating decision maker which is considered to be the Board. The Group is organised into three businesses, with a dedicated management team for each. The Board reviews the performance of each of these businesses separately, and each represents a reportable segment:

- Pellet Production: production and subsequent sale of biomass pellets from the Group's processing facilities in North America;
- Generation: the generation and sale of electricity in the UK; and
- Customers: supply of electricity and gas to non-domestic customers in the UK.

Operating costs that can be reasonably allocated to the activities of a reportable segment are included within the results of that reportable segment. Central corporate and commercial functions provide certain specialist and shared services, including optimisation of the Group's positions. Central corporate function costs that cannot be reasonably allocated to the activities of a reportable segment are included within Innovation, capital projects and other. Innovation, capital projects and other is not a reportable segment as it does not earn revenues, however it is included in the information presented below to enable reconciliation of the segmental amounts presented to the consolidated IFRS results recognised in these Consolidated financial statements.

Given the principal activity of the Group is a generator and seller of electricity, the Consolidated income statement includes all revenue from sales of electricity during the period. Where electricity is purchased rather than generated to fulfil a sale, either due to operational or other requirements, the cost of this purchase is recorded within Cost of sales.

When defining gross profit within the Consolidated financial statements, the Group follows the principal trading considerations applied by its Pellet Production, Generation and Customers businesses when making a sale. In respect of the Pellet Production business, this reflects the direct costs of production, being fibre, fuel and drying costs, direct freight and port costs, or third-party pellet purchases. In respect of the Generation business, this reflects the direct costs of the commodities to generate the power, the relevant grid connection costs that arise, and from 2023, EGL arising on applicable renewable and low-carbon generation. In respect of the Customers business, this reflects the direct costs of supply, being the costs of the power or gas supplied, together with costs levied on suppliers such as network costs, broker costs and renewables incentive mechanisms.

Accordingly, cost of sales excludes indirect overheads and staff costs (presented within operating and administrative expenses), and depreciation (presented separately on the face of the Consolidated income statement). See note 3.4 for details of the costs included within inventories.

The accounting policies applied for the purpose of measuring the reportable segments' profits or losses, assets and liabilities are the same as those used in measuring the corresponding amounts in the Consolidated financial statements.

Seasonality of trading

The primary activities of the Group are affected by seasonality. Demand in the UK for electricity and gas is typically higher in the winter period (October to March) when temperatures are lower, which drives higher prices and higher levels of generation. Conversely, demand is typically lower in the summer months (April to September) when temperatures are milder, and therefore prices and levels of generation are generally lower.

This trend is experienced by all of the Group's UK-based businesses, as they operate within the UK electricity and gas markets. It is most notable within the Generation business due to its scale and the flexible operation of its thermal generation plant.

The Pellet Production business incurs certain costs that are higher in winter months due to the impact of weather conditions, such as fibre drying costs and heating costs. Production volumes and margins are typically higher in the summer months. The business is protected from demand fluctuations due to seasonality by regular production and dispatch schedules under its contracts with customers, both intra-group and externally.

2.1 Segmental reporting continued

Segment revenues and results

The following is an analysis of the Group's performance by reportable segment and any other information necessary to enable reconciliation to the Group's total IFRS results recognised for the year ended 31 December 2023. Revenue for each segment is split between sales to external parties and inter-segment sales. Inter-segment sales are eliminated in the intra-group eliminations column along with any adjustments required for unrealised profits (primarily inventory purchased by the Generation segment from the Pellet Production segment that is still held as inventory at the reporting date).

Adjusted EBITDA by reportable segment is presented in note 2.7.

	Year ended 31 December 2023							Total results £m
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	Adjusted results £m	Exceptional items and certain remeasurements £m	
Revenue								
External sales	397.8	2,486.3	4,958.3	–	–	7,842.4	282.9	8,125.3
Inter-segment sales	424.6	4,300.7	–	–	(4,725.3)	–	–	–
Total revenue	822.4	6,787.0	4,958.3	–	(4,725.3)	7,842.4	282.9	8,125.3
Cost of sales	(511.8)	(5,320.7)	(4,763.3)	–	4,711.4	(5,884.4)	(82.7)	(5,967.1)
Electricity Generator Levy	–	(204.6)	–	–	–	(204.6)	–	(204.6)
Gross profit	310.6	1,261.7	195.0	–	(13.9)	1,753.4	200.2	1,953.6
Operating and administrative expenses	(221.7)	(328.2)	(90.7)	(78.1)	7.0	(711.7)	–	(711.7)
Impairment losses on financial assets	–	–	(32.5)	–	–	(32.5)	–	(32.5)
Depreciation and amortisation	(94.0)	(103.0)	(22.5)	(3.3)	(2.2)	(225.0)	–	(225.0)
Impairment of non-current assets	(2.8)	1.1	–	–	–	(1.7)	(69.1)	(70.8)
Other gains/(losses)	0.5	0.2	–	–	–	0.7	(4.5)	(3.8)
Share of (losses)/profits from associates	(1.7)	–	–	0.1	–	(1.6)	–	(1.6)
Operating profit/(loss)	(9.1)	831.8	49.3	(81.3)	(9.1)	781.6	126.6	908.2

Further information on the main revenue streams of each segment is presented in note 2.2.

Included within the Innovation, capital projects and other segment historically has been certain corporate costs that are utilised by the wider Group. In the current year, management has undertaken an exercise to recharge these costs to the respective business segments: £10.8 million to Pellet Production, £81.9 million to Generation and £7.5 million to Customers. This updated allocation methodology has not been applied to the comparative amounts presented in the table below.

The following is an analysis of the Group's performance by reportable segment for the year ended 31 December 2022:

	Year ended 31 December 2022							Total results £m
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	Adjusted results £m	Exceptional items and certain remeasurements £m	
Revenue								
External sales	377.2	3,638.9	4,143.1	–	–	8,159.2	(383.9)	7,775.3
Inter-segment sales	425.4	3,719.3	–	–	(4,144.7)	–	–	–
Total revenue	802.6	7,358.2	4,143.1	–	(4,144.7)	8,159.2	(383.9)	7,775.3
Cost of sales	(501.9)	(6,479.2)	(3,985.0)	–	4,128.4	(6,837.7)	85.7	(6,752.0)
Gross profit	300.7	879.0	158.1	–	(16.3)	1,321.5	(298.2)	1,023.3
Operating and administrative expenses	(167.3)	(183.5)	(84.3)	(113.6)	5.9	(542.8)	–	(542.8)
Impairment losses on financial assets	–	–	(48.0)	–	–	(48.0)	–	(48.0)
Depreciation and amortisation	(119.9)	(98.6)	(25.5)	(3.3)	7.9	(239.4)	–	(239.4)
Impairment of non-current assets	–	(16.6)	–	–	–	(16.6)	(24.9)	(41.5)
Other losses	(2.0)	(3.8)	–	–	–	(5.8)	–	(5.8)
Share of profits from associates	0.5	–	–	–	–	0.5	–	0.5
Operating profit/(loss)	12.0	576.5	0.3	(116.9)	(2.5)	469.4	(323.1)	146.3

Section 2: Financial performance continued

2.1 Segmental reporting continued

Capital expenditure by reportable segment

Assets and working capital are monitored on a consolidated basis; however, capital expenditure is monitored by segment.

	Additions to intangible assets		Additions to property, plant and equipment	
	2023 £m	2022 £m	2023 £m	2022 £m
At 31 December				
Pellet Production	–	–	163.0	66.0
Generation	1.9	2.8	333.4	171.5
Customers	2.7	2.3	0.2	0.3
Innovation, capital projects and other	5.3	4.3	12.6	8.2
Total	9.9	9.4	509.2	246.0

Total cash outflows in relation to capital expenditure during the year were £441.1 million (2022: £174.7 million). In the current year, the cash outflow in relation to property, plant and equipment is lower than the cost capitalised (see note 3.1) predominantly as a result of prepaid amounts in the prior year being capitalised in 2023 and an increase in creditors relating to capital expenditure compared to the prior year.

Intra-group trading

Intra-group transactions are carried out at management's best estimate of arm's-length, commercial terms that, where possible, equate to market prices. During 2023, the Pellet Production segment sold biomass pellets and provided associated services with a total value of £424.6 million (2022: £425.4 million) to the Generation segment and the Generation segment sold electricity, gas and renewable energy certificates with a total value of £4,252.0 million (2022: £3,719.3 million) to the Customers segment. During 2023 the Generation segment sold biomass pellets to the Pellet Production segment with a total value of £48.7 million (2022: £nil).

The impact of all intra-group transactions, including any unrealised profit arising, is eliminated on consolidation.

Major customers

There was no individual customer, in either the current or previous financial year, that represented 10% or more of total revenue.

Geographical analysis of revenue and non-current assets

The geographic information analyses the Group's revenue and non-current assets by the entity's country of domicile. In presenting the geographic information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

The Group's external revenue and non-current assets for the Generation and Customers segments are all UK-based. The Pellet Production segment has third-party pellet sales to both the UK and other locations around the world. The Pellet Production segment's non-current assets are located in North America, in both Canada and the US.

	Revenue (based on location of customer)	
	Year ended 31 December	
	2023 £m	2022 £m
North America (Canada and US)	8.5	10.6
Europe (excluding UK)	60.3	27.6
Asia	280.1	275.4
UK	7,776.4	7,461.7
Total	8,125.3	7,775.3

	Non-current assets ⁽¹⁾ (based on asset's location)	
	As at 31 December	
	2023 £m	2022 £m
Canada	406.7	542.6
US	666.0	502.6
Asia	0.3	–
UK	2,255.1	2,054.5
Total	3,328.1	3,099.7

(1) Non-current assets comprise goodwill, intangible assets, property, plant and equipment, right-of-use assets and investments.

2.2 Revenue

The majority of the Group's revenue is within the scope of IFRS 15. The other sources of the Group's revenue outside the scope of IFRS 15 comprise certain remeasurements, amounts reclassified to revenue for gains and losses on UK CPI inflation swaps, and income from the Government's Energy Bill Relief Scheme (EBRS) and Energy Bills Discount Scheme (EBDS). See note 2.7 for further details of certain remeasurements and note 7.2.4 for inflation risk management.

	Year ended 31 December 2023			Year ended 31 December 2022		
	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m
Revenue from contracts with customers	7,540.4	–	7,540.4	7,882.5	–	7,882.5
Other revenue	302.0	282.9	584.9	276.7	(383.9)	(107.2)
Total revenue	7,842.4	282.9	8,125.3	8,159.2	(383.9)	7,775.3

Accounting policy

Revenue represents amounts receivable for goods or services provided to customers in the normal course of business, net of trade discounts, VAT and other sales-related taxes and excludes transactions between Group companies. Revenue is presented gross in the Consolidated income statement when the Group controls the specified good or service prior to the transfer to the customer.

A summary of the Group's principal revenue streams, along with the nature and timing of performance obligations, payment terms, methods of recognising revenue, and any estimation uncertainties, is given in the table below. Further details on significant elements of revenue, principally how the Contract for Difference (CfD) and Renewables Obligation (RO) schemes operate and the related accounting, are provided below the table.

Revenue stream (Segment)	Nature and timing of performance obligations, including significant payment terms	Method of recognising revenue, including any estimation uncertainties
Pellet sales (Pellet Production)	The Group's Pellet Production business produces biomass pellets which are sold to external customers. Customers generally obtain control of the pellets at the point the pellets are loaded onto the shipping vessel. Where freight is also arranged for the customer, these sales are known as Cost, insurance and freight (CIF) sales. The freight component is considered a separate performance obligation. Invoices are raised in line with contractual terms and are usually payable within 4–10 days.	Revenue is recognised at the point that the pellets are loaded onto the shipping vessel. The amount of revenue recognised is based on the contracted price and volume of the pellets. For CIF sales, revenue for the freight portion is recognised over the period the vessel sails.
Electricity sales (Generation)	The Group's Generation business has contracts for wholesale electricity sales. Performance obligations, being the supply of electricity, are met either via generation or through the procurement of electricity from counterparties. 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 transferred to the customer at the point that the electricity has been supplied in accordance with the contractual terms. Invoices are typically raised on the fifth banking day following the month of supply, in line with the Grid Trade Master Agreement (GTMA) contractual terms, and are payable on the fifth banking day following the date of invoice.	Revenues from sales contracts fulfilled through generation are measured based upon metered output at rates specified under contract terms. These are recognised under the output method, whereby revenue is recognised based on the value transferred to the customer. Revenue from sales contracts fulfilled through procured electricity is recognised at the point at which this electricity is supplied to the counterparty in accordance with the contractual terms at rates specified under the contract.
Renewable certificate sales (Generation)	Renewables Obligation Certificates (ROCs) and Renewable Energy Guarantees of Origin (REGOs) are sold to counterparties at a point in time. ROCs sold to optimise working capital are invoiced in line with contractual terms and are usually payable within two days. Invoices for ROC sales to third parties are raised when the ROCs are transferred, typically four to five months following the end of the compliance period in which they were generated. Invoices are usually payable within seven days.	External ROC and REGO sales are recognised at the point the relevant certificates are transferred to the counterparty. See below for further details.

Section 2: Financial performance continued

2.2 Revenue continued

Revenue stream (Segment)	Nature and timing of performance obligations, including significant payment terms	Method of recognising revenue, including any estimation uncertainties
CfD income/payment (Generation)	The Group's Generation business is party to a CfD with the Low Carbon Contracts Company (LCCC), a Government-owned entity responsible for delivering elements of the Government's Electricity Market Reform Programme. Under the contract, the Group makes or receives payments in respect of electricity dispatched from a specific biomass-fuelled generating unit. Invoices are raised 7–10 days following the date of supply and are settled within 28 days.	The Group recognises the income or cost arising from the CfD in the Consolidated income statement as a component of revenue at the point the Group meets its performance obligation under the CfD contract. This is considered to be the point at which the relevant generation is delivered and the payment becomes contractually due. See below for further details.
Ancillary services (Generation)	Ancillary services refer to the provision of a range of system support services to National Grid. Most contracts are for the delivery of a specific service either continually or on an ad-hoc basis over a period of time. Invoices are raised and subsequently settled in line with the National Grid company ancillary services settlement calendar, typically monthly.	Revenue is recognised by reference to the stage of completion of the contractual performance obligations, which are calculated by reference to the amount of the contract term that has elapsed. Depending on contract terms, this approach may require judgement in estimating probable future outcomes.
Other income (All segments)	Other income is derived from the sale of goods. The customer obtains control typically at the point of delivery to their premises or upon collection. Invoices are raised in line with contractual terms.	Revenue is recognised at the point the control of the goods is transferred to the customer.
Electricity and gas sales (Customers)	The Group's Customers business sells electricity and gas directly to non-domestic customers. Energy supplied is measured based upon metered consumption and contractual rates. The Customers business also has long-term contracts for the sale of electricity and gas, which are deemed as being satisfied over time in line with the progress of the contracts. Invoices are raised in line with contractual terms. For small and medium-sized enterprise (SME) customers, payment is generally due within 10–14 days. For Industrial and Commercial (I&C) customers, payment is generally due between 28–90 days.	Revenue is recognised on the supply of electricity or gas when a contract exists, supply has taken place, a quantifiable price has been established or can be determined and the amounts receivable are expected to be recovered. Where supply has taken place but has not yet been measured or billed, revenue is estimated based on consumption statistics and selling price estimates and is recognised as accrued income. This estimate is not considered to be a key source of estimation uncertainty because historical experience has demonstrated that these estimates are materially accurate based on the subsequent billings and settlements. Where contracts for the sale of electricity and gas are held, revenue is recognised in line with the progress of the contracts. The revenue recognised for fixed price contracts is based on the input method. Revenue is recognised based on the costs incurred and the estimated margin to be obtained over the life of the contract. For variable price contracts revenue is recognised based on the output method. Revenue is recognised based on the volume supplied and the contracted price. Assumptions are applied consistently but third-party costs can vary, therefore actual outcomes may vary from initial estimates.

Revenue stream (Segment)	Nature and timing of performance obligations, including significant payment terms	Method of recognising revenue, including any estimation uncertainties
EBRS and EBDS income (Customers)	The UK Government introduced the EBDS running from 1 April 2023 to 31 March 2024. Under this scheme, energy supplied to eligible non-domestic customers will have a discount applied to each unit of electricity and gas. Certain customers may be eligible for higher levels of support dependent on the sector in which they operate. The discount provided can then be claimed back from the UK Government by the supplier. The EBDS replaced the EBRS which supported non-domestic customers between 1 October 2022 and 31 March 2023. Under the EBRS, energy supplied to non-domestic customers in this period had a discount applied for the customer under the scheme to cap their energy tariff. The discount provided could then be claimed back from the UK Government by the supplier. Payment is due 10 days post submission of a claim, which typically occurs monthly.	The discounted price of electricity and gas supplied under both the EBRS and EBDS is recognised in revenue as it is supplied. The amount claimed back from the UK Government is recognised within revenue over the same period as the underlying discounted revenue it relates to is recognised. The revenue received from the UK Government is included in the EBRS and EBDS income line in the table on page 194. The Group does not recognise any additional revenue from the scheme than it would have done had it not been introduced.

Renewable certificate sales

The generation and sale of renewable certificates, primarily ROCs and REGOs, is a key driver of the Group's financial performance.

The Renewables 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 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 2023 the Group is operating in CP22.

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 rises annually in line with the UK Retail Price Index (RPI). The buy-out price for CP22 is £59.01 (2022: CP21 £52.88). 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 the suppliers who presented ROCs during the CP.

The financial benefit of a ROC recognised in the Consolidated income statement at the point of generation is comprised of two parts: the expected value to be obtained in a sale transaction with a third-party supplier relating to the buy-out price, and the expected value of the recycle fund benefit to be received at the end of the CP. During the year, the Group also made sales and related purchases of ROCs to help optimise its working capital position.

External sales of ROCs in the table below includes £583.3 million of such sales (2022: £604.5 million), with a similar value reflected in cost of sales.

REGOs are certificates that enable suppliers to prove that energy supplied to their customers came from a renewable source. One REGO is issued to a generator for every MWh of renewable energy they generate. The primary use of REGOs is for the Fuel Mix Disclosure that requires licensed electricity suppliers to disclose to potential and existing customers the mix of fuels used to generate the electricity supplied. REGOs are managed in compliance periods (CPs), running from April to March annually. CP1 commenced in April 2002. At 31 December 2023 the Group is operating in CP22.

The financial benefit of a REGO is recognised in the Consolidated income statement at the point of generation based on the expected value to be obtained in a sale transaction with a third-party supplier. If the Group has already agreed sales contracts covering the REGOs generated in a period, the expected value is recognised at the point of generation based on the contracted price. The expected value of REGOs not covered by agreed sales contracts are recognised at the point of generation based on published third-party market price assessments.

See note 3.3 for further details of renewable certificates generated and sold by the Generation business and those utilised by the Customers business during the year.

CfD income/payment

The income/payment is calculated by reference to a strike price per MWh. The base year for the strike price was 2012 and it increases each year in line with the UK Consumer Price Index (CPI) and changes in system balancing costs. The strike price at 31 December 2023 was £132.47 per MWh (2022: £126.37).

When market prices (based on average traded prices in the preceding season) are above or below the strike price, the Group makes an additional payment to or receives additional income from LCCC equivalent to the difference between that market power price and the strike price, for each MWh produced from the relevant generating unit. Such payments/receipts are in addition to amounts received from the sale of the associated power in the wholesale market.

Gas sales

To support the Group's ambition to be carbon negative by 2030, a decision was made in January 2023 to phase out the Group's gas supply contracts in the Customers business. Having already ceased acquiring new gas customers, following internal processes and a regulatory driven 60-day grace period, no renewal contracts have been offered since May 2023. It is anticipated that the portfolio will be fully phased out by 2027.

Section 2: Financial performance continued

2.2 Revenue continued

Further analysis of revenue for the year ended 31 December 2023 is provided in the table below:

	Year ended 31 December 2023		
	External £m	Inter-segment £m	Total £m
Pellet Production			
Pellet sales	391.3	424.6	815.9
Other income	6.5	–	6.5
Total Pellet Production	397.8	424.6	822.4
Generation			
Electricity sales	1,600.3	3,817.2	5,417.5
Renewable certificate sales	842.6	434.8	1,277.4
CfD payment	(63.0)	–	(63.0)
Ancillary services	55.4	–	55.4
Other income	51.0	48.7	99.7
Total Generation	2,486.3	4,300.7	6,787.0
Customers			
Electricity and gas sales	4,554.4	–	4,554.4
EBRS and EBDS income	365.8	–	365.8
Renewable certificate sales	37.9	–	37.9
Other income	0.2	–	0.2
Total Customers	4,958.3	–	4,958.3
Elimination of inter-segment sales	–	(4,725.3)	(4,725.3)
Total consolidated revenue in Adjusted results	7,842.4	–	7,842.4
Certain remeasurements	282.9	–	282.9
Total consolidated revenue in Total results	8,125.3	–	8,125.3

Revenue recognised in Adjusted results of £7,842.4 million differs from revenue recognised in Total results of £8,125.3 million due to certain remeasurements gains of £282.9 million (2022: losses of £383.9 million), comprised of gains and losses on derivative contracts that are used to manage risk exposures associated with the Group's revenue, not designated into hedge accounting relationships under IFRS 9.

Revenue recognised in the period that was included within contract liabilities at the start of the year was £28.5 million (2022: £6.6 million). See note 3.7 for further details on contract liabilities.

Revenue recognised in the period from performance obligations satisfied or partly satisfied in the previous period was £nil (2022: £nil).

The following is an analysis of the Group's revenues for the year ended 31 December 2022:

	Year ended 31 December 2022		
	External £m	Inter-segment £m	Total £m
Pellet Production			
Pellet sales	369.3	425.2	794.5
Other income	7.9	0.2	8.1
Total Pellet Production	377.2	425.4	802.6
Generation			
Electricity sales	2,633.1	3,293.3	5,926.4
Renewable certificate sales	851.5	426.0	1,277.5
CfD payment	(45.7)	–	(45.7)
Ancillary services	73.0	–	73.0
Other income	127.0	–	127.0
Total Generation	3,638.9	3,719.3	7,358.2
Customers			
Electricity and gas sales	3,853.1	–	3,853.1
EBRS Income	289.2	–	289.2
Other income	0.8	–	0.8
Total Customers	4,143.1	–	4,143.1
Elimination of inter-segment sales	–	(4,144.7)	(4,144.7)
Total consolidated revenue in Adjusted results	8,159.2	–	8,159.2
Certain remeasurements	(383.9)	–	(383.9)
Total consolidated revenue in Total results	7,775.3	–	7,775.3

2.2 Revenue continued

The Group is eligible for, and applies, the practical expedient available under IFRS 15 and has not disclosed information related to the transaction price allocated to remaining performance obligations. The right to receive consideration from a customer is at an amount that corresponds directly with the value to the customer of the Group's performance completed to date.

For accounting policies and other disclosures related to contract assets and liabilities, see notes 3.5 and 3.7.

For accounting policies and other disclosures related to costs incurred to acquire customer contracts, see note 3.6.

2.3 Operating and administrative expenses

This note sets out certain components of operating and administrative expenses in the Consolidated income statement and a detailed breakdown of the fees paid to the Group's external auditor, Deloitte LLP, in respect of services provided to the Group during the year.

The following expenditure has been charged in arriving at operating profit:

	Year ended 31 December	
	2023 £m	2022 £m
Staff costs (note 6.1)	294.0	248.9
Repairs and maintenance expenditure on property, plant and equipment	173.9	110.3
Other operating and administrative expenses	243.8	183.6
Total operating and administrative expenses	711.7	542.8

Auditor's remuneration

	Year ended 31 December	
	2023 £'000	2022 £'000
Audit fees:		
Fees payable for the audit of the Group's Consolidated financial statements	1,500.0	1,375.0
Fees payable for the audit of the Company's subsidiaries' statutory accounts	40.0	40.0
Total audit fees	1,540.0	1,415.0
Other fees:		
Review of the Group's half-year Condensed consolidated financial statements	140.0	115.0
Assurance services provided to non-material affiliates	18.3	18.0
Other services	47.0	46.2
Other assurance services	130.0	65.0
Total non-audit fees	335.3	244.2
Total auditor's remuneration	1,875.3	1,659.2

The fees payable for the audit of the Group's Consolidated financial statements above, relates to the audit of all of the Group's subsidiaries to a statutory materiality. In addition, the audit of certain head office companies are not required for the Group audit opinion. The audit fee allocation of these companies is included in fees payable for the audit of the Company's subsidiaries' statutory accounts disclosed above.

Other assurance services provided by Deloitte LLP in the current and prior year consist of corporate refinancing fees.

See the Audit Committee report on page 132 for further details.

2.4 Impairment review of fixed assets and goodwill

Accounting policy

Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) or group of CGUs expected to benefit from the synergies of the business combination.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are identified consistently from period to period unless there is a change in the period that would impact the Group's CGUs. The Group's CGUs are reassessed should any such changes occur.

The Group reviews its fixed assets (or, where appropriate, groups of assets combined into a CGU) whenever there is an indication that an impairment loss may have been suffered. The Group assesses the existence of indicators of impairment at the end of each reporting 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 if the asset or CGU were sold to a market participant (fair value less costs to sell). The initial assessment of the recoverable amount is normally based on value in use.

Section 2: Financial performance continued

2.4 Impairment review of fixed assets and goodwill continued

The assessment of future cash flows is based on the approved long-term forecasts used to support the Board's strategic planning process. It includes all of the necessary costs expected to be incurred to generate the cash inflows from the CGU's assets in their current state and condition, including an allocation of centrally managed costs. Future cash flows include, where relevant, contracted cash flows arising from the Group's forward hedging activities and as a result the carrying amount of each CGU includes the fair value of those hedges. Assessments of future cash flows consider relevant environmental and climate change factors. In particular, macro-economic, commodity price and third-party cost assumptions reflect considerations in respect of the impact of climate change, growth in renewable technologies, electrification and the impact of relevant policies on longer-term supply and demand profiles.

As required by IAS 36, the additional value that could be obtained from enhancing the Group's assets and the potential benefit of any future restructuring or reorganisation that the Group is not yet committed to, is not reflected in the value in use calculation. In determining value in use, the estimated future cash flows are discounted to present value using a pre-tax nominal discount rate reflecting the specific risks attributable to the asset or CGU in question.

The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell, based on what a market participant would pay, and its value in use. If the recoverable amount is less than the carrying amount in the Consolidated financial statements, an impairment charge is recognised to reduce the carrying amount of the asset or CGU to the estimated recoverable amount. Any impairment loss is recognised immediately in the Consolidated income statement.

Individual assets are considered for impairment where possible. If individual assets do not generate cash inflows that are largely independent, the recoverable amount is determined for the CGU to which the asset belongs. Where possible, corporate assets are allocated to an individual CGU on a reasonable and consistent basis. Where corporate assets cannot be allocated to an individual CGU on a reasonable and consistent basis, they are included in the carrying amount of the smallest group of CGUs to which they can be allocated on a reasonable and consistent basis.

An impairment loss relating to a CGU is allocated first to the carrying amount of any goodwill allocated to the CGU and then to the other assets pro-rata on the basis of the carrying amount of each asset. When allocating an impairment loss to the other assets in the CGU, if the recoverable amount of an individual asset within that CGU is determinable, the impairment loss allocated to the individual asset is limited to reducing the assets carrying value to its individual recoverable amount. If this results in the impairment loss allocated to an asset being less than its pro-rata share, the excess is allocated on a pro-rata basis to the remaining assets in the CGU. An impairment loss recognised for goodwill is not reversed in a subsequent period. Non-financial assets other than goodwill that have an impairment loss recognised are reviewed in subsequent reporting periods for possible reversal of the impairment. Where an impairment reversal is identified, this is reversed immediately in the Consolidated income statement.

The below table details the Group's reportable segments, the CGUs within those segments and the value of any goodwill allocated to them. See note 5.2 for further details on goodwill.

CGUs

Segment name	CGUs contained within segment	As at 31 December 2023
		Goodwill £m
Pellet Production	Pellet Operations	177.0
Generation	Drax Power Station	-
	Lanark	11.3
	Galloway	40.1
	Cruachan	26.9
	OCGTs	-
	Daldowie	-
Customers	Drax Energy Solutions	161.4
	Opus Energy	-
		416.7

The Pellet Production business previously consisted of two CGUs – Northern Operations and Southern Operations. Goodwill recognised on the acquisition of Pinnacle in 2021 was allocated to the Pellet Production segment due to the segment as a whole being expected to benefit from the synergies of the larger, combined Pellet Operations. Reflecting the continued integration and increased interdependence between the Group's pellet plants across Northern and Southern Operations since acquisition, the Pellet Production business is now considered to be a single CGU.

In respect of the Generation business, the Group generally considers the smallest groups of assets that generate independent cash inflows to be the individual sites that share common infrastructure and control functions. There are no changes to any of the Generation CGUs from the prior year.

The OCGT assets are still under construction. Once complete, the three OCGT plants are expected to be operated as a portfolio with significant interdependence around the decisions, activities and resulting cash inflows. Therefore the Group continues to treat the OCGTs as one CGU.

2.4 Impairment review of fixed assets and goodwill continued

The Customers business has undergone a reorganisation in recent years, which substantially completed during 2023. Certain activities that were previously part of the Opus Energy CGU have transferred to the Drax Energy Solutions CGU. The Customers business is still deemed to consist of two CGUs equivalent to the operating entities within it, Opus Energy and Drax Energy Solutions, however the activities and resulting cash inflows that are attributed to each CGU have changed due to the reorganisation. Principally, the renewables activities, being the purchase and subsequent sale of power from Power Purchase Agreements (PPAs), that were part of the Opus Energy CGU in the prior year are now operated through Drax Energy Solutions and therefore form part of that CGU in the current year. The Opus Energy CGU now consists solely of electricity and gas supply activities.

The Opus Energy CGU had £159.2 million of goodwill allocated to it at 31 December 2022. As the composition of the Opus Energy CGU changed during 2023, the goodwill previously allocated has been reallocated to the CGUs affected by the reorganisation in accordance with IAS 36. This reallocation has been performed using a relative value approach as specified in IAS 36, resulting in £144.7 million of goodwill being reallocated to the Drax Energy Solutions CGU, leaving £14.5 million of goodwill remaining within the Opus Energy CGU.

During the year, Drax Energy Solutions Limited acquired 100% of the issued share capital of BMM Energy Solutions Limited (BMM) for consideration of £9.0 million. This resulted in the recognition of £6.0 million of goodwill. See note 5.1 for further details. BMM installs and maintains electric vehicle charging points. The Drax Energy Solutions CGU provides a full-service energy supply and energy services offering to customers which includes the installation and maintenance of electric vehicle charging points. As such the BMM activities form part of the Drax Energy Solutions CGU. The Drax Energy Solutions CGU had £10.7 million of existing goodwill prior to the reallocation of the Opus Energy CGU goodwill and the BMM acquisition. Subsequent to the reallocation and the acquisition, the Drax Energy Solutions CGU now has goodwill amounting to £161.4 million (see note 5.2 for further details on goodwill).

The Innovation, capital projects and other segment does not have any external cash inflows and therefore does not meet the definition of a CGU. However, as explained above, corporate assets are considered for impairment individually where possible or as part of a CGU, and relevant centrally managed costs are allocated to each CGU.

Assessment of indicators of impairment for CGUs to which no goodwill is allocated

Full impairment reviews were performed on all CGUs to which goodwill had been allocated (see Impairment review section below). For CGUs to which no goodwill is allocated, impairment reviews are only performed if impairment indicators are identified. The review of the Group's CGUs to which no goodwill is allocated did not give rise to any such impairment indicators in the current year.

In determining whether impairment indicators existed in respect of these CGUs, the Group considered changes in market prices for commodities, foreign currency exchange rates, changes in macro-economic conditions, potential impacts of climate change and regulatory requirements since the previous reporting date, and their potential impact on the Group's long-term planning models and future forecast cash flows. In particular, consideration was given to the changes in the economic environment, including interest rates and inflation, and changes in market prices.

The market price of certain commodities (e.g. power and gas) have fallen since the prior year but still remain above historical averages. This was not an impairment indicator for the Drax Power Station and OCGT CGUs as they are less sensitive to power price changes due to certain generation income being under a CfD, or generation activities being more dependent on the spread between gas and power prices. Also, a high proportion of their income is not linked to power prices, such as renewable certificates, system support and ancillary services. The Drax Power Station CGU also has a high hedged power position. Gas prices are a key input cost for Daldowie and therefore this CGU has benefited as these prices have reduced during 2023.

Section 2: Financial performance continued

2.4 Impairment review of fixed assets and goodwill continued

In considering the economic environment, management concluded that the Drax Power Station, OCGTs and Daldowie CGUs tend to be less sensitive to changes in the economy, as energy is required to power and heat homes and businesses in the UK and waste water treatment is a necessity, and therefore these activities are generally considered essential spend.

Interest rates were also considered, including their impact on discount rates. During the current year interest rates have increased slightly, however, the impact on discount rates was not significant enough to be considered an impairment indicator.

Consideration was also given to assumptions regarding biomass generation and biomass prices post March 2027, when current subsidies for biomass generation at Drax Power Station are due to end, and whether that was an indicator of impairment (see the Principal risks and uncertainties section starting on page 94 for further details). Whilst management's forecasts extend beyond 2027, they indicate that the carrying amount of the Drax Power Station CGU is supported by pre-2027 cash flows. Accordingly, the end of current subsidies in 2027 was not deemed to be an indicator of impairment. Drax Power Station is currently deemed to have a useful life until at least 2039 and an expectation of continuing to be in operation until that time.

Impairment review

For the purpose of impairment reviews the recoverable amounts of the CGUs, or groups of CGUs, were measured based on value in use calculations using the Group's established planning models. These calculations depend on a broad range of assumptions, the most significant of which are outlined below for each CGU, or Group of CGUs, to which an impairment test has been performed in the current year. Management's bases for these estimates are also outlined below.

CGUs	Significant assumptions for value in use calculation	Management's bases for determining estimates used in value in use calculation
Pellet Operations	• Production costs • Production volumes • Sales prices • Discount rate	• Future production costs are estimated based on current year actual production costs plus inflation expectations • Production volumes are estimated based on the current capacity of the Group's pellet plants and the historical operational performance of the plants • Sales prices are estimated based on contractual sales agreements • See below for details of the basis used to estimate discount rates
Lanark, Galloway and Cruachan	• Power prices • Sources of stability income • Volume of generation (hydro assets only) • Discount rate	• Future wholesale energy price estimates are based on market traded power prices for around three years (the period they are liquid), gas market prices as a proxy for power for another two years, then the Group's long-term power price forecast, which is prepared using externally provided gas price forecast and demand inputs • Stability income assumptions are based on past performance and current agreed prices with National Grid • Volume of generation for the hydro assets is derived from historical rainfall averages • See below for details of the basis used to estimate discount rates
Drax Energy Solutions and Opus Energy	• Customer margins • Supply volumes • Collection rates • Power prices • Third-party cost estimates • Discount rate	• Customer margin estimates are based on previously achieved profitability • The expectation of future organic volumes is based on past performance and management's expectations of market developments • Collection rates are estimated based on historical data and adjusted for expected changes in future circumstances • Future wholesale energy price estimates are based on market traded power prices for around three years (the period they are liquid), gas market prices as a proxy for power for another two years, then the Group's long-term power price forecast, which is prepared using externally provided gas price forecast and demand inputs • Third-party cost estimates are based on a combination of externally published rates, management analysis of key market input assumptions, and forecasts from external experts • See below for details of the basis used to estimate discount rates

2.4 Impairment review of fixed assets and goodwill continued

For the Drax Energy Solutions CGU and Opus Energy CGU, management has projected detailed cash flows based on a period of five years. For all other CGUs, management has projected detailed cash flows based on a period of 15 years. This is longer than the five-year period specified by IAS 36, and the period the Group assesses viability over in the Viability statement, to align to the Group's long-term strategic planning, which is relevant to take into account future structural changes forecast within the industries in which the Group's Generation and Pellet Production businesses operate. These longer-term structural changes are mainly linked to climate change and the transition to more renewable forms of energy and net zero. They are explained in more detail in each section below.

Where possible, for relevant commodities, forecasts are based on either contracted prices, particularly for Pellet Operations where the Group has a number of longer term contracts to support the prices used, or observable market curves. Beyond the liquid portion of forward curves, internally constructed price curves are benchmarked against third-party market analysis to validate the reasonableness of the assumptions used. Management also periodically reviews forecasting accuracy and after considering the impact of changes in circumstances and events that could not reasonably be foreseen between the date of the forecast and the forecast period, these reviews support the accuracy of management's forecasts. This supports management's ability to forecast reliably over the 15-year periods and the use of a detailed forecast period of longer than five years.

Cash flows beyond the five or 15-year period are inflated into perpetuity using a growth rate of 2% in all models. This growth rate is based on prudent expectations of market share and profitability along with more general macro-economic factors which were obtained from the Group's established planning model along with external macro-economic forecasts. The growth rate does not exceed the relevant long-term average growth rate for each of the industries in which the Group operates.

The discount rates used reflect the weighted average cost of capital derived using the Capital Asset Pricing Model (CAPM). The estimations use a risk-free rate based on government bonds, market participant capital structures and beta estimates adjusted for the specific industry and markets in which the CGU operates (taking into account relevant peer data sets). This calculation uses the relevant tax rates to calculate a pre-tax discount rate.

Further details on the assessments for each group of CGUs as well as sensitivities for reasonably possible changes in key assumptions are given below. Where reasonably possible changes would result in a material adjustment to the carrying value, these are disclosed as a key source of estimation uncertainty.

Pellet Operations

The recoverable amount of the Pellet Operations CGU is measured at least annually due to the goodwill allocated to it. The CGU is principally engaged in the production and sale of biomass pellets. Management has projected detailed cash flows based over a period of 15 years. This is longer than the five-year period specified by IAS 36, and the period the Group assesses viability over in the Viability statement. This is to align to the Group's long-term strategic planning, which is relevant to take into account future structural changes forecast within the pellet industry, such as climate change and the impact of changing weather patterns, the impact of decarbonisation and the expected growth in the biomass industry as economies transition to more renewable forms of energy and net zero. Using a period of only five years for detailed cash flows could materially overstate or understate the value in use of the CGU as the impact of these factors in periods after five years can be significant.

The carrying amount, discount rate and the perpetuity growth rate applied to the Pellet Operations CGU is set out in the table below:

CGU	Carrying amount (including allocated goodwill) £m	Discount rate	Perpetuity growth rate
Pellet Operations	1,069.0	10.3%	2%

The pre-tax nominal discount rate of 10.3% (2022: 10.5%) was calculated based on third-party analysis from external specialists that the Group commissioned.

The value in use for the Pellet Operations CGU was in excess of its carrying amount. For the Pellet Operations CGU, a reasonably possible increase in production costs of \$10 per tonne in the value in use calculation, with no corresponding increase in sales price, would result in a £105.1 million impairment and a reasonably possible 12% decrease in production volumes would result in a £47.2 million impairment. Accordingly, reasonably possible changes in assumptions within the value in use calculation could result in a material adjustment to the carrying value of the Pellet Operations CGU. Therefore, the assumptions in the value in use calculation of the Pellet Operations CGU has been identified as a key source of estimation uncertainty.

Drax Energy Solutions and Opus Energy

The recoverable amounts of the Drax Energy Solutions and Opus Energy CGUs are measured at least annually due to the existence of goodwill allocated to these CGUs. These businesses are principally focused on renewable electricity sales, with Opus Energy also selling gas to some existing customers, and therefore, consideration of climate and environmental impacts are already a key feature of the business models. Management has projected detailed cash flows over a period of five years, consistent with the period specified by IAS 36, and the period the Group assesses viability over in the Viability statement.

The carrying amounts, discount rates and the perpetuity growth rates applied to each CGU are set out in the table below:

CGU	Carrying amount (including allocated goodwill) £m	Discount rate	Perpetuity growth rate
Drax Energy Solutions	177.7	10.4%	2%
Opus Energy	12.0	10.2%	2%

Section 2: Financial performance continued

2.4 Impairment review of fixed assets and goodwill continued

The expected future cash flows of the Drax Energy Solutions CGU and Opus Energy CGU were discounted using a pre-tax nominal discount rate of 10.4% (2022: 10.3%) and 10.2% (2022: 10.3%) respectively, calculated based on third-party analysis from external specialists that the Group commissioned, adjusted to the specific circumstances and risk factors affecting the Group's Customers business. The Group believes that these rates reflect the prospects for well-established Customers businesses, reflecting the comparatively long trading record and customer bases these businesses hold.

