

## DRAX GROUP PLC (Symbol: DRX)

## FULL YEAR RESULTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2021

## Transformational year positions Drax for investment in global low-carbon growth

Twelve months ended 31 December	2021	2020
<b>Key financial performance measures</b>		
Adjusted EBITDA (£ million) <sup>(1)(2)</sup>	398	412
<i>Continuing operations</i>	378	366
<i>Discontinued operations – gas generation</i>	20	46
Net debt (£ million) <sup>(3)</sup>	1,044	776
Adjusted basic EPS (pence) <sup>(1)</sup>	26.5	29.6
Total dividend (pence per share)	18.8	17.1
<b>Total financial performance measures from continuing operations</b>		
Operating profit / (loss) (£ million)	197	(156)
Profit / (loss) before tax (£ million)	122	(235)

**Will Gardiner, CEO of Drax Group, said** “2021 was a transformational year for Drax as we became the world’s leading sustainable biomass generation and supply company, whilst continuing to invest in delivering positive outcomes for the climate, nature and people.

“Over the past ten years Drax has invested over £2 billion in renewable energy and has plans to invest a further £3 billion this decade, supporting the global transition to a low-carbon economy. Our investment has reduced our emissions from power generation by over 95% and we are the UK’s largest producer of renewable power by output. We are proud to be one of the lowest carbon intensity power generators in Europe – a significant transformation from being the largest coal power station in Western Europe.

“We have significantly advanced our plans for bioenergy with carbon capture and storage (BECCS) in the UK and globally. By 2030 we aim to deliver 12 million tonnes of negative emissions and lead the world in providing a critical technology which scientists agree is key to delivering the global transition to net zero.”

**Financial highlights**

- Adjusted EBITDA £398 million (2020: £412 million)
- Strong liquidity and balance sheet – £549 million of cash and committed facilities at 31 December 2021
  - Expect to be below 2x net debt to Adjusted EBITDA by the end of 2022
- Total dividend – 10% increase to 18.8 pence per share (2020: 17.1 pence per share)
  - Proposed final dividend of 11.3 pence per share (2020: 10.3 pence per share)

**Strategic highlights**

- Acquisition of Pinnacle Renewable Energy Inc. for C\$385 million (£222 million) (enterprise value of C\$796 million)
- Sale of Combined Cycle Gas Turbine (CCGT) generation assets for £186 million
- Development of the world’s leading sustainable biomass generation and supply company
  - Supply – 17 pellet plants and developments across three major fibre baskets, production capacity of c.5Mt pa
    - 22Mt (c.\$4.5 billion) of long-term contracted sales to high-quality customers in Asia and Europe
    - 14Mt of own-use sales through 2026
  - Generation – 2.6GW of biomass generation – UK’s largest source of renewable power by output
- Development of BECCS in UK
  - East Coast Cluster – selected as one of two priority carbon capture and storage clusters
  - Government – BECCS included in Net Zero Strategy and Interim Bioenergy Strategy
  - Drax Power Station – planning application started, technology partner selected and FEED study commenced

**Strategic outlook – growth plans aligned with global low-carbon growth**

- To be a global leader in sustainable biomass
  - Targeting 8Mt pa of production capacity and 4Mt pa of biomass sales to third parties by 2030
- To be a global leader in negative emissions
  - Targeting 12Mt pa of negative CO<sub>2</sub> – UK and international BECCS
- To be a UK leader in dispatchable, renewable generation
  - Key system support role for biomass and expansion of Cruachan Pumped Storage Power Station
- All underpinned by continued focus on safety, sustainability and biomass cost reduction
- Investments totalling £3bn in period to 2030, fully funded through cash generation
  - Pellet production, UK BECCS and Cruachan expansion

## Future positive - people, nature, climate

- CO<sub>2</sub> – >95% reduction in generation emissions since 2012 – sale of CCGT generation assets and end of commercial coal in March 2021 and closure in September 2022 following fulfilment of Capacity Market agreements
- Sustainable biomass sourcing
  - Science-based sustainability policy compliant with current UK and EU law on sustainable biomass
  - Biomass produced using sawmill and forest residuals, and low-grade roundwood, which often have few alternative markets and would otherwise be landfilled, burned or left to rot, releasing CO<sub>2</sub> and other GHGs
  - Significant increase in sawmill residues used by Drax to produce pellets – 57% of total fibre (2020: 21%)
  - 100% of woody biomass produced by Drax verified against SBP, SFI, FSC®<sup>(4)</sup> or PEFC Chain of Custody certification with third-party supplier compliance primarily via SBP certification
  - Glasgow Declaration launched at COP26 to establish a world-wide industry standard on biomass sustainability
- People – Diversity, Equity and Inclusion – female representation in the UK business increased to 36% (2020:34%)
- Governance – two new North America based Non-Executive Directors – Kim Keating and Erika Peterman

## Operational review

### Pellet Production – acquisition of Pinnacle, capacity expansion and biomass cost reduction

- Adjusted EBITDA (including Pinnacle since 13 April 2021) up 65% to £86 million (2020: £52 million)
  - Pellet production up 107% to 3.1Mt (2020: 1.5Mt), with 1.2Mt sales to third parties and increased own-use
  - Total \$/t cost of production down 7% to \$143/t<sup>(5)</sup> (2020: \$153/t<sup>(5)</sup>)
- Developments in US southeast (2021-22) – addition of c.0.6Mt of new production capacity
  - Completion of LaSalle and Morehouse plant expansions
  - Commissioning of Demopolis and first satellite plant (Leola)
  - Commencement of construction of second satellite plant (Russellville)
- Further opportunities for growth and cost reduction – increased production capacity, sales to third parties, continued operational efficiencies and improvement, wider range of sustainable biomass and technical innovation

### Generation – dispatchable renewable generation and system support services

- UK's largest generator of renewable power by output – 12% of total
- Adjusted EBITDA from discontinued CCGT generation assets £20 million (2020: £46 million)
- Adjusted EBITDA from continuing operations £352 million (2020: £400 million)
  - Biomass – 5% increase in generation less major planned outage on CfD unit (successfully completed November 2021), higher cost from historic foreign exchange hedging and system charges
  - Pumped storage / hydro – good operational performance
  - Strong portfolio system support role (balancing mechanism, ancillary services and optimisation)
    - Limited role for coal in H2 at request of system operator
- Ongoing cost reductions to support operating model for biomass generation at Drax Power Station from 2027
  - Reduction in fixed cost base – end of commercial coal operations March 2021, closure September 2022
  - Third biomass turbine upgrade, delivering improved thermal efficiency and lower maintenance cost
  - Trials to expand range of lower cost sustainable biomass – up to 35% blend achieved in test runs on one unit
- As at 21 February 2022, Drax had 20.4TWh of power hedged between 2022 and 2024 on its ROC and hydro generation assets at £70.2/MWh, with a further 0.9TWh equivalent of gas sales (transacted for the purpose of accessing additional liquidity for forward sales from ROC units and highly correlated to forward power prices) plus additional sales under the CfD mechanism

<i>Contracted power sales 21 February 2022</i>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>ROC (TWh)<sup>(6)</sup></b>	<b>10.9</b>	<b>6.9</b>	<b>2.4</b>
<b>- Average achieved £ per MWh</b>	<b>70.0</b>	<b>70.0</b>	<b>70.6</b>
<i>Hydro (TWh)</i>	<i>0.2</i>	<i>-</i>	<i>-</i>
<i>- Average achieved £ per MWh</i>	<i>90.9</i>	<i>-</i>	<i>-</i>
<i>Gas hedges (TWh equivalent)<sup>(7)</sup></i>		<i>0.5</i>	<i>0.4</i>
<i>- Pence per therm</i>		<i>105</i>	<i>101</i>
<i>CfD<sup>(6)(8)</sup> typical annual output c.5TWh and current strike price £118.5/MWh</i>			

### Customers – renewable power under long-term contracts to high-quality I&C customers and decarbonisation products

- Adjusted EBITDA of £6 million inclusive of impact of mutualisation changes and Covid-19 (2020: £39 million loss)
- Continued development of Industrial & Commercial (I&C) portfolio
  - Focusing on key sectors to increase sales to high-quality counterparties supporting generation route to market
  - Energy services to expand the Group's system support capability and customer sustainability objectives
- Rebranding of the Haven Power I&C business to Drax Energy Solutions
- Closure of Oxford and Cardiff offices as part of Small & Medium-Size (SME) strategic review and continuing to evaluate options for SME portfolio to maximise value and align with strategy