Drax Energy Solutions CGU

The value in use of the Drax Energy Solutions CGU was in excess of its carrying amount. A reasonably possible increase in the discount rate to 11.3% combined with factoring in a 1% perpetuity growth rate in the calculation would reduce the headroom by £51.2 million, which would not result in an impairment. Whilst reasonably possible changes in assumptions would reduce the headroom, they would not result in the recoverable amount being lower than the carrying value. As such the Group does not believe that any reasonably possible changes in the key assumptions would result in an adjustment to the carrying value of the Drax Energy Solutions CGU.

Opus Energy CGU

A full impairment review was carried out on the Opus Energy CGU. The carrying amount of £81.1 million was higher than the calculated value in use and so an impairment charge of £69.1 million was recognised in the Consolidated income statement. The value in use has reduced in the current year due to the strategic decision to offboard the gas portfolio, which also resulted in the loss of some electricity customers who were supplied both gas and electricity. The value in use was also impacted by reduced demand as some customers have changed their behaviour in response to higher energy prices.

The Opus Energy CGU's goodwill of £14.5 million was fully impaired. The Opus Energy head office property was impaired by £8.9 million down to its recoverable amount of £6.0 million. The remaining £45.7 million impairment was allocated to the remaining non-current assets on a pro rata basis (see the table below for details of this pro rata allocation). A reasonably possible decrease in the discount rate to 9.4% would have reduced the impairment by £1.1 million. No reasonably possible change in assumptions would result in a materially different impairment charge in the year. Whilst reasonably possible changes to assumptions would result in an adjustment to the carrying value of the Opus Energy CGU, they would not result in a material adjustment to its carrying value and so it is not considered a key source of estimation uncertainty as defined by IAS 1.

	Year ended 31 December 2023		
	Carrying value before impairment £m	Impairment charge £m	Carrying value after impairment £m
Goodwill (note 5.2)	14.5	(14.5)	–
Freehold land and buildings (note 3.1)	14.9	(8.9)	6.0
Property, plant and equipment (note 3.1)	0.1	(0.1)	–
Intangible assets: customer related assets (note 5.2)	35.6	(31.5)	4.1
Intangible assets: brand assets (note 5.2)	3.5	(3.0)	0.5
Intangible assets: computer software (note 5.2)	12.5	(11.1)	1.4
Total	81.1	(69.1)	12.0

Lanark, Galloway and Cruachan

The Group tests the Lanark, Galloway and Cruachan CGUs for potential impairment at least annually due to the existence of goodwill allocated to these CGUs. These CGUs are engaged in hydro and pumped storage power generation. Management has projected detailed cash flows based on a period of 15 years. This is longer than the five-year period specified by IAS 36, and the period the Group assesses viability over in the Viability statement. This is to align to the Group's long-term strategic planning, which is relevant to take into account future structural changes forecast within the electricity generation industry in the models used. These include climate change, changing weather patterns (increased rain fall from storms and drier summer months), the impact of decarbonisation and the continued transition to renewable forms of energy and net zero, the impact of subsidy and support regimes, and the impact of repairs and maintenance expenditure which is not uniform across the lives of the assets. Using a period of only five years for detailed cash flow forecasting could materially overstate or understate the value in use of the CGUs as the impact of these factors in periods after five years can be significant.

The carrying amounts, discount rates and the perpetuity growth rates applied to each CGU are set out in the table below:

CGU	Carrying amount (including allocated goodwill) £m	Discount rate	Perpetuity growth rate
Lanark	47.4	10.1%	2%
Galloway	172.7	10.1%	2%
Cruachan	251.2	10.1%	2%

The expected future cash flows of these CGUs were discounted using a pre-tax nominal discount rate of 10.1% (2022: 8.5%). The discount rates were calculated based on third-party analysis from external specialists that the Group commissioned, adjusted to the specific circumstances and risk factors affecting the Group's hydro and pumped storage generation operations.

2.4 Impairment review of fixed assets and goodwill continued

The value in use for all three CGUs (Lanark, Galloway and Cruachan) were in excess of their carrying amounts. A reasonably possible 1% increase in the discount rate to 11.1% for Galloway and Cruachan would reduce the headroom by £21.1 million and £58.6 million respectively and would not result in an impairment. A reasonably possible decrease in power prices of 10% in each of the value in use calculations would reduce the headroom for Galloway and Cruachan by £29.5 million and £17.0 million respectively but would not result in an impairment. Whilst reasonably possible changes in assumptions for the Galloway and Cruachan CGUs would reduce the headroom, they would not result in the recoverable amount being lower than the carrying value. As such the Group does not believe that any reasonably possible changes in the key assumptions would result in an adjustment to the carrying value of the Galloway or Cruachan CGUs.

A reasonably possible 1% increase in the discount rate for Lanark would result in a £1.6 million impairment. A reasonably possible 10% decrease in power prices for Lanark would result in an impairment of £2.5 million. The Lanark CGU is sensitive to reasonably possible changes in the key assumptions. Whilst reasonably possible changes to assumptions would result in an adjustment to the carrying value of the Lanark CGU, they would not result in a material adjustment to its carrying value and so it is not considered a key source of estimation uncertainty as defined by IAS 1.

Drax Power Station, Daldowie and OCGTs

For the Drax Power Station, Daldowie and OCGTs CGUs, there were no impairment indicators identified and none of these CGUs have allocated goodwill. Therefore, value in use calculations to determine the recoverable amount of these CGUs were not required.

Impairment of non-current assets

The recoverable amount of the Opus Energy head office property was assessed and an impairment charge of £8.9 million was recognised to reduce the carrying value to its recoverable amount of £6.0 million. The value in use calculation of the Opus Energy CGU resulted in recognising a full impairment of the £14.5 million allocated goodwill and a further £45.7 million impairment charge across the remaining non-current assets. The total impairment charge recognised in the Consolidated income statement in relation to the non-current assets in the Opus Energy CGU was £69.1 million.

Other impairments of non-current assets in the year totalled £1.7 million and were charged to the Consolidated income statement.

Due to a change in accounting policy in the prior year an impairment charge of £5.7 million was recognised during 2022 on intangible assets relating to Software as a Service (SaaS) costs previously capitalised. An impairment charge of £19.2 million was also recognised on a billing system where the Group had stopped development as it no longer expected future economic benefits would be recovered as an ongoing intangible asset. A legal claim in respect of this was settled during the current year. See notes 2.7 and 5.2 for further details.

It is the Group's policy that any impairments of land or assets that have not yet been brought into use and depreciated or amortised are reflected in the cost of the asset being impaired. For impairments of assets that have already been brought into use and are subject to depreciation or amortisation charges, the impairment is reflected in the accumulated depreciation or accumulated amortisation of the asset.

Impairment	Year ended 31 December 2023			Year ended 31 December 2022				
	Opus Energy £m	Other assets £m	Total £m	Daldowie £m	OCGTs £m	Customers billing system £m	SaaS assets £m	Total £m
Goodwill – cost	14.5	–	14.5	–	–	–	–	–
Freehold land and buildings – cost	1.0	–	1.0	–	0.2	–	–	0.2
Freehold land and buildings – accumulated depreciation	7.9	–	7.9	0.5	–	–	–	0.5
Plant and equipment – accumulated depreciation	0.1	–	0.1	7.5	–	–	–	7.5
Assets under the course of construction – cost	–	1.7	1.7	–	6.7	–	–	6.7
Intangible assets – cost: computer software	–	–	–	–	1.7	19.2	–	20.9
Intangible assets – accumulated amortisation:								
Customer related assets: acquired separately	31.5	–	31.5	–	–	–	–	–
Brand assets: acquired separately	3.0	–	3.0	–	–	–	–	–
Computer software: internally generated	11.1	–	11.1	–	–	–	5.7	5.7
Total impairment of non-current assets	69.1	1.7	70.8	8.0	8.6	19.2	5.7	41.5

The total impairment charge for the year of £70.8 million (2022: £41.5 million) is recognised in the impairment of non-current assets line in the Consolidated income statement. The £69.1 million impairment of Opus Energy was treated as an exceptional item (2022: the impairment of SaaS intangible assets and the Customers billing system totalling £24.9 million were treated as exceptional items). See note 2.7 for further details.

Section 2: Financial performance continued

2.5 Net finance costs

Net finance costs reflect expenses incurred in managing the capital structure (such as interest payable on bonds) as well as foreign exchange gains and losses, the unwinding of discounts on provisions for reinstatement of the Group's sites at the end of their useful economic lives (see note 5.3), and interest on lease liabilities (see note 3.2). These are offset by interest income that the Group generates through use of short-term cash surpluses, for example through investment in money market funds, and interest income on the Group's defined benefit pension scheme surplus (see note 6.3).

A reconciliation of net finance costs is shown in the table below:

	Year ended 31 December	
	2023 £m	2022 £m
Interest payable and similar charges:		
Interest payable	(108.9)	(75.4)
Unwinding of discount on provisions (note 5.3)	(1.9)	(1.1)
Amortisation of deferred finance costs	(4.3)	(6.1)
Other financing charges	(0.1)	(0.5)
Total interest payable and similar charges included in Adjusted results	(115.2)	(83.1)
Interest receivable:		
Interest income on bank deposits	11.0	3.3
Interest income on defined benefit pension surplus (note 6.3)	2.1	1.0
Total interest receivable included in Adjusted results	13.1	4.3
Foreign exchange (losses)/gains included in Adjusted results	(14.3)	14.8
Net finance costs included in Adjusted results	(116.4)	(64.0)
Certain remeasurements on financing derivatives	4.6	(4.2)
Net finance costs included in Total results	(111.8)	(68.2)

Interest payable and similar charges is stated net of £8.1 million (2022: £5.2 million) of capitalised interest within the cost of qualifying assets in property, plant and equipment during the year (see note 3.1). These charges represent fees payable on deferred letters of credit that have been used specifically to finance the construction of the qualifying assets and therefore no capitalisation rate has been applied.

Foreign exchange gains and losses in net finance costs arise on the retranslation of non-derivative balances denominated in foreign currencies to prevailing rates at the reporting date.

Changes in the Group's financing structure during 2023 are described in note 4.2.

The Group has a number of intercompany loans denominated in the functional currency of certain foreign subsidiaries, that are owed to a sterling functional currency entity. Due to the strengthening of sterling during the year, this has resulted in a foreign exchange loss of £17.0 million (2022: gain of £29.0 million) on the retranslation of intercompany loans in the sterling functional currency entity. This loss (2022: gain) is recognised within the Consolidated income statement and within the foreign exchange gains or losses included in Adjusted results line in the table above. Conversely, within the net gain or loss on translating the net assets of the foreign subsidiaries into the Group's sterling presentational currency there is a foreign exchange gain (2022: loss) relating to the translation of the foreign subsidiaries' intercompany loans. This impacts the translation reserve with the movement recognised in other comprehensive income.

2.6 Current and deferred tax

The tax charge (2022: credit) includes both current and deferred tax. It reflects the estimated tax on the profit before tax for the Group for the year ended 31 December 2023 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the Consolidated income statement, in line with IAS 12.

Accounting policy

Current tax includes UK corporation tax, corporate income tax in Canada and US income tax. It is based on the taxable profit or loss for the year in the relevant jurisdiction. Taxable profit or loss differs from profit or loss before tax as reported in the Consolidated income statement, because it excludes items of income or expenditure that are either taxable or deductible in other years or never taxable or deductible. The Group's liability (or asset) for current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

A provision is made for those matters for which the tax determination is uncertain, but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases is based on specialist third-party tax advice. No uncertain tax provisions have been recognised in the current or prior year.

2.6 Current and deferred tax continued

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Current and deferred taxes are credited or charged against profit or loss in the Consolidated income statement, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred taxes are recognised in the Consolidated statement of comprehensive income or directly in the Consolidated statement of changes in equity respectively.

The Group has utilised the relief available under the Research and Development Expenditure Credit (RDEC) regime. Under this regime, research and development tax credits are accounted for as development grants in line with IAS 20 and are recorded in operating profit within the Consolidated income statement. The credit is subject to corporation tax with the corresponding receivable offset against total corporation tax payable.

In accounting for tax, the Group makes assumptions regarding the treatment of items of income and expenditure for tax purposes. The Group believes that these assumptions are reasonable, based on prior experience and consultation with advisers where deemed necessary. These assumptions are consistent with other assumptions used in these Consolidated financial statements. Full provision is made for deferred tax at the rates of tax prevailing at the reporting date unless future rates have been substantively enacted. Deferred tax assets are recognised where it is considered more likely than not that they will be recovered. The recoverability of the deferred tax asset is considered an estimate as it relies on the future profitability of the Group's businesses. See table on page 205 for a breakdown of the net deferred tax asset or liability position for each jurisdiction.

	Year ended 31 December	
	2023 £m	2022 £m
Total tax (charge)/credit comprises:		
Current tax		
– UK tax	(186.5)	(66.0)
– Overseas tax	(1.6)	–
– Adjustments in respect of prior periods	2.0	1.9
Deferred tax		
– Before impact of tax rate changes	(46.7)	61.9
– Adjustments in respect of prior periods	0.3	(0.1)
– Effect of changes in tax rate	(3.0)	6.7
Total tax (charge)/credit	(235.5)	4.4

	Year ended 31 December	
	2023 £m	2022 £m
Tax (charged)/credited on items recognised in other comprehensive income:		
Deferred tax on remeasurement of defined benefit pension surplus	7.2	6.1
Deferred tax on cash flow hedges	(130.7)	(5.6)
Deferred tax on cost of hedging	(1.9)	2.2
Total tax (charge)/credit	(125.4)	2.7

	Year ended 31 December	
	2023 £m	2022 £m
Tax credited on items released directly from equity:		
Current tax on share-based payments	6.9	–
Deferred tax on cost of hedging	9.0	7.2
Deferred tax on cash flow hedges	10.9	4.8
Deferred tax on share-based payments	(2.4)	7.4
Total tax credit	24.4	19.4

UK corporation tax is the main income tax applicable on the Group's taxable profits and is calculated at 23.5% (2022: 19.0%) of the assessable profit or loss for the year. This follows the rate increase to 25.0% from 1 April 2023 that was included within the Finance Bill 2021.

Due to the Group's overseas operations, the US income tax rate of 21.0% (2022: 21.0%) and the Canadian corporate income tax rate of 27.0% (2022: 27.0%) are also relevant to the Group's UK corporation tax charge.

Section 2: Financial performance continued

2.6 Current and deferred tax continued

The effective tax rate for the full year, before the impact of changes in tax rates, is higher than the standard corporation tax rate applicable in the UK, principally due to the introduction of the non-deductible Electricity Generator Levy from 1 January 2023 (see the Electricity Generator Levy section on page 179 for further details). The primary current tax rate benefits arise from research and development credits, UK Patent Box claims and the UK super-deduction introduced in the Finance Act 2021, which allowed for a 130% in-year deduction for tax purposes against the cost of qualifying capital expenditure on plant and machinery incurred between 1 April 2021 and 31 March 2023.

Drax Power Limited was granted a patent to protect certain intellectual property it owns and which attaches to the technology developed to manage the combustion process in generating electricity from biomass. Under UK tax legislation, the company is entitled to apply a lower tax rate of 10% to profits derived from utilisation of the patented technology.

The Group tax charge for the year can be reconciled to the profit before tax as follows:

	Year ended 31 December 2023			Year ended 31 December 2022		
	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m
Profit/(loss) before tax	665.2	131.2	796.4	405.4	(327.3)	78.1
Profit/(loss) before tax multiplied by the rate of corporation tax in the UK of 23.5% (2022: 19.0%)	156.3	30.8	187.1	77.0	(62.2)	14.8
Effects of:						
Adjustments in respect of prior periods	(2.3)	–	(2.3)	(1.8)	–	(1.8)
Expenses not deductible for tax purposes	5.2	6.5	11.7	4.5	–	4.5
Electricity Generator Levy	48.1	–	48.1	–	–	–
Impact of tax rate change	0.6	2.4	3.0	2.9	(9.6)	(6.7)
Share-based payments recognised in equity	8.1	–	8.1	–	–	–
Difference in overseas tax rates	(0.7)	–	(0.7)	(1.3)	–	(1.3)
UK Patent Box benefit	(17.4)	–	(17.4)	(9.6)	–	(9.6)
Tax effect of RDEC	(0.9)	–	(0.9)	(0.8)	–	(0.8)
UK super-deduction	(1.2)	–	(1.2)	(3.5)	–	(3.5)
Total tax charge/(credit)	195.8	39.7	235.5	67.4	(71.8)	(4.4)

2.6 Current and deferred tax continued

The movements in deferred tax assets and liabilities during each year are shown below.

	Financial instruments £m	Accelerated capital allowances £m	Non-trade losses £m	Intangible assets £m	Trade losses £m	Other liabilities £m	Other assets £m	Total £m
At 1 January 2022	38.8	(292.6)	2.3	(19.9)	60.0	(18.7)	33.5	(196.6)
Credited/(charged) to the income statement	77.3	(24.9)	(1.8)	7.0	15.7	(20.7)	16.0	68.6
Credited to other comprehensive income in respect of actuarial gains	-	-	-	-	-	6.1	-	6.1
Charged to other comprehensive income in respect of cash flow hedges	(5.6)	-	-	-	-	-	-	(5.6)
Credited to other comprehensive income in respect of cost of hedging	2.2	-	-	-	-	-	-	2.2
Credited to equity in respect of cash flow hedges	4.8	-	-	-	-	-	-	4.8
Credited to equity in respect of cost of hedging	7.2	-	-	-	-	-	-	7.2
Credited to equity in respect of share-based payments	-	-	-	-	-	-	7.4	7.4
Impact of acquisition	-	(0.8)	-	-	-	-	-	(0.8)
Effect of changes in foreign exchange rates	-	(3.0)	-	-	4.4	-	1.0	2.4
At 1 January 2023	124.7	(321.3)	0.5	(12.9)	80.1	(33.3)	57.9	(104.3)
(Charged)/credited to the income statement	(51.2)	9.0	(0.5)	12.3	(21.0)	(0.6)	2.6	(49.4)
Credited to other comprehensive income in respect of actuarial gains	-	-	-	-	-	7.2	-	7.2
Charged to other comprehensive income in respect of cash flow hedges	(130.7)	-	-	-	-	-	-	(130.7)
Charged to other comprehensive income in respect of cost of hedging	(1.9)	-	-	-	-	-	-	(1.9)
Credited to equity in respect of cash flow hedges	10.9	-	-	-	-	-	-	10.9
Credited to equity in respect of cost of hedging	9.0	-	-	-	-	-	-	9.0
Charged to equity in respect of share-based payments	-	-	-	-	-	-	(2.4)	(2.4)
Impact of acquisition	-	-	-	(1.3)	-	-	-	(1.3)
Effect of changes in foreign exchange rates	-	1.8	-	-	(2.5)	(0.1)	(0.5)	(1.3)
At 31 December 2023	(39.2)	(310.5)	-	(1.9)	56.6	(26.8)	57.6	(264.2)
Deferred tax balances (after offset) for financial reporting purposes:								
Net Canadian deferred tax asset at 31 December 2023	-	(18.8)	-	0.4	16.8	(0.2)	28.2	26.4
Net US deferred tax asset at 31 December 2023	-	(21.9)	-	-	39.8	-	8.6	26.5
Net UK deferred tax liability at 31 December 2023	(39.2)	(269.8)	-	(2.3)	-	(26.6)	20.8	(317.1)
Net Canadian deferred tax asset at 31 December 2022	-	(49.6)	-	0.2	27.1	(1.0)	32.7	9.4
Net US deferred tax asset at 31 December 2022	-	(30.6)	-	-	53.0	-	5.5	27.9
Net UK deferred tax liability at 31 December 2022	124.7	(241.1)	0.5	(13.1)	-	(32.3)	19.7	(141.6)

Section 2: Financial performance continued

2.6 Current and deferred tax continued

Deferred tax assets and liabilities are offset where the Group has both a legally enforceable right to offset the recognised amounts and the intention to settle on a net basis, otherwise they are shown separately in the Consolidated balance sheet. Within the above trade losses deferred tax asset of £56.6 million (2022: £80.1 million) there is £39.8 million (2022: £53.0 million) in relation to losses in the US Pellet Production business. The remaining £16.8 million relates to losses of the Canadian Pellet Production business (2022: £27.1 million).

On 31 August 2023 the Group acquired BMM Energy Solutions Limited, a UK-based electric vehicle charge point installer (see note 5.1 for further details). A deferred tax liability of £1.3 million has been recognised on customer relationships included within this acquisition, as noted above in the 'impact of acquisition' line. This liability will unwind as the intangible asset is amortised.

The future expected reversal of accelerated capital allowances and other timing differences, coupled with the profitability (inclusive of the impact of transfer pricing adjustments), stable output and forecast improvement in operational performance, mean that the US and Canadian businesses expect to generate sufficient profits in the short to medium term against which to utilise the deferred tax assets. The estimates used when assessing the future profitability of the US and Canadian businesses have been approved by the Board and are consistent with estimates used in the going concern assessment and in the Viability statement on page 92.

As at 31 December 2023 the Group held £78.8 million (2022: £79.2 million) of UK capital losses available for offset against future chargeable gains. These losses are unrecognised for deferred tax purposes as the Group does not currently expect UK taxable gains to arise that would be eligible to offset against these losses.

The Group is within scope of the Organisation for Economic Co-operation and Development's (OECD's) Global Anti-Base Erosion Rules, which provide for an internationally co-ordinated system of taxation to ensure that large multinational groups pay a minimum level of corporate income tax in countries in which they operate, referred to as Pillar Two. The legislation implementing the rules in the UK was substantively enacted on 20 June 2023 and will apply to the Group from the financial year ending 31 December 2024 onwards. The Group has applied the temporary exemption under IAS 12 in relation to the accounting for deferred taxes arising from the implementation of the Pillar Two rules, so that the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two. Based on an initial review of 2023 and the medium term forecasts up to and including the year ending 31 December 2026, the Group would fall within the Transitional Country by Country Reporting Safe Harbour, such that the expected top up tax payable over this period under the Pillar Two rules is expected to be £nil.

The Group continues to monitor developments in the UK and outside of the UK and will undertake a detailed review in 2024 to ensure ongoing compliance with its administrative obligations under these rules.

2.7 Alternative performance measures

The alternative performance measures (APMs) glossary to these Consolidated financial statements on page 285 provides details of all APMs used, each APM's closest IFRS equivalent, the reason why the APM is used by the Group and a definition of how each APM is calculated.

The Group presents Adjusted results in the Consolidated income statement. Management believes that this approach is useful as it provides a clear and consistent view of underlying trading performance. Exceptional items and certain remeasurements are excluded from Adjusted results and are presented in a separate column in the Consolidated income statement. The Group believes that this presentation provides useful information about the financial performance of the business and is consistent with the way the Board and Executive management assess the performance of the business.

The Group has a policy and framework for the determination of transactions to present as exceptional. Exceptional items are excluded from Adjusted results as they are transactions that are deemed to be one-off or unlikely to reoccur in future years due to their nature, size, the expected frequency of similar events or the commercial context. By excluding these amounts this provides users of the Consolidated financial statements with a more representative view of the results of the Group and enables comparisons with other reporting periods as it excludes amounts from activities or transactions that are not likely to reoccur. All transactions presented as exceptional are approved by the Audit Committee. See the Audit Committee report on page 132 for further details.

In these Consolidated financial statements, the following transactions have been designated as exceptional items and presented separately:

- Impairment charges related to the Opus Energy CGU (2023, Customers). See note 2.4 for further information.
- Proceeds from a legal settlement relating to a supplier's failure to perform under their contract (2023, Customers). See note 5.2 for further information.
- Change in the fair value of contingent consideration (2023, Generation). See note 7.1 for further information.
- Impact of the UK tax rate change on deferred tax balances (2023, Generation and Customers; 2022, Generation and Customers). See note 2.6 for further information.
- Impairment charges incurred on the application of the Group's new accounting policy for Software as a Service (SaaS) costs, consistent with the IFRIC agenda decision (2022, All segments), and on costs associated with the Customers billing system (2022, Customers). See note 5.2 for further details.

2.7 Alternative performance measures continued

Certain remeasurements comprise gains or losses on derivative contracts to the extent that those contracts do not qualify for hedge accounting, or hedge accounting is not effective, and those gains or losses are either i) unrealised and relate to derivative contracts with a maturity in future periods, or ii) are realised in relation to the maturity of derivative contracts in the current period. Gains and losses on derivative contracts prior to maturity generally reflect the difference between the contracted price and the current market price, which management does not believe provides meaningful information as the Group is not entering contracts with the intention of creating value from changes in market prices. The Group is entering forward contracts as economic hedges to secure prices and rates, and lock in value for its future expected pellet production, generation or energy supply activities. The effect of excluding certain remeasurements from Adjusted results is that commodity sales and purchases are recognised in the period they are intended to hedge at their contracted prices i.e. at the all-in-hedged amount paid or received in respect of the delivery of the commodity in question. It also results in the total impact of financial contracts being recognised in the period they are intended to hedge. Management believes this better reflects the performance of the business as it more accurately represents the intention for entering derivative contracts.

2022 saw high prices and volatility in financial and commodity markets. As prices increased this resulted in significant movements in the remeasurement gains and losses on certain derivative financial instruments which do not qualify for hedge accounting, or where hedge accounting is ineffective, as shown in the table below, principally relating to gas, certain foreign currency contracts, inflation and oil. In the current year prices have reduced compared to the 2022 highs, and therefore certain gains and losses recognised in the prior year have reversed.

Further details on the Group's derivative financial instruments are provided in Section 7.

	Year ended 31 December	
	2023 £m	2022 £m
Exceptional items:		
Impairment of non-current assets	(69.1)	(24.9)
Net credit from legal claim	13.7	–
Change in fair value of contingent consideration	(18.2)	–
Exceptional items included within operating profit and profit before tax	(73.6)	(24.9)
Tax on exceptional items	10.8	4.7
Impact of tax rate change	0.7	(9.8)
Exceptional items after tax	(62.1)	(30.0)
Certain remeasurements:		
Net fair value remeasurements on derivative contracts included in revenue	70.7	(441.4)
Net remeasurements realised on maturity of derivative contracts included in revenue	228.6	107.7
Net hedge ineffectiveness reclassified to profit or loss included in revenue	(16.4)	(50.2)
Net fair value remeasurements on derivative contracts included in cost of sales	(127.0)	32.6
Net remeasurements realised on maturity of derivative contracts included in cost of sales	44.3	53.1
Certain remeasurements included within operating profit	200.2	(298.2)
Net remeasurements on maturity of derivative contracts included in interest payable and similar charges	(0.3)	(0.4)
Net fair value remeasurements on derivative contracts included in foreign exchange gains/(losses)	4.9	(3.8)
Certain remeasurements included in profit before tax	204.8	(302.4)
Tax on certain remeasurements	(48.1)	57.5
Impact of tax rate change	(3.1)	19.4
Certain remeasurements after tax	153.6	(225.5)
Reconciliation of profit after tax:		
Adjusted profit after tax	469.4	338.0
Exceptional items after tax	(62.1)	(30.0)
Certain remeasurements after tax	153.6	(225.5)
Total profit after tax	560.9	82.5

Section 2: Financial performance continued

2.7 Alternative performance measures continued

For each item designated as exceptional or as a certain remeasurement, the table below summarises the impact of the item on Adjusted and Total profit after tax, Basic EPS and net cash flow from operating activities.

Year ended 31 December 2023								
	Revenue £m	Gross profit £m	Operating profit £m	Profit before tax £m	Tax (charge)/ credit £m	Profit/(loss) for the period £m	Basic earnings/(loss) per share Pence	Net cash from operating activities £m
Total results IFRS measure	8,125.3	1,953.6	908.2	796.4	(235.5)	560.9	142.8	835.6
Certain remeasurements:								
Net fair value remeasurement on derivative contracts	(282.9)	(200.2)	(200.2)	(204.8)	48.1	(156.7)	(39.7)	–
Impact of tax rate change	–	–	–	–	3.1	3.1	0.8	–
Exceptional items:								
Impairment of non-current assets	–	–	69.1	69.1	(13.5)	55.6	14.1	–
Proceeds from legal claim	–	–	(13.7)	(13.7)	2.7	(11.0)	(2.8)	(9.3)
Change in fair value of contingent consideration	–	–	18.2	18.2	–	18.2	4.6	–
Impact of tax rate change	–	–	–	–	(0.7)	(0.7)	(0.2)	–
Total	(282.9)	(200.2)	(126.6)	(131.2)	39.7	(91.5)	(23.2)	(9.3)
Adjusted results totals	7,842.4	1,753.4	781.6	665.2	(195.8)	469.4	119.6	826.3

Year ended 31 December 2022								
	Revenue £m	Gross profit £m	Operating profit £m	Profit before tax £m	Tax credit/ (charge) £m	Profit/(loss) for the period £m	Basic earnings/(loss) per share Pence	Net cash from operating activities £m
Total results IFRS measure	7,775.3	1,023.3	146.3	78.1	4.4	82.5	21.3	207.7
Certain remeasurements:								
Net fair value remeasurement on derivative contracts	383.9	298.2	298.2	302.4	(57.5)	244.9	61.2	–
Impact of tax rate change	–	–	–	–	(19.4)	(19.4)	(4.8)	–
Exceptional items:								
Impairment of non-current assets	–	–	24.9	24.9	(4.7)	20.2	5.0	–
Impact of tax rate change	–	–	–	–	9.8	9.8	2.4	–
Total	383.9	298.2	323.1	327.3	(71.8)	255.5	63.8	–
Adjusted results totals	8,159.2	1,321.5	469.4	405.4	(67.4)	338.0	85.1	207.7

A cost of £204.6 million has been recognised in relation to EGL for the year. The cost has been recognised within the Electricity Generator Levy line in the Consolidated income statement. The liability for EGL has been recognised within Trade and other payables and contract liabilities within the Consolidated balance sheet.

2.7 Alternative performance measures continued

Both Adjusted EBITDA including EGL and Adjusted EBITDA excluding EGL are presented below. Management believes that providing both measures provides useful information, as it enables readers to compare, on a consistent basis, the current period Adjusted EBITDA to prior periods in which the EGL was not applicable, and also to see the impact of EGL, which is relevant for comparison in future periods.

	Year ended 31 December 2023		
	Attributable to		
	Owners of the parent company £m	Non-controlling interests £m	Total £m
Adjusted operating profit	782.9	(1.3)	781.6
Depreciation and amortisation	223.7	1.3	225.0
Other gains	(0.7)	–	(0.7)
Share of losses from associates	1.6	–	1.6
Impairment of non-current assets	1.7	–	1.7
Adjusted EBITDA including Electricity Generator Levy	1,009.2	–	1,009.2
Electricity Generator Levy	204.6	–	204.6
Adjusted EBITDA excluding Electricity Generator Levy	1,213.8	–	1,213.8

	Year ended 31 December 2022		
	Attributable to		
	Owners of the parent company £m	Non-controlling interests £m	Total £m
Adjusted operating profit	472.0	(2.6)	469.4
Depreciation and amortisation	237.2	2.2	239.4
Other losses	5.7	0.1	5.8
Share of profits from associates	(0.5)	–	(0.5)
Impairment of non-current assets	16.6	–	16.6
Adjusted EBITDA	731.0	(0.3)	730.7

	Year ended 31 December	
	2023 £m	2022 £m
Segment Adjusted EBITDA excluding Electricity Generator Levy:		
Pellet Production	88.9	133.7
Generation	1,138.1	695.5
Customers	71.8	25.8
Innovation, capital projects and other	(78.1)	(113.6)
Intra-group eliminations	(6.9)	(10.4)
Total Adjusted EBITDA excluding Electricity Generator Levy	1,213.8	731.0
Electricity Generator Levy⁽¹⁾	(204.6)	–
Total Adjusted EBITDA including Electricity Generator Levy	1,009.2	731.0

(1) The Electricity Generator Levy relates wholly to the Generation segment, therefore Adjusted EBITDA including Electricity Generator Levy for the Generation segment is £933.5 million.

Net debt

Net debt is calculated by taking the Group's borrowings (note 4.2), adjusting for the impact of associated hedging instruments, and subtracting cash and cash equivalents (note 4.1). Net debt excludes the share of borrowings and cash and cash equivalents attributable to non-controlling interests.

Borrowings includes external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities (RCFs) (see note 4.2), net of any deferred finance costs. Borrowings does not include other financial liabilities such as pension obligations (see note 6.3), trade and other payables (see note 3.7), lease liabilities calculated in accordance with IFRS 16 (see note 3.2) and working capital facilities (such as credit cards and deferred letters of credit) linked directly to specific payables that provide short extension of payment terms of less than 12 months (see note 4.3). The Group does not include balances related to supply chain financing in Net debt as there are no changes to the Group's payment terms under this arrangement, nor would there be if the arrangement was to cease (see note 3.7). Net debt includes the impact of any cash collateral receipts from counterparties or cash collateral posted to counterparties.

The Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of Net debt. This reflects the nature of the contracts included in this balance which are predominantly entered into for operating purposes rather than as a way to finance the purchase of an asset. The exclusion of lease liabilities from the calculation of Net debt is also consistent with the Group's covenant reporting requirements.

Section 2: Financial performance continued

2.7 Alternative performance measures continued

The Group has entered into cross-currency interest rate swaps, fixing the sterling value of the principal repayments and interest in respect of the Group's US dollar (USD) and euro (EUR) denominated debt. The Group has also entered a fixed rate foreign exchange forward to fix the sterling value of the principal repayment of the Canadian (CAD) denominated debt (see note 4.2). For the purpose of calculating Net debt, USD, EUR and CAD balances are translated at the hedged rate, rather than the rate prevailing at the reporting date, which impacts the carrying amount of the Group's borrowings. See the APMs glossary and the APMs section within the Basis of preparation for further details on the calculation of Net debt.

Cash collateral is sometimes paid or received in relation to the Group's commodity and treasury trading activities. When derivative positions are out of the money for the Group, cash collateral may be required to be paid to the counterparty. When derivative positions are in the money, cash collateral may be received from counterparties. These positions reverse when contracts are settled and the cash collateral is returned.

At 31 December 2023, net cash postings of £78.6 million had been made to counterparties (2022: £234.0 million) to support commodity hedging activity. Cash collateral payments of £98.9 million (2022: £234.0 million) are recognised in other receivables and £20.3 million (2022: £nil) of cash collateral receipts are recognised in other payables. The decrease in cash collateral payments is due to the settlement of trades from the prior year as well as a reduction in commodity prices seen in the power, gas and carbon markets. See note 4.3 for details on collateral requirements the Group has met through its available non-cash credit facilities.

The Group's definition of Net debt includes the impact of cash collateral. In the table below, Net debt excluding collateral is also presented and reconciled to Net debt.

	As at 31 December	
	2023 £m	2022 £m
Borrowings (note 4.2)	(1,425.3)	(1,440.9)
Cash and cash equivalents	379.5	238.0
Net cash and borrowings	(1,045.8)	(1,202.9)
NCI's share of cash and cash equivalents in non-wholly owned subsidiaries	(0.3)	(0.7)
Impact of hedging instruments	(37.8)	(2.4)
Net debt	(1,083.9)	(1,206.0)
Net cash collateral posted	78.6	234.0
Net debt excluding collateral	(1,005.3)	(972.0)

The table below reconciles Net debt in terms of changes in these balances across the year:

	Year ended 31 December	
	2023 £m	2022 £m
Net debt at 1 January	(1,206.0)	(1,108.0)
Increase/(decrease) in owners of the parent company's share of cash and cash equivalents	146.3	(85.6)
Increase in borrowings	(19.8)	(8.6)
Effect of changes in foreign exchange rates	31.0	(65.8)
Movement in the impact of hedging instruments	(35.4)	62.0
Net debt at 31 December	(1,083.9)	(1,206.0)

A reconciliation of the change in borrowings during the year is set out in the table in note 4.2.

As explained in the Basis of preparation, the Group has a long-term target for Net debt to Adjusted EBITDA including EGL of around 2.0 times.

	As at 31 December	
	2023	2022
Adjusted EBITDA including EGL (£m)	1,009.2	731.0
Adjusted EBITDA excluding EGL (£m)	1,213.8	731.0
Net debt (£m)	(1,083.9)	(1,206.0)
Net debt excluding collateral (£m)	(1,005.3)	(972.0)
Net debt to Adjusted EBITDA including EGL ratio	1.1	1.6
Net debt to Adjusted EBITDA excluding EGL ratio	0.9	1.6

2.7 Alternative performance measures continued

Cash and committed facilities

The below table reconciles the Group's available cash and committed facilities:

	As at 31 December	
	2023 £m	2022 £m
Cash and cash equivalents (note 4.1)	379.5	238.0
RCF available but not utilised ⁽¹⁾	259.9	260.1
Liquidity facility available but not utilised ⁽²⁾	–	200.0
Total cash and committed facilities	639.4	698.1

(1) The Group's available balance on the RCF facility (includes £300 million and C\$10 million RCF, see note 4.2) is reduced by letters of credit drawn under the RCF. At 31 December 2023, £46.1 million letters of credit were drawn (2022: £46.0 million).

(2) In December 2022, the Group secured a new £200 million committed liquidity facility with banks within its lending group. This facility provided an additional source of liquidity to the Group's existing undrawn RCFs, until December 2023. This facility was undrawn at 31 December 2022 and as at 31 December 2023 has matured.

Further commentary on total cash and committed facilities is contained within the Financial review starting on page 22.

2.8 Earnings per share

Earnings per share (EPS) represents the amount of earnings (post-tax profit or losses) attributable to the weighted average number of ordinary shares outstanding in the year. Basic EPS is calculated by dividing the Group's earnings attributable to owners of the parent company (profit or loss after tax, excluding amounts attributable to non-controlling interests) by the weighted average number of ordinary shares that were outstanding during the year. Diluted EPS demonstrates the impact of all outstanding share options that would vest on their future maturity dates if the conditions at the end of the reporting period were the same as those at the end of the vesting period (such as those to be issued under employee share schemes – see note 6.2), and the options were exercised and treated as ordinary shares as at the reporting date. Repurchased shares of 40.3 million (2022: 13.8 million) held in the treasury shares reserve are not included in the weighted average calculation of shares. See note 2.11 for details of the shares repurchased in the current year as part of the £150 million share buyback programme and note 4.4 for further details on the treasury shares reserve. For the purpose of calculating diluted EPS, the weighted average calculation of shares excludes any share options that would have an anti-dilutive impact.

	Year ended 31 December	
	2023	2022
Number of shares (millions):		
Weighted average number of ordinary shares for the purposes of calculating Basic earnings per share	393.8	400.4
Effect of dilutive potential ordinary shares under share plans	9.3	14.0
Weighted average number of ordinary shares for the purposes of calculating Diluted earnings per share	403.1	414.4

	Year ended 31 December			
	2023		2022	
	Adjusted results	Total results	Adjusted results	Total results
Earnings per share attributable to owners of the parent company				
Earnings – profit after tax (£m)	470.7	562.2	340.6	85.1
Earnings per share – Basic (pence)	119.6	142.8	85.1	21.3
Earnings per share – Diluted (pence)	116.8	139.5	82.2	20.5

2.9 Dividends

	Year ended 31 December		
	Pence per share	2023 £m	2022 £m
Amounts recognised as distributions to equity holders in the year (based on the number of shares outstanding at the record date):			
Interim dividend for the year ended 31 December 2023 paid on 3 October 2023	9.2	35.7	–
Final dividend for the year ended 31 December 2022 paid on 19 May 2023	12.6	50.6	–
Interim dividend for the year ended 31 December 2022 paid on 7 October 2022	8.4	–	33.7
Final dividend for the year ended 31 December 2021 paid on 13 May 2022	11.3	–	45.2
Total distributions		86.3	78.9

At the forthcoming Annual General Meeting, the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2023 of 13.9 pence per share (equivalent to approximately £53.5 million) payable on 17 May 2024. The final dividend has not been included as a liability as at 31 December 2023. This would bring total dividends payable in respect of the 2023 financial year to approximately £89.2 million.

Section 2: Financial performance continued

2.9 Dividends continued

The Group has a long-standing capital allocation policy. This policy is based on a commitment to robust financial metrics that underpin the Group's strong credit rating; investment in the core business; paying a sustainable and growing dividend; and returning surplus capital to shareholders. The Board is confident that the dividend is sustainable and expects it to grow as the implementation of the Group's strategy generates an increasing proportion of stable earnings and cash flows. In determining the rate of growth in dividends, the Board will take account of future investment opportunities and the less predictable cash flows from the Group's commodity-linked revenue streams.

In future years, if there is a build-up of capital in excess of the Group's investment needs, the Board will consider the most appropriate mechanism to return this to shareholders.