## Other financial information

- Total operating profit from continuing operations of £197 million (2020: £156 million loss, including exceptional costs totalling £275 million principally in respect of the announced closure of coal operations)
- Total profit after tax from continuing operations of £55 million including a £49 million non-cash charge from revaluing deferred tax balances following confirmation of UK corporation tax rate increases from 2023 (2020: loss of £195 million)
- 2021 capital investment of £230 million (2020: £183 million) – continued investment in biomass strategy
- 2022 expected capital investment of £230–250 million – £70-80 million maintenance, £20 million enhancements, £110-120 million strategic, (primarily biomass and BECCS), and £30 million other (primarily safety and systems)
  - Excludes any material investment in non-core Open Cycle Gas Turbine developments – continuing to evaluate options, including sale, but continue to invest as appropriate to fulfil obligations under the Capacity Market agreements and to maximise value from any sale. In the event of a sale Drax expects to recover any capital expenditure incurred during 2022, which could total up to £100 million
- Group cost of debt below 3.5%
  - Refinancing of Canadian facilities (July 2021) with lower cost ESG facility following Pinnacle acquisition
- Net debt of £1,044 million (31 December 2020: £776 million), including cash and cash equivalents of £317 million (31 December 2020: £290 million)
  - Expect net debt to Adjusted EBITDA below 2x by the end of 2022

### Notes:

- (1) Financial performance measures prefixed with “Adjusted” are stated after adjusting for one-off exceptional items that, by their nature, do not reflect the trading performance of the Group (revaluation of deferred tax balances reflecting future increases in UK CT rates, acquisition costs, gain on sale of CCGT generation assets, restructuring costs, debt restructuring costs and asset obsolescence charges), and certain remeasurements on derivative contracts. Adjusted EBITDA and EPS measures exclude amounts attributable to non-controlling interests.
- (2) Earnings before interest, tax, depreciation, amortisation, excluding the impact of exceptional items and certain remeasurements.
- (3) Borrowings less cash and cash equivalents, excluding amounts attributable to non-controlling interests.
- (4) FSC License code: FSC-C119787.
- (5) Total \$/t cost of production in Pellet Production – raw fibre, processing into a wood pellet, delivery to Drax port facilities in US and Canada, loading to vessel for shipment and overheads – Free on Board (FOB). Cost of ocean freight, UK port and rail cost reflected in Generation business accounts in addition to price paid to Pellet Production for the biomass pellet.
- (6) Typical estimated annual biomass generation from ROC and CfD units c.15TWh based on estimated biomass availability.
- (7) Structured power sales in 2023 and 2024 (forward gas sales as a proxy for forward power), transacted for the purpose of accessing additional liquidity for forward sales from ROC units and highly correlated to forward power prices.
- (8) The CfD biomass unit typically operates as a baseload unit, with power sold forward against a season ahead reference price. The CfD counterparty pays the difference between the season ahead reference price and the strike price. The contracted position therefore only includes CfD volumes and prices for the front six months.

## Forward Looking Statements

This announcement 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; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected. We do not intend to publicly update or revise these projections or other forward-looking statements to reflect events or circumstances after the date hereof, and we do not assume any responsibility for doing so.

## Results presentation and webcast arrangements

Management will host a webcast presentation for analysts and investors at 11:00am (UK Time) on Thursday 24 February 2022.

The presentation can be accessed remotely via a live webcast link, as detailed below. After the meeting, the webcast recording will be made available and access details of this recording are also set out below.

A copy of the presentation will be made available from 7:00am (UK time) on Thursday 24 February 2022 for download at:

[www.drax.com>>investors>>results-reports-agm>>#investor-relations-presentations](http://www.drax.com>>investors>>results-reports-agm>>#investor-relations-presentations) or use the link <https://www.drax.com/investors/results-reports-agm/#investor-relations-presentations>

Event Title:	Drax Group plc: Full Year Results
Event Date:	Thursday 24 February 2022

Event Time:	11:00am (UK time)
Webcast Live Event Link:	<a href="https://secure.emincote.com/client/drax/drax019">https://secure.emincote.com/client/drax/drax019</a>
Conference call and pre-register Link:	<a href="https://secure.emincote.com/client/drax/drax019/vip_connect">https://secure.emincote.com/client/drax/drax019/vip_connect</a>
Start Date:	Thursday 24 February 2022
Delete Date:	Friday 24 February 2023
Archive Link:	<a href="https://secure.emincote.com/client/drax/drax019">https://secure.emincote.com/client/drax/drax019</a>

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## Chair's statement

The Group aims to realise its purpose and ambition through three strategic objectives – to be a global leader in sustainable biomass pellets, to be a global leader in negative emissions, and to be a leader in UK dispatchable, renewable power. These objectives are closely aligned with global energy policies, which increasingly recognise the unique role that biomass can play in the fight against climate change.

Since 2012, we have reduced our carbon emissions from power generation by over 95%, principally reflecting our long-term investment in sustainable biomass. More recently, in January 2021 we completed the sale of our CCGT gas assets, and in March 2021 ended commercial coal generation, further reducing our carbon emissions. Beyond this reduction, we have continued to progress our ambition to become a carbon negative company by developing opportunities for bioenergy with carbon capture and storage (BECCS) in the UK and internationally.

With the right policy support in place in the UK and internationally, we believe this proven carbon removal technology could be used globally to deliver negative emissions. Through these activities, we expect to play a major role in delivering the UK's legally binding objective to achieve net zero carbon emissions by 2050 and support global efforts to reduce carbon emissions. We believe sustainable biomass has a long-term role to play in the UK and global energy markets, both as a dispatchable and sustainable source of renewable energy, and as a means of delivering negative carbon emissions. Our biomass supply chain strategy has continued to progress, with the acquisition of Pinnacle Renewable Energy Inc. (Pinnacle) in April 2021 positioning Drax as the world's leading sustainable biomass generation and supply business.

## Operations

In North America, alongside the process of integrating Pinnacle, our Pellet Production business managed the impacts of summer wildfires, heavy rainfall and flooding in Canada, leading to some disruption to rail movements and restricted exports. While managing these issues across our enlarged and diversified supply chain, we have continued commissioning new capacity in the US southeast and further reduced production costs across the portfolio.

In the UK, our generation portfolio has continued to support the UK power system and deliver high levels of renewable electricity. In 2021, the Group was once again the largest source of renewable electricity by output in the UK, providing 12% of the total from its biomass and hydro generation assets.

Our Customers business, which supplies electricity and gas to businesses in the UK, has continued its recovery from the impact of Covid-19, which was principally associated with its small or medium-sized enterprise (SME) business.

## Results and dividend

Adjusted EBITDA in 2021, including both continuing and discontinued operations, was £398 million. This was slightly lower than 2020 (£412 million), principally reflecting a major planned outage on one biomass generation unit at Drax Power Station. In the context of that outage, we believe this was a strong performance.

The balance sheet also remains strong with net debt of £1,044 million in line with our plans and, we believe, supportive of our credit rating.

At the 2021 Half Year Results, we confirmed an interim dividend of £30 million (7.5 pence per share). The Board proposes to pay a final dividend in respect of 2021 of £45 million, equivalent to 11.3 pence per share, making the full year 2021 dividend £75 million (18.8 pence per share) (2020: £68 million, 17.1 pence per share). This represents a 10% increase on 2020 and is consistent with our policy to pay a dividend which is sustainable and expected to grow as the strategy delivers stable earnings, strong cash flows and opportunities for growth.

The Group has a clear capital allocation policy which it applied throughout 2021. 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. The latter includes our stated intent to invest to expand the Group's

biomass supply chain, in addition to options to develop BECCS and pumped storage. If there is a build-up of capital, the Board will consider the most appropriate mechanism to return this to shareholders.

### **Safety and sustainability**

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

Sustainability is at the heart of the Group and we believe that achieving a positive economic, social and environmental impact helps us create sustainable long-term value. Throughout 2021 we have continued our work as a Task Force on Climate-Related Financial Disclosures (TCFD) supporter, developing science-based targets and identifying opportunities for further reductions of carbon emissions in our supply chain. The Board has also considered proposals for a Group Sustainability Framework, the aim of which is to instil and monitor sustainability objectives across the Group. This is an ongoing process that will continue in 2022.

### **People and values**

I would like to thank all colleagues and contractors for their valuable contribution to the Group in 2021. In addition, I would like to welcome our new colleagues from Pinnacle who joined the Group in April. The Board has been hugely impressed by the professionalism of our Pinnacle colleagues and their willingness to embrace working together as a part of the enlarged Group.

The Board is committed to building a supportive, diverse and inclusive working environment where all colleagues feel they belong. We continue to engage with, and listen to, our colleagues. During 2021, Will Gardiner, our CEO, and I met regularly with the chairs of our workforce engagement forums, and we will continue to do so in 2022. These meetings provide valuable ongoing insights and feedback for the Board. A key topic was our Covid-19 response and plans for returning to the offices. In response to feedback, we introduced a new, hybrid and flexible way of working to support colleagues.

We have monitored and challenged management on the steps being taken, and receive regular updates at Board meetings on the work being done to address diversity. We are making progress and, by the end of 2021, we had improved our gender representation at Board level to 44% (2020: 29%) and at the Executive Committee to 40% (2020: 22%).

### **Board changes**

In October 2021, we welcomed two new Non-Executive Directors – Erika Peterman and Kim Keating. Their extensive experience in the US and Canada, will strengthen our Board and contribute to the diversity of backgrounds, insights and skills, which reflect the continued growth and international presence of Drax and the evolution of the Group as a leading global provider of sustainable biomass and dispatchable, renewable energy.

### **Summary**

In 2021 we delivered a strong financial performance, supported our stakeholders and continued to pay a sustainable and growing dividend.

At the same time, we have made progress with our strategic objectives. Our biomass growth strategy is clear; our plans for biomass sales, BECCS and generation are all underpinned by the expansion of our supply chain. 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.

### **Philip Cox CBE**

#### **Chair**

### **CEO's review**

We ended commercial coal generation, sold our CCGT generation business to VPI Generation Limited for £186 million and acquired Pinnacle Renewable Energy Inc. (Pinnacle), a leading Canadian renewable energy company, for a cash consideration of £222 million (enterprise value of C\$796 million).

The Group's purpose remains to enable a zero carbon, lower cost energy future and this drives our commitment to address climate change. Since 2012, the actions the business has taken have reduced our generation carbon emissions by over 95%, which are now amongst the lowest in Europe. We are the UK's largest source of renewable power by output and our ambition is to become a carbon negative company by 2030.

The world must act now to address the climate crisis and limit global warming to 1.5°C. We need more renewable energy, more flexible energy systems to make the best use of intermittent wind and solar energy, and crucially, greenhouse gas removal technologies to remove carbon from the atmosphere.

Globally there has been increased recognition and policy support for biomass and Bioenergy with Carbon Capture and Storage (BECCS). The Intergovernmental Panel on Climate Change and the Coalition for Negative Emissions have both outlined a clear role for BECCS in delivering the negative emissions required to limit global warming to 1.5°C above pre-industrial levels and to achieve net zero by 2050.

Separately, in the autumn of 2021 the UK Government published its Net Zero Strategy and Biomass Policy Statement reaffirming the established international scientific consensus that sustainable biomass is renewable and that it will play a critical role in helping the UK achieve its climate targets. The Government also signposted an ambition for at least 5 million tonnes (Mt) p.a. of negative emissions from BECCS and Direct Air Capture by 2030. There are also targets beyond this point – 23Mt p.a. by 2035 and up to 81Mt p.a. by 2050.

Bioenergy is the EU's largest source of renewable energy, and the EU has noted continued support for sustainable biomass through the development of its third Renewable Energy Directive. In Japan, the government has approved 8GW of biomass generation as part of its own decarbonisation objectives.

We believe Drax is a world leader in sustainable biomass and that BECCS can become a world leading, UK-led, exportable solution for large-scale negative emissions.

Through our strategy we are creating exciting opportunities for growth aligned to global decarbonisation efforts. These include biomass supply chain expansion, UK BECCS, international options for BECCS and new pumped storage. Our investments in these areas are underpinned by strong cash flows and we expect to deliver high quality earnings, which continue to support our commitment to a sustainable and growing dividend.

### **Acquisition of Pinnacle**

The acquisition of Pinnacle, which completed in April 2021, transformed the Group's supply chain, making Drax the world's leading sustainable biomass generation and supply business. It advanced our strategic objectives by increasing production capacity, reducing cost and adding third party sales as well as a platform to further grow those sales.

Combining Pinnacle with our existing assets, we now have 17 operational and development sites in the US southeast and Canada, with total nameplate production capacity of around 5Mt p.a. once commissioned. These plants are geographically diverse and located in three major fibre baskets (British Columbia and Alberta, Canada, and the US southeast) with access to four deep water ports providing routes to growing markets in Japan and Korea, where we already have long-term contracts, the UK and mainland Europe, which we can service out of the US southeast.

### **Summary of 2021**

Safety remains our primary focus and, in 2021, the Total Recordable Incident Rate was 0.22 (2020: 0.29). This is a good performance that reflects our ongoing focus on the delivery of safe, reliable and compliant operations. Our performance in the UK has improved over previous years; however, performance at our newly acquired Pinnacle sites was not as good as we would like and we are working hard to improve there.

Our colleagues have responded tremendously to the challenges of Covid-19. We continue to operate Covid-19 secure workplaces, following relevant jurisdiction guidance with operational staff working in a safe manner, while the rest of our colleagues have adopted hybrid models of work.

Adjusted EBITDA of £398 million from continuing and discontinued operations represents a 3% decrease compared to 2020 (£412 million). The reduction principally reflects a major planned outage on one biomass unit at Drax Power Station, completed in the second half of 2021. In context we believe this was a strong performance, which reflected the acquisition of Pinnacle, higher output and lower cost in Pellet Production, and an improvement in the Customers business following the easing of lockdown restrictions in the UK.

While power prices remain an important driver of the Group's earnings, a strong forward sold position in 2021 means we have not been a significant beneficiary of higher power prices from these activities. However, we have been able to add forward hedged prices in future years at higher prices.

Our balance sheet is strong with cash and total committed facilities of £549 million as at 31 December 2021 and net debt of £1,044 million. Consistent with our fully funded plans for investment in growth through 2030, we continue to target long-term net debt to Adjusted EBITDA of around 2.0x, but we now expect to be below this level by the end of 2022.

Operationally, alongside the integration of Pinnacle we delivered increases in pellet production and further reductions in cost, while managing supply chain challenges associated with weather and forest fires in North America. In the UK, our generation fleet has continued to support the power system with high levels of renewable power, although the availability of the biomass ROC units was lower than in 2020.

Crucially, we have progressed our option for BECCS in the UK by starting a planning consultation process, selecting a technology partner – Mitsubishi Heavy Industries (MHI) and in December 2021 we awarded a contract to Worley Europe Limited to commence a full Front End Engineering Design (FEED) study. This is based on our increasing confidence in UK Government support for the project, as demonstrated in the Net Zero Strategy. An investment decision could be taken in 2024, subject to the right investment framework.

Drax is a signatory to the UN Global Compact (UNGC) and we are committed to promoting the UNGC principles on respect for human rights, labour rights, the environment and anti-corruption.

### **Operational performance**

#### **Pellet Production**

In North America, our Pellet Production business reported Adjusted EBITDA of £86 million, up 65% (2020: £52 million). This reflects higher levels of production from existing operations, ongoing cost reduction plans and the acquisition of Pinnacle.

Pellet production was 3.1Mt, an increase of 109% (2020: 1.5Mt), which reflects the commissioning of additional capacity at Morehouse and LaSalle, in addition to Pinnacle from April 2021, for sale of biomass to third parties in Asia and Europe, and own-use at Drax Power Station.

The Group is in the final stages of commissioning 360 thousand tonnes (Kt) of new production capacity at Demopolis, Alabama and a new 40Kt satellite plant in Leola, Arkansas. The Group is also currently constructing a new 40Kt satellite plant at Russellville, Arkansas, allowing greater utilisation of lower cost sawmill residues whilst leveraging our existing infrastructure in the US southeast.

Once complete, these developments, alongside incremental capacity expansions at existing sites, will increase nameplate production capacity to around 5Mt p.a.. Over 2Mt p.a. are contracted to high-quality third-parties under long-term contracts, with the balance available to Drax to fulfil its own-use requirements.