Consideration of sustainability, including a link to the Group's dividend, can be found in the Market context section on pages 4 and 5.

2.10 Retained profits

Retained profits are a component of equity reserves. The overall balance reflects the total profits the Group has generated over its lifetime that are attributable to the equity holders of the parent company, reduced by the amount of that profit distributed to shareholders. The table below sets out the movements in retained profits during the year:

	Year ended 31 December	
	2023 £m	2022 £m
At 1 January	193.8	198.3
Profit for the year attributable to the owners of the parent company	562.2	85.1
Remeasurement of defined benefit pension scheme (note 6.3)	(28.8)	(24.4)
Deferred tax on remeasurement of defined benefit pension scheme (note 2.6)	7.2	6.1
Tax on share-based payments (note 2.6)	4.5	7.4
Equity dividends paid (note 2.9)	(86.3)	(78.9)
Movements in equity associated with share-based payments	13.4	9.5
Acquisition of NCI without a change in control (note 4.5)	–	(9.3)
Gain on equity investments	0.4	–
At 31 December	666.4	193.8

Distributable reserves

The capacity of the Group to make dividend payments is primarily determined by the availability of retained distributable profits and cash resources.

The parent company's financial statements, set out on pages 275 to 281 of these Annual report and accounts, disclose the basis of the parent company's distributable reserves. Sufficient reserves are available across the Group as a whole to make future distributions in accordance with the Group's dividend policy for the foreseeable future.

The majority of the Group's distributable reserves are held in holding and operating subsidiaries. Management actively monitors the level of distributable reserves in each company in the Group, ensuring adequate reserves are available for upcoming dividend payments and that the parent company has access to these reserves.

The immediate cash resources of the Group of £379.5 million are set out in note 4.1 and the recent history of cash generation within note 4.3. The majority of these cash resources are held centrally within the Group by Drax Corporate Limited for treasury management purposes and are available for funding the working capital and other requirements of the Group.

The Group's financing facilities (see note 4.2) place customary conditions on the amount of dividend payments that can be made in any given year. The Group expects to be able to make dividend payments, in line with its policy, within these conditions for the foreseeable future. See note 4.2 for further details on the covenants relating to the financing facilities.

2.11 Share buyback programme

On 26 April 2023, the Group announced the commencement of a £150 million share buyback programme. The buyback programme commenced on 18 May 2023 and concluded on 15 September 2023. The shares were acquired at an average price of 567.5 pence per share, with prices ranging from 521.6 pence to 637.7 pence. In total the Group repurchased 26.5 million ordinary shares at a total net cost of £149.2 million. These shares are held in a separate treasury shares reserve awaiting reissue or cancellation and have no voting rights attached to them. See note 4.4 for a reconciliation of the movement in the treasury shares reserve.

Section 3: Operating assets and working capital

This section gives further information on the operating assets the Group uses to generate revenue and the short-term assets and liabilities, managed during day-to-day operations, that comprise the Group's working capital balances.

3.1 Property, plant and equipment

This note shows the cost, accumulated depreciation and net book value of the physical assets controlled by the Group.

Accounting policy

Property, plant and equipment is stated at net book value, which is its cost less any accumulated depreciation and accumulated impairment losses, if required, charged to date. Property, plant and equipment assets are initially measured at cost.

Cost comprises: the purchase price (after deducting trade discounts and rebates); any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and the estimate of the present value of the costs of dismantling and removing the item and restoring the site, where required. Depreciation reflects the usage of the asset over time and is calculated by taking the cost of the asset, net of any expected residual value, and charging it to the Consolidated income statement on a straight-line basis from the date that the asset is available for use and over its useful economic life (UEL). Where relevant, this is limited to the estimated decommissioning date of the site where the asset is located.

The Group constructs many of its assets as part of long-term development projects. Assets that are under the course of construction are not depreciated until they are ready for use in the manner intended by management.

The table below shows the weighted average remaining UELs of the main categories of assets held at the reporting date:

	Average UEL remaining 2023 (years)
Freehold buildings	22
Plant and equipment	
Electricity generation assets:	
Drax Power Station plant	15
Hydro plants (including pumped storage)	38
Pellet production plant	7
Other plant, machinery and equipment	13
Reinstatement asset	16
Plant spare parts	16

Freehold land held at cost is considered to have an unlimited UEL and is not depreciated. The value of freehold land held at 31 December 2023 is £35.6 million (2022: £37.5 million).

Section 3: Operating assets and working capital continued

3.1 Property, plant and equipment continued

An impairment charge is recognised immediately if the net book value of an asset exceeds its recoverable amount, which is the higher of an asset's value in use and its fair value less costs to sell. The Group's policy is to recognise an impairment charge through accumulated depreciation if the asset will continue to be used by the Group or if the asset will be subsequently sold. However, if the asset is land that is not depreciated, or if the asset is still under construction and so no depreciation has yet been charged, the impairment charge is recognised within cost. Assets that will no longer be used by the Group are disposed of by removing both the cost and any accumulated depreciation and impairment.

Electricity generation assets are grouped according to the fuel type of the relevant plant.

Pellet production plant includes the US and Canada based assets of the Group's Pellet Production business and the assets at the Daldowie fuel plant near Glasgow.

Plant spare parts are depreciated over the remaining UEL of the relevant power station or plant.

Plant spare parts can be used within maintenance projects which are operating in nature (in addition to capital maintenance projects). In this instance the net book value of the part is transferred from the property, plant and equipment balance and recognised as an expense in the Consolidated income statement within operating and administrative expenses. These issues are reflected in the issues to maintenance projects line in the table below.

Costs relating to major inspections, overhauls and upgrades to assets are included in the carrying amounts of existing assets or recognised as separate assets, as appropriate, if the recognition criteria are met; namely, when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

Estimated UELs and residual values are reviewed as a minimum at the end of each reporting period, taking into account regulatory changes, climate change (see note 3.8 for further details) and commercial and technological obsolescence, as well as normal wear and tear. Residual values are based on prices prevailing at the reporting date. Any changes to estimated UELs or residual values are applied prospectively.

At each reporting date the Group reviews its property, plant and equipment to determine whether there is any indication that these assets may be impaired. The Group's accounting policy in respect of impairment, along with details of the impairment review conducted during the year are set out in note 2.4.

During the year, the Group has capitalised £18.3 million (2022: £19.1 million) of costs relating to the UK BECCS project at Drax Power Station resulting in a total amount of £42.8 million capitalised in relation to this project as at 31 December 2023 (2022: £24.5 million). The capitalisation of development project costs has been classified as a critical accounting judgement due to the judgements required in determining whether costs incurred meet the criteria to be capitalised or not, and should expectations around development projects change then the amounts capitalised may need to be impaired.

The Group has also continued construction of the three OCGT projects that have obtained Capacity Market contracts. The amount capitalised to date relating to these projects totals £323.5 million (2022: £134.9 million). Of this, £188.6 million (2022: £90.2 million) was capitalised during the year.

The Group's total commitment for future capital expenditure is disclosed in note 7.7.

Significant estimation uncertainty

As disclosed on page 180, the Group has made an estimate regarding the UEL of Drax Power Station. Given the continued focus on climate change, renewable sources of energy and transitioning to a net zero economy, the power generation industry is going through a period of transformation, which can impact on the UELs of assets. As the UK Government's net zero strategy becomes clearer, particularly in relation to biomass and BECCS, the Group will continue to assess any potential impact of these developments on the UEL of Drax Power Station.

The rate of change in these areas increases the risk that the UEL of Drax Power Station will be updated in the future as new information becomes available. As such, a change in UELs in relation to Drax Power Station's assets has been disclosed as a key source of estimation uncertainty. If UK BECCS is deployed at Drax Power Station this could result in an extension of the end of station life beyond the current assumed end date of 2039. If the UELs of Drax Power Station assets that are currently limited to 2039 were to increase by a further 10 years, the annual depreciation charge would decrease by approximately £16.6 million. If the assumed end of station life of 2039 were to decrease by 10 years to 2029 the annual depreciation charge would be increased by approximately £72.9 million.

3.1 Property, plant and equipment continued

	Freehold land and buildings £m	Plant and equipment £m	Plant spare parts £m	Assets under the course of construction £m	Total £m
Cost:					
At 1 January 2022	453.8	3,160.5	72.3	304.3	3,990.9
Additions at cost	8.2	2.2	3.8	231.8	246.0
Acquired in business combinations	3.3	4.6	–	–	7.9
Impairment	(0.2)	–	–	(6.7)	(6.9)
Disposals	(1.3)	(23.7)	–	(0.9)	(25.9)
Movement in reinstatement asset	–	(22.4)	–	–	(22.4)
Issues to maintenance projects	–	–	(3.3)	–	(3.3)
Transfers from inventories	–	–	0.5	–	0.5
Transfers from/(to) intangibles	–	0.3	–	(0.3)	–
Transfers between PPE categories	22.3	202.6	7.7	(232.6)	–
Effect of changes in foreign exchange rates	17.2	52.6	–	13.3	83.1
At 1 January 2023	503.3	3,376.7	81.0	308.9	4,269.9
Additions at cost	–	0.4	8.1	500.7	509.2
Acquired in business combinations (see note 5.1)	–	0.1	–	–	0.1
Impairment	(1.0)	–	–	(1.7)	(2.7)
Disposals	(0.3)	(27.8)	–	–	(28.1)
Movement in reinstatement asset (see note 5.3)	–	22.7	–	–	22.7
Issues to maintenance projects	–	–	(6.5)	–	(6.5)
Transfers to intangibles	–	(0.1)	–	(0.5)	(0.6)
Transfers between PPE categories	0.4	168.0	0.5	(168.9)	–
Effect of changes in foreign exchange rates	(9.5)	(33.8)	–	(4.2)	(47.5)
At 31 December 2023	492.9	3,506.2	83.1	634.3	4,716.5
Accumulated depreciation:					
At 1 January 2022	118.2	1,534.1	27.9	–	1,680.2
Depreciation charge for the year	21.5	171.6	2.5	–	195.6
Impairment	0.5	7.5	–	–	8.0
Disposals	(1.7)	(19.7)	–	–	(21.4)
Issues to maintenance projects	–	–	(0.4)	–	(0.4)
Transfers between PPE categories	(0.3)	(3.2)	3.5	–	–
Effect of changes in foreign exchange rates	4.1	15.8	–	–	19.9
At 1 January 2023	142.3	1,706.1	33.5	–	1,881.9
Depreciation charge for the year	19.3	145.2	2.6	–	167.1
Impairment	7.9	0.1	–	–	8.0
Disposals	(0.1)	(25.1)	–	–	(25.2)
Issues to maintenance projects	–	–	(0.7)	–	(0.7)
Effect of changes in foreign exchange rates	(2.7)	(10.7)	–	–	(13.4)
At 31 December 2023	166.7	1,815.6	35.4	–	2,017.7
Net book value:					
At 31 December 2022	361.0	1,670.6	47.5	308.9	2,388.0
At 31 December 2023	326.2	1,690.6	47.7	634.3	2,698.8

Included within the cost of assets under the course of construction are capitalised interest of £13.3 million (2022: £5.2 million) relating to the construction of the three OCGT projects. See note 2.5 for further details of borrowing costs capitalised during the year.

See note 2.4 for further details of the Group's accounting policy and presentation of impairments of non-current assets.

Section 3: Operating assets and working capital continued

3.1 Property, plant and equipment continued

	Biomass plant £m	Hydro plant £m	Pellet production plants £m	Other £m	Total plant and equipment £m
Cost:					
At 1 January 2022	2,117.8	476.0	547.3	19.4	3,160.5
Additions at cost	1.0	–	0.9	0.3	2.2
Acquired in business combinations	–	–	4.6	–	4.6
Disposals	(0.1)	–	(21.1)	(2.5)	(23.7)
Movement in reinstatement asset	(22.4)	–	–	–	(22.4)
Transfers from intangibles	–	–	0.3	–	0.3
Transfers between PPE categories	45.0	3.4	154.2	–	202.6
Effect of changes in foreign exchange rates	–	–	52.6	–	52.6
At 1 January 2023	2,141.3	479.4	738.8	17.2	3,376.7
Additions at cost	–	–	–	0.4	0.4
Acquired in business combinations (see note 5.1)	–	–	–	0.1	0.1
Disposals	–	–	(27.6)	(0.2)	(27.8)
Movement in reinstatement asset (see note 5.3)	20.1	–	2.6	–	22.7
Transfers between PPE categories	117.1	–	50.9	–	168.0
Transfers to intangibles	–	–	(0.1)	–	(0.1)
Effect of changes in foreign exchange rates	–	–	(33.8)	–	(33.8)
At 31 December 2023	2,278.5	479.4	730.8	17.5	3,506.2
Accumulated depreciation:					
At 1 January 2022	1,356.5	41.2	122.6	13.8	1,534.1
Depreciation charge for the year	64.3	12.1	92.9	2.3	171.6
Impairment	–	–	7.5	–	7.5
Disposals	–	–	(17.3)	(2.4)	(19.7)
Transfers between PPE categories	(3.5)	–	0.3	–	(3.2)
Effect of changes in foreign exchange rates	–	–	15.8	–	15.8
At 1 January 2023	1,417.3	53.3	221.8	13.7	1,706.1
Depreciation charge for the year	66.2	12.9	64.2	1.9	145.2
Impairment	–	–	–	0.1	0.1
Disposals	–	–	(24.9)	(0.2)	(25.1)
Effect of changes in foreign exchange rates	–	–	(10.7)	–	(10.7)
At 31 December 2023	1,483.5	66.2	250.4	15.5	1,815.6
Net book value:					
At 31 December 2022	724.0	426.1	517.0	3.5	1,670.6
At 31 December 2023	795.0	413.2	480.4	2.0	1,690.6

The depreciation expense in the Consolidated income statement comprises the following:

	Year ended 31 December	
	2023 £m	2022 £m
Depreciation charged on property, plant and equipment	167.1	195.6
Depreciation charged on right-of-use assets (note 3.2)	26.9	20.3
Movement on depreciation included in closing inventories	1.6	(7.9)
Total depreciation expense	195.6	208.0

3.2 Leases

Accounting policy

IFRS 16 determines a control model to distinguish between lease agreements and service contracts on the basis of whether the use of an identified asset is controlled by the Group for a period of time. If the Group is deemed to have control of an identified asset, then a right-of-use asset and corresponding lease liability are recognised on the Consolidated balance sheet.

The lease liability is initially measured at the present value of the future lease payments discounted using the discount rate that is implicit in the lease. If this discount rate cannot be determined from the agreement, the liability is discounted using an incremental borrowing rate. Incremental borrowing rates are updated biannually. The borrowing rate for leased property is derived with reference to property yields specific to the location of the leased property and property type. For non-property leases, the borrowing rate is derived from a series of inputs including counterparty specific proxies for risk-free rates, such as UK Gilt curves, and an adjustment for credit risk based on the Group's credit rating. The liability is subsequently adjusted for interest, repayments and other modifications.

The right-of-use asset is initially measured at cost and is subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the initial calculation of the lease liability, estimated costs for dismantling or restoring the asset, any initial direct costs, and lease payments made or incentives received prior to commencement of the lease.

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 and lease liability are adjusted, and a gain or loss is recognised in proportion to the decrease in scope of the lease. All other modifications are accounted for as a reassessment of the lease liability with a corresponding adjustment to the right-of-use asset.

Lease extension or termination options are included within the lease term when the Group, as the lessee, has the discretion to exercise the option and where it is reasonably certain 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 Consolidated income statement on a straight-line basis over the term of the agreement.

Lease remeasurements, lease modifications, and disposals of leased assets are included within other movements in the table below.

Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Rail cars £m	Vessels £m	Total £m
Cost:					
At 1 January 2022	27.9	15.2	30.2	68.5	141.8
Additions at cost	5.1	4.7	2.2	19.8	31.8
Other movements	(3.1)	4.0	(0.8)	–	0.1
Effect of changes in foreign exchange rates	0.5	0.9	2.1	2.5	6.0
At 1 January 2023	30.4	24.8	33.7	90.8	179.7
Additions at cost	9.9	5.6	0.6	–	16.1
Acquired in business combinations (note 5.1)	–	0.1	–	–	0.1
Other movements	(1.1)	(3.2)	(4.6)	(0.4)	(9.3)
Effect of changes in foreign exchange rates	(0.5)	(0.5)	(1.3)	(2.9)	(5.2)
At 31 December 2023	38.7	26.8	28.4	87.5	181.4
Accumulated depreciation:					
At 1 January 2022	8.5	4.8	5.6	3.1	22.0
Depreciation charge for the year	3.9	6.0	4.6	5.8	20.3
Other movements	(1.1)	(0.4)	–	–	(1.5)
Effect of changes in foreign exchange rates	0.2	0.2	0.4	(0.2)	0.6
At 1 January 2023	11.5	10.6	10.6	8.7	41.4
Depreciation charge for the year	6.7	6.6	5.0	8.6	26.9
Other movements	(0.3)	(3.3)	(4.3)	0.3	(7.6)
Effect of changes in foreign exchange rates	(0.2)	(0.3)	(0.5)	(0.5)	(1.5)
At 31 December 2023	17.7	13.6	10.8	17.1	59.2
Net book value:					
At 31 December 2022	18.9	14.2	23.1	82.1	138.3
At 31 December 2023	21.0	13.2	17.6	70.4	122.2

Section 3: Operating assets and working capital continued

3.2 Leases continued

Lease liabilities

	Year ended 31 December	
	2023 £m	2022 £m
Carrying amount:		
At 1 January	153.1	125.9
Additions	16.1	30.2
Acquired in business combinations (note 5.1)	0.1	–
Interest charge for the year	7.2	6.8
Payments	(33.0)	(24.8)
Other movements	(1.0)	3.4
Effect of changes in foreign exchange rates	(6.7)	11.6
At 31 December	135.8	153.1

The existence of termination, extension and purchase options has not had a material impact on the determination of the lease liabilities.

In addition to the payments disclosed above, the Group made payments of £0.3 million during the year (2022: £0.1 million) in relation to short-term and low value leases.

The maturity of the gross undiscounted lease liabilities at 31 December is as follows:

	As at 31 December	
	2023 £m	2022 £m
Within one year	33.4	30.3
Within one to two years	28.6	26.7
Within two to five years	52.5	64.3
After five years	57.0	72.0
Total gross lease liabilities	171.5	193.3
Effect of discounting	(35.7)	(40.2)
Lease liabilities recognised in the Consolidated balance sheet	135.8	153.1
Current	25.1	22.7
Non-current	110.7	130.4

The Group recognised the following charges relating to leases in the Consolidated income statement:

	Year ended 31 December	
	2023 £m	2022 £m
Expense relating to short-term leases	0.3	0.1
Interest charge for the year	7.2	6.8
Depreciation charge for the year	26.9	20.3

3.3 Renewable certificate assets

The Group earns renewable certificate assets, including Renewables Obligation Certificates (ROCs) and Renewable Energy Guarantees of Origin (REGOs), which are accredited by the Office for Gas and Electricity Markets (Ofgem), as a result of generating electricity using biomass at Drax Power Station and generating renewable energy at the Group's hydro plants. The Group's ROCs and REGOs are sold bilaterally to counterparties, including external suppliers, and also internally for utilisation by the Customers business.

This note sets out the value of renewable certificate assets that the Group held at the reporting date.

Accounting policy

Renewable certificates, principally ROCs and REGOs, are first recognised as current assets in the period they are generated. The Group uses their fair value at initial recognition, based on anticipated sales prices, as deemed cost.

The value of renewable certificates earned is a by-product of renewable generation and is deducted from the cost of generation. This is recognised in the Consolidated income statement as a reduction to cost of sales.

Where the Customers business incurs an obligation to deliver renewable certificates, that obligation is provided for in the period incurred within cost of sales.

ROC and REGO valuations are comprised of the expected value to be obtained in a sales transaction with a third-party supplier at the point of generation. If the Group has already agreed sales contracts covering the renewable certificates generated in a period, then they are recognised at the contracted price. Any renewable certificates generated above this, or to be utilised by the Customers business, are recognised at an estimate of the expected market value, which is generally based on the amount to be obtained in a sales transaction with a third-party supplier. This estimate is made using various sources of information including recently achieved sales prices, ongoing sales negotiations and published forecasted prices from external third parties.

ROC valuations are comprised of two parts: the expected value to be obtained in a sales transaction with a third-party supplier relating to the buy-out price; and an estimate of the future benefit that may be obtained from the ROC recycle fund at the end of the Compliance Period (CP), which runs from April to March each year. The recycle fund provides a benefit where supplier buy-out charges (incurred by suppliers who do not procure sufficient ROCs to satisfy their obligations) are redistributed to the suppliers who presented ROCs in a CP on a pro-rata basis. The estimate of the recycle value is based on assumptions about likely levels of renewable generation and also the demand for ROCs over the CP, and is thus subject to some uncertainty. The Group utilises external sources of information in addition to its own forecasts in making these estimates. Historical experience indicates that the assumptions used in the valuations are reasonable, but the recycle value remains subject to possible variation and may subsequently differ from assumptions at 31 December.

At each reporting date, the Group reviews the carrying value of renewable certificate assets held against updated anticipated sales prices or anticipated obligation requirements, and the estimated recycle value. Where relevant, this takes account of agreed forward sales contracts, the likely utilisation of renewable certificates generated to settle the Group's own obligations, and any relevant information about the levels of wider renewable generation in the market. Any impairment loss on these assets is recognised in the Consolidated income statement in the period incurred within cost of sales.

	Year ended 31 December	
	2023 £m	2022 £m
Carrying amount:		
At 1 January	187.8	301.4
Earned from generation	749.7	652.5
Purchased from third parties	673.8	486.3
Utilised by the Customers business	(435.7)	(394.1)
Sold to third parties	(883.4)	(858.3)
At 31 December	292.2	187.8

Recognition of revenue from the sale of renewable certificates is described in further detail in note 2.2.

Section 3: Operating assets and working capital continued

3.4 Inventories

The Group holds inventories of fuels and other consumable items that are used in the process of generating electricity, and raw materials used in the production of biomass pellets and waste pellets. This note shows the cost of biomass, other fuels and consumables held at the reporting date.

Accounting policy

The Group's inventories are valued at the lower of cost and net realisable value. The costs of items of inventory are determined using weighted average costs.

The cost of purchased inventories includes all direct costs incurred in bringing the raw material or fuel to its present location and condition, including the purchase price, import duties and other taxes, and transport and handling costs. The Group uses forward foreign exchange contracts to hedge the costs of fuel denominated in foreign currencies. Where these contracts are designated into hedge relationships in accordance with IFRS 9, the inventory cost is recognised at the hedged value, to the extent these hedges are effective, and all such gains and losses are included in cost of sales when they arise.

Biomass inventories are weighed when entering, moving within or exiting the Group's sites using technology regularly calibrated to industry standards. Fuel burn in the electricity generation process is calculated using a combination of weights and thermal efficiency calculations to provide closing inventory volumes. Both calibrated weighers and efficiency calculations are subject to a range of tolerable error. All fuel inventories are subject to regular surveys to ensure these measurements are sufficiently accurate.

The characteristics of biomass require specialist handling and storage. Biomass at Drax Power Station is stored in sealed domes with a carefully controlled atmosphere for fire prevention purposes and thus cannot be surveyed using traditional methods. Instead, this inventory is surveyed using regularly calibrated radar scanning technology to validate the accuracy of the weights and efficiency methods outlined above.

The cost of manufactured inventories includes all direct costs as well as conversion costs including labour, direct overheads and an allocation of indirect overheads, including depreciation. The cost of inventories includes other costs incurred in bringing the inventories to their existing condition and location.

Costs that do not contribute to bringing inventories to their present condition and location, such as storage and administration overheads, are excluded from the cost of inventories and expensed as incurred. Abnormal amounts of wasted materials, labour or other production costs are also excluded from the cost of inventories.

The valuation of fibre inventory involves estimations of conversion rates to determine the volume of residual fibre stockpiles and log inventory. Third-party surveys are performed regularly to assess the volume of inventory and appropriate adjustments are made, if required, using conversion factors estimated by management. Internal inventory counts are performed periodically at all locations.

	As at 31 December	
	2023 £m	2022 £m
Biomass – finished goods	266.0	294.5
Biomass – fibre and other raw materials	20.0	16.5
Other fuels and consumables	42.4	37.1
Total inventories	328.4	348.1

Total inventories of £328.4 million (2022: £348.1 million) are stated net of a provision of £3.4 million (2022: £5.1 million).

The cost of inventories recognised as an expense in the Consolidated income statement in the year ended 31 December 2023 was £1,745.4 million (2022: £1,587.9 million). This includes the value of write downs of inventory in the year.

3.5 Trade and other receivables and contract assets

Trade receivables represents amounts owed by customers for goods or services provided that they have been invoiced for but have not yet been paid. Accrued income represents income earned in the period but not yet invoiced, largely in respect of power delivered to customers that will be invoiced the following month. Prepayments represent amounts paid in respect of goods or services not yet received. Other receivables include collateral posted in relation to the Groups commodity and treasury trading activities, and other amounts for goods or services provided that have been invoiced for but not yet paid that do not fall under trade receivables. Contingent consideration relates to amounts receivable dependent on certain triggers in respect of the option to develop the Damhead Creek 2 land disposed of as part of the sale of the CCGT generation portfolio in 2021.

Accounting policy

Trade and other receivables are initially measured at the transaction price and subsequently measured at amortised cost.

The Group has access to a receivables monetisation facility under which amounts receivable can be sold to a third-party on a non-recourse basis. Receivables sold under this facility are accounted for at fair value through other comprehensive income (FVOCI) in accordance with IFRS 9, due to the objective of the business model being achieved by both collecting contractual cash flows and the selling of the financial assets. These receivables are derecognised from the Consolidated balance sheet at the point of sale, which is shortly after the initial recognition of the receivable balance, as the significant risks and rewards of ownership are deemed to have been transferred. Due to the short period between recognising the receivables and them being derecognised, no fair value gains or losses have been recognised. Fees are recognised in the Consolidated income statement as incurred within interest payable and similar charges. At 31 December 2023, the receivables sold under this facility were £400.0 million (2022: £400.0 million). Refer to note 4.3 for further information about the facility.

3.5 Trade and other receivables and contract assets continued

The UK Government introduced the Energy Bills Discount Scheme (EBDS) running from 1 April 2023 to 31 March 2024. Under this scheme, energy supplied to eligible non-domestic customers in this period has a discount applied. The discount provided can then be claimed back from the UK Government by the supplier. The amount the Group is entitled to claim from the Government is either recognised in other receivables, if it has been claimed but has not yet been received, or accrued income if not yet claimed at the reporting date.

The EBDS replaced the Energy Bill Relief Scheme (EBRS) which supported non-domestic customers between 1 October 2022 and 31 March 2023 by capping their energy tariffs. Amounts recognised under the EBDS are significantly smaller than under the EBRS due to the reduced level of support provided, and lower market prices in the period since its introduction.

See note 2.2 for details of amounts relating to EBDS and EBRS within the Consolidated income statement.

Contingent consideration receivable is a financial asset. As the cash flows are not solely payments of principal and interest, it does not meet the criteria for recognition at either amortised cost or FVOCI, and is therefore recognised at fair value through profit and loss (FVTPL).

	As at 31 December	
	2023 £m	2022 £m
Amounts falling due within one year:		
Trade receivables	336.0	276.6
Accrued income	420.7	522.5
Prepayments	77.2	127.7
Other receivables	133.8	272.8
Contingent consideration	9.2	27.4
Total trade and other receivables and contract assets	976.9	1,227.0

At 31 December 2023, the Group had no amounts receivable from significant counterparties which represented 10% or more of total trade receivables and accrued income (2022: no significant counterparty).

Of total trade receivables and accrued income at 31 December 2023, £558.9 million (2022: £587.0 million) relates to the Customers business, £172.3 million (2022: £168.0 million) relates to the Generation business, and £25.5 million (2022: £44.1 million) relates to the Pellet Production business.

Accrued income includes contract assets which relate to amounts for goods or services provided under customer contracts, where the entitlement to consideration is contingent on something other than the passage of time. The Group has recognised a contract asset for any services provided where the Group does not yet have the unconditional right to receive payment and the condition is not solely the passage of time. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which all the performance obligations have been met and it is invoiced to the customer, usually in the following financial period. Contract assets at 31 December 2023 were £4.1 million (2022: £20.0 million).

Included in the prepayments balance is an amount of £1.9 million (2022: £2.4 million) relating to the prepayment of a service contract for services due to be received after more than one year. Prepayments also includes £21.1 million (2022: £29.8 million) relating to broker fees paid which have been capitalised as contract costs, of which £8.6 million (2022: £14.2 million) are due to be received after more than one year. See note 3.6 for further details.

The contingent consideration relates to the Group's disposal of the CCGT generation portfolio in January 2021. Should the acquirer satisfy certain triggers in respect of the option to develop the land at the Damhead Creek 2 site, which was disposed of as part of this sale, £29.0 million of contingent consideration would become payable to the Group from the acquirer. The estimated fair value of this contingent consideration is £9.2 million (2022: £27.4 million). This has reduced by £18.2 million during the year as a result of updated inputs to the fair value calculation. The charge is an exceptional item within the Consolidated income statement, as described in note 7.1. Contingent consideration is disclosed within current assets, however, the timing of receipt would be dependent on when a trigger was to occur, which may be in a period greater than 12 months from the end of the reporting period. See note 7.1 for further details on the contingent consideration.

Impairment of financial assets

Accounting policy

The Group applies the impairment model in IFRS 9 to provide for expected credit losses on the Group's financial assets including trade receivables, accrued income, contract assets and other financial assets. The provision for impairment of trade receivables and accrued income (including contract assets) is measured at an amount equal to the lifetime expected credit loss. Contract assets relate to amounts for goods or services provided under customer contracts and, therefore, have substantially the same risk characteristics as trade receivables for the same types of contracts.

For other financial assets, the Group recognises a lifetime expected credit loss provision when there has been a significant increase in credit risk since initial recognition. If the credit risk of the financial instrument has not increased significantly since initial recognition, the Group recognises a 12-month expected credit loss provision.

Section 3: Operating assets and working capital continued

3.5 Trade and other receivables and contract assets continued

The greatest concentration of credit risk exists in the Customers business. For the larger consumers within the Customers business (and also customers within the Generation and Pellet Production businesses) a provision matrix method is adopted. For the smaller consumers within the Customers business, the risk is higher due to the wide range of customer characteristics within the portfolio. The loss provisioning for these customers is more complex and requires a provisioning tool that is more dynamic than the provision matrix method and so a combined probability method is applied. Both of these approaches are described in more detail below.

Under the Group's debt recovery strategy, a breach in terms could lead to the customer being disconnected or pursued legally for recovery of an outstanding balance. The Group considers a financial asset to be in default when the full amount due from a debtor is unlikely to be received in full, or when contractual payments are 90 days past due. The Group writes off a financial asset when there is no realistic prospect of recovery and all attempts to recover the balance have been exhausted. An indication that all credit control activities have been exhausted is where the debt on an account is exclusively greater than 365 days past due and active recovery attempts have failed, or where there are known insolvency issues relating to the customer.

Combined probability method

The Group uses a machine learning algorithm to calculate expected credit losses for its customer base of smaller sized consumers. The algorithm predicts the future performance of debt on an individual account basis using a broad range of indicators that are specific to the customer. The algorithm forms predictions, based on historical experience, of the debt on each account reaching greater than 365 days past due. A timeframe of 24 months is the normal period of historical data to which the algorithm is trained. The customer's behaviours and performance in this period inform the current provisioning for the existing debt portfolio.

As required by IFRS 9, the calculation of expected credit losses incorporates both historical and forward-looking information. Management considers the 24-month period on which the algorithm is trained and determines whether any change in the provision is required as a result of specific factors or forward-looking macro-economic conditions. At 31 December 2023, these factors included, but were not limited to, expectations around future inflation and changes in interest rates and customer pricing. This has not resulted in any additional provision being recognised.

Provision matrix method

Larger consumers within the Customers business and customers within the Generation and Pellet Production businesses are grouped according to the age of the debt based on the number of days past due. The provision rates are based on historical collection rates and an expectation of future cash collection.

The movement in the overall allowance for expected credit losses on trade receivables is presented in the following table:

	2023			2022		
	Combined probability method £m	Provision matrix method £m	Total £m	Combined probability method £m	Provision matrix method £m	Total £m
At 1 January	54.9	6.0	60.9	44.4	2.2	46.6
Amounts written off	(44.2)	(5.0)	(49.2)	(39.7)	(2.6)	(42.3)
Net additional amounts provided against	39.9	7.8	47.7	50.2	6.4	56.6
At 31 December	50.6	8.8	59.4	54.9	6.0	60.9
Gross trade receivables	155.8	239.6	395.4	189.1	148.4	337.5
Expected credit loss provision	(50.6)	(8.8)	(59.4)	(54.9)	(6.0)	(60.9)
Trade receivables	105.2	230.8	336.0	134.2	142.4	276.6
Average expected credit loss %	32%	4%	15%	29%	4%	18%

The provision in the table above relates only to trade receivables in the Customers business. If the calculated provision rates were 10% higher than the provision rates calculated at the reporting date, the impact to the provision would be an increase of £6.0 million. The provision matrix method has resulted in a £nil provision applied to both the Generation and Pellet Production businesses in both the current and prior years.

The risk of default within the Generation and Pellet Production businesses is considered to be remote, supported by strong historical collection rates, high credit quality counterparties and short payment terms with timely receipts resulting in negligible aged debt.

The economic environment and pressure on energy markets in 2022 resulted in significant increases to commodity prices, which in turn resulted in higher bills raised to some of the Group's energy supply customers, particularly those on deemed supply. Deemed supply is where electricity or gas is supplied to a site or customer that is yet to enter into a contract and, as a result, they are charged on a standard variable tariff based on merchant power and gas prices. The higher prices resulted in an increase in the total gross value of trade receivables and thus increased the value of the expected credit loss provision, particularly for smaller customers.

Standard variable prices have fallen during 2023, and debt relating to the live customer base has significantly reduced as a result of this.

From October 2022 to March 2023, in response to the significant increase in energy prices, the UK Government provided support for non-domestic customers through the EBRs. From 1 April 2023 the UK Government changed to providing support for non-domestic customers under the EBDS. These schemes have provided financial support to customers during this period as described in more detail in note 2.2. The Group received no incremental revenue over that to which it was contractually entitled, due to these schemes.

3.5 Trade and other receivables and contract assets continued

The net charge to the Consolidated income statement in 2023 for impairment losses on financial assets was £32.5 million (2022: £48.0 million). This is the net of the additional amounts provided against in relation to trade receivables of £47.3 million (2022: £56.6 million) less a £14.8 million (2022: £8.6 million) benefit in the period in respect of the resolution of legacy credit balances.

The value of provisions calculated using the combined probability model is set out below. This shows the trade receivables balances for smaller consumers within the Customers business grouped by the combined probability assigned by the model.

The following table shows the comparative risk profile of amounts due based on the combined probability model at 31 December:

Probability of default range %	2023		2022	
	Estimated gross carrying amount at default £m	Lifetime expected credit losses £m	Estimated gross carrying amount at default £m	Lifetime expected credit losses £m
80–100	42.1	36.7	50.0	40.4
50–79	14.3	8.0	16.8	8.9
26–49	17.9	5.8	18.2	5.5
0–25	81.5	0.1	104.1	0.1
Total	155.8	50.6	189.1	54.9

The value of provisions calculated using the Group's provision matrix method is set out below. This shows the ageing profile in 30-day increments of the trade receivables within the Pellet Production and Generation businesses, the trade receivables of the Group's larger consumers within the Customers business, and accrued income (including contract assets) of the Group at each reporting date.

	As at 31 December 2023			As at 31 December 2022		
	Lifetime expected credit losses £m	Estimated total gross carrying amount at default £m	Expected credit loss rate %	Lifetime expected credit losses £m	Estimated total gross carrying amount at default £m	Expected credit loss rate %
Accrued income balances not yet due	9.4	382.5	2%	7.6	530.1	1%
Trade receivables days past due:						
Balances not yet due	2.1	183.6	1%	1.8	115.0	2%
Between 0–30 days	0.9	32.6	3%	0.8	22.1	4%
Between 31–60 days	0.7	7.1	9%	0.7	3.3	21%
Between 61–90 days	0.5	2.7	19%	0.6	1.5	42%
Over 90 days	4.6	13.6	34%	2.1	6.5	33%
Trade receivables total	8.8	239.6	4%	6.0	148.4	4%
Total	18.2	622.1	3%	13.6	678.5	2%

The expected credit loss provision of £18.2 million (2022: £13.6 million) in the table above wholly relates to the Customers business. The expected credit loss rates above are expressed as a percentage of the gross carrying amount of all of the Group's trade receivables and accrued income balances that are subject to the provision matrix method.

The expected credit loss provision calculated for other financial assets of the Group was negligible.

Credit and counterparty risk are disclosed in further detail in note 7.2.

3.6 Contract costs

The Group incurs costs of obtaining contracts in the Customers business.

Accounting policy

Management expects that incremental broker fees paid to intermediaries as a result of obtaining electricity and gas contracts are recoverable. The Group has therefore capitalised them as contract costs at the point the fee is paid. The fees are amortised over the contract period in line with the recognition of revenue and are charged to cost of sales. The balance is included within prepayments in note 3.5. This amount includes both current and non-current balances. The reconciliation from opening to closing contract costs is as follows:

	Year ended 31 December	
	2023 £m	2022 £m
At 1 January	29.8	23.7
Additions	17.6	30.7
Amortisation	(26.3)	(24.6)
At 31 December	21.1	29.8

Section 3: Operating assets and working capital continued

3.7 Trade and other payables and contract liabilities

Trade and other payables represents amounts the Group owes to its suppliers for trade purchases and ongoing costs, taxes and social security amounts due in relation to the Group's role as an employer, and other creditors that are due to be paid in the ordinary course of business. The Group makes accruals for amounts that will fall due for payment in the future as a result of the Group's activities in the current period (e.g. fuel received but for which the Group has not yet been invoiced). Contract liabilities represents the Group's obligation to transfer goods and services to its customers whereby the Group has already received the consideration in advance or where the amount is due from the customer at the reporting date.

Accounting policy

Trade and other payables are financial liabilities that are initially measured at fair value. Trade and other payables are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expire. If the terms of a financial liability are significantly modified, the existing financial liability is derecognised and a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying value of the financial liability based on the terms pre-modification and post-modification is recognised in the Consolidated income statement.

	As at 31 December	
	2023 £m	2022 £m
Trade payables	145.2	152.9
Fuel accruals	71.4	107.7
Energy supply accruals	587.4	511.4
Other accruals	306.6	370.9
Other payables	389.6	351.0
Contract liabilities	39.4	34.0
Total trade and other payables and contract liabilities	1,539.6	1,527.9

Trade payables are unsecured and are usually paid within 60 days of recognition. The carrying amounts of trade and other payables approximates their fair values, due to their short-term nature.

The Group facilitates a supply chain finance scheme, a form of reverse factoring, under which certain suppliers can obtain early access to payments from a bank and the Group pays the bank based on the original payment terms. The Group has assessed the supply chain finance arrangement, considering the nature and specific terms of the arrangement and has determined that it is appropriate for the amount to continue to be recognised within trade payables. This conclusion is based on the fact that there are no changes to the Group's payment terms under this arrangement, nor would there be if the arrangement was to cease. Trade payables includes £48.6 million (2022: £53.9 million) relating to supply chain finance. Cash flows relating to supply chain finance are included within Net cash from operating activities. See note 4.3 for further details.

The Group also has access to payment facilities, utilised to leverage scale and efficiencies in transaction processing. Under these facilities the Group benefits from an extension to payment terms of less than 12 months for a small fee. The original liability is derecognised from trade payables and the amount due to the facility provider is recognised in other payables. Fees are either recognised in the Consolidated income statement, or capitalised if they are directly attributable to the construction of a qualifying asset, in the period incurred. Other payables includes £225.1 million (2022: £214.5 million) due under other payment facilities of which £224.7 million (2022: £181.2 million) related to deferred letters of credit and £0.4 million (2022: £33.3 million) related to credit cards. Of the total deferred letters of credit, £155.1 million (2022: £133.8 million) were utilised for capital expenditure and £69.6 million (2022: £47.4 million) were utilised for trade payables. See note 4.3 for further details.

The Group does not include trade and other payables and contract liabilities in its definition of borrowings or Net debt where they are linked to a specific payable and give an extension in payment terms of less than 12 months (see note 2.7).

Energy supply accruals includes £444.4 million (2022: £315.0 million) in relation to the Group's obligation to deliver renewable certificates arising from activities in the Customers business. The increase is due to the higher value of renewable certificates compared to the prior year. The remaining balance principally comprises third-party grid charge accruals of £75.1 million (2022: £108.5 million) and Feed-in-Tariff accruals of £19.4 million (2022: £46.8 million).