The Free On Board (FOB) production cost (the cost of producing biomass pellets and transferring them to a port in North America for onwards transit) across the portfolio was \$143/t, a reduction of 7% (2020: \$153/t), which reflects our ongoing programme of cost reduction and supply chain improvements, and the addition of lower cost Pinnacle production.

Operationally, there has been no material disruption to own-use or third-party volumes from the global supply chain delays experienced in some other sectors. However, as outlined at the Group's 2021 Half Year Results, we experienced a small and contained fire at our Westview port facility in Prince Rupert, British Columbia. No one was injured but operations were temporarily suspended to allow for repairs. Separately, forest fires, heavy rainfall and flooding led to restrictions on rail lines and regional supply chains. As a result, pellet production

and exports from Canada were restricted during the summer. Most recently, in December, extreme low temperatures in Canada led to some further reduction in output.

Through our enlarged and diversified supply chain we have been able to manage and limit the impact on our own operations and those of our customers and continue to monitor the potential for change that could have an impact on our business and customers.

Due to the Group's active and long-term hedging of freight costs, there has been no material impact associated with higher market prices for ocean freight. The Group uses long-term contracts to hedge its freight exposure on biomass for its Generation business, and following the acquisition of Pinnacle, has taken steps to optimise freight requirements between production centres in North America and end markets in Asia and Europe.

On 31 December 2021, Drax completed the acquisition of the wood pellet business of Pacific BioEnergy Corporation, excluding its manufacturing facility, and most importantly, including its pellet sales contract book, adding 2.8Mt of contracts for sustainable biomass supply to high-quality counterparties in Japan and Europe. These contracts are for delivery between 2022 and the mid-2030s and the total incremental revenues over the contract period are around C\$675 million.

The deal complements the Group's existing supply contracts to Asian counterparties and European generators, increasing the Group's long-term third-party sales book by 15%, to around 22Mt, with total revenues of over US\$4.5 billion and contract durations to the 2030s.

## **Generation**

The portfolio produced 5% of the UK's electricity between October 2020 and October 2021 (the most recent period for which data is available) and 12% of the UK's renewable electricity over the same period, making Drax the UK's largest renewable generator by output.

Adjusted EBITDA of £372 million from continuing and discontinued operations, was a decrease of 17% versus 2020 (£446 million). The reduction principally reflects a major planned outage on the Group's CfD biomass unit at Drax Power Station (more details below). Additional costs included a higher cost of biomass, reflecting historic forward foreign exchange hedging and higher grid charges.

Biomass availability was 88% (2020: 87%), including a very strong performance from the CfD unit, with availability of 95% offsetting a higher forced outage rate on the ROC units. This was mainly associated with boiler tube leaks and mill availability and included a two-week forced outage on one unit in September.

We believe that this, in part, reflects the growing utilisation of flexible operation on the three ROC units in their role producing renewable power and providing system support to the power system. To help minimise outage rates, in the future we expect to optimise generation across all four biomass units (ROC and CfD). This will take into account market power prices to maximise value from the biomass stocks available at any given time.

Biomass availability was also affected by a small increase in the number of rail delivery cancellations in the UK. These were due to driver availability, because of Covid-19 restrictions, and transfer plant reliability issues. We managed this through the flexibility of our ROC units, reprofiling generation from the first to the second half of the year.

In November 2021, the Generation business successfully completed a major 98-day planned outage on its biomass CfD unit, which included the third in a series of high-pressure turbine upgrades. We now expect the unit to benefit from thermal efficiency improvements and lower maintenance costs, incrementally reducing the cost of biomass generation at Drax Power Station.

Our hydro operations – Cruachan Pumped Storage Power Station (Cruachan), and the Lanark and Galloway hydro schemes – have continued to perform well. These assets provide renewable electricity, system support services, peak power generation and Capacity Market income. Taken together with the Daldowie energy from waste plant, Adjusted EBITDA was £68 million (2020: £73 million). The Group's generation assets have continued to play an important role providing stability to the UK power system at a time when higher gas prices, European interconnector issues, and periods of low wind have placed the system under increased pressure.

In March 2021, the Group's two legacy coal units ended commercial generation activities and will formally close in September 2022 following the fulfilment of their Capacity Market obligations. Reflecting the system challenges described above, the system operator called upon these units in the Balancing Mechanism for limited operations in September and November. These short-term measures helped to stabilise the power system and have not resulted in any material increase in the Group's total carbon emissions.

Also in March 2021, Drax secured Capacity Market agreements for its hydro and pumped storage assets providing revenues of around £10 million in the delivery period October 2024 to September 2025. The Group also secured 15-year agreements for three new 299MW Open Cycle Gas Turbine (OCGT) projects in England and Wales for delivery between 2024 and 2039. We are continuing to evaluate options for these projects, including their potential sale.

## **Customers**

Our Customers business reported Adjusted EBITDA of £6 million (2020: £39 million loss). This is a significant improvement on 2020, which was impacted by Covid-19 – principally in the SME business. The SME business continued to be affected by Covid-19 in the first half of 2021. We are continuing to explore operational and strategic solutions to support the development of this business.

The Group's Industrial & Commercial (I&C) supply business performed well with significant growth in the contracted sales position to high-quality customers. The implied customer demand for renewable power exceeds the generated volumes in the UK and we are well positioned with our own portfolio, as a premium for renewable power emerges.

We see an important role in supporting the decarbonisation of British I&C businesses through the supply of renewable energy, asset optimisation, Electric Vehicle services and carbon offset certificates, which we believe could evolve in the future to the provision of negative emissions. To facilitate these opportunities, we have restructured the Customers business – streamlining operations with the closure of offices in Oxford and Cardiff – and rebranded the Haven Power I&C business to Drax Energy Solutions.

## **Biomass strategy**

In December 2021, the Group held a Capital Markets Day to provide an update on 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 by 2030.

The strategy includes three complementary strategic pillars, closely aligned with global energy policies and which increasingly recognise the unique role that biomass can play in the fight against climate change. These pillars are: to be a global leader in sustainable biomass pellets; to be a global leader in negative emissions; and to be a UK leader in dispatchable, renewable generation. To deliver that strategy, we also identified £3 billion of potential investment by 2030 in our biomass supply chain, BECCS and new pumped storage which we expect to undertake.

The development of these pillars remains underpinned by the Group's continued focus on safety, sustainability and biomass cost reduction. In 2018, the Group's FOB biomass production cost was \$166/t. In 2021, through a combination of fibre sourcing, operational improvements and capacity expansion (including the acquisition of Pinnacle), the FOB cost had reduced to \$143/t. Drax continues to target an FOB cost of \$100/t by 2027.

We believe we can achieve this target through the continued optimisation of existing biomass operations, technical innovation and the greater utilisation of sawmill residues and other lower cost renewable feedstocks. In this regard, during 2021 Drax Power Station completed trials using four different low-cost biomass materials. One of these materials represented 35% of the fuel mix on one biomass unit during test runs. This is a significant increase, although there remains much work to do.

### **A global leader in sustainable biomass pellets**

We believe the global market for sustainable biomass will grow significantly, creating international opportunities for sales to third parties, BECCS, generation and other long-term uses of biomass.

Drax is targeting 8Mt of production capacity by 2030, which will require the development of over 3Mt of new biomass pellet production capacity to supplement existing capacity and current developments. To deliver this additional capacity we are developing a pipeline of organic projects, principally focused on North America, and expect to take a final investment decision in 2022 on 0.5-1Mt of new capacity, targeting returns significantly in excess of the Group's cost of capital.

Through the acquisition of Pinnacle, Drax has immediate access to new markets, underpinned by long-term index-linked contracts for third-party supply and the expertise to develop new commercial relationships. Underpinned by the planned expansion of production capacity, we aim to double sales of biomass to third parties to 4Mt p.a. by 2030, and develop our market presence in Asia and Europe, facilitated by the creation of new business development teams in Tokyo and London.

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 almost 20 years of experience in biomass operations. The Group's innovation in coal-to-biomass engineering, supply chain management, together with the development of a leading position in negative emissions, can be deployed alongside its large, reliable and sustainable supply chain to support customer decarbonisation journeys with long-term partnerships. We expect to sell all the biomass we produce at an appropriate market price (both for own use at Drax Power Station and to third-parties), typically with long-term index-linked contracts.

### **A global leader in negative emissions**

The Intergovernmental Panel on Climate Change and the Coalition for Negative Emissions have both outlined a clear role for BECCS in delivering the negative emissions required to limit global warming to 1.5°C above pre-industrial levels and to achieve net zero by 2050. They have identified a requirement of between 2 billion and 7 billion tonnes of negative emissions globally from BECCS.

We plan to transform Drax Power Station into one of the world's leading carbon capture projects, using BECCS to permanently remove 8Mt of CO<sub>2</sub> emissions from the atmosphere each year by 2030. The project is well developed, the technology is proven and an investment decision could be taken in 2024, subject to the right investment framework. This would mean that the first BECCS unit would be operational in 2027 and a second in 2030.

Drax Power Station is in the Humber region, an area with one of the highest absolute level of carbon emissions in the UK, due to the number of industrial sites in the area. This makes the region a natural location for large-scale carbon capture and storage infrastructure for energy and industry. In October, the UK Government selected the East Coast Cluster (the Humber and Teesside regions combined), as one of two regions to be taken forward for the development of Carbon Capture and Storage (CCS) infrastructure. This is an important milestone for the Drax BECCS project and we expect further developments in 2022 regarding a financial model for UK BECCS.

We believe that the development of CCS and BECCS in the region can bring new investment, new jobs and world-leading and exportable negative emissions technologies in the UK.

We expect deliverability to be an important part of the UK Government's selection criteria – the technology to deliver post-combustion BECCS exists and is proven. In June 2021, Drax announced MHI as its technology partner for the development of the first two BECCS units at Drax Power Station, following trials of MHI's technology that commenced in the second half of 2020. Most recently, we confirmed an investment of around £40 million in 2022 in a programme of works which, alongside early site preparation works, will provide the detailed design information and costings to support the investment decision.

In addition, we are progressing our work around innovative technology options for carbon capture, including C-Capture. Drax (alongside IP Group and BP as C-Capture shareholders), continues to support C-Capture's work to develop an organic solvent that could be used for BECCS and other applications, which we believe could deliver significant long term cost savings for future projects.

The Group aims to build on this innovation with a new ambition to deliver 4Mt of negative CO<sub>2</sub> emissions each year from new-build BECCS outside of the UK by 2030, and is currently developing models for North American and European markets.

### **A UK leader in dispatchable, renewable generation**

The UK's plans to achieve net zero by 2050 will require the electrification of heating and transport systems, resulting in a significant increase in demand for electricity. Drax believes that intermittent renewable and inflexible low-carbon energy sources – wind, solar and nuclear – could meet over 80% of 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 and stability of supply and to limit the cost to the consumer.



Long-term biomass generation and pumped storage hydro can provide these increasingly important services. Drax Power Station is the UK's largest source of renewable power by output and the largest dispatchable plant. The Group is continuing to develop a lower cost operating model for this asset, supported by a reduction in fixed costs associated with the end of coal operations.

We are also developing an option for new pumped storage – Cruachan II – to provide an additional 600MW of dispatchable long-duration storage to the power system. The location, flexibility and range of services it can provide makes Cruachan, in Scotland, strategically important to the UK power system and aligned with its future needs. A final investment decision could be taken in 2024 and the development operational by 2030. Any investment decision will depend on the right regulatory support.

## Outlook

Drax has repositioned itself in the last decade from a single-site fossil fuel generator to the world's leading sustainable biomass generation and supply business, with global growth opportunities aligned with the need for renewables, negative emissions and more flexible energy systems.

Our focus is on progressing our strategy: to be a global leader in sustainable biomass pellets; to be a global leader in negative emissions; and to be a UK leader in dispatchable, renewable generation. 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 other stakeholders.

We are making good progress with the delivery of our strategy and will build on this as we continue to play an important role in our markets as well as realising our purpose of enabling a zero carbon, lower cost energy future and our ambition to become a carbon negative company by 2030, underpinned by the development of BECCS.

**Will Gardiner**

CEO

## Financial review

Adjusted EBITDA (Continuing and discontinued Ops)	Adjusted operating profit from continuing operations	Total Operating Profit/(loss) from Continuing operations	Cash Generated from Operations
<b>£398m</b> (2020: £412m)	<b>£170m</b> (2020: £189m)	<b>£197m</b> (2020: £(156)m)	<b>£354m</b> (2020: £413m)
Adjusted earnings per share from continuing and discontinued operations	Total earnings/(loss) per share from continuing and discontinued operations	Net debt to Adjusted EBITDA ratio	Total dividend per Share
<b>26.5 pence</b> (2020: 29.6 pence)	<b>20.0 pence</b> (2020: (39.8) pence)	<b>2.6 times</b> (2020: 1.9 times)	<b>18.8 pence</b> (2020: 17.1 pence)

I am pleased to report a strong set of results for the year ended 31 December 2021.

Adjusted EBITDA from continuing and discontinued operations of £398 million was delivered inclusive of a major planned outage on the CfD unit at Drax Power Station during the second half of the year. It includes discontinued operations relating to our CCGT generation business, sold to VPI Generation Limited on 31 January, and the results of Pinnacle Renewable Energy Inc. (Pinnacle) following the acquisition on 13 April. The discontinued CCGT operations contributed Adjusted EBITDA of £20 million (2020: Adjusted EBITDA of £46 million).

Total operating profit from continuing operations increased to £197 million in the year (2020: £156 million loss). The loss in 2020 included £261 million of exceptional costs related to the announced closure of our coal operations. Exceptional items in the current year totalled £22 million and included £12 million of fees related to the acquisition and integration of Pinnacle.

During 2021, we saw significant growth in our Pellet Production business, most notably due to the acquisition of Pinnacle in April 2021, but also reflecting higher levels of production and profitability from existing operations. Total pellet production more than doubled to 3.1Mt during the year and production cost per tonne reduced by 7%.

Overall availability of our Biomass units was 88% (2020: 87%), with strong performance of the CfD unit of 95% (2020: 91%) offsetting the impact of a small increase in ROC unit outages. Our forward hedging strategy means that 2021 has not seen a significant benefit from higher power prices, but we have secured increased forward hedged prices in respect of 2022 and 2023.

The total financial impact of Covid-19 in the year of approximately £17 million significantly reduced from approximately £60 million in 2020. Most of the impact, £16 million, was in our Customers business. During the year, our Customers business also saw the impact of

mutualisation costs from other supplier failures. Despite these challenges, the Customers business returned to profitability, delivering £6 million of Adjusted EBITDA.

		Year ended	
		31 December 2021	31 December 2020
Financial Performance (£m)	<b>Total operating profit</b>	<b>197</b>	(156)
	Exceptional costs and certain remeasurements	<b>(27)</b>	106
	Asset obsolescence charges	-	239
	<b>Adjusted operating profit</b>	<b>170</b>	189
	Depreciation, amortisation and losses on disposal of fixed assets	<b>208</b>	177
	<b>Adjusted EBITDA from continuing operations</b>	<b>378</b>	366
	Adjusted EBITDA from discontinued CCGT operations	<b>20</b>	46
	<b>Adjusted EBITDA from continuing and discontinued operations</b>	<b>398</b>	412
Adjusted EBITDA (£m)	Pellet Production	<b>86</b>	52
	Generation	<b>352</b>	400
	Customers	<b>6</b>	(39)
	Central and Other costs	<b>(65)</b>	(47)
	Discontinued CCGT operations	<b>20</b>	46
	<b>Adjusted EBITDA continuing and discontinued operations</b>	<b>398</b>	412
Capital Expenditure (£m)	Capital expenditure for the year	<b>238</b>	200
Cash and net debt (£m unless otherwise stated)	Cash generated from operations	<b>354</b>	413
	Net debt	<b>1,044</b>	776
	Net debt to Adjusted EBITDA (times)	<b>2.6</b>	1.9
Earnings/(loss) (pence per share)	Adjusted Basic	<b>26.5</b>	29.6
	Total Basic	<b>20.0</b>	(39.8)
Distributions (pence per share)	Interim Dividend	<b>7.5</b>	6.8
	Proposed final dividend	<b>11.3</b>	10.3
	<b>Total Dividend</b>	<b>18.8</b>	17.1

We calculate Adjusted financial performance measures, which are Drax specific and exclude income statement volatility from derivative financial instruments and the impact of exceptional items, to provide additional information about the Group's performance. Adjusted financial performance measures are described more fully with a reconciliation to their statutory equivalents in note 5 to this announcement. Throughout this document we distinguish between Adjusted measures and Total measures, which are calculated in accordance with International Financial Reporting Standards (IFRS). On 31 January 2021, the Group completed the sale of its portfolio of CCGT assets to VPI Generation Limited. Because of this transaction, the results of the CCGT portfolio for 2020 and 2021 have been classified as discontinued operations in the consolidated financial statements. References to financial performance measures throughout this announcement refer to continuing operations, unless otherwise stated. Further details of discontinued financial performance is included in note 12 to the Consolidated financial statements. Tables in this financial review may not add down/across due to rounding.