3.7 Trade and other payables and contract liabilities continued

Contract liabilities primarily relate to the advance consideration received from customers for fixed price electricity and gas contracts, for which revenue is recognised based on the stage of completion of the contract. The balance reduces as revenue is subsequently recognised in the following periods, offset by further advanced consideration received. The reconciliation of opening to closing contract liabilities is as follows:

	Year ended 31 December	
	2023 £m	2022 £m
At 1 January	34.0	14.6
Revenue recognised in the year that was included in the contract liability at the start of the period	(28.5)	(6.6)
Additions as a result of cash received from customers in the period not yet recognised in revenue	33.9	26.0
At 31 December	39.4	34.0

3.8 Climate change

Climate change, and tackling it, is closely linked to the Group's purpose, as set out in the Strategic report on pages 1 to 107. The Sustainable development report, starting on page 42, sets out how the Group's ambition is to be climate positive and the TCFD disclosures, starting on page 78, set out the Group's approach to managing climate risks and opportunities, including scenario analysis. The Group aims to be a leader in the UK's transition to net zero and its strategy is aligned to this purpose. Climate change is factored into short, medium and long-term forecasts and estimates used by the Group. In the Viability statement on page 92 and TCFD report on page 78, quantitative risk analysis on the Group's operational Generation and Pellet Production assets indicates that asset exposure to impacts arising from physical climate-related risks currently remains low.

Climate change and the transition to net zero have been considered in the preparation of these Consolidated financial statements. The impact of future climate change regulation could have a material impact on the currently reported amounts of the Group's assets and liabilities. In preparing these financial statements, the following climate change related risks have been considered:

Area	Description	Page reference
Critical judgements and key sources of estimation uncertainty	Impairment of assets, UELs of property, plant and equipment and capitalisation of development project costs are all sensitive to climate change. For capitalisation of development costs these costs may not be recoverable if there is a change in the Government's approach to combatting climate change which means that the development of BECCS does not progress. However, the Group considers that the only way to hit current UK Government targets for greenhouse gas removals is through having at least one BECCS unit at Drax Power Station by 2030. Impairment of assets and UELs of property, plant and equipment are detailed separately below.	179
Impairment of assets	The Group's expectations around the impacts of climate change, and in particular the requirements of the UK Government's commitment to reach net zero by 2050, are integral to the forecasts used in the Group's impairment analysis. For example, the forward power price curves used take into account expectations regarding the impact of climate change and the changing mix of generating assets on the UK power system. This could lead to lower average power prices as the proportion of intermittent renewables increases, but this would be tempered by increased structural volatility, meaning a need for biomass and other dispatchable generation. Government and societal responses to climate change are still developing, and therefore financial statements cannot capture all potential future scenarios. This presents uncertainty around future cashflows from an IAS 36 perspective. Sensitivities modelled, including those around biomass acceptability and changes in regulation, seek to capture and assess some of these potential scenarios. Sensitivities modelled in the impairment testing also included operational outages at both the generation and pellet production facilities, which could be caused by extreme weather conditions as a result of climate change or other factors. In 2023, the Opus business within the Customers segment announced it was exiting the gas supply market, to support the Group's ambition to decarbonise, in line with the Scorecard target described in the TCFD report on page 78. This has been reflected in the forecasts prepared for this CGU and was a contributing factor towards the impairment of the assets relating to the Opus Energy CGU during 2023, as described in note 2.4.	195

Section 3: Operating assets and working capital continued

3.8 Climate change continued

Area	Description	Page reference
Impairment of assets (continued)	The impact of climate change on the OCGT assets has also been considered. Whilst there is a risk of legislative change relating to unabated gas, the assets' carrying values are underpinned by long-term, Government-backed contracts. When they are operational these assets will be amongst the newest on the system and management believes that there will continue to be a place in the generation mix in the UK for dispatchable thermal generation over the medium term, to support energy security and manage volatility from intermittent renewables. The Group continues to consider options for these assets. Climate change could have an impact on weather patterns and the supply of renewable energy generation, affecting energy prices. Sensitivities for these scenarios were run on the hydro assets and did not lead to indicators of impairment. The incorporation of a shadow carbon price into investment decisions in the Generation business, as described on page 51, modifies the returns from a project based on the cost of carbon, which provides an additional sensitivity before investments are made.	
Going concern and viability	As above, forecast power prices and potential operational outages are also incorporated into the going concern and viability assessments.	177 for going concern and 92 for viability
Fixed asset UELs	The potential impact of climate change is one of the factors assessed in determining how long the Group anticipates both new and existing assets to operate for. For example, the OCGT assets under development will be given a UEL in line with the Group's expectations around the UK's transition to a net zero position by 2050. As outlined in the key sources of estimation uncertainty section, UELs at Drax Power Station may be lengthened or shortened as a result of future decisions, that may be directly or indirectly linked to climate change. Were UELs to be shortened by 10 years, and in particular if a decision not to develop UK BECCS at the site were taken, the impact on the annual depreciation charge would be an increase of approximately £72.9 million.	213
Decommissioning provisions	As described in note 5.3, the decommissioning provision in relation to Drax Power Station was reassessed during 2023 with support of a third-party expert. The analysis specifically considered potential impacts of climate change, both physical and transitional, extending over the medium term, and concluded that direct effects were unlikely to have a significant impact over this time horizon. If Drax Power Station closed sooner than indicated by its current UEL, for reasons explained above, then the decommissioning provision would increase as the cash outflows would occur earlier, however, this would not have a material impact on the provision.	239
Contingent consideration	Future regulatory changes in relation to the type of assets which can be built in the UK, in response to climate change, could lead to the project at Damhead Creek 2 not progressing as currently assumed. This could lead to an adverse impact on the fair value of the contingent consideration which the Group has recognised.	253

Section 4: Financing and capital structure

This section provides further information about the Group's capital structure (equity and debt financing) and cash generated from operations during the year.

4.1 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, short-term bank deposits with a maturity of three months or less, and money market funds. The carrying amount of these assets is approximately equal to their fair value. It is the Group's policy to deposit available cash in low-risk bank accounts or short-term deposit accounts.

	As at 31 December	
	2023 £m	2022 £m
Cash at bank	77.5	102.1
Short-term deposits	130.9	19.5
Money market funds	171.1	116.4
Total cash and cash equivalents	379.5	238.0

4.2 Borrowings

Accounting policy

The Group measures all debt instruments initially at fair value, which equates to the principal value of the consideration received. Subsequent to initial measurement, debt instruments are measured at amortised cost using the effective interest method. Transaction costs (any such costs incremental and directly attributable to the issue of the financial instrument) are included in the calculation of the effective interest rate and are amortised over the expected life of the instrument.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Loan commitment fees may be payable to the lender to entitle the Group to draw down at any time over a fixed period. Where there is a fixed repayment date, regardless of when the loan is drawn down, the commitment fees are recognised on a systematic basis over the period the Group is able to draw down. Where the loan has the same fixed term, regardless of when the loan is drawn down, if drawdown is probable, then the commitment fees are deferred until drawn down and are recognised over the life of the instrument as part of the effective interest rate. If drawdown is not probable, then loan commitment fees are recognised on a systematic basis over the period the Group is able to draw down.

Fees that are paid for the availability of a facility where the amount and timing of drawdown can vary at the Group's discretion, such as a revolving credit facility (RCF), are recognised on a systematic basis over the life of the facility.

Debt instruments denominated in foreign currencies are revalued using period end exchange rates, with any exchange gains and losses being recognised as a component of foreign exchange gains or losses in the period they arise. The Group hedges foreign currency risk and interest rate risk in accordance with the policies set out in note 7.2. Where hedging instruments are used to fix cash flows associated with debt instruments, the debt instrument and the hedging instrument are measured and presented separately on the Consolidated balance sheet. Where hedge accounting is applied to foreign exchange risk and interest rate risk on debt instruments, gains and losses are recycled to the Consolidated statement of comprehensive income within either foreign exchange gains or losses or interest payable and similar charges, to match the exposure they are hedging, where effective. The borrowings amounts disclosed in the tables below exclude any impact of hedging instruments.

Debt instruments are derecognised when the contractual obligations are discharged, cancelled or expired. If the terms of a debt instrument are significantly modified, the existing liability is derecognised and a new liability based on the modified terms is recognised at fair value. The difference between the carrying value of the debt instrument based on the terms pre-modification and post-modification is recognised in the Consolidated income statement.

Section 4: Financing and capital structure continued

4.2 Borrowings continued

The Group's net borrowings at each reporting date were as follows:

	As at 31 December	
	2023 £m	2022 £m
Non-current secured borrowings at amortised cost:		
2.625% loan notes €250m ⁽¹⁾	215.7	219.8
6.625% loan notes \$500m ⁽²⁾	391.5	412.8
UK infrastructure private placement facilities (2019) ⁽³⁾	251.4	372.5
UK infrastructure private placement facilities (2020) ⁽⁴⁾	184.7	207.9
CAD term facility ⁽⁵⁾	117.8	183.6
Current secured borrowings at amortised cost:		
UK infrastructure private placement facilities (2019) ⁽³⁾	122.5	–
UK infrastructure private placement facilities (2020) ⁽⁴⁾	21.7	–
Current unsecured borrowings at amortised cost:		
Uncommitted short-term loan facility €50m ⁽⁶⁾	–	44.3
Margin facility ⁽⁷⁾	120.0	–
Total borrowings	1,425.3	1,440.9
Current	264.2	44.3
Non-current	1,161.1	1,396.6

- (1) These loan notes mature in 2025. Cross-currency interest rate swaps have been used to fix the sterling value of interest payments. This instrument also fixed the sterling repayment of the principal. This equates to an effective sterling interest rate of 4.6%.
- (2) These loan notes mature in 2025. Cross-currency interest rate swaps have been used to fix the sterling value of interest payments. This instrument also fixed the sterling repayment of the principal. This equates to an effective sterling interest rate of 6.1%.
- (3) These comprise committed facilities totalling £375.0 million with a range of maturities extending out to between 2024 and 2029. Interest rate swaps have been used to fix floating rates. This equates to an effective sterling interest rate of 3.3%.
- (4) These comprise committed facilities totalling £98.0 million and €126.5 million with a range of maturities extending out to between 2024 and 2030. Interest rate swaps have been used to fix sterling floating rates on sterling facilities. Cross-currency interest rate swaps have been used to fix the sterling value of interest payments on euro facilities. This instrument also fixed the sterling repayment of the principal. This equates to an effective sterling interest rate of 2.6%.
- (5) This facility matures in 2026 and has a customary margin rate over the Canadian Dollar Offered Rate (CDOR). The Group has used a foreign currency forward contract to hedge the 2026 principal repayment on the loan at a fixed amount in sterling. The average fixed interest rate on this facility is 7.1%.
- (6) This is an uncommitted short-term facility with a maturity term of one month. The average fixed interest rate for this facility while it was drawn during 2022 was 2.4%.
- (7) This is a short-term margin facility with a current repayment date of July 2024. The interest rate on the current outstanding amount of £120.0 million is fixed to maturity at 7.1%.

In the prior year, the Group secured a new £200.0 million committed liquidity facility with banks within its lending group. This facility provided an additional source of liquidity to the Group's existing undrawn RCFs. The Group did not draw on this facility in 2023 and it matured on 31 December 2023. The Group also has a €50.0 million uncommitted facility to support optimisation of generation and associated cash collateral postings. This facility was undrawn as at 31 December 2023 (2022: fully drawn).

In September 2023, the Group secured a new uncommitted £200.0 million short-term facility with the main purpose of supporting cash collateral margin requirements of the Group's exchange-based commodity trading. It is expected that utilisation of this facility will change based on cash collateral margin requirements. As at 31 December 2023, £120.0 million is outstanding under the facility with a maturity date in July 2024.

In November 2023, the Group agreed with lenders of the CAD term facility to exercise the extension option within the facility to extend the final maturity date from January 2024 to January 2026. As part of this extension, the Group chose to repay C\$100.0 million (£60.1 million) of the outstanding loan, reducing the outstanding principal value to C\$200.0 million (£118.5 million) as at 31 December 2023.

The CAD term facility had floating interest rates linked to the Canadian dollar offered rate (CDOR). As part of the extension, the Group agreed with lenders to transition the floating rate to the Canadian Overnight Repo Rate Average (CORRA) plus a credit adjustment spread (CAS). The CAS per the amended agreement is consistent with the International Swaps and Derivatives Association (ISDA) spread adjustments as calculated and published by Bloomberg. The base margin rate of the loan remained unchanged. This amendment will become active in the first interest period starting in January 2024.

The Group has a committed £300.0 million RCF and C\$10.0 million RCF. No cash was drawn on either facility as at 31 December 2023 or 31 December 2022. The Group has never drawn cash on the £300.0 million RCF since its inception in 2020. In January 2024, the Group agreed with lenders of the £300.0 million RCF to exercise the extension option within the facility to extend the final maturity date from January 2025 to January 2026. Subsequent to the reporting date, in January 2024, the C\$10.0 million RCF has matured. See note 2.7 for further details on the Group's cash and committed facilities.

Subsequent to the reporting date and prior to the signing date of the Consolidated financial statements, £122.5 million of the 2019 UK infrastructure private placement facility has been repaid, as well as €25.0 million (£21.7 million) of the 2020 UK infrastructure private placement facility. Both of these amounts are included within current borrowings in the table above.

On 22 February 2024, the Group signed a new secured committed term loan facility with five banks for £208.5 million (sterling equivalent). This comprised of three euro denominated tranches totalling €135.0 million due to mature in 2027 and a further two tranches of €50.0 million and £50.0 million due to mature in 2029. The three tranches totalling €135.0 million due to mature in 2027 contain options to extend for up to a further two years, subject to lender approval.

4.2 Borrowings continued

The term loan facility includes an option to establish an incremental facility for up to £50.0 million under the same terms and conditions as the other tranches of the Term Loan. Interest on the term loans is set at a margin over EURIBOR or SONIA. On 27 February 2024, the Group established an additional £50.0 million facility under this option with a tenor maturity date in 2027 with options to extend for a further two years, subject to lender approval, and with interest set at a margin over SONIA. The Group expects to draw the term loan facilities within three months from the signing date.

The Group's secured borrowings are secured against the assets of a number of the Group's subsidiaries, with the exception of property owned by the North American subsidiaries.

The weighted average interest rate payable, at the reporting date, on the Group's borrowings was 4.79% (2022: 4.14%).

Reconciliation of borrowings

The table below shows the movement in borrowings during the current and prior year:

	Year ended 31 December 2023		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	1,449.8	(8.9)	1,440.9
Cash movements:			
Repayment of uncommitted short-term loan facility	(43.4)	–	(43.4)
Extension of existing facilities	–	(0.2)	(0.2)
Drawdown of margin facility loan	140.0	–	140.0
Repayment of CAD term facility	(60.1)	–	(60.1)
Repayment of margin facility loan	(20.0)	–	(20.0)
Borrowings acquired in business combinations (note 5.1)	1.8	–	1.8
Repayment of borrowings acquired in business combinations	(1.8)	–	(1.8)
Non-cash movements:			
Amortisation of deferred finance costs (note 2.5)	–	4.3	4.3
Amortisation of USD loan note premium	(0.4)	–	(0.4)
Extension of existing facilities	–	(0.4)	(0.4)
Effect of changes in foreign exchange rates	(35.4)	–	(35.4)
Borrowings at 31 December	1,430.5	(5.2)	1,425.3

	Year ended 31 December 2022		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	1,376.2	(15.2)	1,361.0
Cash movements:			
Repayment of index-linked loan	(41.4)	–	(41.4)
Drawdown of facilities	188.5	–	188.5
Repayment of facilities	(145.0)	–	(145.0)
Non-cash movements:			
Indexation of index-linked loan	0.8	–	0.8
Amortisation of deferred finance costs (note 2.5)	–	6.1	6.1
Amortisation of USD loan note premium	(0.4)	–	(0.4)
Effect of changes in foreign exchange rates	71.1	0.2	71.3
Borrowings at 31 December	1,449.8	(8.9)	1,440.9

As disclosed above, the Group has a number of cross-currency interest rate swaps that fix the sterling value of the principal repayment of certain foreign currency denominated borrowings. Accordingly, the foreign exchange gains (2022: losses) on borrowings disclosed in the above tables have been offset by £29.5 million of foreign exchange losses (2022: £62.0 million of gains) on cross-currency interest rate swaps that have been recycled to profit and loss as part of the hedging relationship. See note 2.7 for further details of the impact of the Group's cash flow hedging relationships on Net debt.

Compliance with loan covenants

The Group has customary financial covenants, principally in relation to consolidated Adjusted EBITDA and the consolidated net leverage ratio. The consolidated net leverage ratio broadly equates to a Net debt to Adjusted EBITDA calculation (see note 2.7), and is calculated in line with the Group's financial covenant requirements in the loan facility agreements⁽¹⁾. The Group also has conditions placed on its dividend payments as a result of the financing facilities. The Group is required to test its financial covenants every six months at financial full-year and half-year reporting periods, and has complied with all financial covenants during the current and prior year. The Group has significant headroom and expects to continue to comply with these financial covenants for the foreseeable future, including the five-year viability period. See the Viability statement on page 92 for further details on the scenarios considered.

(1) The net debt calculation for financial covenants is based on Net debt including cash and borrowings attributable to non-controlling interests, but excludes the impact of hedging.

Section 4: Financing and capital structure continued

4.2 Borrowings continued

Letters of credit and surety bonds

As at 31 December 2023, the Group had issued letters of credit totalling £180.3 million (2022: £85.9 million) of which £14.5 million (2022: £54.5 million) were utilised to cover commodity trading collateral requirements and £120.0 million (2022: £nil) were utilised to cover the Margin Facility described above. As at 31 December 2023, the Group had surety bonds with a number of insurers totalling £119.0 million (2022: £202.0 million) of which £70.0 million (2022: £165.0 million) were utilised to cover commodity trading collateral requirements.

4.3 Notes to the Consolidated cash flow statement

Accounting policy

In accordance with IAS 7 the Group has elected to classify cash flows from interest paid and interest received as cash flows from operations, dividends paid as cash flows from financing activities, and dividends received as cash flows from investing activities. The interest repayment on lease liabilities is included within interest paid, and the lease principal repayment is presented within cash flows from financing activities.

Cash generated from operations

Cash generated from operations is the starting point of the Group's Consolidated cash flow statement on page 187. The table below makes adjustments for any non-cash accounting items to reconcile the Group's net profit for the year to the amount of cash generated from the Group's operations.

	Year ended 31 December	
	2023 £m	2022 £m
Profit for the year	560.9	82.5
Adjustments for:		
Interest payable and similar charges	115.2	83.1
Interest receivable	(13.1)	(4.3)
Tax charge/(credit)	235.5	(4.4)
Research and development tax credits	(2.0)	(5.5)
Share of losses/(profits) from associates	1.6	(0.5)
Depreciation of property, plant and equipment	168.7	187.7
Amortisation of intangible assets	29.4	31.4
Depreciation of right-of-use assets	26.9	20.3
Impairment of non-current assets	70.8	41.5
Losses on disposal of fixed assets	2.6	5.5
Other losses	18.2	0.3
Certain remeasurements of derivative contracts ⁽¹⁾	(222.0)	288.7
Non-cash charge for share-based payments	13.9	9.6
Effect of changes in foreign exchange rates	6.2	(2.2)
Operating cash flows before movement in working capital	1,012.8	733.7
Changes in working capital:		
Decrease/(increase) in inventories	20.6	(133.4)
Decrease/(increase) in receivables	71.4	(379.0)
(Decrease)/increase in payables	(30.8)	431.8
Net movement in collateral	155.4	(406.8)
Decrease in provisions	(4.4)	(29.1)
(Increase)/decrease in renewable certificate assets	(104.4)	113.7
Total cash released from/(absorbed by) working capital	107.8	(402.8)
Net movement in defined benefit pension obligations	(9.6)	(10.6)
Cash generated from operations	1,111.0	320.3

(1) Certain remeasurements of derivative contracts includes the effect of non-cash unrealised gains and losses recognised in the Consolidated income statement and their subsequent cash realisation. It also includes the cash and non-cash impact of deferring and recycling gains and losses on derivative contracts designated into hedge relationships under IFRS 9, where the gain or loss is held in the hedge reserve and then released to the Consolidated income statement in the period the hedged transaction occurs. At 31 December 2023, the Group had accelerated £nil of cash flows through the use of rebasing (2022: £43.1 million).

The Group has generated cash from operations of £1,111.0 million during the year (2022: £320.3 million). This resulted from a cash inflow from operating activities before working capital of £1,012.8 million (2022: £733.7 million) and a net working capital cash inflow of £107.8 million (2022: cash outflow of £402.8 million). This was offset by a £9.6 million (2022: £10.6 million) cash outflow in respect of pension obligations. The most significant factors making up these cash movements are explained in further detail below.

The £222.0 million outflow due to the adjustment for certain remeasurements of derivative contracts in the current year (2022: £288.7 million inflow) mainly relates to a net cash outflow due to realised losses on maturing trades. The adjustment for realised losses was in part offset by unrealised losses recognised within the Consolidated income statement.

4.3 Notes to the Consolidated cash flow statement continued

Prices in power and commodity markets have reduced in 2023 compared to 2022, but remain elevated compared to historical norms. Cash collateral is sometimes paid or received in relation to the Group's commodity and treasury trading activities. When derivative positions are out of the money for the Group, collateral may be required to be paid to the counterparty. When derivative positions are in the money, collateral may be received from counterparties. These positions reverse when mark-to-market positions reduce, or contracts are settled, and the collateral is returned.

The Group actively manages its liquidity requirements. This includes managing collateral associated with the hedging of power and other commodities, as well as other contractual arrangements. Under certain arrangements the Group is able to use non-cash collateral, such as letters of credit and surety bonds, that may otherwise have required cash collateral.

The Group has had a net cash inflow of £155.4 million from collateral during the year, as trades have matured and mark-to-market positions have reduced (2022: £406.8 million outflow). As at 31 December 2023, the Group held £20.3 million in cash collateral receipts (2022: £nil) recognised in payables, and had posted £98.9 million (2022: £234.0 million) of cash collateral payments recognised in receivables. The Group had also utilised £14.5 million (2022: £54.5 million) of letters of credit and £70.0 million (2022: £165.0 million) of surety bonds to cover commodity trading collateral requirements. Letters of credit and surety bonds utilised at the reporting date have reduced the requirement for cash collateral payments, which has increased the amount by which receivables have decreased.

The Group has a strong focus on cash flow discipline and managing liquidity. The Group enhances its working capital position by managing payables, receivables, inventories and renewable certificate assets to make sure the working capital committed is closely aligned with operational requirements. The impact of these actions on the cash flows of the Group is included within the further detail explained below.

The table below sets out the key arrangements utilised by the Group to manage elements of its working capital:

	As at 31 December 2023 £m	As at 31 December 2022 £m	Inflow/ (outflow) £m
Receivables monetisation	400.0	400.0	–
ROC monetisation sales	298.4	331.2	(32.8)
Supply chain finance	(48.6)	(53.9)	(5.3)
Deferred letters of credit	(224.7)	(181.2)	43.5
Credit cards	(0.4)	(33.3)	(32.9)

None of the balances in the table above are included within the Group's definition of Net debt or borrowings (see note 2.7 for further details on Net debt and note 4.2 for further details on borrowings). The receivables monetisation facility is non-recourse in nature and therefore there is no future liability associated with these amounts. Through standard ROC sales and ROC purchase arrangements the Group is able to manage the working capital cycle of inflows and outflows of these assets. The supply chain finance, deferred letters of credit and credit card facilities are linked directly to specific payables that provide a short extension of payment terms of less than 12 months. The impact of these facilities on the cash flows of the Group is explained further below.

The overall cash inflow of £71.4 million (2022: outflow of £379.0 million) due to lower receivables in the current year, is primarily a result of a reduction in energy prices compared to the prior year.

The Customers business has access to a receivables monetisation facility which enables it to accelerate cash flows associated with amounts receivable from energy supply customers on a non-recourse basis. The Group refinanced this facility during the prior year, to increase the size of the facility to £400.0 million from £200.0 million for the period to March 2025, and then reducing to £300.0 million until the facility matures in January 2027. Utilisation of the facility was £400.0 million at 31 December 2023 (2022: £400.0 million). As the facility was fully utilised at 31 December 2023 and 31 December 2022 there has been no cash flow impact in the period (2022: £200.0 million cash inflow, as the facility was increased in size from £200.0 million to £400.0 million).

Payables have largely remained consistent year on year, with a cash outflow of £30.8 million (2022: £431.8 million inflow). Certain of the Group's suppliers are able to access a supply chain finance facility provided by a bank, for which funds can be accelerated in advance of normal payment terms. At 31 December 2023, the Group had trade payables of £48.6 million (2022: £53.9 million) related to this reverse factoring. The facility does not directly impact the Group's working capital, as payment terms remain unaltered with the Group and would remain the same should the facility fall away.

The Group also has access to other payment facilities which enable it to leverage scale and efficiencies in transaction processing, whilst providing a working capital benefit due to a short extension of payment terms of less than 12 months. The amount outstanding under these facilities at 31 December 2023 was £225.1 million (2022: £214.5 million), of which £224.7 million (2022: £181.2 million) related to deferred letters of credit and £0.4 million (2022: £33.3 million) related to credit cards. Of the total deferred letters of credit, £155.1 million (2022: £133.8 million) were utilised for capital expenditure and £69.6 million (2022: £47.4 million) were utilised for trade payables. Utilisation of these payment facilities impacted the purchases of property, plant and equipment line in the Consolidated cash flow statement and the movement in payables line above.

The movement in renewable certificate assets during the year includes a combination of generation, utilisation, purchases and sales, as described in note 3.3. The £104.4 million cash outflow (2022: £113.7 million inflow) is predominantly due to an increase in the value of renewable certificates generated and still held by the Group compared to the prior year, and a reduced level of ROC monetisation sales. Cash from renewable certificates, and in particular ROCs, is typically realised several months after they are earned; however, through standard ROC sales and ROC purchase arrangements the Group is able to manage the working capital cycle of inflows and outflows of these assets. At 31 December 2023 the Group had cash inflows of £298.4 million from using these standard renewable certificate sales (2022: £331.2 million).

Section 4: Financing and capital structure continued

4.3 Notes to the Consolidated cash flow statement continued

Changes in liabilities arising from financing cash flows

A reconciliation of the movements in liabilities arising from financing activities for both cash and non-cash movements is provided below:

	Borrowings £m	Lease liabilities £m	Hedging instruments £m	Total £m
At 1 January 2023	1,440.9	153.1	(2.2)	1,591.8
Cash flows from financing activities	14.5	(25.8)	–	(11.3)
Effect of changes in foreign exchange rates	(35.5)	(6.6)	29.8	(12.3)
Other movements	5.3	15.1	–	20.4
Other movements from operating activities	–	–	4.9	4.9
At 31 December 2023	1,425.2	135.8	32.5	1,593.5
	Borrowings £m	Lease liabilities £m	Hedging instruments £m	Total £m
At 1 January 2022	1,361.0	125.9	62.5	1,549.4
Cash flows from financing activities	2.1	(18.0)	–	(15.9)
Effect of changes in foreign exchange rates	71.3	11.5	(56.2)	26.6
Other movements	6.5	33.7	–	40.2
Other movements from operating activities	–	–	(8.5)	(8.5)
At 31 December 2022	1,440.9	153.1	(2.2)	1,591.8

Other movements principally relate to the amortisation of deferred finance costs, debt acquired through the acquisition of BMM, discounting of lease liabilities and lease additions in the year.

Hedging instruments includes cross-currency interest rate swaps that are hedging both principal and interest payments on borrowings. Interest payments are classified as operating cash flows in the Consolidated cash flow statement, as such movements relating to interest payments are recognised within the Other movements from operating activities line above.

4.4 Equity and reserves

The Group's ordinary share capital reflects the total number of shares in issue, which are publicly traded on the London Stock Exchange.

Accounting policy

Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Issued equity

	As at 31 December	
	2023 £m	2022 £m
Issued and fully paid:		
424,923,406 ordinary shares of 11 ¹⁶ / ₂₉ pence each (2022: 414,872,491)	49.1	47.9

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Year ended 31 December	
	2023 (number)	2022 (number)
At 1 January	414,872,491	413,068,027
Issued under employee share schemes	10,050,915	1,804,464
At 31 December	424,923,406	414,872,491

The Company has only one class of shares, which are ordinary shares of 11 ¹⁶/₂₉ pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends. Throughout the year, shares were issued in satisfaction of options vesting in accordance with the rules of the Group's employee share schemes (see note 6.2).

Share buyback programme

On 26 April 2023, the Group announced the commencement of a £150 million share buyback programme. The buyback programme was concluded on 15 September 2023. The shares purchased by the Group have not been cancelled and so continue to be included in the issued shares in the above table. See note 2.11 for further details on the share buyback programme.

4.4 Equity and reserves continued

Share premium

The share premium account reflects amounts received in respect of issued share capital that exceeds the nominal value of the shares issued, net of incremental transaction costs and tax, that are directly attributable to the issue of new shares. Movements in the share premium reserve during the year reflect amounts received above the nominal value on the issue of shares under employee share schemes.

	Year ended 31 December	
	2023 £m	2022 £m
At 1 January	433.3	432.2
Issue of share capital	7.9	1.1
At 31 December	441.2	433.3

Other reserves

	Capital redemption reserve £m	Translation reserve £m	Merger reserve £m	Treasury shares reserve £m	Total other reserves £m
At 1 January 2022	1.5	44.1	710.8	(50.4)	706.0
Exchange differences on translation of foreign operations	–	42.4	–	–	42.4
Exchange differences on acquisition of interest in Alabama Pellets LLC	–	(0.7)	–	–	(0.7)
At 1 January 2023	1.5	85.8	710.8	(50.4)	747.7
Exchange differences on translation of foreign operations	–	(10.3)	–	–	(10.3)
Repurchase of own shares (see note 2.11)	–	–	–	(149.2)	(149.2)
At 31 December 2023	1.5	75.5	710.8	(199.6)	588.2

The capital redemption and treasury shares reserves arose when the Group completed previous share buyback programmes. A further share buyback at a net cost of £149.2 million has taken place during the year (see note 2.11). The 40.3 million (2022: 13.8 million) shares held in the treasury shares reserve have no voting rights attached to them.

Exchange differences relating to the translation of the net assets of the Group's US and Canadian subsidiaries from their functional currencies (USD and CAD) into sterling for presentation in these Consolidated financial statements are recognised in the translation reserve.

Hedge reserve and Cost of hedging reserve

Movements in the hedge reserve and the cost of hedging reserve, which reflect the change in fair value of derivative financial instruments designated into hedge accounting relationships in accordance with IFRS 9, are set out in notes 7.3 and 7.4.

4.5 Non-controlling interests

Accounting policy

In accordance with IFRS 3, the Group elects on an acquisition-by-acquisition basis whether to measure non-controlling interests (NCIs) at their proportionate share of the identifiable net assets of the acquiree at the acquisition date, or at fair value. The Group treats transactions with NCIs that do not result in a loss of control as transactions with equity owners of the parent company. A change in ownership interest results in an adjustment between the carrying amounts of the controlling interests and NCIs to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to NCIs and the fair value of any consideration paid or received is recognised in equity, within retained profits.

At 31 December 2023, the Group has two (2022: two) subsidiary undertakings with NCIs. These subsidiaries were acquired during 2021 through the acquisition of Pinnacle. During the prior year, the Group purchased the remaining 10% of the NCI in Alabama Pellets LLC increasing the Group's interest in the subsidiary to 100%. See the Transactions with NCI section below for further information.

Summarised financial information

The summarised financial information disclosed is shown on a 100% basis. It represents the results of each entity below that would be shown in the subsidiaries' own financial statements prepared in accordance with IFRS, modified for Group level fair value adjustments at acquisition. All amounts are presented before intercompany eliminations.

	Principal place of business	As at 31 December 2023		As at 31 December 2022	
		Non-controlling interest %	Non-controlling interests £m	Non-controlling interest %	Non-controlling interests £m
Alabama Pellets LLC	North America	0%		0%	
Lavington Pellet Limited Partnership	North America	25%	6.5	25%	7.7
Smithers Pellet Limited Partnership	North America	30%	5.5	30%	5.7
Total			12.0		13.4

No dividends were paid to NCIs in the current or prior reporting period.

Section 4: Financing and capital structure continued

4.5 Non-controlling interests continued

Summarised statement of total comprehensive income

	Year ended 31 December 2023					Year ended 31 December 2022				
	Revenue £m	Loss for the year £m	Loss for the year attributable to the non- controlling interests £m	Total comprehensive loss for the year £m	Total comprehensive loss attributable to the non-controlling interests £m	Revenue £m	Loss for the year £m	Loss for the year attributable to the non- controlling interests £m	Total comprehensive loss £m	Total comprehensive loss attributable to the non-controlling interests £m
Alabama Pellets LLC ⁽¹⁾						39.5	(9.5)	(1.0)	(9.5)	(1.0)
Lavington Pellet Limited Partnership	31.6	(1.7)	(0.4)	(2.5)	(0.5)	36.5	(1.7)	(0.7)	(1.7)	(0.7)
Smithers Pellet Limited Partnership	14.5	(2.8)	(0.9)	(3.3)	(1.2)	13.0	(3.0)	(0.9)	(3.0)	(0.9)
Total	46.1	(4.5)	(1.3)	(5.8)	(1.7)	89.0	(14.2)	(2.6)	(14.2)	(2.6)

(1) The 2022 Summarised statement of total comprehensive income for Alabama Pellets LLC is for the period up to acquisition of the remaining NCI on 30 September 2022.

Summarised balance sheet

	As at 31 December 2023					As at 31 December 2022				
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Net assets £m	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Net assets £m
Alabama Pellets LLC ⁽¹⁾										
Lavington Pellet Limited Partnership	24.9	4.5	(2.0)	(1.4)	26.0	27.7	6.8	(3.1)	(0.6)	30.8
Smithers Pellet Limited Partnership	15.8	3.1	(1.5)	–	17.4	17.3	1.8	(1.1)	–	18.0
Total	40.7	7.6	(3.5)	(1.4)	43.4	45.0	8.6	(4.2)	(0.6)	48.8

(1) The remaining NCI of Alabama Pellets LLC was acquired by the Group on 30 September 2022, accordingly no balance sheet values have been presented in the above table as at 31 December 2022 or 31 December 2023.

Summarised cash flow

	Year ended 31 December 2023				Year ended 31 December 2022			
	Net cash inflow/ (outflow) from operating activities £m	Net cash outflow from investing activities £m	Net cash (outflow)/inflow from financing activities £m	Net cash outflow £m	Net cash inflow/(outflow) from operating activities £m	Net cash outflow from investing activities £m	Net cash (outflow)/inflow from financing activities £m	Net cash inflow/(outflow) £m
Alabama Pellets LLC ⁽¹⁾								
Lavington Pellet Limited Partnership	2.2	(1.3)	(2.3)	(1.4)	3.5	(0.7)	(2.2)	0.6
Smithers Pellet Limited Partnership	(2.2)	(0.7)	2.7	(0.2)	(1.9)	(0.2)	1.8	(0.3)
Total	–	(2.0)	0.4	(1.6)	1.6	(0.9)	(0.4)	0.3

(1) The remaining NCI of Alabama Pellets LLC was acquired by the Group on 30 September 2022, accordingly no cash flow values have been presented in the above table as at 31 December 2022 or 31 December 2023.

Transactions with NCI

At the beginning of the prior year, the NCI in Alabama Pellets LLC (APLLC) was 10%. On 30 September 2022, the Group acquired the remaining 10% of NCI in APLLC for £20.2 million (\$22.2 million), resulting in the Group now owning 100% of APLLC. This resulted in a £9.3 million charge recognised in equity, within retained profits, for the difference between the adjustment to NCI and the fair value of any consideration paid, and a decrease in the translation reserve of £0.7 million.

The following table summarises the impact of changes in the Group's ownership of APLLC during 2022:

	Year ended 31 December 2022 £m
Carrying amount of non-controlling interest acquired	10.2
Consideration paid to non-controlling interest	(20.2)
Decrease in equity attributable to owners of the parent company	(10.0)

Further information on changes during the prior year in the Group's NCIs is given in the Consolidated statement of changes in equity.

Section 5: Other assets and liabilities

This section provides information on the assets and liabilities in the Consolidated balance sheet that are not covered in other sections, including goodwill, other intangible assets and provisions.

5.1 Business combinations

Accounting policy

Business combinations are transactions or other events in which the Group obtains control of one or more businesses. Business combinations are accounted for using the acquisition method. Acquisitions of businesses are recognised at the point the Group obtains control of the target (the acquisition date). The consideration transferred, the identifiable assets acquired, and the liabilities assumed are measured at their fair value on the acquisition date. Amounts relating to the settlement of pre-existing relationships are recognised in the Consolidated income statement with a corresponding adjustment to the consideration transferred to reflect the fact that part of the consideration is deemed to relate to the settlement of the pre-existing relationship.

From the acquisition date, the assets and liabilities of acquired businesses are recognised in the Consolidated balance sheet, and the revenues and profits or losses of the acquired businesses are recognised in the Consolidated income statement. Acquisition-related costs are recognised as an expense in the Consolidated income statement in the period that they are incurred.

Goodwill is measured as the excess of the:

- consideration transferred; less
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity;

over the fair value of the identifiable net assets acquired.

Share-based payment awards held by employees of the acquired business that are voluntarily replaced are recognised as post-acquisition remuneration. Share-based payment awards held by employees of the acquired business that are obliged to be replaced are allocated between post-acquisition remuneration, which is treated as an expense, and pre-acquisition remuneration, which is treated as part of the overall consideration.

Bonuses paid to employees of the acquired entity that are dependent upon the employee remaining in continuous employment post-acquisition are treated as post-acquisition remuneration.

Acquisition of BMM

On 31 August 2023, Drax Energy Solutions Limited, a wholly owned subsidiary of the Group, acquired 100% of the issued share capital of BMM Energy Solutions Limited (BMM). BMM specialises in the installation and maintenance of electric vehicle charge points and has been the Group's primary installation partner since 2018. The acquisition strengthens the Group's end-to-end electric vehicle charging proposition to UK businesses.

Total consideration payable was £9.0 million. Following the acquisition the Group repaid borrowings acquired of £1.8 million. There was no contingent or deferred consideration.

The Group has a one year measurement period, from the acquisition date, to finalise the acquisition accounting. Provisional fair values of the identifiable assets acquired and liabilities assumed as at 31 August 2023 were as follows:

	As at 31 August 2023 £m
Property, plant and equipment	0.1
Intangible assets	5.0
Right-of-use assets	0.1
Inventories	0.3
Trade and other receivables	1.3
Trade and other payables	(0.6)
Lease liabilities	(0.1)
Deferred tax liabilities	(1.3)
Borrowings	(1.8)
Identifiable net assets acquired	3.0
Add: Goodwill	6.0
Net assets acquired	9.0

The Group recognised an identifiable intangible asset on the acquisition date for customer relationships of £5.0 million (see note 5.2 for further details). Goodwill of £6.0 million arose on this transaction. The goodwill relates to future uncontracted revenues expected to be realised and has been allocated to the Drax Energy Solutions CGU.

No contingent liabilities or indemnification assets have been recognised.

The Group acquired receivables with a fair value of £1.3 million. These receivables had a gross contracted value of £1.7 million. A provision of £0.4 million was recognised in relation to expected credit losses.

The Group acquired inventories with a gross value of £0.4 million. A provision of £0.1 million was recognised in relation to these inventories.

As the transaction is immaterial in its entirety, the full IFRS 3 disclosures are not presented in these Consolidated financial statements.

Section 5: Other assets and liabilities continued

5.1 Business combinations continued

Acquisition of Princeton pellet plant

On 3 August 2022, the Group announced that it had signed an agreement with Princeton Standard Pellet Corporation (PSPC) to acquire its pellet plant in Princeton, British Columbia, Canada for consideration of C\$11.5 million (£7.6 million), subject to customary working capital adjustments. The sale subsequently completed on 1 September 2022. The plant has nameplate capacity to produce 90kt of biomass pellets a year from sawmill residuals and will contribute to the Group's strategy to increase pellet production capacity.

In addition to the pellet plant itself, the Group also acquired certain other assets from PSPC including inventories and other working capital balances. As part of the transaction, the employees of PSPC joined the Group. Although the legal structure of the transaction was that of an asset purchase agreement, it was concluded that the substance of the transaction met the criteria of a business combination as defined by IFRS 3 and therefore the Group accounted for the transaction under the acquisition method.

The fair value of the assets and liabilities acquired were as follows:

	As at 1 September 2022 £m
Property, plant and equipment	7.9
Inventories	1.0
Trade and other receivables	0.8
Trade and other payables	(1.2)
Deferred tax liabilities	(0.9)
Identifiable net assets acquired	7.6

No goodwill arose from this transaction and no contingent liabilities or indemnification assets have been recognised.

The Group acquired receivables with a fair value and gross contracted value of £0.8 million.

No provision was recognised due to the risk of default within the Princeton business, as well as the wider Pellet Production business, being considered to be remote.

As the transaction is immaterial in its entirety, the full IFRS 3 disclosures are not presented in these Consolidated financial statements.

5.2 Goodwill and intangible assets

Intangible assets are not physical in nature but are identifiable from other assets. Goodwill arises on the acquisition of a business when the consideration paid exceeds the fair value of the net assets acquired. Intangible assets other than goodwill can be acquired in business combinations, acquired separately or internally generated.

Accounting policy

Goodwill is measured as the excess of the:

- consideration transferred; less
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity;

over the fair value of the identifiable net assets acquired.

Goodwill arising on the acquisition of a foreign operation is treated as an asset of that operation and therefore denominated in the functional currency of the operation to which it is allocated. Goodwill denominated in a foreign currency is subsequently translated at the rate prevailing at each reporting date. Exchange differences arising on retranslation are recognised in the Consolidated statement of comprehensive income.

Goodwill is allocated to the cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the acquisition. If one or more CGU, or group of CGUs, to which goodwill is allocated are restructured, then the goodwill is reallocated to the CGUs impacted by the restructure. Goodwill is considered to have an indefinite useful life, is not amortised, and is assessed annually for impairment (see note 2.4). Any impairment charge is recognised against the carrying value of goodwill in cost.

Intangible assets acquired in business combinations are measured at fair value on the acquisition date. Other intangible assets are measured initially at cost. Cost comprises the purchase price (net of any discount or rebate) and any directly attributable costs of preparing the asset for use in the manner intended by management.

The carrying amounts of intangible assets are assessed for indicators of impairment at each reporting date. The Group's policy is to recognise an impairment charge through accumulated amortisation if the asset will continue to be used by the Group. However, if the asset is still under construction, as no amortisation has yet been charged, the impairment charge is recognised in cost.

Intangible assets are amortised over their anticipated useful economic lives (UELS), which are reviewed at least at each financial year end. When reviewing UELs the assessment takes into account regulatory changes, climate change and commercial and technological changes. Any changes to estimated UELs are applied prospectively. During the current year this review has resulted in a change to the UELs of the Opus Energy customer-related asset and brand asset. These intangible assets are now being amortised to December 2024 to reflect the estimated period over which the value will be recognised.

5.2 Goodwill and intangible assets continued

	Method of amortisation	Average UEL remaining (years)
At 31 December 2023		
Customer-related assets:		
Pinnacle	Straight line	7
Opus Energy	Reducing balance	1
BMM	Straight line	9
Other	Straight line	10
Brand	Straight line	1
Computer software and licences	Straight line	5
Other intangibles	Straight line	4

Carrying amounts are assessed for indicators of impairment at each reporting date. The customer-related assets are attributable to the Pellet Operations CGU, the Opus Energy CGU, and the Drax Energy Solutions CGU following the acquisition of BMM. The brand is attributable to the Opus Energy CGU. Details of the impairment assessments relating to these CGUs are included in note 2.4.

	Customer-related assets £m	Brand £m	Computer software and licences £m	Development assets £m	Other intangibles £m	Goodwill £m	Total £m
Cost and carrying amount:							
At 1 January 2022	255.5	11.3	147.2	1.7	0.3	416.3	832.3
Additions at cost – internally generated	–	–	9.4	–	–	–	9.4
Disposals	–	–	(8.2)	–	–	–	(8.2)
Impairment	–	–	(19.2)	(1.7)	–	–	(20.9)
Transfers between categories	–	–	(0.5)	0.5	–	–	–
Transfers from/(to) property, plant and equipment	–	–	0.5	(0.5)	–	–	–
Effect of changes in foreign exchange rates	2.1	–	0.3	–	–	7.9	10.3
At 1 January 2023	257.6	11.3	129.5	–	0.3	424.2	822.9
Additions at cost – internally generated	–	–	7.7	–	–	–	7.7
Additions at cost – acquired separately	–	–	2.2	–	–	–	2.2
Acquired in business combinations	5.0	–	–	–	–	6.0	11.0
Impairment	–	–	–	–	–	(14.5)	(14.5)
Transfers from property, plant and equipment	–	–	0.6	–	–	–	0.6
Effect of changes in foreign exchange rates	(1.5)	–	(0.2)	–	–	1.0	(0.7)
At 31 December 2023	261.1	11.3	139.8	–	0.3	416.7	829.2
Accumulated amortisation:							
At 1 January 2022	149.4	5.6	72.4	–	–	–	227.4
Charge for the year	21.2	1.2	9.0	–	–	–	31.4
Disposals	–	–	(8.2)	–	–	–	(8.2)
Impairment	–	–	5.7	–	–	–	5.7
Effect of changes in foreign exchange rates	–	–	0.1	–	–	–	0.1
At 1 January 2023	170.6	6.8	79.0	–	–	–	256.4
Charge for the year	17.2	1.1	11.0	–	0.1	–	29.4
Impairment	31.5	3.0	11.1	–	–	–	45.6
Effect of changes in foreign exchange rates	(0.3)	–	(0.1)	–	–	–	(0.4)
At 31 December 2023	219.0	10.9	101.0	–	0.1	–	331.0
Net book value:							
At 31 December 2022	87.0	4.5	50.5	–	0.3	424.2	566.5
At 31 December 2023	42.1	0.4	38.8	–	0.2	416.7	498.2

Section 5: Other assets and liabilities continued

5.2 Goodwill and intangible assets continued

The Group has incurred research and development expenditure of £22.8 million (2022: £12.5 million), which is included within operating and administrative expenses in the Consolidated income statement.

Customer-related assets

Customer-related assets reflects the value of customer contracts acquired on the acquisition of Opus Energy in February 2017, the acquisition of Pinnacle in April 2021, the Pacific BioEnergy sales contracts purchased by Pellet Operations in December 2021, and the customer asset acquired on acquisition of BMM in August 2023.

The Opus Energy asset had an acquisition date fair value of £211.0 million reflecting the estimated value of the future cash flows associated with this customer base at the acquisition date and is dependent upon estimates of both current and expected future contract margins and assumed customer retention rates. The cash flows were discounted using an asset specific discount rate of 10.7%. The asset had an estimated UEL from acquisition of 11 years, calculated based on customer churn-rate analysis which shows how many customers are expected to leave the business in a given year, and was being amortised on a reducing balance basis to reflect the diminishing rate of contract renewals over time. During the current year the Opus Energy CGU has been tested for impairment and an impairment charge of £31.5 million was allocated to the Opus Energy customer-related asset as part of this (see note 2.4 for further details on this impairment assessment). At 31 December 2023, the Opus Energy customer-related asset had a carrying value of £3.8 million (2022: £47.8 million) and a remaining UEL of approximately one year (2022: five years). The UEL has been reduced due to increased customer churn rates, in part due to the announced exit and offboarding of gas customers in February 2023.

The Pinnacle asset provided the Group with access to customer bases with contracted cash flows. The asset had an acquisition date fair value of C\$62.1 million (£35.9 million) which was estimated based upon a multi-period excess earnings method. This was based on the present value of the incremental after-tax cash flows attributable to the customer-related asset, after deducting a contributory asset charge that represented the required return for fixed assets, net working capital and the assembled workforce that are required to generate the cash flows. The valuation estimates an appropriate margin to apply to the contracts. No customer retentions were assumed as part of the valuation. The cash flows were discounted using an asset specific discount rate of 10.0%. The asset had an estimated UEL from acquisition of 10 years, supported by the distribution of value, with around 90% of the value to be derived from the contracts provided in this period. The Pinnacle customer-related asset is being amortised on a straight-line basis to reflect the even spread of contract maturities over the UEL. At 31 December 2023, the Pinnacle asset had a carrying value of £26.8 million (2022: £31.5 million) and a remaining UEL of approximately seven years (2022: eight years).

On acquisition of BMM in August 2023 a customer-related asset with a fair value of £5.0 million was recognised reflecting the estimated future cash flows from existing customer relationships that were not yet contracted. The fair value was estimated based upon a multi-period excess earnings method. At 31 December 2023, the BMM asset had a carrying value of £4.8 million and a remaining UEL of nine years.

The other customer-related assets relate to pellet sales contracts acquired from Pacific BioEnergy on 31 December 2021. At 31 December 2023 this asset had a carrying value of £6.7 million (2022: £7.7 million) and a remaining UEL of 10 years (2022: 11 years).

Opus Energy brand

The Opus Energy brand was acquired as part of the Opus Energy acquisition in February 2017 and valued at £11.3 million using a relief-from-royalty method. During the current year the Opus CGU has been tested for impairment and an impairment charge of £3.0 million was allocated to the Opus Energy brand as part of this (see note 2.4 for further details on this impairment assessment). The carrying value of the Opus Energy brand at 31 December 2023 was £0.4 million (2022: £4.5 million) and had a remaining UEL of one year (2022: four years). The UEL of the brand asset was accelerated during the year in line with the Opus Energy customer-related asset.

Computer software and licences

Additions in the period include those in the ordinary course of business, which principally reflect ongoing investment in business systems to support the Customers segment. Software assets are amortised on a straight-line basis over their estimated UELs ranging from 2–10 years.

From 1 January 2022, following an agenda decision from the International Financial Reporting Interpretations Committee (IFRIC), the Group applied a new accounting policy for Software as a Service (SaaS) costs. SaaS costs capitalised by the Group at 1 January 2022, and impacted by this change in accounting policy, had a net book value of £5.7 million. These assets were impaired during 2022, with the charge being recognised against accumulated amortisation in the table above, and recorded as an exceptional cost in the Consolidated income statement (see note 2.7). SaaS costs incurred from 1 January 2022 have been recognised in operating and administrative expenses in the Consolidated income statement.

As at 31 December 2023, computer software assets under the course of construction amounted to £19.7 million (2022: £18.3 million).

During the prior year the Group recognised a £19.2 million impairment relating to a new billing system in the Customers business where the Group had stopped development as it no longer expected future economic benefits to be recovered as an ongoing intangible asset. The impairment charge was recognised against cost in the table above, and recorded as an exceptional cost in the Consolidated income statement. A legal claim in respect of this project was settled with the supplier during the current year. This has resulted in a credit to the Consolidated income statement amounting to £13.7 million. This has also been recognised as an exceptional item in the Consolidated income statement (see note 2.7).

See note 2.4 for a summary of impairment charges recognised on fixed assets during the year.

5.2 Goodwill and intangible assets continued

Goodwill

The table below shows the carrying amount of goodwill by CGU:

	Drax Energy Solutions £m	Opus Energy £m	Lanark £m	Galloway £m	Cruachan £m	Pellet Production £m	Total £m
Goodwill							
At 1 January 2023	10.7	159.2	11.3	40.1	26.9	176.0	424.2
Acquisitions	6.0	–	–	–	–	–	6.0
Reallocations	144.7	(144.7)	–	–	–	–	–
Impairment	–	(14.5)	–	–	–	–	(14.5)
Effect of changes in foreign exchange rates	–	–	–	–	–	1.0	1.0
At 31 December 2023	161.4	–	11.3	40.1	26.9	177.0	416.7

Following a reorganisation of the Customers business, which included the transfer of certain activities from the Opus Energy CGU to the Drax Energy Solutions CGU, goodwill of £144.7 million has been reallocated between the two CGUs on a relative fair value approach. Of the £159.2 million of goodwill allocated to the Opus Energy CGU in the prior year, £144.7 million has been allocated to the Drax Energy Solutions CGU. The remaining £14.5 million was subsequently impaired as a result of the impairment assessment described in note 2.4.

5.3 Provisions

The Group makes provisions for reinstatement to cover the estimated costs of decommissioning and demolishing or remediating the sites of its Generation and Pellet Production assets at the end of their UELs. The Group has recognised a restructuring provision in respect of coal closure. Other provisions primarily relate to dilapidation provisions for leased assets.

Accounting policy

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount required to settle the obligation.

Specifically, a provision is made for the estimated decommissioning costs at the end of the UELs of the Group's generation assets and pellet plants, when a legal or constructive obligation arises, on a discounted basis. The amount provided is calculated on a site-by-site basis and represents the present value of the expected future costs. An amount equivalent to the discounted provision is capitalised within property, plant and equipment, with the capitalisation shown in the movement in reinstatement asset line in note 3.1 and is depreciated over the UELs of the related assets. The unwinding of the discount is included in interest payable and similar charges in the Consolidated income statement.

The Group recognises a restructuring provision when it has developed a detailed formal plan for the restructuring and has raised a valid expectation that it will carry out the restructuring either by starting to implement the plan or announcing its main features to those affected by it. The restructuring provision includes only the direct expenditures arising from the restructuring programme. These are costs that would have been avoided if the restructuring programme did not go ahead. Any costs to be incurred relating to the ongoing activities of the Group are excluded from the provision.

A provision for termination benefits is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognises any related restructuring costs.

Other provisions include a provision in respect of dilapidation costs for leased offices and rail cars.

	Decommissioning provision £m	Restructuring provision £m	Other provisions £m	Total £m
Carrying amount:				
At 1 January 2023	44.0	12.7	1.9	58.6
Additional provision charged to PPE (note 3.1)	22.7	–	–	22.7
Transfer between provision categories	1.2	–	(1.2)	–
Charged/(credited) to profit or loss:				
Additional provision recognised	–	–	0.3	0.3
Utilised	(1.4)	(2.8)	–	(4.2)
Released	–	–	(0.5)	(0.5)
Unwinding of discount	1.9	–	–	1.9
At 31 December 2023	68.4	9.9	0.5	78.8
Current	5.1	1.3	0.2	6.6
Non-current	63.3	8.6	0.3	72.2

Decommissioning provisions are made in respect of Drax Power Station (£64.5 million) and certain pellet plants (£3.9 million).

Section 5: Other assets and liabilities continued

5.3 Provisions continued

The decommissioning provision in respect of Drax Power Station is based on the assumption that the initial decommissioning work, relating to coal operations, will be completed between 2024 and 2026, with the remainder beginning at the end of station life, which is currently estimated to be 2039. The decommissioning provision relating to certain pellet plants is based on the assumption that the decommissioning and reinstatement will take place at the end of the expected UEL of each site, which are estimated to be between 2027 and 2040. The provisions have been estimated using existing technology at current prices based upon specialist, third-party advice, updated on a triennial basis as a minimum, but more regularly when deemed appropriate due to changes that might significantly impact the estimated cost, such as changes in prices, or changes in expected decommissioning plans. The most recent update for the Drax Power Station and pellet plant provisions took place in December 2023.

The cost of the Drax Power Station decommissioning is estimated, based on the midpoint of the range calculated by the third-party experts, to be £93.6 million at current prices. An inflation curve was then applied to estimate the separate elements of the decommissioning cost at the dates that they are expected to occur. These values were then discounted to calculate the present value of the provision to be recognised.

The discount rates used are nominal risk-free rates that reflect the duration of the liabilities. These discount rates are estimated using forward UK Gilt curves as a proxy for risk-free rates. The use of a risk-free rate reflects the fact that the estimated future cash flows have built-in risks specific to the liability. The average discount rates used for the Group's decommissioning provisions range from 3.02%–5.03% (2022: 4.05%).

The additional provision recognised in the year is predominantly due to the change in the assumptions around the timing and method of the decommissioning at Drax Power Station. It was previously assumed the decommissioning would all take place at the end of the station life in 2039. Due to the UK BECCS development project, certain parts of the site will be required to be decommissioned before the end of station life, which has resulted in an increase in the provision due to the higher estimated costs of decommissioning work taking place around a live power station. The timing of these costs being earlier has also resulted in an increase to the provision once the changes in assumptions around inflation and discounting are factored in.

The Drax Power Station decommissioning provision is not considered a key source of estimation uncertainty to which there is a significant risk of a material adjustment to the carrying amount within the next financial year. Decommissioning provisions are based on costs sufficiently far in the future that, given the length of time, it is not anticipated that any new, more reliable, or accurate information will be available within the next financial year to update this estimate that would result in a material adjustment.

The estimated cost of decommissioning Drax Power Station based on specialist, third-party advice using existing technology at current prices had a range of £65.5 million to £121.6 million. Applying inflation and discounting assumptions consistent with those applied to the provision recognised would result in an estimated provision range of £45.3 million to £84.1 million. An increase of 100 basis points in the inflation and discount rates used would result in a £9.6 million (2022: £9.5 million) increase and a £7.9 million (2022: £7.0 million) decrease respectively in the amount recognised. The relationship between the change in basis points and change in amount recognised is relatively linear, therefore the impact of similar sensitivities may be extrapolated from these amounts.

The cost of decommissioning a site the size of Drax Power Station will be impacted by things such as the exact composition and volumes of materials used in the structures to be decommissioned, and the presence of contaminants. Full site surveys and investigations will need to be performed once the site ceases operation to ascertain further information necessary to decommission the site which could impact the potential costs. The costs being estimated are also several years in the future. All of these factors increase the estimation uncertainty of the decommissioning provision. The impact of climate change, both physical and transitional, extending over the medium term, was also considered by the third party when determining the provision. The Group has concluded that climate change is unlikely to have a significant impact on the future decommissioning costs, however this risk will continue to be reassessed and the impact of any changes will be reflected in the valuation.

The restructuring provision includes redundancy costs relating to the formal closure of the coal units at Drax Power Station which was initially planned for September 2022. It also includes costs for engineering works required to make the coal units and related assets safe following cessation of operating. At the request of the UK Government, the Group entered into an agreement with National Grid to keep the two coal units available to provide a "winter contingency" service to the UK power network from October 2022 until the end of March 2023, which delayed the formal closure of the coal units and resulted in the utilisation of certain amounts of the restructuring provision also being delayed. This has not materially impacted the expected costs. The formal closure of the coal units commenced at the end of the winter contingency service in March 2023.

The amount of the restructuring provision utilised in the year predominantly relates to engineering and redundancy costs. Of the £9.9 million remaining at 31 December 2023, £8.9 million relates to engineering works, of which £0.7 million is expected to be utilised in 2024 with the remaining amounts expected to be utilised in the period from 2025 to 2027. A further £0.6 million relates to redundancy costs, which are expected to be utilised in 2024, and the remaining £0.4 million relates to other costs, which are expected to be utilised in the period from 2025 to 2027.

Section 6: People costs

The notes in this section relate to the remuneration of the Directors and employees of the Group, including the Group's obligations under retirement benefit schemes.

6.1 Colleagues including directors and employees

This note provides a more detailed breakdown of the cost of employees, including Executive directors of the Group. The average monthly number of employees in Operations (staff based at Pellet Production and Generation sites), Customers (employees in the Group's Customers segment) and Central corporate and commercial functions are also provided.

Further information in relation to pay and remuneration of the Executive directors can be found in the Remuneration Committee report, starting on page 144.

Staff costs (including Executive directors)

	Year ended 31 December	
	2023 £m	2022 £m
Wages and salaries	240.4	201.8
Social security costs	22.3	21.6
Defined benefit pension service cost (note 6.3)	2.3	4.7
Defined contribution pension cost (note 6.3)	21.4	16.7
Share-based payments (note 6.2)	13.8	9.6
Termination benefits	1.5	1.4
Total staff costs	301.7	255.8
Staff costs capitalised	(7.7)	(6.9)
Staff costs included in operating and administrative expenses (note 2.3)	294.0	248.9

Average monthly number of people employed (including Executive directors)

	Year ended 31 December	
	2023 (number)	2022 (number)
Operations (Pellet Production)	781	696
Operations (Generation)	675	685
Customers	892	866
Central corporate and commercial functions	1,072	880
Total average monthly number of people employed	3,420	3,127

6.2 Share-based payments

The Group operates five share option schemes for employees: the Long Term Incentive Plan (LTIP) for Executive directors and senior employees (which replaced the Performance Share Plan (PSP) from 2020), the Deferred Share Plan (DSP) for Executive directors, One Drax Awards which are recognition and retention awards granted to certain employees below senior management, the Employee Stock Purchase Plan (ESPP) for all qualifying US and Canada-based employees, and the Save As You Earn (SAYE) scheme for all UK qualifying employees. The Group incurs a non-cash charge in respect of these schemes in the Consolidated income statement, which is set out below along with a description of each scheme and the number of options outstanding at the reporting date.

Accounting policy

The LTIP, PSP, DSP, One Drax Awards, ESPP and SAYE share-based payment schemes are equity-settled. In accordance with IFRS 2, equity-settled share-based payments are measured at the fair value of the equity instrument at the date of grant. The corresponding expense is recognised in the Consolidated income statement on a straight-line basis over the relevant vesting period, based on an estimate of the number of shares that will ultimately vest as a result of the effect of non-market based vesting conditions, which is revised at each reporting date. Market based vesting conditions are factored into the calculation of the fair value of options granted at the date of grant and are not subsequently remeasured.

If share options are cancelled due to non-vesting conditions not being met, for example employees withdrawing (by choice) part way through the vesting period or not exercising their options in the exercise period after they vest, the charge for such options is accelerated at the point of cancellation.

If share options are forfeited due to employees failing to meet continuing service conditions of a grant, or failing to meet non-market performance conditions, then these options do not attract a charge and any previously recognised charge is reversed, in accordance with IFRS 2.

Section 6: People costs continued

6.2 Share-based payments continued

Costs recognised in the Consolidated income statement in relation to share-based payments during the year were as follows:

	Year ended 31 December	
	2023 £m	2022 £m
LTIP (granted from 2020)	8.7	5.6
PSP (granted from 2017 to 2019)	–	0.5
DSP (granted from 2017)	0.5	0.4
One Drax Awards	1.4	1.0
ESPP	0.1	–
SAYE	3.1	2.1
Total share-based payment expense included within staff costs (note 6.1)	13.8	9.6

Movements in the number of share options outstanding at the reporting date for each scheme is shown below.

The following schemes are bonus award schemes and therefore have no exercise price.

	LTIP (number)	PSP (number)	DSP (number)	One Drax Awards (number)
At 1 January 2022	4,570,228	716,422	567,426	216,066
Granted	1,399,952	–	71,399	143,439
Forfeited	(238,121)	(46,716)	(5,598)	(11,235)
Exercised	–	(622,989)	(265,482)	(211,265)
Expired	(32,688)	(46,717)	–	(258)
At 1 January 2023	5,699,371	–	367,745	136,747
Granted	2,282,798	–	101,657	262,526
Forfeited	(123,776)	–	–	(2,738)
Exercised	(2,750,860)	–	(208,627)	(140,669)
Expired	(14,370)	–	–	–
At 31 December 2023	5,093,163	–	260,775	255,866

The following schemes are share purchase schemes and therefore weighted average exercise prices are presented.

	ESPP		SAYE			
	Weighted average exercise price (pence)	ESPP (number)	Three-year weighted average exercise price (pence)	SAYE three-year (number)	Five-year weighted average exercise price (pence)	SAYE five-year (number)
At 1 January 2022	–	–	149	8,376,823	140	2,539,710
Granted	–	–	563	700,799	563	107,122
Forfeited	–	–	176	(222,311)	154	(80,928)
Exercised	–	–	206	(545,220)	188	(72,097)
Expired	–	–	304	(146,423)	254	(28,945)
At 1 January 2023	–	–	178	8,163,668	155	2,464,862
Granted	469	64,497	498	1,996,117	498	197,825
Forfeited	–	–	327	(46,063)	432	(8,228)
Exercised	–	–	127	(6,831,232)	219	(15,727)
Expired	–	–	509	(395,588)	496	(52,923)
At 31 December 2023	469	64,497	470	2,886,902	173	2,585,809

6.2 Share-based payments continued

Key information about each active scheme for options granted and exercised in the current and prior year is presented below.

Scheme	Year ended 31 December 2023					
	LTIP	DSP	One Drax Awards	ESPP	SAYE three-year	SAYE five-year
Weighted average share price of options exercised during the year at the date of exercise (pence)	621	621	621	–	554	604
Number of options exercisable at reporting date	119,102	13,351	–	–	25,207	712
Range of exercise price of options outstanding at reporting date (pence)				469	Between 127 and 563	Between 127 and 563
Weighted average remaining contractual life (months)	17	14	3	2	22	20

Scheme	Year ended 31 December 2022					
	LTIP	PSP	DSP	One Drax Awards	SAYE three-year	SAYE five-year
Weighted average share price of options exercised during the year at the date of exercise (pence)	–	711	729	729	729	722
Number of options exercisable at reporting date	–	–	17,058	–	605	–
Range of exercise price of options outstanding at reporting date (pence)					Between 127 and 563	Between 127 and 563
Weighted average remaining contractual life (months)	13	–	11	3	8	30

The fair value of share options is calculated using a Monte-Carlo simulation if the scheme vests subject to market conditions, or the Black-Scholes model otherwise. The Monte-Carlo simulation takes into account the estimated probability of different levels of vesting for share options with market based conditions and produces a probability-based fair value calculation.

The key inputs to both the Monte-Carlo and Black-Scholes valuation models are the share price at the date of grant, exercise price where applicable, dividend yield on the underlying share, time to expiry of the option, expected volatility and risk-free interest rate. Expected volatility is determined by calculating the historical volatility of the Group's share price. The expected life used in the valuations is based on the length of the vesting period, adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The risk-free interest rate is determined using the rate for the equivalent length zero-coupon UK Government bond for each scheme.

Information about the valuation models used for options granted during the current and prior year, and relevant inputs to those models is set out in the tables below.

Scheme	Year ended 31 December 2023						
	LTIP	LTIP	DSP	One Drax Awards	ESPP	SAYE three-year	SAYE five-year
Grant date	31 March 2023	5 September 2023	31 March 2023	31 March 2023	1 September 2023	12 April 2023	12 April 2023
Valuation model used	Monte-Carlo	Monte-Carlo	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes
Share price at grant date (pence)	608	545	608	608	547	641	641
Exercise price (pence)	–	–	–	–	469	498	498
Dividend yield	2.50%	2.50%	–	3.94%	3.57%	4.10%	4.54%
Vesting period of options granted	3 years	3 years	3 years	1 year	6 months	3 years	5 years
Expected volatility	39.92%	39.92%	36.35%	37.25%	26.95%	36.35%	38.95%
Annual risk-free interest rate	3.56%	3.56%	4.94%	5.17%	4.97%	4.94%	4.62%
Weighted average fair value of options granted at measurement date (pence)	481	481	608	585	110	205	220
Fair value of all options granted (£m)	9.4	1.5	0.6	1.5	0.1	4.1	0.4

Section 6: People costs continued

6.2 Share-based payments continued

Scheme	Year ended 31 December 2022				
	LTIP	DSP	One Drax Awards	SAYE three-year	SAYE five-year
Grant date	18 March 2022	18 March 2022	18 March 2022	12 April 2022	12 April 2022
Valuation model used	Monte-Carlo	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes
Share price at grant date (pence)	726	726	726	783	783
Exercise price (pence)	–	–	–	563	563
Dividend yield	4.24%	–	–	2.85%	3.15%
Vesting period of options granted	3 years	3 years	1 year	3 years	5 years
Expected volatility	40.19%	40.19%	40.19%	40.98%	38.29%
Annual risk-free interest rate	1.20%	1.20%	1.20%	2.46%	2.38%
Weighted average fair value of options granted at measurement date (pence)	697	726	726	293	291
Fair value of all options granted (£m)	9.8	0.5	1.0	2.1	0.3

LTIP

The LTIP was introduced in 2020 for Executive directors and senior employees. This replaced the PSP scheme (see below). Under the LTIP, annual awards of performance and service-related shares are made for no consideration to Executive directors and other senior employees up to a maximum of 200% of their annual base salary. Vesting of 50% of the shares is conditional upon whether the Group's Total Shareholder Return (TSR) matches or outperforms an index (determined in accordance with the scheme rules) over three years, and vesting of the remaining 50% of shares is conditional upon performance of cumulative Adjusted EPS (defined to be derived from Adjusted results) over three years. Additionally, each time a dividend is paid during the vesting period of the scheme, participants are entitled to receive further share options of equivalent value to the dividends, determined by the market value of shares on the ex-dividend date, which are formally granted on the vesting date for each scheme. The fair value of LTIP options is calculated with the support of external IFRS 2 specialists due to the TSR vesting condition being market based and therefore requiring a Monte-Carlo simulation.

PSP

The PSP was in place for Executive directors and senior employees from 2017 to 2019. Under the PSP, annual awards of performance and service-related shares were made for no consideration up to a maximum of 175% of their annual base salary. Vesting of 50% of shares was conditional upon whether the Group's TSR matched or outperformed an index (determined in accordance with the scheme rules) over three years and vesting of the remaining 50% of shares was conditional upon performance against the Group Scorecard (see page 151). The last of the outstanding PSP options expired during 2022.

DSP

The Group operates the DSP, under which Executive directors receive 40% of their annual bonus in share options. DSP awards are granted at nil cost and vest after three years subject to continued employment or "good leaver" termination provisions. Each time a dividend is paid during the vesting period of the scheme, participants are entitled to receive further share options of equivalent value to the dividends, determined by the market value of shares on the ex-dividend date, which are formally granted on the vesting date for each scheme. As such, a dividend yield of 0% is input into the Black-Scholes calculation to reflect that the fair value of each share option is not reduced by dividends paid out over the vesting period.

One Drax Awards

One Drax Awards are granted to certain employees below senior management and vest after one year subject to continuous employment. The number of shares awarded to the employee is equivalent to 10% of their base salary based on the Group's share price at the grant date.

ESPP

From September 2023, participation in the new ESPP scheme is offered to all US and Canada qualifying employees biannually. Under the ESPP, employees are granted the option to purchase shares at a 15% discount to the market price of Drax Group plc shares, based on the lower of the market price at the grant date and the market price at the vesting date. The options are exercisable at the end of six-month savings contracts, under which an employee selects a fixed percentage of their salary to be put towards the scheme.

SAYE

Participation in the SAYE scheme (Sharesave) is offered to all UK qualifying employees every April. Options are granted for employees to acquire shares at a discount of 20% to the market price of Drax Group plc shares, based on the average closing price for the five days immediately preceding the grant date, determined in accordance with the scheme rules. The options are exercisable at the end of three or five-year savings contracts.

Additional information in relation to the Group's share-based incentive plans is included in the Remuneration Committee report on pages 153 and 154.

6.3 Retirement benefit obligations

The Group operates one defined benefit and three defined contribution pension schemes. Up until 31 January 2023, the Group also operated an additional defined benefit pension scheme, the Drax Power Group (DPG) section of the Electricity Supply Pension Scheme (ESPS). As at 1 February 2023, the Group replaced its three UK Group Personal Pension Plans with the My Drax Retirement Savings Section of the Aon MasterTrust.

Name of scheme	Type of benefit	Status	Country
DPG section of ESPS (DPG ESPS)	Defined benefit final salary	Closed on 31 January 2023	UK
Drax 2019 Scheme	Defined benefit final salary	Closed to new members on transfer in 2019	UK
Drax Group Personal Pension Plan	Defined contribution	Closed to new members on 31 January 2023	UK
Drax Energy Solutions Personal Pension Plan	Defined contribution	Closed to new members on 31 January 2023	UK
Opus Energy Group Personal Pension Plan	Defined contribution	Closed to new members on 31 January 2023	UK
My Drax Retirement Savings Section of the Aon MasterTrust	Defined contribution	Open to new members	UK
Drax Biomass Inc. 401(K) Plan	Defined contribution	Open to new members	US
Pinnacle Registered Retirement Savings Plan	Defined contribution	Open to new members	Canada

On 31 January 2023 the DPG ESPS's assets and liabilities were transferred to the Drax 2019 Scheme, and the DPG ESPS was wound up on 17 April 2023. The Drax 2019 Scheme continues to provide the same level of pension benefits to current and former employees as they were previously entitled to, with the combination allowing the resulting scheme to operate in a more efficient and focused manner, with a reduced administrative burden and associated cost.

Trustee governance (defined benefit pension schemes)

The Drax 2019 Scheme is administered by a sole Trustee (PAN Trustees UK LLP), which was appointed on 30 November 2022 and is legally separate from the Group. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the investment policy for the assets and the day-to-day administration of the defined benefit scheme. Prior to 30 November 2022, the Drax 2019 Scheme was administered by a board of Trustees composed of representatives of both the employer and employees. A separate board of Trustees also administered the DPG ESPS while it was active.

Accounting policy

Payments to defined contribution schemes are recognised as an expense when employees have rendered services that entitle them to the contributions. The Consolidated income statement charge for the defined contribution schemes represents the total contributions to be paid by the Group in respect of the current period.

For the defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement of the obligation, comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest), is recognised immediately in the Consolidated balance sheet with a charge or credit to the Consolidated statement of comprehensive income in the period in which it occurs. Defined benefit costs, including current service costs, past service costs and gains and losses on curtailments and settlements, are recognised in the Consolidated income statement as part of operating and administrative expenses in the period in which they occur. The net interest expense or credit is recognised in interest payable and similar charges or interest receivable.

Significant estimation uncertainty

Measurement of the defined benefit pension obligation using the projected unit credit method involves the use of key assumptions, including discount rates, inflation rates, salary and pension increases and mortality rates. These actuarial assumptions are reviewed annually and modified as appropriate. The Group believes that the assumptions utilised in measuring obligations under the schemes are reasonable based on prior experience, market conditions and the advice of pension scheme actuaries. However, actual results may differ from such assumptions.

The assumptions applied in 2023 have been prepared in accordance with specialist, third-party actuarial advice received and are consistent with those applied in the prior period.

Defined contribution schemes

The Group operates five defined contribution schemes for all qualifying employees. Pension costs for the defined contribution schemes are as follows:

	Year ended 31 December	
	2023 £m	2022 £m
Total included in staff costs (note 6.1)	21.4	16.7

As at 31 December 2023, contributions of £0.4 million (2022: £1.5 million) due in respect of the current reporting period had not been paid over to the schemes. This has been recognised within Trade and other payables and contract liabilities within the Consolidated balance sheet. The Group has no further outstanding payment obligations in respect of the current reporting period once these contributions have been paid.

Section 6: People costs continued

6.3 Retirement benefit obligations continued

Defined benefit schemes

The Group currently operates one defined benefit scheme, following the closure of the DPG ESPS in January 2023. Previously, any pension surplus or obligation within each scheme was shown gross on the Consolidated balance sheet, as there was no legal right of offset between the two schemes. On 31 January 2023, all assets and liabilities of the DPG ESPS were transferred to the Drax 2019 Scheme and are no longer segregated from the existing assets and liabilities of the Drax 2019 Scheme for funding purposes. Therefore a combined net surplus will be presented going forward. The net pension surplus is as follows (shown separately for the two schemes at the prior reporting date):

	As at 31 December	
	2023 £m	2022 £m
DPG ESPS	–	32.4
Drax 2019 Scheme	18.4	6.1
Total net surplus recognised in the Consolidated balance sheet	18.4	38.5

The Drax 2019 Scheme is referred to as “the Scheme” below. The DPG ESPS and the Drax 2019 Scheme are collectively referred to as “the Schemes”. At 31 December 2023, application of the accounting assumptions used in relation to the Scheme, which are described in further detail below, continued to result in a net position of surplus assets over liabilities.

The Scheme was set up following a transaction on 31 December 2018, when the Group acquired assets from Scottish Power Limited. Under the terms of the sale and purchase agreement, employees with defined benefit pension rights who moved to the Group as part of the transaction were able to build up a future defined benefit pension and were also able to transfer their defined benefits they had already built up to the Group. The Scheme was set up to facilitate this from 1 January 2020. From this date, 96 members joined the Scheme and continued to build up a future defined benefit pension. Of these, 81 members agreed to transfer their past service benefits into the Scheme.

The DPG ESPS was closed to new members as of 1 January 2002 unless they had qualified through being existing members of another part of the ESPS. Employed members who joined before this date continued to build up pension benefits. All members of the DPG ESPS transferred to the Scheme during 2023.

The Scheme is a defined benefit final salary plan, where employees are entitled to retirement benefits based on final salary on attainment of retirement age (or earlier withdrawal or death). Pensions are payable for life and updated in line with inflationary increases. No other post-retirement benefits are provided. The Scheme is open to future accrual of benefits but closed to new members.

The Group and Trustee have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the Scheme by investing in assets that perform in line with the liabilities to protect against interest rates being lower or inflation being higher than expected, for example.

The Scheme exposes the Group to actuarial and other risks, the most significant of which are considered to be:

Investment risk	The Scheme’s liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform against this yield, this creates a deficit. The Scheme holds a significant proportion of growth assets (diversified growth funds, direct lending, credit, leveraged equities and absolute return bonds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given this scheme’s long-term objectives.
Discount rate risk	A decrease in corporate bond yields will increase the value placed upon the Scheme’s liabilities, although this will be partially offset by an increase in the value of the Scheme’s bond holdings.
Longevity risk	The majority of the Scheme’s obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities of the Scheme.
Inflation risk	The majority of the Scheme’s obligations to pay benefits are linked to RPI inflation and, as such, higher inflation leads to higher liabilities. 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 to protect against inflation risk.
Credit risk	Around 95% of the Scheme’s overall funded liabilities are currently hedged against interest rates and inflation using liability-driven investments. The Scheme hedges interest rate risks on a statutory and long-term funding basis (gilts driven) whereas AA corporate bonds are implicit in the discount rate and so there is a degree of mismatching risk to the Group should yields on gilts and corporate bonds diverge. The Scheme’s holding in corporate bonds mitigates this risk to some extent.

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 regulation) and other demographic risks (such as making a higher proportion of members with dependents eligible to receive pensions from the Group). The Trustee ensures certain benefits are payable on death before retirement.

6.3 Retirement benefit obligations continued

A qualified third-party actuary, Aon, carried out the most recent funding valuation of the Drax 2019 Scheme as at 31 March 2022. The valuation made allowance for the DPG ESPS assets and liabilities that were transferred into the Drax 2019 Scheme on 31 January 2023. The actuarial review at 31 December 2023 is based on the same membership and other data as this funding valuation. The Scheme's Board accepted the advice of the actuary and approved the use of these assumptions for the purpose of assessing the Scheme's costs.

The result of the latest funding valuation has been adjusted to 31 December 2023, taking into account experience over the period since 31 March 2022, 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 principal assumptions for the Schemes across the current and prior year are set out below. Where absolute assumptions differed between the Schemes in the prior year, reflecting differences in the expected duration of the Schemes' liabilities, a weighted average is shown.

	As at 31 December	
	2023 % p.a.	2022 % p.a.
Discount rate	4.6	4.8
Inflation (RPI)	2.8	3.0
Rate of increase in pensions in payment and deferred pensions	2.7	2.8
Rate of increase in pensionable salaries	3.2	3.6

Whilst actual inflation has been high during 2023, long-term expectations as at 31 December 2023 are slightly lower than long-term expectations as at 31 December 2022. The defined benefit obligation for the Scheme as at 31 December 2023 allows for expected benefit increases that will be awarded in 2024, based on known 2023 indices.

Mortality assumptions are based on recent actual mortality experience of the Scheme's members and allow for expected future changes in mortality rates. The assumptions are that a member aged 60 in 2023 will live, on average, for a further 25 years if they are male (2022: 26 years) and for a further 27 years if they are female (2022: 28 years). Life expectancy at age 60 for male and female non-pensioners currently aged 45 is assumed to be 26 and 28 years respectively (2022: 27 and 29 years respectively).

The DPG ESPS liabilities were transferred into the Drax 2019 Scheme in 2023 and the weighted average duration of the Drax 2019 Scheme (including DPG ESPS) at 31 December 2023 based on the IAS 19 position was 16 years. The weighted average duration of the DPG ESPS and the Drax 2019 Scheme at 31 December 2022 based on the IAS 19 position was 18 years and 21 years respectively.

The Drax 2019 Scheme defined benefit obligation includes benefits for current employees of the Group (28%), former employees of the Group who are yet to retire (10%) and retired pensioners (62%).