We continue to generate strong operating cash flows, which we expect to use to invest in growth and support the payment of a sustainable and growing dividend, in line with our long-standing capital allocation policy. Cash generated from operations in the year was £354 million (2020: £413 million).

Net debt to Adjusted EBITDA ended the year at 2.6 times (2020: 1.9 times). Consistent with our fully funded plans for investment in growth through to 2030, we continue to target long-term net debt to Adjusted EBITDA of around 2 times, but expect to be below this level by the end of 2022. During the year, we refinanced the debt acquired as part of the Pinnacle transaction, further reducing the Group's all-in cost of debt and adding another ESG-related instrument into our debt portfolio, which adjusts the margin payable based on the Group's carbon intensity, measured against an annual benchmark. The Group's liquidity position remains strong and provides a solid platform from which to execute our strategy. At 31 December 2021 total cash and committed facilities totalled £549 million (2020: £682 million).

Capital expenditure during the year totalled £238 million (2020: £200 million), principally reflecting investment in our Generation and Pellet Production businesses in line with our strategy.

The proposed final dividend of 11.3 pence per share is in line with that indicated when we announced our Half Year Report and represents a 10% increase in the full year dividend compared to 2020.

## Financial performance

### Continuing and discontinued operations

The results of the CCGT assets, the sale of which completed on 31 January 2021, are presented as discontinued operations in both the current and prior year. Further detail is included in note 12 'Assets held for sale and discontinued operations'. A reconciliation of the amounts discussed in this financial review between continuing and discontinued operations is presented below.

	Year ended 31 December 2021 (£m)				Year ended 31 December 2020 (£m)			
	Adjusted EBITDA	Total operating profit	Adjusted profit after tax	Total profit after tax	Adjusted EBITDA	Total operating (loss)/profit	Adjusted profit after tax	Total (loss)/profit after tax
<b>Continuing Operations</b>	<b>378</b>	<b>197</b>	<b>88</b>	<b>55</b>	366	(156)	96	(195)
<b>Discontinued Operations</b>	<b>20</b>	<b>26</b>	<b>17</b>	<b>24</b>	46	46	21	37
<b>Continuing and Discontinued Operations</b>	<b>398</b>	<b>222</b>	<b>105</b>	<b>79</b>	412	(110)	118	(158)

### Pellet Production

Our Pellet Production business continues to make good progress, with the integration of Pinnacle well advanced following the acquisition in April 2021. Production for the year more than doubled to 3.1Mt, with 3.2Mt of pellets shipped (2020: 1.5Mt produced and 1.5Mt shipped), generating Adjusted EBITDA of £86 million (2020: £52 million), an increase of 65%.

We also continued to make progress in reducing the cost of production. The overall cost of pellets produced during the year of \$143/t represents a 7% reduction from \$153/t in 2020. Cumulative savings compared to the 2018 cost of \$166/t now total 14%. The reduction in 2021 reflects a lower cost of production in the Pinnacle business, but also improvements in our existing Pellet Production business with increased volumes, decreased fibre costs and procurement savings, partially offset by increased utilities and insurance costs. These initiatives to increase production volumes, reduce production costs and expand our sales to third-parties are critical to supporting the future strategy of the Group. In addition, sales to third-parties through the Pinnacle business totalled 1.2Mt during the year (2020: nil).

The improvements noted above were delivered against a backdrop of Hurricane Ida in the US in October, a fire at our Westview port facility and wildfires in Canada in July, and extreme low temperatures and flooding in Canada towards the end of the year. Whilst these events did result in some restrictions in pellet production and distribution, our diversified supply chain allowed us to limit this impact, demonstrating the resilience of both our operations and our people in North America. The work performed for the TCFD disclosures has aided us in considering the financial impact of climate change in more detail, and ensuring we build resilience into our business model.

### Generation

Adjusted EBITDA from continuing and discontinued operations of £372 million represents a 17% reduction compared to £446 million in 2020. This principally reflects the major planned outage on the CfD biomass unit at Drax Power Station, a higher cost of biomass in GBP terms due to historic hedged rates on foreign exchange contracts, which reflect prevailing conditions at the time the hedges were placed, and a reduction in the contribution of the discontinued CCGT operations. This was partially offset by increased balancing market activity. Overall generation volumes reduced from 18.8TWh in 2020 to 16.1TWh in 2021, reflecting a reduction in generation from coal of 1.2TWh and gas of 2.1TWh.

The major planned CfD unit outage was completed on time and on budget in November, incorporating a high-pressure turbine upgrade, completing a three-year programme to upgrade the turbines across three biomass units. This was a significant logistical and technical achievement, with the overhaul being completed in 98 days. The units are expected to benefit from lower maintenance costs and thermal efficiency improvements.

High gas prices, periods of low wind speed and issues with the interconnectors into Europe all put pressure on the UK energy system during 2021, leading to price volatility. We did not benefit significantly from increased prices during 2021, because of the high proportion of our sales book being hedged out to around two years. We do however expect to see benefits in 2022 and 2023, as hedges have been secured for these periods at higher prices.

Commercial coal operations ended in March 2021 and total generation from coal was down significantly year on year (0.4TWh vs 1.6TWh in 2020). In line with our grid licence the system operator was able to call our coal units into the balancing market on limited occasions between April and December in response to the challenges the UK energy system was facing. We currently do not expect the coal units to generate significant volumes during 2022, but they remain available to the system operator should they be required to support the network. These units will formally close in September 2022 when they have fulfilled their Capacity Market obligations.

The CCGT operations made a strong contribution during the period of ownership until 31 January 2021, contributing £20 million of Adjusted EBITDA, compared to £46 million in the prior year. Total generation from the CCGT assets of 0.6TWh compared with 2.8TWh in 2020.

Our hydro operations have continued to perform well. These assets provide renewable electricity, system support services, peak power generation and Capacity Market income. In the periods of high power price volatility experienced during the second half of the year, Cruachan performed well while providing vital support services to the energy system. Taken together with the Daldowie energy from waste plant, Adjusted EBITDA of £68 million was slightly behind the £73 million in 2020.

We hold a large portfolio of forward and option contracts for various commodities and financial products. These contracts are held to de-risk the business, including protecting the sterling value of future cash flows in relation to the sale of power and purchase of key commodities. We manage our exposures in accordance with our trading and risk management policies.

From time to time, for example where market conditions or our trading expectations change, action may be needed in accordance with these policies to rebalance our portfolio. During 2021, this included restructuring in-the-money inflation contracts, to balance short and long positions across the duration of the hedge. The value of such activity decreased in 2021, due to lower market volatility after the Covid-19 pandemic. The financial impact of these activities – which is driven by market prices at the point of execution – is included within the cost of sales of our Generation business and therefore is reflected in our Adjusted Gross profit and Adjusted EBITDA. This reflects the fact that the principal purpose of holding these contracts is to manage and de-risk the cost of purchasing fuel.

### Customers

Performance of our Customers business improved significantly during the year, returning to profitability with Adjusted EBITDA of £6 million compared to £(39) million in 2020. Whilst the recovery from the initial impact of Covid-19 continued, this result still reflects an estimated £16 million impact from the pandemic (2020: £44 million).

In addition to the challenges of Covid-19, the volatility of power and gas prices during the second half of 2021 caused a number of supply businesses to exit the market. Certain renewable costs and system charges were subsequently redistributed to the remaining market participants through mutualisation, resulting in an estimated £10 million cost for our Customers business (2020: £1 million). As the system operator took more action to balance and manage the system in a period of significant volatility, we saw an increase in related charges of £8 million in the year, which were partially offset by an increase of £5 million from the value of renewable certificates sold in the period.