The net surplus recognised in the Consolidated balance sheet in respect of the Schemes is the excess of the fair value of the plan assets over the present value of the defined benefit obligation, determined as follows:

	As at 31 December	
	2023 £m	2022 £m
Fair value of plan assets	220.3	219.6
Defined benefit obligation	(201.9)	(181.1)
Net surplus recognised in the Consolidated balance sheet	18.4	38.5

The total charges and credits recognised in the Consolidated income statement, within other operating and administrative expenses and interest receivable, are as follows:

	Year ended 31 December	
	2023 £m	2022 £m
Included in staff costs (note 6.1):		
Current service cost	2.3	4.7
Included in interest receivable (note 2.5):		
Interest income on net defined benefit surplus	(2.1)	(1.0)
Total amount recognised in the Consolidated income statement	0.2	3.7

Section 6: People costs continued

6.3 Retirement benefit obligations continued

Changes in the present value of the defined benefit obligation of the Schemes is as follows:

	Year ended 31 December	
	2023 £m	2022 £m
Defined benefit obligation at 1 January	181.1	320.9
Current service cost	2.3	4.7
Interest cost	8.0	5.7
Actuarial losses/(gains)	21.8	(123.6)
Benefits paid	(11.3)	(26.6)
Defined benefit obligation at 31 December	201.9	181.1

The actuarial losses of £21.8 million (2022: gains of £123.6 million) reflect losses of £0.3 million (2022: gains of £133.3 million) arising from changes in financial assumptions, losses of £22.4 million (2022: £9.9 million) arising from scheme experience and gains of £0.9 million (2022: £0.2 million) arising from changes in demographic assumptions.

The losses due to changes in financial assumptions principally reflect the increase in the present value of the Scheme's liabilities arising as a result of the movement in discount rate assumption to 4.6% p.a. (2022: 4.8% p.a.) following a decrease in corporate bond yields. This was partly offset by a slight decrease in overall long-term inflationary assumptions, reflecting market pricing, and a decrease in the real salary assumption adopted relative to inflation.

Changes in the fair value of plan assets are as follows:

	Year ended 31 December	
	2023 £m	2022 £m
Fair value of plan assets at 1 January	219.6	369.8
Interest on plan assets	10.1	6.7
Remeasurement losses on fair value of plan assets	(7.0)	(148.0)
Employer contributions	8.9	17.7
Benefits paid	(11.3)	(26.6)
Fair value of plan assets at 31 December	220.3	219.6

Employer contributions included payments totalling £4.3 million (2022: £7.6 million) to reduce the actuarial deficit related to the legacy DPG ESPS. There were contributions of £0.2 million outstanding at the end of the year relating to the Drax 2019 Scheme (2022: £3.2 million for both Schemes).

The actual return on plan assets in the period was a gain of £3.1 million (2022: loss of £141.3 million).

Remeasurement losses on the defined benefit pension scheme of £28.8 million (2022: £24.4 million) were recognised in the Consolidated statement of comprehensive income. These are made up as follows:

	Year ended 31 December	
	2023 £m	2022 £m
Actuarial (losses)/gains on defined benefit obligation	(21.8)	123.6
Remeasurement losses on fair value of plan assets	(7.0)	(148.0)
Total remeasurement losses recognised in other comprehensive income	(28.8)	(24.4)

6.3 Retirement benefit obligations continued

The fair values of the major categories of plan assets were as follows:

	As at 31 December	
	2023 £m	2022 £m
Gilts	110.3	117.2
Equities ⁽¹⁾	24.1	6.5
Fixed interest bonds ⁽²⁾	5.0	4.8
Property	15.1	28.6
Investment funds	4.5	4.3
Cash and other assets ⁽³⁾	61.3	58.2
Fair value of total plan assets	220.3	219.6

(1) As at 31 December 2023, the Scheme's target long-term asset strategy was: (34%) in multi-asset funds (with the key underlying asset strategies being equities, listed real assets and credit), direct lending (12%), hedge funds (3%), long-lease property (7%) and liability driven investing/cash (44%). There is a plan to transition the current asset holding to the long-term strategy by April 2024, noting that the precise allocations between the different asset classes may be adjusted as market conditions change.

As at 31 December 2022, DPG ESPS's long-term asset strategy was: diversified growth funds (37%), direct lending (10%), absolute return bonds (3%), liability driven investing (40%) and long-lease property (10%). The Drax 2019 Scheme's long-term investment strategy and strategic asset allocation was (70%) in gilts and cash to support liability hedging and equity derivative overlay strategies, (15%) allocated to synthetic credit and (15%) to credit opportunities.

(2) Fixed interest bonds include a mixture of corporate, Government and absolute return bonds.

(3) Other assets include £25.8 million (2022: £29.9 million) of investments in direct lending, a type of private equity vehicle which is not quoted in an active market. The fair value of these investments is derived in accordance with International Private Equity and Venture Capital Valuation (IPEV) Guidelines. All other assets are quoted in an active market.

The pension plan assets do not include any ordinary shares issued by Drax Group plc or any property occupied by the Group.

The valuation of the pension liabilities has been disclosed as a key source of estimation uncertainty due to the assumptions used in the valuation. The assumptions for discount rate, inflation rate (and related inflation linked benefits) and life expectancy have a potentially significant effect on the measurement of the Scheme's surplus. The following table provides an indication of the sensitivity of the net pension surplus at 31 December to changes in these assumptions, considering the impact on the defined benefit obligation only. If a combination of the below reasonably possible changes to key assumptions were used in the valuation of the pension obligations, this could result in a material change to the amount recognised.

As at 31 December			Increase/(decrease) in net surplus	
			2023 £m	2022 £m
Discount rate	– Increase	0.25%	7.9	8.0
	– Decrease	0.25%	(8.2)	(8.5)
Inflation rate ⁽¹⁾	– Increase	0.25%	(6.5)	(7.0)
	– Decrease	0.25%	6.3	6.6
Life expectancy	– Increase	1 year	(7.2)	(6.2)
	– Decrease	1 year	7.4	6.4

(1) The sensitivity of the Scheme's liabilities to salary and pension increases is closely correlated with inflation, therefore separate sensitivities have not been performed on salary and pension increases and the inflationary sensitivity incorporates these.

The Group is exposed to investment and other risks. However, these risks are mitigated by the Scheme being around 95% hedged against movements in Government bonds and inflation of appropriate duration. This means from a discount rate perspective that the Scheme is broadly only exposed to changes in credit spreads plus around 5% of changes in underlying gilt yields and, for inflation, the Scheme's exposure is around 5% of any actual changes.

Section 6: People costs continued

6.3 Retirement benefit obligations continued

Future contributions

UK legislation requires that pension schemes are funded prudently (i.e. to a level in excess of the current expected cost of providing benefits). This funding is carried out with reference to actuarial valuations which are required by law to take place at intervals of no more than three years. Following each valuation, the Trustee and the Group must agree the contributions required (if any) such that the Scheme is fully funded over time on the basis of suitably prudent assumptions.

The Group expects to make total contributions of £1.9 million to the Scheme during the 12 months ending 31 December 2024.

The latest actuarial valuation of the Drax 2019 Scheme (which included the DPG ESPS) which was carried out as at 31 March 2022 resulted in a funding surplus of £13.9 million and so no deficit recovery plan was required.

The Group agreed to make additional contributions to the Drax 2019 Scheme from February 2023 to June 2023 and an additional payment in 2026 to fully fund the Scheme on a low-risk basis, as agreed between the Group and Trustee at the time, through the provision of a surety bond. At this point, the Scheme is expected to be self-sufficient, unless material adverse changes in economic conditions arise compared to those assumed in the valuation. The Group is satisfied that the additional contributions are manageable within the Group's business plan.

The Trust Deeds of the Scheme provide the sponsors of the Scheme with an unconditional right to a refund of surplus assets assuming the gradual settlement of plan liabilities over time. Based on these rights, any net surplus in the Scheme is recognised in full in the Consolidated balance sheet.

In June 2023, the UK High Court issued a ruling in the case of Virgin Media Limited v NTL Pension Trustees II Limited and others relating to the validity of certain historical pension changes. This case may have implications for other defined benefit schemes in the UK, although is subject to possible appeal in 2024. The Group are aware of this legal ruling and are monitoring developments. The Group will assess whether there is any potential impact related to the Drax 2019 Scheme once the case is concluded and as such no related quantification has been determined.

Section 7: Risk management

This section provides disclosures around financial risk management, including the financial instruments the Group uses to mitigate such risks.

7.1 Financial instruments and their fair values

The Group holds a variety of derivative and non-derivative financial instruments, including cash and cash equivalents, borrowings, payables and receivables arising from operations.

Accounting classifications and fair values

IFRS 13 requires categorisation of the Group's financial instruments in accordance with the following hierarchy in order to explain the basis on which their fair values have been determined:

- Level 1 – Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
 - Level 2 – Fair value measurements are those derived from inputs, other than quoted prices, included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
 - Level 3 – Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).
- Categorisation within this fair value measurement hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset or liability.

The table below shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy as defined by IFRS 13. It does not include fair value information for lease liabilities, or for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. Cash and cash equivalents (note 4.1), trade and other receivables (note 3.5) and trade and other payables (note 3.7) generally have a short time to maturity. For this reason, their carrying values, on the historical cost basis, are approximate to their fair values. The Group's borrowings relate principally to the publicly traded high-yield loan notes and amounts drawn against term loans (note 4.2). These financial liabilities are measured at amortised cost.

At 31 December 2023 £m	Carrying amount					Fair value				
	Fair value- hedging instruments	Mandatorily at FVTPL- others	FVOCI	Financial assets at amortised cost	Financial liabilities at amortised cost	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
Commodity contracts	402.7	125.4	–	–	–	528.1	–	528.1	–	528.1
Foreign currency exchange contracts	37.7	70.8	–	–	–	108.5	–	108.5	–	108.5
Interest rate and cross- currency contracts	25.4	–	–	–	–	25.4	–	25.4	–	25.4
Contingent consideration	–	9.2	–	–	–	9.2	–	–	9.2	9.2
Trade and other receivables	–	–	242.2	–	–	242.2	–	242.2	–	242.2
Cash and cash equivalents	–	171.1	–	–	–	171.1	–	171.1	–	171.1
Financial assets not measured at fair value										
Trade and other receivables	–	–	–	644.2	–	644.2				
Cash and cash equivalents	–	–	–	208.4	–	208.4				
Financial liabilities measured at fair value										
Commodity contracts	(58.8)	(134.4)	–	–	–	(193.2)	–	(193.2)	–	(193.2)
Foreign currency exchange contracts	(23.7)	(35.8)	–	–	–	(59.5)	–	(59.5)	–	(59.5)
Interest rate and cross- currency contracts	(35.1)	–	–	–	–	(35.1)	–	(35.1)	–	(35.1)
Inflation rate contracts	(250.4)	–	–	–	–	(250.4)	–	(250.4)	–	(250.4)
Financial liabilities not measured at fair value										
Secured bank loans	–	–	–	–	(698.1)	(698.1)	–	(704.8)	–	(704.8)
Unsecured bank loans	–	–	–	–	(120.0)	(120.0)	–	(120.0)	–	(120.0)
Secured loan notes	–	–	–	–	(607.2)	(607.2)	(596.4)	–	–	(596.4)
Lease liabilities	–	–	–	–	(135.8)	(135.8)				
Trade and other payables	–	–	–	–	(919.2)	(919.2)				

Section 7: Risk management continued

7.1 Financial instruments and their fair values continued

Restated ⁽¹⁾ At 31 December 2022 £m	Carrying amount						Fair value			
	Fair value- hedging instruments	Mandatorily at FVTPL- others	FVOCI	Financial assets at amortised cost	Financial liabilities at amortised cost	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
Commodity contracts	322.8	84.0	–	–	–	406.8	–	406.8	–	406.8
Foreign currency exchange contracts	166.5	130.6	–	–	–	297.1	–	297.1	–	297.1
Interest rate and cross- currency contracts	54.0	–	–	–	–	54.0	–	54.0	–	54.0
Contingent consideration	–	27.4	–	–	–	27.4	–	–	27.4	27.4
Equity investments	–	–	1.5	–	–	1.5	–	–	1.5	1.5
Trade and other receivables	–	–	98.4	–	–	98.4	–	98.4	–	98.4
Cash and cash equivalents	–	116.4	–	–	–	116.4	–	116.4	–	116.4
Financial assets not measured at fair value										
Trade and other receivables ⁽²⁾	–	–	–	973.5	–	973.5				
Cash and cash equivalents ⁽²⁾	–	–	–	121.6	–	121.6				
Financial liabilities measured at fair value										
Commodity contracts	(577.2)	(296.5)	–	–	–	(873.7)	–	(873.7)	–	(873.7)
Foreign currency exchange contracts	(0.4)	(69.0)	–	–	–	(69.4)	–	(69.4)	–	(69.4)
Interest rate and cross- currency contracts	(14.3)	–	–	–	–	(14.3)	–	(14.3)	–	(14.3)
Inflation rate contracts	(307.3)	–	–	–	–	(307.3)	–	(307.3)	–	(307.3)
Financial liabilities not measured at fair value										
Secured bank loans	–	–	–	–	(764.0)	(764.0)	–	(759.9)	–	(759.9)
Unsecured bank loans	–	–	–	–	(44.3)	(44.3)	–	(44.3)	–	(44.3)
Secured loan notes	–	–	–	–	(632.6)	(632.6)	(593.9)	–	–	(593.9)
Lease liabilities	–	–	–	–	(153.1)	(153.1)				
Trade and other payables	–	–	–	–	(1,065.9)	(1,065.9)				

(1) Comparative amounts have been restated to reflect the Group's revised application of the offsetting criteria to physically settled derivative contracts. This has impacted the presentation of derivative assets and liabilities recognised in the Consolidated balance sheet. The valuation of derivatives and the overall net asset position remain unchanged. See the offsetting section on page 178 for further details on this restatement.

(2) Comparative amounts have been re-presented to show certain trade and other receivables as FVOCI and certain cash and cash equivalents as FVTPL. This has had no impact on the total trade and other receivables and cash and cash equivalents amounts presented.

The derivative financial instruments used by the Group and not subject to the own-use exemption have been categorised as follows:

- Commodity contracts – forward contracts for the sale or purchase of a commodity which may or may not be settled through physical delivery of the commodity, as well as weather-related contracts.
- Foreign currency exchange contracts – currency related contracts including forwards, swaps, vanilla options and structured option products.
- Interest rate and cross-currency contracts – contracts which swap one interest rate for another in a single currency, including floating-to-fixed interest rate swaps, and contracts which swap interest and principal cash flows in one currency for another currency, including fixed-to-fixed and floating-to-fixed cross-currency interest rate swaps.
- Inflation rate contracts – swap contracts, such as floating-to-fixed, which are linked to an inflation index such as the UK Retail Price Index (RPI) or the UK Consumer Price Index (CPI).

Fair value measurement

- Commodity contracts – the fair value of open commodity contracts that do not qualify for the own-use exemption, or are otherwise within the scope of IFRS 9, is calculated by reference to forward market prices at the reporting date.
- Foreign currency exchange contracts – the fair value of foreign currency exchange contracts is determined using forward currency exchange market rates at the reporting date.
- Interest rate contracts – the fair value of interest rate swaps is calculated by reference to forward market curves at the reporting date for the relevant interest index. The fair value of cross-currency interest rate swaps is calculated using the relevant forward currency exchange market rates for fixed-to-fixed swaps and by using the relevant forward currency exchange market rates and interest index for floating-to-fixed swaps.
- Inflation rate contracts – the fair value of inflation rate swaps is calculated by reference to forward market curves at the reporting date for the relevant inflation index.

Given the maturity profile of all these contracts, liquid forward market price curves are available for the duration of the contracts.

7.1 Financial instruments and their fair values continued

The fair values of all derivative financial instruments are discounted to reflect both the time value of money and credit risk inherent within the instrument.

The assessment of fair value is derived in part by reference to a market price or rate for the instrument in question. The Group bases its assessment of market prices or rates upon forward curves that are largely derived from readily obtainable prices or rates published from third-party sources. However, any forward curve is based at least in part upon assumptions about future transactions and market movements. Due to the nature of the derivative financial instruments the Group holds, minor differences in the inputs, assumptions or methodologies used can result in appropriate, but different, estimates of fair values to those recognised by the Group. There may be choices to be made of which methodology or data source to use in the calculation of fair value for each derivative contract.

Assumptions may also need to be made where forward curves are not an exact match for the Group's derivative contracts (e.g. due to quoted product types, maturity dates or time periods not exactly matching the terms of the Group's derivative contracts), or where different forward curves are available. Where such instruments extend beyond the liquid portion of the forward curve, the level of estimation increases as the number of observable transactions decreases. However, given the maturity profile of the Group's contracts, liquid forward market price curves are usually available for the duration of the contracts. The fair value of derivatives is not, however, considered a key source of estimation uncertainty as reasonably possible changes in assumptions are not expected to result in a materially different value within the next financial year.

Also, whilst there is a significant risk that the carrying amount of derivative assets and liabilities will change materially within the next financial year, as a result of movements in market prices or rates, the Group is not expecting to change its methodology or input sources in the next financial year. Any such changes are not as a result of assumptions or other sources of estimation uncertainty as at 31 December 2023 and therefore do not meet the definition of a key source of estimation uncertainty as defined by IAS 1.

Sensitivities are provided in note 7.2 for the impact of changes in inputs on the fair value.

The Group has reviewed all significant contracts for the presence of embedded derivatives. The USD loan notes, the EUR loan notes, and the 2020 UK infrastructure private placement facilities (see note 4.2) all contain early repayment options that meet the definition of embedded derivatives. However, in all cases, these do not require separate valuation as they are deemed to be closely related to the host contract.

The fair value of commodity contracts, foreign currency exchange contracts, interest rate swaps, cross-currency contracts and inflation swaps are largely determined by comparison between observable, liquid, forward market prices or rates, and the trade price or rate; therefore, these contracts are categorised as Level 2. Credit risk is not a significant input to the fair value calculations.

There have been no transfers during the current or prior year between Level 1, 2 or 3 category inputs.

The Group is responsible for determining the policies and approach to valuations required for financial reporting purposes, including Level 3 fair values. No external specialists have been utilised for the valuation of the current or prior year derivative financial instruments. Valuation policies, approaches and the results are discussed with and approved by the CFO and the Audit Committee as required, based on the size, complexity and judgement required with each valuation.

Level 3 fair values

The contingent consideration receivable by the Group relates to the sale of the CCGT generation portfolio in 2021. The gross nominal value of £29.0 million is contingent on certain triggers in respect of the option to develop the Damhead Creek 2 land disposed of as part of the sale of these assets. The fair value measurement of the contingent consideration has been categorised as Level 3 based on the inputs to the valuation techniques used.

	Valuation approach	Significant unobservable inputs and range of inputs (probability weighted)	Relationship between significant unobservable input and fair value measurement
Contingent consideration	The fair value of the contingent consideration is determined using a discounted cash flow model. The valuation approach is based on a calculation of the probability of the option to develop the Damhead Creek 2 land being exercised. This probability is calculated using a range of forecasts for future Capacity Market auctions and the assumption that the option to develop the land would be exercised if the Capacity Market price were to clear above a certain level, providing sufficient certainty on the economics of the development.	Forecasted future Capacity Market clearing prices: £2.47/kW – £77.20/kW (€42.66/kW) (2022: £7.00/kW – £64.64/kW) (2022: (£35.91/kW)) Estimated bid price at which Damhead Creek 2 is to be entered into the Capacity Market auction: £67.50/kW (2022: £40.00/kW)	The fair value measurement would increase/(decrease) with: • higher/(lower) forecasted Capacity Market clearing prices causing a higher/(lower) probability of the option over the Damhead Creek 2 land being exercised. • lower/(higher) estimated bid price required for the Damhead Creek 2 development to proceed causing a higher/(lower) probability of the option over the Damhead Creek 2 land being exercised.

During the year, inputs to the fair value calculation have been updated to reflect increases in both forecasted future Capacity Market clearing prices and the estimated bid price at which Damhead Creek 2 is expected to be entered into the Capacity Market auction. Due to increased expectations relating to the cost to develop the project, the estimated bid price has increased from £40.00/kW to £67.50/kW. This, alongside the impact of updating the calculation with recent forecasts of future Capacity Market clearing prices, has resulted in an £18.2 million decrease to the fair value of the contingent consideration.

Section 7: Risk management continued

7.1 Financial instruments and their fair values continued

As the change in fair value reflects the reversal of a previous credit recorded within exceptional items, and the current year decrease in fair value is above the Group's threshold to be considered exceptional, the £18.2 million has been excluded from Adjusted results and presented as an exceptional item included within other gains or losses in the Consolidated income statement (see note 2.7).

A reconciliation of the contingent consideration is detailed below:

	Year ended 31 December	
	2023 £m	2022 £m
Balance at 1 January	27.4	27.7
Net change in fair value (unrealised)	(18.2)	(0.3)
Balance at 31 December	9.2	27.4

Sensitivities are disclosed below for reasonably possible changes to the unobservable inputs that would have a significant impact on the fair value measurement:

	Impact on profit before tax	
	Decrease £m	Increase £m
As at 31 December 2023		
Forecasted future Capacity Market clearing prices (10%)	(9.2)	7.0
Estimated bid price (10%)	7.0	(4.1)

	Impact on profit before tax	
	Decrease £m	Increase £m
As at 31 December 2022		
Forecasted future Capacity Market clearing prices (25%)	(3.7)	0.7
Estimated bid price (25%)	1.0	(3.2)

Accounting for derivatives

Derivatives (subject to certain exemptions described below) must be measured at fair value, which represents the difference between the price the Group has secured in the contract, and the price the Group could achieve in the market at the reporting date.

Changes in fair value are recognised either within the Consolidated income statement or the hedge reserve and cost of hedging reserve within the Consolidated statement of changes in equity, dependent upon whether the contract in question qualifies as an effective hedge under IFRS 9 (see note 7.2).

The own-use exemption applies to certain contracts for physical commodities entered into and held for the Group's own purchase, sale or usage requirements. The Group's own-use contracts, such as certain power purchase agreements (PPAs) and the Group's energy supply contracts, are excluded from fair value mark-to-market accounting.

Contracts for non-financial assets which do not qualify for the own-use exemption (principally power, gas, financial oil and carbon emissions allowances) are accounted for as derivatives in accordance with IFRS 9 and are recorded in the Consolidated balance sheet at fair value. Changes in fair value are reflected through the hedge reserve (see note 7.3) to the extent that the contracts are designated as effective hedges in accordance with IFRS 9, or the Consolidated income statement where the hedge accounting requirements are not met, or the hedges are ineffective. To ensure these derivatives are not reflected in the underlying performance of the Group, they are excluded from Adjusted results in the Consolidated income statement until the contract matures (see note 2.7 for further details).

The Group's biomass risk management policy permits some flexibility in trading activity to optimise the overall portfolio position and potentially release value in certain, limited circumstances. 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 and are excluded from fair value mark-to-market accounting.

7.1 Financial instruments and their fair values continued

Derivative balances are classified in the Consolidated balance sheet as current or non-current based on the final maturity date of the contracts. The derivative financial instruments recognised in the Consolidated balance sheet at the reporting date are:

	As at 31 December	
	2023 £m	Restated ⁽¹⁾ 2022 £m
Non-current derivative financial instrument assets	293.6	361.0
Current derivative financial instrument assets	368.4	396.9
Total derivative financial instrument assets	662.0	757.9
Non-current derivative financial instrument liabilities	(306.6)	(674.7)
Current derivative financial instrument liabilities	(231.6)	(590.0)
Total derivative financial instrument liabilities	(538.2)	(1,264.7)
Total net derivative financial instruments	123.8	(506.8)

(1) Comparative amounts have been restated to reflect the Group's revised application of the offsetting criteria to physically settled derivative contracts. This has impacted the presentation of derivative assets and liabilities recognised in the Consolidated balance sheet. The valuation of derivatives and the overall net asset position remain unchanged. See the offsetting section on page 178 for further details on this restatement.

The gains and losses recognised in the period relating to derivative financial instruments mandatorily measured at fair value through profit or loss (FVTPL) are detailed below. The Group had no financial assets or financial liabilities voluntarily designated at FVTPL. In addition to the amounts disclosed below, gains and losses relating to derivatives qualifying for hedge accounting are disclosed in notes 7.2 to 7.4.

	Gains/(losses) recognised	
	2023 £m	2022 £m
Gains/(losses) on derivative financial instruments not qualifying for hedge accounting – recognised in revenue	70.7	(441.4)
(Losses)/gains on derivative financial instruments not qualifying for hedge accounting – recognised in cost of sales	(127.0)	32.6
Losses on derivative financial instruments not qualifying for hedge accounting – recognised in interest payable and similar charges	(0.3)	(0.4)
Gains/(losses) on derivative financial instruments not qualifying for hedge accounting – recognised in foreign exchange (losses)/gains	4.9	(3.8)
Total losses on derivative financial instruments not qualifying for hedge accounting	(51.7)	(413.0)

Rebasing is explained in the glossary. When the Group rebases derivative contracts, the Group retains the contractual rights to the cash flows, the risks and rewards, and control of the derivative asset. The Group does not assume any obligation to pay the cash flows to another recipient. Accordingly, the derivative asset is not derecognised.

The cash flows received at the point of rebasing reduce the cash flows to be received on maturity of the trade, and as such the cash flows over the life of the instrument are the same whether a trade is rebased or not, minus fees and the impact of discounting.

At the point of rebasing, the Group recognises a reduction in the fair value of the derivative asset, equivalent to the fair value difference between the original rate per the contract and the rebased rate. The Group also recognises the cash received, or due, as a result of the rebasing. No gains or losses are recognised at the point of rebasing. Any difference between the reduction in the fair value of the derivative asset, and the cash received, is recognised as a fee charged for rebasing and is recognised within operating and administrative expenses.

The total gain or loss recognised in the period on rebased derivative contracts is included within Total results. No amounts are recognised in Adjusted results at the point of rebasing. On rebased derivative contracts which do not qualify for hedge accounting, or where hedge accounting is ineffective, the total gain or loss, including the cash received on rebasing, is recognised in Adjusted results on the contractual maturity date of the contract. If a rebased trade is hedge accounted, the rebased amount is deferred or released from the hedge reserve in line with the hedge accounting requirements of IFRS 9.

7.2 Financial risk management

The Group's activities expose it to a variety of financial risks, including commodity price risk, foreign currency risk, interest rate risk, inflation risk, liquidity risk, counterparty risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of commodity and financial markets and seeks to manage potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is overseen by the Risk management committees as explained in the Principal risks and uncertainties section (page 94). The Financial Risk Management Committee identifies, evaluates and manages financial risks in close co-ordination with the Group's trading and treasury functions under policies approved by the Board of directors.

Section 7: Risk management continued

7.2 Financial risk management continued

7.2.1 Commodity price risk

The Group is exposed to the effect of fluctuations in commodity prices, particularly the price of power, gas, other fuels and the price of carbon emissions allowances. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so.

Commodity price sensitivity

The sensitivity analysis below has been determined based on the exposure to commodity prices and the impact on profit after tax and other components of equity of reasonably possible increases or decreases in commodity prices as at 31 December. The analysis assumes all other variables were held constant.

Financial and commodity markets saw significant volatility and high prices in 2022. During 2023 the high prices seen in the prior year have generally reversed, but in the most part prices are still above historical averages. See the Principal risks and uncertainties section on page 94 for further details on UK energy market conditions. As a result of these fluctuating market conditions, the valuation of the Group's derivative financial instruments, in particular power, gas, foreign currency contracts, inflation and oil, have seen large reversals of the amounts recognised in the prior year.

Sensitivities for a 10% change in prices have been included in the current and prior year. The impact of smaller and larger price changes can be extrapolated from the below table as changes in prices have a relatively linear relationship with the impact on profit after tax and on the hedge reserve.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	10% decrease £m	10% increase £m	10% decrease £m	10% increase £m
At 31 December 2023				
Power	–	–	34.9	(34.9)
Carbon	2.8	(2.8)	(0.2)	0.2
Gas	11.1	(11.1)	–	–
Oil	(7.9)	7.9	–	–
	Impact on profit after tax		Impact on other components of equity, net of tax	
	10% decrease £m	10% increase £m	10% decrease £m	10% increase £m
At 31 December 2022				
Power	–	–	33.8	(33.8)
Carbon	2.5	(2.5)	(0.8)	0.8
Gas	0.8	(0.8)	–	–
Oil	(10.6)	10.6	–	–

The Group designates certain derivatives as hedging instruments under cash flow hedge accounting. As such, other components of equity are sensitive to increases or decreases in commodity price risk and the impact on the hedge reserve resulting from these movements. Profit after tax is sensitive to increases or decreases in commodity prices as a result of the impact on the fair value of derivative financial instruments not designated as hedging instruments under cash flow hedge accounting.

Commodity risk management

The Group has a policy of securing forward power sales and purchases of fuel when it is profitable to do so and is in line with specified limits under approved policies. Forward power sales can be secured up to 100% of forecast availability two years ahead, after taking account of the volume held back for operational risk management purposes. All commitments to sell power under fixed price contracts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of power. The Group purchases biomass pellets and other fuels under either a fixed or variable priced contract with different maturities, principally from a number of international sources.

The Group considers all such commodity contracts to be economic hedges. If either the contracts cannot be readily net settled or if the Group is able to demonstrate these contracts were entered into and continue to be held for the purpose of receipt or delivery of the non-financial item in accordance with the Group's expected purchase, sale or usage requirements and the own-use exemption applies, then these contracts are not within the scope of IFRS 9. For other contracts that are within the scope of IFRS 9 the Group applies hedge accounting were possible. If the contracts are within the scope of IFRS 9 and hedge accounting is not applied then the contracts are recognised at FVTPL.

Where forward power curves are less liquid, the Group uses financially settled gas sales as a proxy for power to mitigate the risk of power price fluctuations. The Group also purchases gas under fixed-price contracts to meet the demand of the Customers business and for its Daldowie fuel plant. To support the Group's ambition to be carbon negative by 2030, a decision was made in January 2023 to phase out the Group's gas supply contracts in the Opus Energy part of the Group, within the Customers business.

The Group purchases carbon emissions allowances under fixed price contracts to cover the Group's purchase requirements under the UK Emissions Trading Scheme (UK ETS) in relation to the Group's carbon emissions. These are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of carbon emissions allowances. Carbon emissions allowances are also purchased as part of proxy power hedges in the same way as financial gas described above. These proxy hedges are not designated as cash flow hedges.

7.2 Financial risk management continued

Hedge accounting

The Group has cash flow hedges relating to commodity contracts, principally commitments to sell power and purchase carbon. Amounts are recognised in the hedge reserve as the designated contracts are marked-to-market at each reporting date for the effective portion of the hedge, which is generally 100% of the relevant contract. Amounts held within the hedge reserve are then released to the Consolidated income statement as the related contract matures. For power sales contracts, this is at the point that the underlying power is delivered.

Included in amounts released from equity are gains and losses on financial instruments that matured in a previous period, released to the Consolidated income statement in the period the hedged transaction has occurred. No ineffectiveness was recognised in the Consolidated income statement on continuing commodity hedges in the current or prior year. Due to the use of 'all-in-one' hedges, this results in the movement in fair value for the hedged items and hedging instruments being identical. The only source of ineffectiveness regarding the 'all-in-one' hedges would be if delivery of the commodities was no longer expected to occur, which would result in hedge accounting being discontinued.

The reconciliation of the reserves and time period when the hedge will affect the Consolidated income statement are disclosed in note 7.3.

The summary of the amounts relating to the hedging instruments and any related ineffectiveness in the period is presented in the table below.

The average forward rates quoted below only reflect the rates applicable to the portion of the Group's commodity contracts that qualify for hedge accounting in accordance with IFRS 9. The rates do not reflect the overall average rate of the Group's total portfolio of commodity contracts that are used to protect the value of future cash flows.

31 December 2023							
Exposure	Notional value of contracts (MWh, allowances)	Weighted average fixed price £	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness – gains/(losses) £m	Fair value recognised in balance sheet – assets £m	Fair value recognised in balance sheet – liabilities £m	Balance in the hedge reserve for continuing hedges net of deferred tax – (debit)/credit £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax – (debit)/credit £m
Commodity contracts							
Sale of power	5,580,931	129.4	413.3	402.3	(58.8)	257.4	–
Purchase of carbon emissions allowances	62,000	37.4	1.4	0.4	–	0.3	(0.7)

31 December 2023								
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness –gains/(losses) £m	Hedging gains recognised in OCI in the period – gains/(losses) £m	Hedge ineffectiveness recognised in the income statement in the period – gains/(losses) £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset £m	Amount reclassified due to the hedged item affecting profit or loss – (gains)/losses £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur – (gains)/losses £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
Commodity contracts								
Sale of power	(413.3)	413.3	–	Revenue	–	183.4	–	Revenue
Purchase of carbon emissions allowances	(1.4)	1.4	–	Cost of sales	–	1.6	–	Cost of sales

31 December 2022 Restated ⁽¹⁾							
Exposure	Notional value of contracts (MWh, allowances)	Weighted average fixed price £	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness – gains/(losses) £m	Fair value recognised in balance sheet – assets £m	Fair value recognised in balance sheet – liabilities £m	Balance in the hedge reserve for continuing hedges net of deferred tax – (debit)/credit £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax – (debit)/credit £m
Commodity contracts							
Sale of power	2,135,909	218.0	(534.4)	322.8	(576.2)	(190.1)	–
Purchase of carbon emissions allowances	148,000	77.5	(4.2)	–	(1.0)	(0.8)	(1.9)

(1) Comparative amounts have been restated to reflect the Group's revised application of the offsetting criteria to physically settled derivative contracts. This has impacted the fair values of assets and liabilities recognised in the Consolidated balance sheet, but not the overall net asset position. See the offsetting section on page 178 for further details on this restatement.

Section 7: Risk management continued

7.2 Financial risk management continued

31 December 2022

Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness – gains/(losses) £m	Hedging losses recognised in OCI in the period – gains/(losses) £m	Hedge ineffectiveness recognised in the income statement in the period – gains/(losses) £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset £m	Amount reclassified due to the hedged item affecting profit or loss – (gains)/losses £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur – (gains)/losses £m	Line item in the income statement/balance sheet affected by the reclassification/transfer
Commodity contracts								
Sale of power	534.4	(534.4)	–	Revenue	–	459.8	–	Revenue
Purchase of carbon emissions allowances	4.2	(4.2)	–	Cost of sales	–	0.1	–	Cost of sales

7.2.2 Foreign currency risk

The Group is exposed to fluctuations in foreign currency rates as a result of committed and forecast transactions in foreign currencies, principally in relation to purchases of fuel for use in the Generation business and principal and interest payments relating to foreign currency denominated debt. These fuel purchases are typically denominated in US dollars (USD), euros (EUR) or Canadian dollars (CAD), and the foreign currency debt is also denominated in USD, EUR and CAD (see note 4.2 for further details on the Group's borrowings).

The Group also has an exposure to translation risk in relation to its net investment in its US and Canadian subsidiaries within the Pellet Production business.

Foreign currency sensitivity

The analysis below shows the impact on profit after tax and other components of equity of reasonably possible strengthening or weakening of currencies against GBP. The sensitivity analysis below shows the impact of a change in foreign exchange rates as at 31 December on outstanding monetary items denominated in foreign currency and the valuation of foreign currency derivative instruments. For foreign currency derivatives designated into hedge relationships the analysis includes the impact of recycling amounts from the hedge reserve if as part of the sensitivity the item they are hedging impacts profit or loss. The analysis assumes all other variables were held constant.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	10% strengthening £m	10% weakening £m	10% strengthening £m	10% weakening £m
At 31 December 2023				
USD	84.5	(53.5)	125.3	(100.8)
EUR	15.9	(13.2)	3.9	(3.6)
CAD	0.3	–	4.8	(4.0)

	Impact on profit after tax		Impact on other components of equity, net of tax	
	10% strengthening £m	10% weakening £m	10% strengthening £m	10% weakening £m
At 31 December 2022				
USD	41.7	(59.0)	102.6	(83.9)
EUR	12.2	(20.5)	11.8	(9.6)
CAD	(6.2)	9.9	7.8	(13.0)

Prior year foreign currency sensitivities have been re-presented to fully reflect the foreign currency impact on borrowings and their related hedges.

The Group designates certain foreign currency derivatives as hedging instruments under cash flow hedge accounting. As such, other components of equity are sensitive to the strengthening or weakening of other currencies in relation to the impact on the hedge reserve of these movements. Profit after tax is sensitive to the strengthening or weakening of other currencies as a result of the impact on the fair value of foreign currency derivatives not designated as hedging instruments under cash flow hedge accounting.

Foreign currency risk management

It is the Group's policy to hedge material transactional exposures using a variety of derivatives to protect the sterling values of foreign currency cash flows, except where there is an economic hedge inherent in the transaction. The Group enters into derivative contracts in line with the currency risk management policy, including forwards and options, to manage the risks associated with its anticipated foreign currency requirements over a rolling five-year period, covering contracted exposures and a proportion of highly probable forecast transactions.

In addition, in order to optimise the cost of funding, the Group has issued foreign currency denominated debt in USD, EUR and CAD (see note 4.2). The Group utilises derivative contracts, including cross-currency interest rate swaps and foreign exchange forward contracts, to manage exchange risk on foreign currency debt.

7.2 Financial risk management continued

Hedge accounting

The Group designates certain foreign currency exchange contracts as hedging instruments, predominantly forwards and swaps. Gains and losses on foreign currency exchange contracts that are designated as hedges are transferred from equity to inventories for hedges of fuel purchases when the Group takes ownership of the fuel.

Cross-currency interest rate swap gains and losses that are effective at hedging the foreign exchange risk on the interest payments are released to interest payable and similar charges when foreign exchange gains or losses are recognised on the interest payments. Gains and losses that are effective at hedging the foreign exchange risk on the USD, EUR and CAD principal are released to foreign exchange gains or losses to offset gains and losses on retranslating the USD, EUR and CAD denominated hedged borrowings.

The Group has taken out fixed-to-fixed cross-currency interest rate swaps to hedge the future cash flows associated with the \$500 million and €250 million 2025 fixed rate loan notes, effectively converting them to sterling fixed rate cash flows. The Group has taken out a combination of fixed-to-fixed and floating-to-fixed cross-currency interest rate swaps in order to fix the sterling cash flows payable on the €126.5 million tranche of the 2020 UK infrastructure private placement facility (see note 4.2 for further details on borrowings).

The main sources of ineffectiveness relating to foreign currency exchange contracts are timing differences and credit risk. The main sources of ineffectiveness relating to cross-currency interest rate swaps are differences in the critical terms, differences in repricing dates, foreign currency basis spread, and credit risk.

A reconciliation of reserves and the time period when the hedge will affect profit or loss, or will be transferred from equity and included in the initial cost of the non-financial item, are disclosed in notes 7.3 and 7.4.

A summary of amounts relating to the hedging instruments, and any related ineffectiveness in the period, is presented in the table below. Ineffectiveness on foreign currency exchange contracts is recognised in cost of sales if it relates to hedges of fuel purchases. Ineffectiveness on cross-currency interest rate swaps that are hedging principal and interest payments is recognised in foreign exchange gains or losses if it relates to the principal repayment, and interest payable and similar charges if the ineffectiveness relates to interest payments.

There are €95 million of floating-to-fixed cross-currency interest rate swaps that are hedging both foreign currency risk and interest rate risk. These swaps have been separated into synthetic floating-to-floating cross-currency interest rate swaps, that are hedging foreign currency risk, and synthetic floating-to-fixed GBP interest rate swaps, that are hedging interest rate risk. The synthetic floating-to-floating cross-currency interest rate swaps are disclosed in this section, and the synthetic floating-to-fixed GBP interest rate swaps are disclosed in note 7.2.3 relating to interest rate risk.

The average forward rates quoted below only reflect the rates applicable to the portion of the Group's foreign currency hedging instruments that qualify for hedge accounting in accordance with IFRS 9. The rates do not reflect the overall average rate of the Group's total portfolio of derivatives that are used to fix the sterling value of future cash flows.

31 December 2023							
Exposure	Notional value of contracts (\$m, €m, C\$m)	Weighted average fixed/variable rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness – gains/(losses) £m	Fair value recognised in balance sheet – assets £m	Fair value recognised in balance sheet – liabilities £m	Balance in the hedge reserve for continuing hedges net of deferred tax – (debit)/credit £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax – (debit)/credit £m
Foreign currency purchase contracts							
Purchases in foreign currency – USD	2,126.9	\$1.29	(68.0)	35.6	(21.5)	(7.3)	–
Purchases in foreign currency – EUR	47.0	€ 1.15	(3.3)	–	–	0.2	–
Purchases in foreign currency – CAD	116.6	C\$1.68	(8.7)	2.1	(2.1)	(1.3)	–
Foreign currency denominated debt							
Interest and principal repayments – USD	500.0	\$1.36/ 6.13%	(23.0)	2.7	(21.1)	(2.4)	–
Interest and principal repayments – EUR	376.5	€1.10/ 4.57%/ 3M SONIA + 137.2bps	(11.8)	–	(14.0)	(2.6)	–
Principal repayments – CAD	200.0	C\$1.68	(0.2)	–	(0.1)	0.2	–

Section 7: Risk management continued

7.2 Financial risk management continued

31 December 2023

Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness – gains/(losses) £m	Hedging losses recognised in OCI in the period – gains/(losses) £m	Hedge ineffectiveness recognised in the income statement in the period – gains/(losses) £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset £m	Amount reclassified due to the hedged item affecting profit or loss – (gains)/losses £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur – (gains)/losses £m	Line item in the income statement/balance sheet affected by the transfer/reclassification
Foreign currency purchase contracts								
Purchases in foreign currency – USD	68.0	(68.0)	–	Cost of sales	(42.5)	–	–	Inventories
Purchases in foreign currency – EUR	3.3	(3.3)	–	Cost of sales	(0.9)	–	–	Inventories
Purchases in foreign currency – CAD	8.8	(8.8)	–	Cost of sales	–	–	–	Inventories
Foreign currency denominated debt								
Interest and principal repayments – USD	28.9	(22.9)	–	Interest payable and similar charges	–	(3.3)	–	Interest payable and similar charges
			–	Foreign exchange (losses)/gains	–	22.0	–	Foreign exchange (losses)/gains
Interest and principal repayments – EUR	13.7	(11.8)	–	Interest payable and similar charges	–	3.0	–	Interest payable and similar charges
			–	Foreign exchange (losses)/gains	–	7.5	–	Foreign exchange (losses)/gains
Principal repayments – CAD	0.2	(0.2)	–	Foreign exchange (losses)/gains	–	–	–	Foreign exchange (losses)/gains

31 December 2022

Exposure	Notional value of contracts (\$m, €m, C\$m)	Weighted average fixed/variable rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness – gains/(losses) £m	Fair value recognised in balance sheet – assets £m	Fair value recognised in balance sheet – liabilities £m	Balance in the hedge reserve for continuing hedges net of deferred tax – (debit)/credit £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax – (debit)/credit £m
Foreign currency purchase contracts							
Purchases in foreign currency – USD	1,586.4	\$1.38	187.2	149.3	–	75.6	–
Purchases in foreign currency – EUR	135.0	€1.16	17.9	3.3	(0.3)	3.3	–
Purchases in foreign currency – CAD	406.1	C\$1.73	0.4	13.9	(0.1)	5.6	–
Foreign currency denominated debt							
Interest and principal repayments – USD	500.0	\$1.36/4.90%	47.5	12.3	(6.2)	0.8	–
Interest and principal repayments – EUR	376.5	€1.10/4.55%/3M SONIA + 137.2bps	(3.1)	4.2	(8.1)	(1.6)	–

7.2 Financial risk management continued

31 December 2022

Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness – gains/(losses) £m	Hedging gains/(losses) recognised in OCI in the period – gains/(losses) £m	Hedge ineffectiveness recognised in the income statement in the period – gains/(losses) £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset £m	Amount reclassified due to the hedged item affecting profit or loss – (gains)/losses £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur – (gains)/losses £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
Foreign currency purchase contracts								
Purchases in foreign currency – USD	(187.2)	187.2	–	Cost of sales	(34.2)	–	–	Inventories
Purchases in foreign currency – EUR	(17.9)	17.9	–	Cost of sales	5.9	–	–	Inventories
Purchases in foreign currency – CAD	(0.4)	0.4	–	Cost of sales	9.2	–	–	Inventories
Foreign currency denominated debt								
Interest and principal repayments – USD	(47.5)	47.5	–	Interest payable and similar charges	–	(9.2)	–	Interest payable and similar charges
				Foreign exchange (losses)/gains	–	(44.7)	–	Foreign exchange (losses)/gains
Interest and principal repayments – EUR	3.1	(3.1)	–	Interest payable and similar charges	–	2.6	–	Interest payable and similar charges
				Foreign exchange (losses)/gains	–	(17.3)	–	Foreign exchange (losses)/gains

7.2.3 Interest rate risk

The Group has exposure to interest rate risk, principally in relation to variable rate debt, cash and cash equivalents and the revolving credit facility (RCF), should it be drawn. The Group has Sterling Overnight Index Average (SONIA) floating-to-fixed interest rate swaps to fix the interest payments on the £375 million 2019 UK infrastructure private placement facility. For the 2020 UK infrastructure private placement facility, the Group has fixed the interest rate payable on the £98 million GBP denominated facilities through floating-to-fixed SONIA interest rate swaps.

The Group has also fixed the interest rate payable on the variable rate EUR denominated €95 million tranche of the 2020 UK infrastructure private placement facility, through Euro Interbank Offered Rate (EURIBOR) floating-to-fixed cross-currency interest rate swaps. As detailed in note 7.2.2 above, the floating-to-fixed cross-currency interest rate swaps are hedging both interest rate risk and foreign currency risk, and as such the disclosures relating to interest rate risk are included in this section. See note 7.2.2 for the foreign currency risk disclosures relating to the floating-to-fixed cross-currency interest rate swaps.

At 31 December 2023, the Group has fixed interest rate payments in GBP on all of its debt instruments through the use of swaps, with the exception of the Group's CAD denominated debt, which is the only outstanding debt that remains variable and does not have fixed interest rate payments. In January 2024, the Group entered into a floating-to-fixed cross-currency swap to fix the sterling value of interest payments on the CAD denominated term loan.

The returns generated on the Group's cash balance, or payable on amounts drawn on the RCF, are exposed to movements in short-term interest rates. The Group actively manages cash balances to protect against adverse changes in interest rates whilst retaining liquidity.

Certain Group borrowings are at fixed rates, including the USD and EUR bonds, and are therefore not exposed to interest rate risk.

Further information about the Group's instruments that are exposed to interest rate risk and their repayment schedules is provided in note 4.2.

Section 7: Risk management continued

7.2 Financial risk management continued

Interest rate benchmark reform

The only interest rate benchmark to which the Group is still exposed to, that is subject to interest rate benchmark reform, is the Canadian Dollar Offered Rate (CDOR). The Group has a C\$200 million term loan facility that is linked to a floating-rate CDOR benchmark. During the year the Group has extended the facility to a maturity date of January 2026. As part of the extension, the Group agreed with lenders to transition the floating-rate to the Canadian Overnight Repo Rate Average (CORRA) plus a credit adjustment spread (CAS). The CAS per the amended agreement is consistent with the International Swaps and Derivatives Association (ISDA) spread adjustments as calculated and published by Bloomberg. The base margin rate of the loan remained unchanged. This amendment will become active in the first interest period starting in January 2024.

'Phase 2' of the amendments requires that, for financial instruments measured using amortised cost measurement (that is, financial instruments classified as amortised cost and debt financial assets classified as FVOCI), changes to the basis for determining the contractual cash flows required by interest rate benchmark reform are reflected by adjusting their effective interest rate. No immediate gain or loss is recognised. The expedient is only applicable to changes that are required by interest rate benchmark reform, which is the case if, and only if, the change is necessary as a direct consequence of interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis (that is, the basis immediately preceding the change).

The following table contains details of all of the financial instruments that the Group holds at 31 December 2023 which reference CDOR and have not yet transitioned to the CORRA interest rate benchmark:

Non-derivative financial instrument	Pre-transition benchmark rate	Nominal value C\$	Maturity date	Hedge accounting applied	Transition progress	New benchmark rate
Agreed transition to CORRA from the start of the first interest period post 31 December 2023						
CAD term facility	CDOR	200.0	2026	Unhedged		CORRA

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the reporting date was outstanding for the whole year.

The analysis below shows what the impact on the current years profit after tax and other components of equity would have been for a reasonably possible increase or decrease in interest rates. For interest rate derivatives designated into hedge relationships the analysis includes the impact of recycling amounts from the hedge reserve. The analysis assumes all other variables are held constant.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	100 basis points increase £m	100 basis points decrease £m	100 basis points increase £m	100 basis points decrease £m
At 31 December 2023				
Variable rate debt – unhedged	(1.2)	1.2	–	–
Variable rate debt – hedged	(4.2)	4.2	–	–
Interest rate swaps	4.2	(4.2)	8.1	(8.1)
Net impact	(1.2)	1.2	8.1	(8.1)
At 31 December 2022				
Variable rate debt – unhedged	(1.4)	1.4	–	–
Variable rate debt – hedged	(4.2)	4.2	–	–
Interest rate swaps	4.2	(4.2)	10.1	(10.1)
Net impact	(1.4)	1.4	10.1	(10.1)

An increase or decrease in interest rates would affect profit after tax as a result of the impact on the interest payable in the period on any variable rate debt. The Group has reduced its exposure to interest rate risk on variable rate debt through the use of floating-to-fixed interest rate swaps and therefore a change in interest rates would not have a significant effect on profit after tax. The Group designates certain floating-to-fixed interest rate swaps as hedging instruments under cash flow hedge accounting. As such, other components of equity are sensitive to an increase or decrease in interest rates in relation to the impact on the hedge reserve of these valuations.

Certain amounts of the Group's variable rate debt and interest rate swaps have a floor of 0% for the benchmark interest rate. The Group also has CAD denominated debt that has a variable rate based on CDOR. At 31 December 2023, no swaps were in place to hedge the interest risk on the CAD denominated debt. Therefore, in relation to this debt a change in interest rate would have an impact on profit after tax but not on other components of equity.

Interest rate risk management

The Group has a risk management policy in place relating to interest rate risk. The Group policy permits the use of hedging instruments in order to hedge up to 100% of the Group's current and forecast interest rate exposure.

7.2 Financial risk management continued

Hedge accounting

The Group designates its floating-to-fixed SONIA interest rate swaps and the floating-to-fixed cross-currency interest rate swaps as hedging instruments against interest rate risk. The SONIA interest rate swaps are hedges of the interest payments relating to the £375 million 2019 UK infrastructure private placement facility and the £98 million GBP denominated tranche of the 2020 UK infrastructure private placement facility. The cross-currency interest rate swaps are hedges of both interest rate risk and foreign currency risk relating to the variable rate €95 million EUR denominated tranche of the 2020 UK infrastructure private placement facility. As such this has been separated into synthetic floating-to-floating cross-currency interest rate swaps and synthetic floating-to-fixed GBP interest rate swaps. The synthetic floating-to-floating cross-currency interest rate swaps swap the €95 million variable rate EURIBOR linked debt to variable rate SONIA linked GBP debt with a principal of £86.8 million. The synthetic floating-to-fixed GBP interest rate then swaps the variable interest rate for a fixed GBP interest rate. Details of the floating-to-fixed SONIA interest rate swaps are included in the disclosures below.

Gains and losses on the interest payments on interest rate swaps are released to interest payable and similar charges at the same time as the interest is expensed on the related hedged borrowings. The main sources of ineffectiveness relating to interest rate hedges are differences in the critical terms, differences in repricing dates and credit risk.

A summary of the amounts relating to the sterling interest rate hedging instruments and any related ineffectiveness in the period is presented in the table below.

31 December 2023							
Exposure	Notional value of contracts £m	Weighted average % fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness – gains/(losses) £m	Fair value recognised in balance sheet – assets £m	Fair value recognised in balance sheet – liabilities £m	Balance in the hedge reserve for continuing hedges net of deferred tax – (debit)/credit £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax – (debit)/credit £m
Interest rate							
Variable rate GBP debt	559.8	1.06%	(33.0)	22.7	–	18.9	–

31 December 2023								
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness – gains/(losses) £m	Hedging losses recognised in OCI in the period – gains/(losses) £m	Hedge ineffectiveness recognised in the income statement in the period – gains/(losses) £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset £m	Amount reclassified due to the hedged item affecting profit or loss – (gains)/losses £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur – (gains)/losses £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
Interest rate								
Variable rate GBP debt	33.0	(33.0)	–	Interest payable and similar charges	–	16.0	–	Interest payable and similar charges

31 December 2022							
Exposure	Notional value of contracts £m	Weighted average % fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness – gains/(losses) £m	Fair value recognised in balance sheet – assets £m	Fair value recognised in balance sheet – liabilities £m	Balance in the hedge reserve for continuing hedges net of deferred tax – (debit)/credit £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax – (debit)/credit £m
Interest rate							
Variable rate GBP debt	558.8	1.06%	39.9	37.5	–	31.7	–

31 December 2022								
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness – gains/(losses) £m	Hedging gains recognised in OCI in the period – gains/(losses) £m	Hedge ineffectiveness recognised in the income statement in the period – gains/(losses) £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset £m	Amount reclassified due to the hedged item affecting profit or loss – (gains)/losses £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur – (gains)/losses £m	Line item in the income statement/balance sheet affected by the transfer/reclassification
Interest rate								
Variable rate GBP debt	(39.9)	39.9	–	Interest payable and similar charges	–	(3.1)	–	Interest payable and similar charges

Section 7: Risk management continued

7.2 Financial risk management continued

7.2.4 Inflation risk

The Group is exposed to inflation risk on elements of its revenues and cost base. The Group's ROC revenue is linked to UK RPI and its CfD income is linked to UK CPI (see note 2.2 for further information on ROC and CfD income). In addition, a proportion of the Group's fuel costs are linked to either US or Canadian CPI. The Group has UK CPI and RPI swaps to hedge certain revenues linked to inflation.

Inflation risk sensitivity

The sensitivity analysis below has been determined based on the exposure to inflation rates on inflation linked derivatives at the reporting date.

The analysis below shows the impact on profit after tax and other components of equity of a reasonably possible increase or decrease in inflation rates as at 31 December. The analysis assumes all other variables are held constant.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	200 basis points increase £m	200 basis points decrease £m	200 basis points increase £m	200 basis points decrease £m
At 31 December 2023				
UK CPI inflation swaps	–	–	(31.3)	26.6
UK RPI inflation swaps	(5.6)	5.5	(24.3)	23.9
	Impact on profit after tax		Impact on other components of equity, net of tax	
	200 basis points increase £m	200 basis points decrease £m	200 basis points increase £m	200 basis points decrease £m
At 31 December 2022				
UK CPI inflation swaps	–	–	(34.8)	29.2
UK RPI inflation swaps	(0.7)	1.1	(52.8)	50.9

The Group designates the UK CPI and RPI inflation swaps as hedging instruments under cash flow hedge accounting. As such, other components of equity are sensitive to the impact on inflation linked derivatives recognised in the hedge reserve of an increase or decrease in UK inflation rates. Profit after tax is sensitive to an increase or decrease in UK inflation rates due to the impact these rate changes would have on the over-hedged portion of the inflation swaps, with this impact being recognised directly in the Consolidated income statement.

Inflation risk management

The Group has a risk management policy in place relating to inflation risk. The Group policy permits the use of hedging instruments in order to hedge up to 100% of the Group's current and forecast inflation exposure.

Hedge accounting

The Group has contracts for which the revenue is contractually linked to UK CPI inflation. The Group has designated this risk component as a hedged item. UK CPI and UK RPI inflation swaps are utilised as the hedging instruments for this inflation risk.

Gains and losses on the inflation swaps are held in the hedge reserve and reclassified to revenue in the Consolidated income statement at the same time the revenue with inflation linked contracts impacts profit or loss or if the hedged item is no longer expected to occur.

The main sources of ineffectiveness relating to the inflation swaps are the basis point difference between the RPI swaps and the CPI-linked revenues they are hedging, calculation differences, and the hedged item no longer being expected to occur. Calculation differences occur due to differences between the reference months used to calculate the inflationary increase per the swaps and the reference months used to calculate the inflationary increase for the CPI-linked revenues.

During 2023, as a result of a decrease in the forecast CfD generation, the Group recycled £9.3 million of losses on hedge accounted inflation linked derivative contracts to the Consolidated income statement, due to the hedged item no longer being expected to occur. The Group also recognised £10.7 million of ineffectiveness due to the basis difference between the RPI hedging instruments and the CPI exposure.

7.2 Financial risk management continued

The summary of the amounts relating to the hedging instruments and any related ineffectiveness in the period is presented in the table below.

31 December 2023							
Exposure	Notional value of contracts £m	Weighted average fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness – gains/(losses) £m	Fair value recognised in balance sheet – assets £m	Fair value recognised in balance sheet – liabilities £m	Balance in the hedge reserve for continuing hedges net of deferred tax – (debit)/credit £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax – (debit)/credit £m
Inflation							
Inflation linked sales	30.4	CPI – 2.72%	3.3	–	(19.7)	(15.3)	13.6
contracts – CPI	440.0	RPI – 3.46%	(14.2)	–	(230.7)	(53.6)	–

31 December 2023								
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness – gains/(losses) £m	Hedging gains recognised in OCI in the period – gains/(losses) £m	Hedge ineffectiveness recognised in the income statement in the period – gains/(losses) £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset £m	Amount reclassified due to the hedged item affecting profit or loss – (gains)/losses £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur – (gains)/losses £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
Inflation								
Inflation linked sales	(3.3)	3.3	–	Revenue	–	(0.9)	–	Revenue
contracts – CPI	3.5	(3.5)	(10.7)	Revenue	–	17.5	9.3	Revenue

31 December 2022							
Exposure	Notional value of contracts £m	Weighted average fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness – gains/(losses) £m	Fair value recognised in balance sheet – assets £m	Fair value recognised in balance sheet – liabilities £m	Balance in the hedge reserve for continuing hedges net of deferred tax – (debit)/credit £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax – (debit)/credit £m
Inflation							
Inflation linked sales contracts – CPI	30.4	CPI – 2.72%	(13.3)	–	(23.8)	(18.1)	14.6
	440.0	RPI – 3.45%	(144.0)	–	(283.5)	(71.1)	–

31 December 2022								
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness – gains/(losses) £m	Hedging losses recognised in OCI in the period – gains/(losses) £m	Hedge ineffectiveness recognised in the income statement in the period – gains/(losses) £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset £m	Amount reclassified due to the hedged item affecting profit or loss – (gains)/losses £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur – (gains)/losses £m	Line item in the income statement/ balance sheet affected by the transfer/ reclassification
Inflation								
Inflation linked sales	13.3	(13.3)	–	Revenue	–	(2.0)	(3.5)	Revenue
contracts – CPI	125.5	(125.5)	(18.5)	Revenue	–	7.2	43.0	Revenue

Section 7: Risk management continued

7.2 Financial risk management continued

7.2.5 Liquidity risk

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

In managing liquidity risk, the Group has the ability to accelerate the cash flows associated with certain working capital items, principally those related to ROC sales and Customers business power sales. In each case this is undertaken on a non-recourse basis and, accordingly, the ROC assets and other items are derecognised from the Consolidated balance sheet at the point of sale. The Group also utilises standard purchasing facilities to extend the working capital cycle, whilst still paying suppliers on time. The impact on the Group's cash flows is described in note 4.3. Such facilities are not included within the Group's definition of Net debt, as outlined in note 2.7.

The following tables set out details of the expected maturity profile of the undiscounted, contractual payments of non-derivative financial liabilities. The tables include both interest and principal cash flows. To the extent that interest payments or receipts are floating rate, the undiscounted amount is derived from interest rate curves at the reporting date.

As at 31 December 2023						
	Within 3 months £m	3 months– 1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £m
Term loans, gross value	153.9	154.9	271.6	278.8	87.0	946.2
Loan notes, gross value	–	31.7	635.3	–	–	667.0
Borrowings, contractual maturity	153.9	186.6	906.9	278.8	87.0	1,613.2
Trade and other payables	763.8	150.7	3.2	1.5	–	919.2
Lease liabilities	8.6	24.8	28.6	52.6	57.0	171.6
	926.3	362.1	938.7	332.9	144.0	2,704.0

Trade and other payables of £919.2 million (2022: £1,065.9 million) excludes non-financial liabilities such as the Group's obligation to deliver ROCs and employee benefit related accruals.

As at 31 December 2022						
	Within 3 months £m	3 months– 1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £m
Term loans, gross value	10.5	32.4	353.3	338.5	144.9	879.6
Loan notes, gross value	–	33.3	33.3	663.6	–	730.2
Borrowings, contractual maturity	10.5	65.7	386.6	1,002.1	144.9	1,609.8
Trade and other payables	920.0	143.3	2.0	0.6	–	1,065.9
Lease liabilities	8.3	22.0	26.7	64.3	72.0	193.3
	938.8	231.0	415.3	1,067.0	216.9	2,869.0

The weighted average interest rate payable at the reporting date on the Group's borrowings was 4.79% (2022: 4.14%).

The following tables set out details of the expected maturity profile of contractual payments of derivative financial liabilities. Where the amount payable is not fixed, the amount disclosed has been determined by reference to projected commodity prices, foreign currency exchange rates, inflation rates or interest rates, as illustrated by the yield or other forward curves existing at the reporting date. Where derivatives are expected to be gross settled based on the trade value rather than the mark-to-market value, the gross cash flows have been presented. Certain commodity contracts are expected to be gross settled through delivery or receipt of the commodity and a subsequent cash settlement of the trade value. Vanilla foreign currency exchange contracts are expected to be gross settled through delivery of one currency and receipt of another. Where derivatives are expected to be net settled, the undiscounted net cash flows expected to occur based on the current fair value have been disclosed. Financial contracts and other foreign exchange contracts (excluding forwards and swaps) are expected to be net settled. Interest rate contracts and inflation rate contracts are presented based on net settlement of the interest rate and inflation rate differentials. Gross settlement of both the interest and principal on cross-currency interest rate swaps is expected and as such this element of the swap is presented gross.

7.2 Financial risk management continued

	As at 31 December 2023			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	795.3	79.3	1.6	876.2
Foreign currency exchange contracts	952.4	497.1	394.1	1,843.6
Cross-currency contracts	763.7	2.5	31.2	797.4
Inflation contracts	81.6	85.2	107.5	274.3
	2,593.0	664.1	534.4	3,791.5

	As at 31 December 2022			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	1,328.8	173.8	4.6	1,507.2
Foreign currency exchange contracts	921.4	45.4	47.8	1,014.6
Cross-currency contracts	776.3	2.5	3.8	782.6
Inflation contracts	67.3	83.1	203.8	354.2
	3,093.8	304.8	260.0	3,658.6

7.2.6 Credit risk

The Group's gross exposure to credit risk for financial instruments is limited to the carrying amount of financial assets recognised at the reporting date. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 7.1.

Trade and other receivables are stated gross of the provision for expected credit losses on trade receivables of £59.4 million (2022: £60.9 million) and expected credit losses on accrued income of £9.4 million (2022: £7.6 million). The balance excludes non-financial receivables such as prepayments.

The Group's three reportable segments (Pellet Production, Generation and Customers) are exposed to different levels and concentrations of credit risk, largely reflecting the number, size and nature of their respective customers.

The Pellet Production segment sells biomass pellets both intra-group and to external parties. Credit risk for the Group relates to the sales made to external parties. The majority of the Pellet Production segment's external sales are with large utility customers in Europe and Asia. The Pellet Production segment manages its credit risk by reviewing individual sales contracts, considering the length of the contract, payment terms, and assessing the credit quality of counterparties prior to signing contracts and throughout the duration of contracts.

For the Generation segment, the risk arises from treasury, trading and energy procurement activities. Wholesale counterparty credit exposures are monitored by individual counterparty and by category of credit rating. Counterparty credit exposures are subject to approved limits. The Group uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist. In addition, the Group employs a variety of other methods to mitigate credit risk: margining, various forms of parent company guarantee, deeds of charge, cash collateral, letters of credit and surety bonds. The majority of the Generation business's credit risk is with counterparties in related energy industries or with financial institutions. In addition, where deemed appropriate, the Group has historically purchased credit default swaps.

The highest credit risk exposure is in the Customers segment, with a large number of customers of varying sizes operating in a variety of markets. In particular, its smaller customers carry lower concentrations but higher levels of credit risk, owing to a customer base comprised of smaller retail and commercial entities. Credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. Credit risk is monitored and managed by industry sector.

Further details on the impact of credit risk on trade and other receivables is disclosed in note 3.5.

Section 7: Risk management continued

7.2 Financial risk management continued

The investment of surplus cash is undertaken with the objective of ensuring that there is sufficient liquidity at all times, so that funds are available to meet liabilities as they fall due, whilst securing a return from invested funds and preserving the capital value of those funds within Board-approved policies. These policies manage credit risk exposure by setting out minimum rating requirements and maximum investments with any one counterparty based on their rating and the maturity profile.

The Group had cash and cash equivalents of £379.5 million at 31 December 2023 (2022: £238.0 million). Cash and cash equivalents are subject to the impairment requirements of IFRS 9. The identified impairment loss, based on the 12-month expected credit loss basis, was immaterial. Cash and cash equivalents are held with banks with external credit ratings between AAA and A.

The Group is exposed to credit risk on derivative contracts, to which the impairment requirements of IFRS 9 are not applied as the fair value requirements of IFRS 13 are applicable. Credit risk is a factor in the determination of fair value. The carrying amount of these financial assets, disclosed in note 7.1, represents the Group's maximum credit risk exposure. Some derivative contracts are fully cash collateralised, thereby minimising credit risk. At 31 December 2023 the Group held £20.3 million in cash collateral receipts (2022: £nil) covering certain derivative assets and had posted £98.9 million (2022: £234.0 million) of cash collateral payments covering certain derivative liabilities. The credit rating of counterparties to which the £98.9 million of cash collateral had been posted was A-.

Counterparty risk

As the Group relies on third-party suppliers and counterparties for the delivery of currency, biomass pellets and other goods and services, it is exposed to the risk of non-performance by these third-party suppliers. For financial instruments this risk is limited to the credit risk, as discussed above. The Group is also exposed to counterparty risk on non-financial instruments, such as the purchases of biomass and capital expenditure. If a large supplier were to fall into financial difficulty and/or fail to deliver against its contract with the Group, there would be additional costs associated with securing the lost goods or services from other suppliers.

The Group enters into purchase and sale contracts for a wide variety of goods and services, for example the sale of power to a number of counterparties. The failure of one or more of these counterparties to perform under their contractual obligations may cause the Group financial distress or increase the risk profile of the Group. The Group has acceptance procedures in place to ensure the counterparties the Group contracts with are appropriate. The Group also has limits in place, and actively monitors its exposures to individual counterparties to minimise this risk.

Capital management

The Group is disciplined in its management of capital to ensure it is able to continue as a going concern; maintain a strong credit rating underpinned by robust financial metrics; invest in its core business; and pay a sustainable and growing dividend whilst maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of shareholders' equity (excluding the hedge and cost of hedging reserves), plus Net debt. Net debt is comprised of borrowings, cash and cash equivalents attributable to owners of the parent company and is inclusive of the impact of associated hedging instruments as disclosed in note 2.7.

See note 4.2 for details of loan covenants, and the Viability statement on page 92 for details of scenario analysis performed on covenant restrictions within the Group's financing facilities.

	As at 31 December	
	2023 £m	2022 £m
Borrowings (note 4.2)	1,425.3	1,440.9
Cash and cash equivalents (note 4.1)	(379.5)	(238.0)
Non-controlling interests share of cash and cash equivalents in non-wholly owned subsidiaries	0.3	0.7
Impact of hedging instruments	37.8	2.4
Net debt (note 2.7)	1,083.9	1,206.0
Total shareholders' equity attributable to owners of the parent company, excluding hedge and cost of hedging reserves	1,744.9	1,422.7

7.3 Hedge reserve

The Group designates certain hedging instruments that are used to address commodity price risk, foreign exchange risk, interest rate risk and inflation rate risk as cash flow hedges. At the inception of the hedge, the relationship between the hedging instrument and hedged item is documented, along with its risk management objectives. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments used in hedging transactions are effective in offsetting changes in cash flows of the hedged items. Changes in fair value of contracts designated into such hedging relationships are recognised within the hedge reserve to the extent they are effective. Amounts accumulated in the hedge reserve are reclassified in the periods when the hedged item affects profit or loss. If the hedged item results in the recognition of a non-financial asset then the amount accumulated in the hedge reserve is transferred and included within the initial cost of the asset.

The table below details the gains and losses recognised in the current and prior year on hedging instruments, the amounts reclassified from equity due to the hedged item affecting the Consolidated income statement, and the amounts reclassified due to the hedged future cash flows no longer being expected to occur. See section 7.2 for further details on these amounts.

	Hedge reserve				
	Commodity price risk £m	Foreign currency exchange risk £m	Interest rate risk £m	Inflation rate risk £m	Total £m
At 1 January 2022	(138.2)	(39.3)	4.2	(4.1)	(177.4)
(Losses)/gains recognised:					
– Change in fair value of hedging instrument recognised in OCI	(538.6)	249.9	39.9	(138.8)	(387.6)
Reclassified from equity as the hedged item has affected profit or loss:					
– Reclassified to the Consolidated income statement – included in cost of sales	0.1	–	–	–	0.1
– Reclassified to the Consolidated income statement – included in revenue	459.8	–	–	5.2	465.0
– Reclassified to the Consolidated income statement – included in interest payable and similar charges	–	(6.6)	(3.1)	–	(9.7)
– Reclassified to the Consolidated income statement – included in foreign exchange (losses)/gains	–	(62.0)	–	–	(62.0)
Reclassified from equity as the hedged item is no longer expected to occur:					
– Reclassified from equity – included in revenue	–	–	–	39.5	39.5
Transferred from equity and included within the initial cost of a non-financial asset:					
– Transferred to cost of inventories	–	(19.1)	–	–	(19.1)
Related deferred tax, net (note 2.6)	24.1	(39.2)	(9.3)	23.6	(0.8)
At 1 January 2023	(192.8)	83.7	31.7	(74.6)	(152.0)
Gains/(losses) recognised:					
– Change in fair value of hedging instrument recognised in OCI	414.7	(115.0)	(33.0)	(0.2)	266.5
Reclassified from equity as the hedged item has affected profit or loss:					
– Reclassified to the Consolidated income statement – included in cost of sales	1.6	–	–	–	1.6
– Reclassified to the Consolidated income statement – included in revenue	183.4	–	–	16.6	200.0
– Reclassified to the Consolidated income statement – included in interest payable and similar charges	–	(0.3)	16.0	–	15.7
– Reclassified to the Consolidated income statement – included in foreign exchange (losses)/gains	–	29.5	–	–	29.5
Reclassified from equity as the hedged item is no longer expected to occur:					
– Reclassified from equity – included in revenue	–	–	–	9.3	9.3
Transferred from equity and included within the initial cost of a non-financial asset:					
– Transferred to cost of inventories	–	(43.4)	–	–	(43.4)
Related deferred tax, net (note 2.6)	(149.9)	32.3	4.2	(6.4)	(119.8)
At 31 December 2023	257.0	(13.2)	18.9	(55.3)	207.4

Section 7: Risk management continued

7.3 Hedge reserve continued

The expected release profile from equity of post-tax hedging gains and losses is as follows:

	As at 31 December 2023			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity risk	199.4	56.0	1.6	257.0
Foreign currency exchange risk	(4.9)	(6.1)	(2.2)	(13.2)
Interest rate risk	11.5	6.3	1.1	18.9
Inflation risk	(19.4)	(15.2)	(20.7)	(55.3)
	186.6	41.0	(20.2)	207.4

	At 31 December 2022			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity risk	(167.4)	(22.3)	(3.1)	(192.8)
Foreign currency exchange risk	49.6	23.3	10.8	83.7
Interest rate risk	11.2	11.9	8.6	31.7
Inflation risk	(3.3)	(17.1)	(54.2)	(74.6)
	(109.9)	(4.2)	(37.9)	(152.0)

7.4 Cost of hedging reserve

The Group allocates unrealised gains and losses on the forward rate of hedge accounted foreign currency derivative contracts to a cost of hedging reserve in accordance with IFRS 9.

A large proportion of the derivative contracts held relate to foreign currency exchange contracts, including forward contracts, options and swaps. Consistent with prior periods, for foreign currency exchange contracts hedging the purchase of inventory denominated in foreign currencies to which the Group has applied hedge accounting, the Group has continued to designate the change in the spot rate as the hedged risk in the Group's cash flow hedge relationships. The Group designates the cost of hedging – being the change in fair value associated with forward points including currency basis – to equity. All amounts within the cost of hedging reserve relate to foreign currency exchange risk.

The table below details the cost of hedging gains or losses recognised in the year on hedging instruments and the amounts transferred from equity and included within the initial cost of a non-financial asset:

	Cost of hedging	
	2023 £m	2022 £m
At 1 January	40.1	78.5
Gains/(losses) recognised:		
– Change in fair value of hedging instruments recognised in the Consolidated statement of comprehensive income	7.5	(19.0)
Transferred from equity and included within the initial cost of a non-financial asset:		
– Transferred to cost of inventories	(36.0)	(28.8)
Related deferred tax, net (note 2.6)	7.1	9.4
At 31 December	18.7	40.1

The expected release profile from equity of post-tax cost of hedging gains and losses is as follows:

	As at 31 December 2023			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Foreign currency exchange risk	16.6	4.3	(2.2)	18.7

	As at 31 December 2022			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Foreign currency exchange risk	21.7	13.0	5.4	40.1

7.5 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the Consolidated balance sheet where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group also has financial assets and liabilities with certain counterparties that are subject to master netting agreements. Some financial assets and liabilities do not meet the criteria for offsetting at the reporting date but are subject to an enforceable master netting agreement that in certain circumstances, such as a bankruptcy, would allow for the amounts to be offset and a single net amount payable or receivable.

The table below shows the impact of financial assets and liabilities that are offset in the Consolidated balance sheet, and it also shows the impact if the carrying amounts that are subject to these master netting agreements were also to be offset in certain circumstances, such as a bankruptcy:

As at 31 December 2023						
	Gross amounts of financial instruments £m	Gross amounts of financial instruments offset in the balance sheet £m	Net amounts of financial instruments presented in the balance sheet £m	Related financial instruments that are not offset £m	Related cash collateral assets/ (liabilities) that are not offset £m	Net amount £m
Financial assets						
Derivative financial instruments	888.5	(226.5)	662.0	(220.9)	(20.3)	420.8
Trade and other receivables and contract assets	1,088.5	(111.6)	976.9	(4.9)	(95.9)	876.1
Financial liabilities						
Derivative financial instruments	(764.7)	226.5	(538.2)	215.3	95.9	(227.1)
Trade and other payables and contract liabilities	(1,651.2)	111.6	(1,539.6)	10.5	20.3	(1,508.8)

As at 31 December 2022						
	Gross amounts of financial instruments £m	Gross amounts of financial instruments offset in the balance sheet £m	Net amounts of financial instruments presented in the balance sheet Restated £m	Related financial instruments that are not offset £m	Related cash collateral assets/ (liabilities) that are not offset £m	Net amount £m
Financial assets						
Derivative financial instruments	1,218.0	(460.1)	757.9	(608.6)	–	149.3
Trade and other receivables and contract assets	1,398.8	(171.8)	1,227.0	(31.8)	(230.6)	964.6
Financial liabilities						
Derivative financial instruments	(1,724.8)	460.1	(1,264.7)	619.6	230.6	(414.4)
Trade and other payables and contract liabilities	(1,699.7)	171.8	(1,527.9)	20.7	–	(1,507.2)

The amounts at 31 December 2022 have been restated to reflect the Group's revised application of the offsetting criteria to physically settled derivative contracts. This has impacted the presentation of derivative assets and liabilities recognised in the Consolidated balance sheet. The valuation of derivatives and the overall net asset position remain unchanged. See the offsetting section on page 178 for further details on this restatement.

The above collateral assets and liabilities are recorded in other receivables and other payables respectively, see note 4.3.

Section 7: Risk management continued

7.6 Contingencies

Contingent assets are potential future inflows of cash that are dependent on a future event that is outside of the control of the Group. The amount or timing of any receipt is uncertain and cannot be measured reliably.

Contingent liabilities are potential future outflows of cash that are dependent on a future event that is outside of the control of the Group. The amount or timing of any payment is uncertain and cannot be measured reliably.

Contingent liabilities

Ofgem investigation

On 31 May 2023, Ofgem announced the opening of an investigation into Drax Power Limited's annual biomass profiling reporting under the Renewables Obligation scheme. Ofgem's announcement stated that the opening of an investigation does not imply any finding of non-compliance. Ofgem separately confirmed that they have not established any non-compliance that would affect the issuance of ROCs to Drax Power Limited, and therefore the associated financial benefit.

Like all energy generators, the Company receives regular requests from Ofgem. We continue to cooperate fully throughout the investigation and have confidence in our compliance with the Renewables Obligation scheme criteria.

No amount has been provided in respect of this matter in the Consolidated financial statements, given the stage of the process and the uncertainty in future outcome.

Ofgem NIS declaration

As noted in the Audit Committee report on page 132, Drax Power Station is required to maintain a defined level of both physical and cyber resilience, as outlined within the Network and Information Systems Regulations (NIS Regulations). The Group submitted a report to Ofgem in January 2024 confirming that Drax Power Station had not fully achieved the level required by the deadline of 31 December 2023, but had a plan to address this during 2024. Ofgem will consider this matter in due course and decide on any future action.

No amount has been provided in respect of this matter in the Consolidated financial statements, given the early stage of the process and the uncertainty in future outcome.

7.7 Commitments

The Group has a number of financial commitments (i.e. a contractual requirement to make a cash payment in the future) that are not recorded in the Consolidated balance sheet as the contract is not yet due for delivery. Such commitments include contracts for the future purchase of biomass and contracts for the construction of assets.

	As at 31 December	
	2023 £m	2022 £m
Contracts placed for future capital expenditure not provided in the Consolidated financial statements – Property, plant and equipment	221.6	267.9
Contracts placed for future capital expenditure not provided in the Consolidated financial statements – Intangible assets	–	0.2
Future commitments to purchase ROCs	303.2	331.9
Future commitments to purchase biomass under fixed and variable priced contracts	3,092.5	3,250.0
Future commitments to purchase fibre under fixed and variable priced contracts	439.7	242.5

Commitments for future capital expenditure have decreased due to significant progression in the construction of the OCGTs during 2023. Future commitments to purchase biomass include long-term contracts, a majority of which match the period out to the end of UK Government subsidies. Future commitments to purchase fibre have increased due to a combination of increasing fibre costs and increased production volumes.

The contractual maturities of the future commitments to purchase biomass are as follows:

	As at 31 December	
	2023 £m	2022 £m
Within one year	799.0	829.5
Within one to five years	1,867.8	2,378.2
After five years	425.7	42.3
	3,092.5	3,250.0

Commitments to purchase fuel reflect long-term forward purchase contracts with a variety of international suppliers, primarily for the delivery of biomass pellets for use in electricity generation at Drax Power Station. To the extent that these contracts relate to the purchase of biomass pellets, they are not reflected elsewhere in the financial statements as they are not within the scope of IFRS 9, and are not, therefore, required to be measured at fair value. See the Critical accounting judgements section in the Basis of preparation for further details on this judgement.

Section 8: Reference information

This section details reference information relevant to the compiling of the Consolidated financial statements and provides general information about the Group (e.g. operations and registered office). This section also sets out the basis of preparation of the accounts and general accounting policies that are not specific to any one note.

8.1 General information

Drax Group plc (the Company) is a public company, limited by shares, incorporated in the United Kingdom under the Companies Act 2006, and registered in England and Wales. The Company and its subsidiaries (collectively, the Group) have three principal activities:

- Production and subsequent sale of biomass pellets for use in electricity generation;
- Electricity generation; and
- Electricity and gas supply to non-domestic customers.

The Group's activities are principally based within the UK, US and Canada.

The address of the Company's registered office and principal establishment is Drax Power Station, Selby, North Yorkshire, YO8 8PH, United Kingdom. A full list of the Company's direct and indirect related undertakings is disclosed in note 5 to the Company's separate financial statements, which follow these Consolidated financial statements.

8.2 Adoption of new and revised accounting standards

The following amendments became effective for the first time in 2023. The Group adopted the following from 1 January 2023:

- IFRS 17 – Insurance Contracts – effective from 1 January 2023
- IAS 1 (amended) – Disclosure of Accounting Policies – effective from 1 January 2023
- IAS 8 (amended) – Definition of Accounting Estimates – effective from 1 January 2023
- IAS 12 (amended) – Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction – effective from 1 January 2023
- IAS 12 (amended) – International Tax Reform – Pillar Two Model Rules – effective from 1 January 2023

The adoption of these amendments in the current year has not had a material impact on the Consolidated financial statements.