The volume of power sold in the year ended 31 December 2021 grew by 7% to 18.7TWh (2020: 17.5TWh) as the UK economy recovered from the impact of the pandemic. The continuing Covid-19 recovery, coupled with more stringent credit requirements for new customers and continued effort in credit control, also resulted in a reduced bad debt charge. The total charge for 2021 was £16 million, compared to £43 million in 2020. At 31 December 2021 the provision for expected credit losses on trade receivables was £47 million (2020: £56 million). This was calculated using the same underlying methodology, with the 2021 assumptions and modelling updated to reflect the experience of the Covid-19 pandemic.

As noted in our Half Year Report, we are continuing to explore operational and strategic options for our SME customer segment. During 2021 we commenced the restructuring to streamline our operations, with the closure of offices in Oxford and Cardiff, and the rebranding of the Haven Power I&C business to Drax Energy Solutions.

### Central and Other costs

Central and Other costs of £65 million increased £18 million in the year, reflecting an increase in strategic spend and variable performance-based rewards. The increase in strategic spend primarily reflects expenditure in the first half of the year on BECCS that was not deemed to be capital in nature.

### *Total operating profit/(loss)*

Total operating profit for the year from continuing operations was £197 million (2020: loss of £156 million).

Exceptional items from continuing operations totalling £22 million (2020: £275 million) includes £12 million of acquisition and integration costs relating to Pinnacle, £5 million related to the restructuring of the Customers business and £5 million of coal closure costs. In 2020, exceptional costs included £261 million in respect of the announced closure of our coal operations.

Certain remeasurements from continuing operations led to a net £49 million gain (2020: £70 million loss) to the income statement for the year ended 31 December 2021, reflecting the impact of changes in commodity prices on the valuation of our forward hedge position.

Depreciation, amortisation and losses on disposal of fixed assets for the year totalled £209 million (2020: £177 million). The acquisition of Pinnacle accounted for most of this increase. There was no depreciation or amortisation related to the discontinued operations during 2021, as they were classified as held for sale during the period.

### *Profit after tax and Earnings per share*

Total profit after tax from continuing operations was £55 million (2020: £195 million loss).

Net interest costs for the year of £71 million reduced from the previous year (2020: £76 million). Prior year net interest costs included a £9 million write-off of deferred refinancing costs upon the refinancing of the 2022 sterling bond and the £125 million ESG term loan facility. 2020 also included £3 million of rebasing fees not incurred in 2021. This was partially offset by increased lease interest following the Pinnacle acquisition and an increase in levels of debt drawn.

The total tax charge of £66 million includes £12 million (12.0% effective tax rate) on continuing Adjusted results and £54 million on continuing exceptional items and certain remeasurements.

The 12.0% effective tax rate on Adjusted results is lower than the standard rate of corporation tax in the UK of 19.0% because of patent box credits, in relation to the biomass conversion, and the super-deduction for qualifying plant and machinery, announced in March 2021. This super-deduction also meant that no corporation tax payments were made by the Group during the year, and cash flows in relation to corporation tax were a £12 million refund in relation to overpayments from previous years.

The £54 million charge on continuing exceptional items and certain remeasurements includes a £49 million non-cash charge because of a revaluation of deferred tax balances following the enactment of the increase in UK corporation tax rates from 19% to 25% with effect from April 2023. As noted in the Group's Half Year Report, this revaluation charge has been treated as an exceptional item due to its nature and size.

The Adjusted net profit from discontinued operations for 2021 was £17 million (2020: £21 million). The Total net result from discontinued operations for 2021 was £24 million (2020: £37 million).

The net impact of all of the above is that Adjusted basic earnings per share reduced by 10% to 26.5 pence per share (2020: 29.6 pence per share). Total basic earnings per share improved from a loss per share of 39.8 pence in 2020 to earnings per share of 20.0 pence in 2021.

## Capital expenditure

Capital expenditure during the year was £238 million (2020: £200 million). Significant investments included maintenance projects at Drax Power Station totalling £45 million, £19 million for the final of three turbine upgrades on our biomass units and £56 million for expansions in the Pellet Production business, encompassing commissioning of a new facility at Demopolis (acquired with Pinnacle), expansion of our facility at LaSalle and development of satellite plants in the US southeast.

During the year, the pre-front end engineering design study for BECCS at Drax Power Station was successfully completed. Additionally, the East Coast Cluster, of which Drax is a member, was named as a 'track one' cluster by the UK Government, with the aim of developing infrastructure to allow individual CCS projects, such as BECCS, to commence operations in the mid-2020s. These facts, along with other supporting information, provided sufficient confidence to begin capitalising certain costs in relation to this project during 2021. Following the announcement in December that we will commence the front-end engineering design and site preparation works, with an estimated cost of around £40 million, we expect to capitalise further costs in 2022.

The project in our Customers business associated with a new billing system was stopped in 2019 and the Group is engaged in active discussion with the supplier reflecting their failure to perform under this contract. Amounts totalling £19 million have previously been capitalised in respect of this project. No amounts have been provided against this value as the Group believes that the carrying amount will be recovered in full, supported by legal advice.

## Cash and net debt

### *Cash generated from operations*

The Group continued to generate significant cash from operations in 2021, with a total inflow of £354 million (2020: inflow of £413 million) before interest and tax payments. This reflects our continued focus on cash flow discipline and management of working capital. A net cash inflow from operating activities, an underlying decrease in inventories, and collateral receipts on in-the-money derivative contracts was offset by an increase in receivables and ROC assets during 2021.

Net cash released from working capital in 2021 was £27 million (2020: £37 million). We actively optimise our working capital position by managing payables, receivables and inventories to make sure the working capital committed is closely aligned with operational requirements.

Historically, cash from ROCs was realised several months after the ROC was earned, usually at the end of the ROC compliance period (on average around nine months); however, the Group is now able to limit the overall impact of ROCs on working capital by making separate sales and purchases during the compliance period, typically accomplished when the ROC is certified, which is usually around three months after generation. During 2021, such transactions generated a net cash outflow of £22 million due to more purchases than sales in the period (2020: £74 million outflow). The overall working capital outflow from ROCs of £162 million (2020: £23 million inflow) reflects an increase in ROC assets held on the balance sheet due to increased generation in the latter stages of 2021. The Group also has access to facilities enabling it to sell ROC trade receivables on a non-recourse basis. Utilisation of these facilities at 31 December 2021 was £nil (31 December 2020: £nil).

As outlined above, there has been significant volatility in power and commodity markets during 2021. We actively manage the liquidity requirements associated with the hedging of power and other commodities and while our overall position at 31 December 2021 was a net posting of collateral, the design of our trading agreements and methods of posting collateral resulted in a cash inflow of £168 million for 2021 (2020: £12 million inflow).

Net cash generated from operating activities in the year was £307 million (2020: £306 million). Largely because of the super deduction announced in March 2021, cashflow relating to corporation tax during 2021 was a net inflow of £12 million, compared to an outflow of £48 million in 2020. The 2020 outflow reflects the change in the requirements for tax payments for large companies. The Group expects to make no corporation tax payments during 2022 because of the continuing super deduction for capital allowances in the UK, and utilisation of losses in the US and Canada.

### *Net cash movements*

Net cash outflows in relation to capital expenditure were £209 million (2020: £171 million). This increase is attributable to the major projects outlined above.

Cash outflows for the acquisition of Pinnacle of £204 million were offset by receipts from the disposal of the CCGT assets of £184 million. Cash outflows in respect of dividends paid in the year of £71 million (2020: £65 million) increased by 9%.

The net movements in relation to non-controlling interest of £15 million (2020: £nil) predominantly relate to the increased investment in Alabama Pellets LLC during 2021, as described in the 'Other information' section below.

In February 2021, the Group drew down the remaining £45 million and €95 million of the infrastructure term loan facility agreements entered into in 2020.

On 13 July 2021, the Group completed the refinancing of the Canadian dollar facilities acquired as part of the Pinnacle transaction, which had a cost of over 5.5%. The new facilities include a C\$300 million term loan and C\$10 million revolving credit facility (RCF). The facilities mature in 2024, diversify the Group's sources of funds, further reduce the Group's all-in cost of debt to below 3.5%, and include an embedded ESG component which adjusts the margin payable based on the Group's carbon intensity, measured against an annual benchmark. These new facilities, alongside existing cash reserves of around C\$130 million, were used to refinance the acquired facilities.