At the date of approval of this report, the following new or amended standards and relevant interpretations, which have not been applied in these Consolidated financial statements, were in issue but not yet effective:

- IFRS 10 (amended) – Consolidated Financial Statements – effective date deferred indefinitely⁽¹⁾
- IAS 28 (amended) – Investments in Associates and Joint Ventures (2011) – effective date deferred indefinitely⁽¹⁾
- IFRS 16 (amended) – Lease Liability in a Sale and Leaseback – effective from 1 January 2024
- IAS 1 (amended) – Classification of Liabilities as Current or Non-Current – effective from 1 January 2024
- IAS 1 (amended) – Non-current Liabilities with Covenants – effective from 1 January 2024
- IAS 7 (amended) and IFRS 7 (amended) – Supplier Finance Arrangements – effective from 1 January 2024
- IAS 21 (amended) – Lack of Exchangeability – effective from 1 January 2025⁽¹⁾

(1) Pending endorsement by the UK Endorsement Board (UKEB).

Adoption of these new or amended standards and relevant interpretations in future periods is not expected to have a material impact on the Consolidated financial statements of the Group. The Group will continue to monitor the developments of these new or amended standards as and when they are endorsed for use in the United Kingdom.

Section 8: Reference information continued

8.3 Related party transactions

A related party is either an individual or entity with control or significant influence over the Group, or a company that is linked to the Group by investment (such as an associated company or joint venture), that the Group has significant influence over. The Group's related parties are primarily its associate and its key management personnel. Amounts below are the total amount of transactions that have been entered into with any related parties in the year.

Houston Pellet Limited Partnership (HPLP)

HPLP is owned 30% by the Group and 70% by non-related third parties. The Group purchases biomass pellets from HPLP. The Group manages and administers the business affairs of HPLP and charges a management fee. These transactions are at negotiated amounts between the Group and the non-related third parties.

The transactions in the period and the balances at the reporting date with the related party are summarised below:

		Transactions in the period to 31 December 2023			Balances as at 31 December 2023 ⁽¹⁾	
		Drax Ownership	Management fee income £m	Purchases £m	Payable £m	Receivable £m
Houston Pellet Limited Partnership	HPLP	30%	0.1	14.6	1.1	1.2

		Transactions in the period to 31 December 2022			Balances as at 31 December 2022 ⁽¹⁾	
		Drax Ownership	Management fee income £m	Purchases £m	Payable £m	Receivable £m
Houston Pellet Limited Partnership	HPLP	30%	0.1	18.2	1.7	0.4

(1) The amounts payable to and receivable from HPLP are unsecured and non-interest bearing.

Remuneration of key management personnel

The remuneration of the Directors and Executive management, who are considered to be the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24. Further information about the remuneration of individual directors, together with the Directors' interests in the share capital of the Company, is provided in the audited section of the Remuneration Committee report on pages 144–160.

	Year ended 31 December	
	2023 £000	2022 £000
Short-term employee benefits	7,326	7,531
Share-based payments	4,047	3,964
Post-employment benefits	414	489
Total remuneration	11,787	11,984

Compensation of the Group's key management personnel includes short-term employee benefits, which includes salaries, other short-term benefits, and contributions to post-employment money purchase pension schemes.

Share-based payments compensation represents the amounts receivable under share-based incentive schemes as disclosed in note 6.2.

Amounts included in the table above reflect the remuneration of the 18 (2022: 17) members of the Board and Executive management.

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

Company financial statements

Company balance sheet

	Notes	As at 31 December	
		2023 £000	2022 £000
Non-current assets			
Investment in subsidiaries	5	755,377	742,016
Current assets			
Other receivables		3	100
Amounts due from other Group companies	6	37,888	110,801
Cash and cash equivalents		649	2,056
		38,540	112,957
Current liabilities			
Amounts due to other Group companies		(1,574)	(719)
Net current assets		36,966	112,238
Net assets		792,343	854,254
Shareholders' equity			
Issued equity	7	49,086	47,925
Share premium		441,138	433,281
Treasury shares		(199,660)	(50,440)
Capital redemption reserve		1,502	1,502
Retained profits		500,277	421,986
Total shareholders' equity		792,343	854,254

The Company reported a profit for the financial year ended 31 December 2023 of £151.6 million (2022: £186.5 million).

These financial statements were approved and authorised for issue by the Board of directors on 28 February 2024.

Signed on behalf of the Board of directors:

Andy Skelton
CFO

Section 8: Reference information continued

Company statement of changes in equity

	Issued equity £000	Share premium £000	Treasury shares ⁽¹⁾ £000	Capital redemption reserve £000	Retained profits £000	Total £000
At 1 January 2022	47,716	432,191	(50,440)	1,502	304,875	735,844
Issue of share capital (note 7)	209	1,090	–	–	–	1,299
Profit and total comprehensive income for the year	–	–	–	–	186,533	186,533
Movement in equity associated with share-based payments	–	–	–	–	9,479	9,479
Equity dividends paid (note 8)	–	–	–	–	(78,901)	(78,901)
At 1 January 2023	47,925	433,281	(50,440)	1,502	421,986	854,254
Issue of share capital (note 7)	1,161	7,857	–	–	–	9,018
Profit and total comprehensive income for the year	–	–	–	–	151,647	151,647
Movement in equity associated with share-based payments	–	–	–	–	12,963	12,963
Equity dividends paid (note 8)	–	–	–	–	(86,319)	(86,319)
Repurchase of own shares	–	–	(149,220)	–	–	(149,220)
At 31 December 2023	49,086	441,138	(199,660)	1,502	500,277	792,343

(1) The 40.3 million (2022: 13.8 million) shares held in this reserve have no voting rights attached to them.

Notes to the Company financial statements

1. Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council (FRC).

The principal activity of the Company is being the ultimate parent company of the Drax Group plc group of companies.

The Company financial statements have been prepared in accordance with FRS 101, 'Reduced Disclosure Framework'.

The Company applied certain new and amended standards for the first time in 2023. The full list of standards adopted is set out in the Consolidated financial statements in note 8.2. These updates and amendments have not had a material impact on the financial statements of the Company.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, financial instruments, share-based payments, capital risk management, standards not yet effective and certain related party transactions. Where required, equivalent disclosures are given in the Consolidated financial statements.

The Company financial statements have been prepared under the historical cost convention and are presented in pounds sterling which is the functional currency of the Company and is rounded to the nearest thousand unless stated otherwise. The principal accounting policies adopted are summarised below and have been consistently applied to both years presented.

2. Accounting policies

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where relevant, provision for impairment.

Financial instruments

Issued equity – Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting all of its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. The share premium account records amounts by which the proceeds from issuing shares exceeds the nominal value of the shares issued unless merger relief criteria within the Companies Act 2006 are met, in which case the difference is recorded in retained profits.

Cash and cash equivalents – Cash and cash equivalents includes cash in hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Impairment of financial assets

The Company applies the impairment model in IFRS 9 to provide for expected credit losses on its financial assets including amounts due from other Group companies and other financial assets. The provision for impairment on amounts owed by Group companies is measured at an amount equal to the lifetime expected credit loss when there has been a significant increase in credit risk since initial recognition. If there has not been a significant increase in credit risk since initial recognition, a 12-month expected credit loss provision is recognised.

To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on a financial asset as at the reporting date with the risk of default as at the date of initial recognition. The following information is considered when assessing if a significant increase in credit risk has occurred since initial recognition:

- changes in the external and internal credit ratings for the financial asset or counterparty to the financial asset;
- changes in credit default swap pricing or spreads for the financial asset or counterparty to the financial asset;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to impact the counterparty's ability to meet its contractual payments; and
- actual or expected significant changes in the operating results of the counterparty.

Regardless of the analysis factors, a significant increase in credit risk is presumed if a contractual payment due in respect of a financial asset is more than 30 days past due.

3. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Company's accounting policies

There were no critical accounting judgements made in the preparation of the Company's financial statements.

Key sources of estimation uncertainty

There are no areas of significant estimation uncertainty within the Company's financial statements.

4. Profit and loss account

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the years ended 31 December 2023 and 31 December 2022. The Company's financial statements were approved by the Board on 28 February 2024. The net profit attributable to the Company is £151.6 million (2022: £186.5 million).

The Company received dividend income from its subsidiary undertakings totalling £147.5 million in 2023 (2022: £185.0 million).

Section 8: Reference information continued

4. Profit and loss account continued

The Company has no employees other than the Directors, whose remuneration was paid by a subsidiary undertaking and a proportion was recharged to the Company.

The auditor's remuneration for audit services provided to the Company for the year ended 31 December 2023 was £28,449 (2022: £26,078).

5. Fixed asset investments

	Year ended 31 December	
	2023 £000	2022 £000
Carrying amount:		
At 1 January	742,016	732,400
Capital contribution	13,361	9,616
At 31 December	755,377	742,016

Investments in subsidiary undertakings

The capital contribution in 2023 and 2022 relates to the share-based payment charges associated with the employee share schemes, which arise because the beneficiaries of the schemes are employed by subsidiary companies. For more information see note 6.2 to the Consolidated financial statements.

Full list of related undertakings

The table below lists the Company's direct and indirect related undertakings as at 31 December 2023:

Name and nature of business	Principal activity	Country of incorporation and registration	Type of share	Registered number	Ownership & voting %
Abbott Debt Recovery Limited***	Non-trading company	England and Wales	Ordinary	05355799	100
Abergelli Power Limited***	Power generation	England and Wales	Ordinary	08190497	100
Alabama Pellets LLC*	Fuel supply	Delaware, USA	Common	7064679	100
Amite BioEnergy LLC*	Fuel supply	Delaware, USA	Common	5128116	100
Arkansas Bioenergy LLC*	Fuel supply	Delaware, USA	Common	7881707	100
Baton Rouge Transit LLC*	Fuel supply	Delaware, USA	Common	5128759	100
BMM Energy Solutions Limited^***	Energy services	Scotland	Ordinary	SC462201	100
C-Capture Limited	Research and development	England and Wales	Ordinary	06912622	19
DBI O&M Company LLC*	Non-trading company	Delaware, USA	Common	5305470	100
Demopolis Pellets LLC*	Fuel supply	Delaware, USA	Common	6314280	100
Donnington Energy Limited	Dormant	England and Wales	Ordinary	07109298	100
Drax Asia (Japan) K.K.>	Provision of corporate services	Japan	Common	0100-01-227551	100
Drax Biomass Acquisitions LLC*	Non-trading company	Delaware, USA	Common	7897331	100
Drax Biomass Holdings Limited***	Holding company	England and Wales	Ordinary	08322715	100
Drax Biomass Holdings LLC*	Dormant	Delaware, USA	Common	5128115	100
Drax Biomass Inc.*	Biomass pellet manufacturing	Delaware, USA	Common	5068290	100
Drax Biomass International Holdings LLC*	Holding company	Delaware, USA	Common	5250168	100
Drax Biomass Transit LLC*	Holding company	Delaware, USA	Common	5128118	100
Drax CCS Limited	Dormant	England and Wales	Ordinary	07885329	100
Drax Corporate Limited	Group-wide corporate services	England and Wales	Ordinary	05562058	100
Drax Cruachan Expansion Limited***	Non-trading company	England and Wales	Ordinary	06657393	100
Drax Energy Solutions Limited	Power retail	England and Wales	Ordinary	05893966	100
Drax Finco plc	Finance company	England and Wales	Ordinary	10664639	100
Drax Fuel Supply Limited***	Non-trading company	England and Wales	Ordinary	05299523	100
Drax Generation Developments Limited***	Development company	England and Wales	Ordinary	07821368	100
Drax Group Holdings Limited	Holding company	England and Wales	Ordinary	09887429	100
Drax Holdings Limited+	Holding company	Cayman Islands	Ordinary	92144	100
Drax Hydro Limited	Holding company	England and Wales	Ordinary	08654218	100
Drax Innovation Limited***	Development company	England and Wales	Ordinary	10664715	100
Drax Netherlands B.V.-	Dormant	Netherlands	Ordinary	81848455	100
Drax North America BECCS, LLC*	Provision of corporate services	Delaware, USA	Common	7216170	100
Drax Pension Trustees Limited	Dormant	England and Wales	Ordinary	09824989	100
Drax Power Limited	Power generation	England and Wales	Ordinary	04883589	100

5. Fixed asset investments continued

Name and nature of business	Principal activity	Country of incorporation and registration	Type of share	Registered number	Ownership & voting %
Drax Pumped Storage Limited	Power generation	England and Wales	Ordinary	06657336	100
Drax Research and Innovation Holdco Limited***	Holding company	England and Wales	Ordinary	06657454	100
Drax Retail Developments Limited	Dormant	England and Wales	Ordinary	10711130	100
Drax River Hydro Limited	Power generation	England and Wales	Ordinary	05956747	100
Drax Smart Generation Holdco Limited***	Holding company	England and Wales	Ordinary	07821911	100
Drax Smart Sourcing Holdco Limited***	Holding company	England and Wales	Ordinary	07821375	100
Drax Smart Supply Holdco Limited***	Holding company	England and Wales	Ordinary	10664625	100
Drax US BECCS Development, LLC*	Non-trading company	Delaware, USA	Common	7234532	100
Drax US BECCS Holdings, LLC*	Holding company	Delaware, USA	Common	7234548	100
East Texas Genco I, LLC*	Project Development	Delaware, USA	Common	2595041	100
Farmoor Energy Limited***	Power retail	England and Wales	Ordinary	07111074	100
Haven Heat Limited	Dormant	England and Wales	Ordinary	06657428	100
Haven Power Nominees Limited***	Non-trading company	England and Wales	Ordinary	07352734	100
Hirwaun Power Limited	Power generation	England and Wales	Ordinary	08190283	100
Houston Pellet Inc.**	General partner	Richmond, Canada	Common	BC0730544	33
Houston Pellet Limited Partnership**	Fuel supply	Richmond, Canada	Units	LP0428310	30
Iberia Bioenergy LLC*	Non-trading company	Delaware, USA	Common	7881704	100
Jefferson Transit LLC*	Dormant	Delaware, USA	Common	6297176	100
LaSalle Bioenergy LLC*	Fuel supply	Delaware, USA	Common	6297174	100
Lavington Pellet Inc.**	General partner	Richmond, Canada	Common	BC1022038	75
Lavington Pellet Limited Partnership**	Fuel supply	Richmond, Canada	Units	LP0649393	75
Louisiana Genco I, LLC*	Non-trading company	Delaware, USA	Common	2595050	100
Millbrook Power Limited	Power generation	England and Wales	Ordinary	08920458	100
Morehouse BioEnergy LLC*	Fuel supply	Delaware, USA	Common	5128117	100
Northern Pellet Inc.**	General partner	Richmond, Canada	Common	BC1213828	50
Northern Pellet Limited Partnership**	Fuel supply	Richmond, Canada	Class A and Class C	LP781774	50
Opus Energy (Corporate) Limited	Power retail	England and Wales	Ordinary	05199937	100
Opus Energy Group Limited***	Power retail	England and Wales	Ordinary	04409377	100
Opus Energy Limited	Power retail	England and Wales	Ordinary	04382246	100
Opus Energy Marketing Limited***	Non-trading company	England and Wales	Ordinary	05030694	100
Opus Energy Renewables Limited	Power retail	England and Wales	Ordinary	07126582	100
Opus Gas Limited***	Non-trading company	England and Wales	Ordinary	05680956	100
Opus Gas Supply Limited	Power retail	England and Wales	Ordinary	06874709	100
Opus Water Limited	Dormant	England and Wales	Ordinary	09425319	100
Pinnacle Renewable Energy Inc.**	Fuel supply	Richmond, Canada	Common	BC1300366	100
Pinnacle Renewable Holdings (USA) Inc.*	Holding company	Delaware, USA	Common	7043656	100
Pirranello Energy Supply Limited	Dormant	England and Wales	Ordinary	10769036	100
Progress Power Limited	Power generation	England and Wales	Ordinary	08421833	100
Smithers Pellet Inc.**	General partner	Richmond, Canada	Common	BC1135983	70
Smithers Pellet Limited Partnership**	Fuel supply	Richmond, Canada	Units	LP730047	70
SMW Limited^	Fuel supply	Scotland	Ordinary	SC165988	100
Sunflower Energy Supply Limited	Dormant	England and Wales	Ordinary	09735929	100
Tyler Bioenergy LLC*	Dormant	Delaware, USA	Common	6297175	100

Registered Office

Incorporated in England and Wales

The registered address of all the companies incorporated in England and Wales is Drax Power Station, Selby, North Yorkshire, YO8 8PH. The exceptions to this are: Abbott Debt Recovery Limited, which is registered at Beaver House, 23-28 Hythe Bridge Street, Oxford, OX1 2ET; and C-Capture Limited, which is registered at Windsor House, Cornwall Road, Harrogate, HG1 2PW.

*Incorporated in the USA

The registered address of all related undertakings incorporated in the USA is 850 New Burton Road, Suite 201, Dover DE 19904.

**Incorporated in Canada

The registered address of all related undertakings incorporated in Canada is 2800 Park Place, 666 Burrard Street, Vancouver, BC V6C 2Z7.

Section 8: Reference information continued

5. Fixed asset investments continued

^Incorporated in Scotland

The registered address of all related undertakings incorporated in Scotland is 13 Queen's Road, Aberdeen, Scotland, AB15 4YL.

+Registered in Cayman Islands

The registered address of Drax Holdings Limited is c/o Intertrust Corporate Services (Cayman) Limited, One Nexus Way, Camana Bay, George Town, Grand Cayman KY1 9005, Cayman Islands.

~Registered in Netherlands

The address of Drax Netherlands B.V. registered in Netherlands is Barbara Strozilaan 101, Amsterdam, 1083HN.

>Registered in Japan

The address of Drax Asia (Japan) K.K. registered in Japan is Level 21, Marunouchi Nijubashi Building, 3-2-3 Marunouchi, Chiyoda-ku, Tokyo, Japan 100-0005.

*****Exempt from audit**

These subsidiaries have taken advantage of the exemption from audit available under section 479A of the Companies Act 2006 for the 2023 statutory accounts. These companies are all incorporated in the UK.

Abbott Debt Recovery Limited and Opus Energy Marketing Limited have 30 December 2023 year ends. All other related undertakings have 31 December 2023 year ends.

The Group consolidates all of the related undertakings disclosed above apart from:

- C-Capture Limited which is equity accounted;
- Northern Pellet Inc. and Northern Pellet Limited Partnership which are proportionately consolidated; and
- Houston Pellet Inc. and Houston Pellet Limited Partnership which are equity accounted.

6. Amounts due from other Group companies

The amounts due from other Group companies include short-term trading balances which are unsecured, interest free and settled under normal payment terms. Amounts due from other Group companies 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.

The expected credit loss provision calculated on amounts due from other Group companies was negligible in the current and prior year due to the high credit quality of the counterparties and short time until expected receipt. As a result no provision has been recognised.

7. Issued equity

	As at 31 December	
	2023 £000	2022 £000
Issued and fully paid:		
424,923,406 (2022: 414,872,491) ordinary shares of 11 ¹ / ₂ pence each	49,086	47,925

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Year ended 31 December	
	2023 (number)	2022 (number)
At 1 January	414,872,491	413,068,027
Issued under employee share schemes	10,050,915	1,804,464
At 31 December	424,923,406	414,872,491

The Company has only one class of shares, which are ordinary shares of 11¹/₂ pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends. During the year, shares were issued in satisfaction of options vesting in accordance with the rules of the Company's employee share schemes.

The total cash received, split between the nominal value of issued equity and share premium, is shown in the Company statement of changes in equity on page 276.

Full details of share options outstanding are included in note 6.2 to the Consolidated financial statements.

8. Dividends

		Year ended 31 December	
	Pence per share	2023 £m	2022 £m
Amounts recognised as distributions to equity holders in the year (based on the number of shares outstanding at the record date):			
Interim dividend for the year ended 31 December 2023 paid on 3 October 2023	9.2	35.7	–
Final dividend for the year ended 31 December 2022 paid on 16 May 2023	12.6	50.6	–
Interim dividend for the year ended 31 December 2022 paid on 7 October 2022	8.4	–	33.7
Final dividend for the year ended 31 December 2021 paid on 13 May 2022	11.3	–	45.2
Total distributions		86.3	78.9

At the forthcoming Annual General Meeting the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2023 of 13.9 pence per share (equivalent to approximately £53.5 million) payable on 17 May 2024. The final dividend has not been included as a liability as at 31 December 2023.

9. Distributable reserves

The Company considers its distributable reserves to be comprised of the retained profits, less credits to equity in respect of share schemes, less treasury shares. Accordingly, the Company considers itself to have sufficient distributable profits from which to pay the current proposed final dividend for 2023 of approximately £50 million. Based on a total dividend for 2023 of approximately £89.2 million, the Company has sufficient distributable reserves to pay two years of dividend at the current level without generating further distributable profits. In addition to its own reserves, the Company has access to the distributable reserves of its subsidiary undertakings with which future dividend payments can be funded.

The Company is dependent upon its subsidiaries for the provision of cash with which to make dividend payments. The Group has sufficient cash resources with which to meet the proposed dividend (see note 4.1 to the Consolidated financial statements for additional information).

10. Guarantees

The Company has provided guarantees over the liabilities of its subsidiaries that have taken advantage of the audit exemption available in section 479A of the Companies Act 2006. The list of subsidiaries who have taken this exemption can be found in note 5.

The possibility of an economic outflow in relation to the above guarantees is considered remote.

Shareholder information

Key dates for 2024

At the date of publication of this document, the following are the proposed key dates in the 2024 financial calendar:

Ordinary shares marked ex-dividend	18 April
Record date for entitlement to the final dividend	19 April
Annual General Meeting	25 April
Payment of final dividend	17 May
Financial half year end	30 June
Announcement of half year results	26 July
Financial year end	31 December

Other significant dates, or amendments to the proposed dates above, will be posted on the Group's website www.drax.com as and when they become available.

Results announcements

Results announcements are issued to the London Stock Exchange and are available on its news service. Shortly afterwards, they are available under Regulatory News within the Investors section on the Group's website.

Share price

Shareholders can access the current share price of Drax Group plc ordinary shares on the Company's website. During London Stock Exchange trading hours the price shown on the website is subject to a delay of approximately 15 minutes and outside trading hours it is the last available price.

The table below provides an indication of the fluctuations in the Drax Group plc share price during the course of 2023, and the graph provides an indication of the trend of the share price throughout the year.

Closing price on 31 December 2022	Low during the year 4 October 2023	High during the year 16 February 2023	Closing price on 31 December 2023
703.0 pence	401.5 pence	681.5 pence	489.7 pence

Share price chart
Share price (GBX)



Note:

The share prices given are the middle market closing prices as derived from the London Stock Exchange Daily Official List.

Market capitalisation

The market capitalisation, based on the number of shares in issue and the closing price at 31 December 2023, was approximately £2,081 million (2022: £2,916 million).

Financial reports

Copies of all financial reports published by the Group are available from the date of publication and can be downloaded from the Company's website. Printed copies of reports can be requested by writing to the Company Secretary at the registered office, by clicking on Contact Us on the website, or direct by e-mail to Drax.Enq@drax.com.

Drax shareholder queries

The Company's share register is maintained by Equiniti Limited (Equiniti), who are primarily responsible for updating the share register and for dividend payments.

Shareholders should contact Equiniti directly if they have a query relating to their Drax shareholding, in particular queries regarding:

- transfer of shares;
- change of name or address;
- lost share certificates;
- lost or out-of-date dividend cheques;
- payment of dividends direct to a bank or building society account; and
- death of a registered shareholder.

Equiniti can be contacted as follows:

- Call Equiniti on 0371 384 2030 from within the UK. Lines are open from 8.30am to 5.30pm, Monday to Friday, (excluding Bank Holidays) or +44 371 384 2030 from outside the UK.
- Write to Equiniti at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

When contacting Equiniti by telephone or in writing it is advisable to have your shareholder reference to hand and quote Drax Group plc, as well as the name and address in which the shares are held.

Online communications

Registering for online communications allows you to have more control over the administration of your shareholding. The registration process is easy via Equiniti's secure website www.shareview.co.uk.

Once registered with Shareview you are able to:

- elect how Drax communicates with you;
- amend some of your personal details;
- amend the way you receive dividends; and
- buy or sell shares online.

Registering for electronic communications does not mean that you can no longer receive paper copies of documents. Equiniti are able to offer a range of services and tailor the communications to meet your needs.

A range of frequently asked shareholder questions can also be found on the Company's website at www.drax.com/investors/investor-resources/equity-investors-faq/.

Tax on dividends

Below is a brief summary of the guidance provided by HMRC as it relates to the current tax year. If you are in any doubt as to the impact on your personal circumstances, you are recommended to seek your own financial advice from a professional adviser authorised under the Financial Services and Markets Act 2000.

There is a tax-free Dividend Allowance of £1,000 per annum in the 2023–2024 tax year (2022–2023: £2,000). This means that there is no tax to pay on the first £1,000 of dividend income, no matter what non-dividend income a shareholder may have. Dividends paid on shares held within pensions and ISAs are tax-free.

Non-taxpayers and basic rate taxpayers who receive dividend income of more than £2,001 but less than £10,000 are required to notify HMRC that they have this source of income.

Non-taxpayers and basic rate taxpayers who receive dividend income of more than £10,001 are required to file a self-assessment return with HMRC.

The above requirements apply to Share Incentive Plan participants receiving cash dividends on their plan shares.

Further information and updates on tax on dividends can be found on the Gov.UK website at www.gov.uk/tax-on-dividends

Beneficial owners and information rights

If your shares are registered in the name of a third party (i.e. an ISA provider or other nominee company) you may, if you wish, receive information rights under Section 146 of the Companies Act 2006. In order for this to happen, you must contact the third-party registered holder, who will then nominate you. All communications by beneficial owners of shares where the shares are held by third-party registered holders must be directed to that registered holder and not to Drax or Equiniti.

ShareGift

ShareGift (registered charity No. 1052686) is an independent charity which provides a free service for shareholders wishing to dispose charitably of small parcels of shares, which would most likely cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is possible to obtain income tax relief. Further information can be obtained directly from the charity at www.sharegift.org.

Shareholder information continued

Share frauds (boiler room scams)

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence offering to purchase their shares at apparently inflated prices. It is often the case that the caller, or message in the correspondence, claims that they represent a majority shareholder who is looking to take over the Company. At the time of this report, the Company was not the subject of a take-over attempt, hostile or otherwise, and approaches such as those outlined are usually made by unauthorised companies and individuals. Shareholders should be very wary of any unsolicited advice, offers to buy shares at a premium or offers of free reports into the Company. Below is the advice from the Financial Conduct Authority (FCA).

Beware of share fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud:

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register from www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call them back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams.
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.

Remember, if it sounds too good to be true, it probably is!

Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Alternative performance measures (APMs) glossary table

The Alternative performance measures (APMs) described below are used throughout the Annual report and accounts and are measures that are not defined within IFRS but provide additional information about financial performance and position that is used by the Board to evaluate the Group's trading performance. These APMs have been defined internally and may therefore not be comparable to APMs presented by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself a measure defined under IFRS. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

APM	Closest IFRS equivalent measure	Purpose	Definition
Adjusted results	Total results	The Group's Adjusted results are consistent with the way the Board and Executive management assess the performance of the Group. Adjusted results are intended to reflect the underlying trading performance of the Group's businesses and are presented to assist users of the Consolidated financial statements in evaluating the Group's trading performance and performance against strategic objectives on a consistent basis. Adjusted results excludes exceptional items and certain remeasurements. Exceptional items are those transactions that, by their nature, do not reflect the trading performance of the Group in the period. Certain remeasurements comprise fair value gains and losses that do not qualify for hedge accounting (or hedge accounting is not effective). The Group regards all of its forward contracting activity to represent economic hedges and therefore by excluding the volatility caused by recognising fair value gains and losses prior to maturity of the contracts, the Group can reflect these contracts at the contracted prices on maturity, reflecting the intended purpose of entering these contracts and the Group's underlying performance. Adjusted results are the metrics used in the calculation of Adjusted basic EPS and Adjusted diluted EPS.	Total results measured in accordance with IFRS excluding the impact of exceptional items and certain remeasurements. Exceptional items and certain remeasurements are defined in note 2.7.
Adjusted EBITDA including EGL and Adjusted EBITDA excluding EGL	Operating profit ⁽¹⁾	Adjusted EBITDA including EGL is the primary measure used by the Board and Executive management to assess the financial performance of the Group as it provides a more comparable assessment of the Group's year-on-year trading performance. It is also a key metric used by the investor community to assess the performance of the Group's operations. The Group presents Adjusted EBITDA excluding EGL to enable readers to compare, on a consistent basis, the Adjusted EBITDA in prior periods in which EGL was not applicable.	Earnings before interest, tax, depreciation, amortisation, other gains and losses and impairment of non-current assets, excluding the impact of exceptional items and certain remeasurements (defined in note 2.7). Adjusted EBITDA including EGL includes the cost of EGL and excludes any earnings from associates or attributable to non-controlling interests. Adjusted EBITDA excluding EGL is consistent with the definition of Adjusted EBITDA including EGL, apart from it does not include the cost of EGL.
Adjusted basic EPS	Basic EPS	Adjusted basic EPS represents the amount of Adjusted earnings (Adjusted post-tax earnings) attributable to each ordinary share.	Adjusted basic EPS is calculated by dividing the Group's Adjusted earnings attributable to owners of the parent company (Adjusted profit after tax) by the weighted average number of shares outstanding during the period.
Adjusted diluted EPS	Diluted EPS	Adjusted diluted EPS demonstrates the impact upon the Adjusted basic EPS if all outstanding share options, that are expected to vest on their future maturity dates and where the shares are considered to be dilutive, were exercised and treated as ordinary shares as at the reporting date.	Adjusted diluted EPS is calculated by dividing the Group's Adjusted earnings attributable to owners of the parent company (Adjusted profit after tax) by the weighted average number of shares outstanding during the period and dilutive potential ordinary shares outstanding under share plans.

Shareholder information continued

APM	Closest IFRS equivalent measure	Purpose	Definition
Borrowings	n/a ⁽²⁾	Borrowings provide information relating to the Group's use of debt. It is a key measure of leverage and provides information on the sources of liquidity for the Group.	Borrowings include drawn debt facilities including bonds, term loans, revolving credit facilities (RCFs) (to the extent drawn in cash) and other drawn debt facilities available for general use. Borrowings does not include other financial liabilities such as lease liabilities calculated in accordance with IFRS 16 (see note 3.2), pension obligations (see note 6.3) and trade and other payables (see note 3.7). Borrowings do not include working capital facilities that are linked to specific payables and give an extension in payment terms of less than 12 months such as supply chain finance, deferred letters of credit, credit cards and factoring facilities.
Net debt	Borrowings less cash and cash equivalents	Net debt is a key measure of the Group's liquidity and its ability to manage current obligations. Net debt is used as a basis by debt rating agencies to assess credit risk, and in the calculation of the Group's financial covenant requirements. The impact of hedging instruments included within Net debt shows the economic substance of the Net debt position, in terms of actual expected future cash flows to settle that debt.	Borrowings (as defined above) including the impact of hedging instruments less cash and cash equivalents. Net debt excludes the proportion of cash and borrowings in non-wholly owned entities that would be attributable to the non-controlling interests. Net debt includes the impact of foreign currency hedging instruments, meaning that any borrowings that have associated hedging instruments in place are adjusted to reflect those borrowings at the hedged rate. Net debt includes the impact of any cash collateral receipts from counterparties or cash collateral posted to counterparties.
Net debt to Adjusted EBITDA including EGL ratio and Net debt to Adjusted EBITDA excluding EGL ratio	Borrowings less cash and cash equivalents divided by operating profit ⁽¹⁾	The Net debt to Adjusted EBITDA including EGL ratio is a debt ratio that gives an indication of how many years it would take the Group to pay back its debt if Net debt and Adjusted EBITDA including EGL are held constant. The Group has a long-term target for Net debt to Adjusted EBITDA including EGL of around 2.0 times. The Group presents a Net debt to Adjusted EBITDA excluding EGL ratio to enable readers to compare, on a consistent basis, the Net debt ratio in prior periods in which EGL was not applicable.	Net debt divided by Adjusted EBITDA including/ excluding EGL. Expressed as a multiple.
Cash and committed facilities	Cash and cash equivalents	This is a key measure of the Group's available liquidity and the Group's ability to manage its current obligations. It shows the value of cash available to the Group in a short period of time.	Total cash and cash equivalents plus the value of the Group's committed but undrawn facilities (including the Group's RCFs, loan facilities and the Customers non-recourse trade receivables monetisation facility).
Capital expenditure	Property, plant and equipment (PPE) additions and intangible asset additions	Used to show the Group's total spend on PPE and intangible assets in a year.	PPE additions plus intangible asset additions.

(1) Operating profit is presented on the Group's Consolidated income statement; however, it is not defined per IFRS. It is a generally accepted measure of profit.

(2) Borrowings are presented in the Group's Consolidated balance sheet; they are a commonly used balance sheet line item heading however borrowings are not defined by IFRS, therefore the Group's borrowings may not be comparable to borrowings presented by other companies.

Glossary

Ancillary services

Services provided to National Grid used for balancing supply and demand or maintaining secure electricity supplies within acceptable limits, for example Black start contracts. They are described in Connection Condition 8 of the Grid Code.

Availability

Average percentage of time the units were available for generation.

BECCS

Bioenergy with carbon capture and storage, with carbon resulting from power generation captured and stored.

Black start

Procedure used to restore power in the event of a total or partial shutdown of the national electricity transmission system.

Biogenic carbon cycle

Biogenic refers to something that is produced by, or originates from, a living organism. The biogenic carbon cycle is the natural process of plants and animals releasing CO₂ into the atmosphere through respiration and decomposition, and plants absorbing CO₂ via photosynthesis.

Biomass

Organic material of non-fossil origin, including organic waste, that can be converted into bioenergy through combustion. The Group uses sawmill and other wood industry residues and forest residuals (which includes low grade roundwood, thinnings, branches and tops) in the form of compressed wood pellets, to generate electricity at Drax Power station or sell the pellets to third parties.

Capacity Market

Part of the UK Government's Electricity Market Reform, the Capacity Market is intended to ensure security of electricity supply by providing a payment for reliable sources of capacity.

Carbon capture and storage (CCS)

The process of trapping or collecting carbon emissions from a large-scale source and then permanently storing them.

CCC

The UK's Climate Change Committee.

Contracts for Difference (CfD)

A mechanism to support investment in low-carbon electricity generation. The CfD works by stabilising revenues for generators at a fixed price level known as the 'strike price'. Generators will receive revenue from selling their electricity into the market as usual, however, when the market reference price is below the strike price, they also receive a top-up payment for the additional amount. Conversely, if the reference price is above the strike price, the generator must pay back the difference.

Combined Cycle Gas Turbines (CCGT)

A form of highly efficient energy generation technology that combines a gas-fired turbine with a steam turbine.

Department for Energy Security and Net Zero (DESNZ)

The UK Government Department provides dedicated leadership focused on delivering security of energy supply, ensuring properly functioning markets, greater energy efficiency and seizing the opportunities of net zero to lead the world in new green industries.

Dispatchable power

An electricity generator produces dispatchable power when the power can be ramped up and down, or switched on or off, at short notice to provide (or dispatch) a flexible response to changes in electricity demand. Biomass, pumped storage, coal, oil, and gas electricity generation can meet these criteria and hence can be dispatchable power sources. Nuclear can be dispatched against an agreed schedule but is not flexible. Wind and solar electricity cannot be scheduled and hence are not Dispatchable. An electricity system requires sufficient dispatchable power to operate and remain safe.

EBDS

The UK Government's Energy Bill Discount Scheme.

EBRS

The UK Government's Energy Bill Relief Scheme.

ESG

Environmental, Social and Governance.

First Nations

Any of the groups of indigenous peoples in Canada.

Forced outage/Unplanned outage

Any reduction in plant availability, excluding planned outages.

FSC®

Forest Stewardship Council: an international non-governmental organisation which promotes responsible management of the world's forests.

Frequency response

The automatic change in generation output, or in demand, to maintain a system frequency of 50Hz.

GHG

Greenhouse Gas.

Grid charges

Includes transmission network use of system charges (TNUoS), balancing services use of system charges (BSUoS) and distribution use of system charges (DUoS).

IAB

Independent Advisory Board, comprising scientists, academics, and forestry experts who provide independent challenge, insight and advice into the Group's activities.

IFRS

International Financial Reporting Standards.

Lost Time Incident Rate (LTIR)

The frequency rate is calculated on the following basis: (fatalities and lost time injuries)/hours worked x 100,000. Lost time injuries are defined as occurrences where the injured party is absent from work for more than 24 hours.

NGO

Non-governmental organisation.

Near Miss and Hazard Identification Rate (NMHIR)

The total number of Near Miss and hazard identification reports logged per 100,000 hours worked. Total includes both employees and contractors.

Shareholder information continued

Open Cycle Gas Turbine (OCGT)

A free-standing gas turbine, using compressed air, to generate electricity.

Planned outage

A period during which scheduled maintenance is executed according to the plan set at the outset of the year.

PEFC

Programme for the Endorsement of Forest Certification: an independent, non-profit, non-governmental organisation that promotes sustainable forest management through independent third-party certification.

Pulp wood

A low value and bulky product, generally produced from the top of trees or from production thinnings, with the principal use of making wood pulp for paper production.

Rebasing

Rebasing is when the Group releases cash from an open derivative contract that is in a mark-to-market asset position by modifying the rate per the contract. A cash payment equivalent to the reduction in the mark-to-market asset is received by the Group from the counterparty, less any applicable fees.

Reserve

Generation or demand available to be dispatched by the System Operator to correct a generation/demand imbalance, normally at two or more minutes' notice.

Response

Automatic change in generator output aimed at maintaining a system frequency of 50Hz. Frequency response is required in every second of the day.

ROC

A Renewable Obligation Certificate (ROC) is a certificate issued to an accredited generator for electricity generated from eligible renewable sources.

Sawlog

A felled tree trunk suitable for being processed at a sawmill for cutting up into lumber.

SBP

Sustainable Biomass Program: a certification system designed for woody biomass used in industrial energy production.

Summer

The calendar months April to September.

Sustainable biomass

Biomass which complies with the definition of "sustainable source", Schedule 3, Land Criteria, UK Renewables Obligation Order 2015.

System operator

National Grid Electricity Transmission. Responsible for the co-ordination of electricity flows onto and over the transmission system, balancing generation supply and user demand.

TCFD

Task Force on Climate-related Financial Disclosures.

Thinning

Thinning operations correct overcrowding, and improve the health and vigour of those trees which remain. Thinning targets small, malformed, and diseased trees for removal, allowing the healthier trees the space, light, and soil to reach maturity sooner. Thinning also mitigates the risk of pest infestation and wildfire, while speeding the development of a more mature forest with increased plant diversity.

Total recordable incident rate (TRIR)

The frequency rate is calculated on the following basis: (fatalities, lost time injuries and worse than first aid injuries)/hours worked x 100,000.

Total results

Financial performance measures prefixed with 'Total' are calculated in accordance with IFRS.

UK ETS

The UK Emissions Trading Scheme is a mechanism introduced across the UK to reduce carbon emissions; the scheme is capable of being extended to cover all greenhouse gas emissions.

Winter

The calendar months October to March.

Company information

Drax Group plc

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United Kingdom

T +44 (0)1757 618381

www.drax.com

Registration details

Registered in England and Wales
Company Number: 5562053

Group Company Secretary

Brett Gladden

Enquiry e-mail address

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London E14 5HP

Brokers

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London EC2N 4AA

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Go Online. Go Paperless. It's Simple.

If you no longer wish to receive a hard copy of the Annual Report and Accounts, and instead wish to receive communications electronically, please contact our Registrar, Equiniti, on +44 (0)371 384 2030 (lines are open from 8.30am to 5.30pm, Monday to Friday excluding public holidays in England and Wales).

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Cautionary note regarding forward looking statements

This Annual Report and Accounts may contain certain statements, expectations, statistics, projections and other information that are, or may be, forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans, beliefs, and objectives for the management of future operations of Drax Group plc ("Drax") and its subsidiaries (the "Group"), are not warranted or guaranteed. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Although Drax believes that the statements, expectations, statistics and projections and other information reflected in such statements are reasonable, they reflect the Company's current view and no assurance can be given that they will prove to be correct. Such events and statements involve risks and uncertainties. Actual results and outcomes may differ materially from those expressed or implied by those forward-looking statements. There are a number of factors, many of which are beyond the control of the Group, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These include, but are not limited to, factors such as: future revenues being lower than expected; increasing competitive pressures in the industry; uncertainty as to future investment and support achieved in enabling the realisation of strategic aims and objectives; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected, including the impact of prevailing economic and political uncertainty, the impact of strikes, the impact of adverse weather conditions or events such as wildfires. We do not intend to publicly update or revise these projections or other forward-looking statements to reflect events or circumstances after the date hereof, and we do not assume any responsibility for doing so.



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