### *Net debt, net debt: Adjusted EBITDA and Liquidity*

	31 December 2021 £m	31 December 2020 £m
Cash	<b>(317)</b>	(290)
Current Borrowings	<b>41</b>	-
Non-Current Borrowings	<b>1,320</b>	1,066
<b>Net Debt before impact of hedging</b>	<b>1,044</b>	<b>776</b>
<b>Adjusted EBITDA</b>	<b>398</b>	<b>412</b>
<b>Net Debt: Adjusted EBITDA</b>	<b>2.6</b>	<b>1.9</b>

The overall impact of the net cash inflow in the year and the acquisition of Pinnacle is that net debt as at 31 December 2021 was £1,044 million (2020: £776 million). This gives rise to a net debt to Adjusted EBITDA ratio at 31 December 2021 of 2.6 times (2020: 1.9 times), before the impact of hedging. As previously outlined, this ratio is expected to return to below 2.0 times during 2022.

#### *Liquidity*

In addition to cash on hand and the Canadian RCF mentioned above, the Group has access to a £300 million ESG RCF, available to manage low points in the cash cycle, which expires in 2024, with a one-year extension clause. No cash has been drawn under this RCF for over three years but £74 million (2020: £68 million) has been drawn as letters of credit.

A significant proportion, almost 90%, of the Group's debt now falls due in a period over three years from the Balance Sheet date.

Our liquidity position remains strong, reflected by all three of our ratings agencies evaluating our liquidity assessment as strong. Cash and committed facilities as at 31 December 2021 were £549 million (2020: £682 million), the reduction predominantly driven by utilising existing cash reserves within the Group to reduce Pinnacle's debt upon refinancing. Available cash and committed facilities provide substantial headroom over our short-term liquidity requirements.

#### *Derivatives and rebasing*

We use derivatives, including cross-currency swaps, to hedge the sterling cost of the interest payments and future principal repayments in respect of our facilities denominated in foreign currencies. A reconciliation of net debt incorporating the impact of derivatives, in addition to net debt per the IFRS balance sheet, is set out in note 9. At 31 December 2021, this resulted in net debt adjusted for hedging of £1,108 million (2020: £819 million).

Rebasing is a process whereby the rates agreed in a contract previously entered into are modified to current market rates. This leads to an initial cash inflow, as the mark-to-market on the contract is settled at the time of rebasing, with a subsequent outflow in future years, compared to if no action had been taken. The Group rebased contracts during the first half of 2020 to realise working capital benefits in light of the developing Covid-19 pandemic.

The overall net outflow associated with rebasing activity in 2021 was £32 million (2020: net outflow of £27 million). This was in relation to rebased cross-currency swaps and foreign currency trades, where the rebasing occurred in 2020 or prior financial years. At the end of 2021 outstanding cash received from rebased cross-currency swap trades was £48 million (2020: £56 million) and from rebased foreign currency trades was £nil (2020: £24 million).

#### **Distributions**

In line with our long-standing capital allocation policy the Group is committed to paying a growing and sustainable dividend. At the forthcoming Annual General Meeting, on 27 April 2022, the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2021 of 11.3 pence per share. This, coupled with the interim dividend of 7.5 pence per share paid in October 2021, gives a total dividend for the year ended 31 December 2021 of 18.8 pence per share (2020: 17.1 pence per share). This equates to a 10% increase in dividend per share in the year. If approved, the final dividend will be paid on 13 May 2022, with a record date of 29 April 2022.

#### **Other information**

##### Sale of CCGT assets

On 31 January 2021, we completed the sale of our CCGT assets to VPI Generation Limited for cash consideration of up to £193 million, subject to customary adjustments. This included £29 million of contingent consideration associated with the option to develop the site at Damhead Creek. The sale price represents a return over the period of ownership significantly ahead of the Group's weighted average cost of capital.

The Group received initial consideration of £188 million in February 2021, which included £24 million in respect of customary working capital adjustments. Working capital adjustments were subsequently finalised at £22 million, amending the initial consideration received to £186 million.

The Group recorded an overall gain on disposal of £9 million from this transaction. A gain of £15 million was recognised in the Consolidated income statement for the year ended 31 December 2021, with £3 million of transaction costs and £3 million of associated mark-to-market

losses previously expensed to the income statement in 2020. The gain includes an assessment of the fair value of the contingent consideration noted above, which remains unpaid at the date of this report.

In the Consolidated income statement, the results of the CCGT portfolio for the period prior to disposal in 2021 have been presented as discontinued operations. The gain on disposal and derivative remeasurements associated with the portfolio have also been presented within discontinued operations as exceptional items.

See note 12 for further information.

#### Acquisition of Pinnacle Renewable Energy Inc. and associated transactions

On 8 February 2021, the Group announced the proposed acquisition of 100% of the issued share capital of Pinnacle at a price of C\$11.30 per share.

The acquisition subsequently completed on 13 April 2021. Total consideration amounted to C\$385 million (£222 million). Transaction and integration costs of £12 million have been recognised as an exceptional item in the Consolidated income statement during 2021.

The acquisition supports the Group's strategic objectives by increasing production capacity, reducing biomass production costs and creating a platform for growth in third-party supply. The transaction transforms the Group's supply chain and positions the Group as the world's leading sustainable biomass generation and supply business. The Group has 17 operational and development sites, with a total nameplate capacity of around 5Mt p.a. once all developments are commissioned.

Financial information in respect of the acquisition, including the fair value of assets and liabilities acquired and an initial calculation of goodwill, plus information regarding non-controlling interests, is included in note 11. As we are still within the twelve-month measurement period for the acquired assets and liabilities, the values in relation to this business are provisional, although no material adjustments are expected to be made in the remainder of the measurement period.

On 13 July 2021, the Group acquired a 20% minority interest in Alabama Pellets LLC (a non-wholly owned subsidiary of Pinnacle) from The Westervelt Company for \$30 million cash consideration. The acquisition increased the Group's interest in Alabama Pellets LLC to 90%. Alabama Pellets LLC owns the Aliceville and Demopolis pellet plants, with a combined capacity of 660kt p.a.

On 31 December 2021, Drax completed the acquisition of the wood pellet business of Pacific BioEnergy Corporation, excluding its manufacturing facility, and most importantly, including its pellet sales contract book, adding 2.8Mt of contracts for sustainable biomass supply to high-quality counterparties in Japan and Europe. These contracts are for delivery between 2022 and the mid-2030s and the total incremental revenues over the contract period are around C\$675 million. This forms part of the Group's recently announced target to double biomass sales to third-parties to 4Mt by 2030.

#### **Going concern**

In addition to the routine scenario planning incorporated into our business planning process, we have modelled a series of scenarios based on our principal risks and a reasonable worst case. These scenarios have helped us to assess the Group's financial resilience over both the next 12 months and a longer period for the purpose of viability reporting. The period assessed for viability reporting has been extended from three to five years in 2021, in line with the stage of the planning cycle and strategy development the Group has reached during the year.

In particular, we have considered the impact of extended generation outages across our portfolio, taking into account risks associated with plant operations and supply chain, as well as commodity price exposure. While there would be a financial impact, none of the scenarios modelled would result in an impact to the Group's liquidity, solvency or covenants that could not be remediated by taking mitigating action. In reaching this conclusion, no additional financing was contemplated beyond existing committed facilities. Climate change and potential impacts of Covid-19 have been considered as part of the scenarios tested.

Consequently, the directors have a reasonable expectation that the Group will continue to meet its obligations as they fall due for at least the next 12 months, while operating within the means of its current capital structure. Accordingly, the directors have approved the use of the going concern basis when preparing the consolidated financial statements. The directors also have a reasonable expectation that the Group will be able to continue in operation over the five-year period of the viability assessment.

#### **Directors' responsibilities statement**

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), set out in FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 23 February 2022 and is signed on its behalf by:

Will Gardiner  
CEO

### Viability statement

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

The assessment of viability was led by the CEO and CFO, in conjunction with management teams, and presented to the Board as part of the annual planning process. In reviewing this assessment, the Board considered the principal risks faced by the Group, financial forecasts and sensitivities, availability of funding and the strength of the Group's control environment. Detail is also provided on longer-term risks.

### Assessment period

The Board conducted this assessment over a period of five years (2020: three years), extended as a result of the stage strategy development the Group has reached during the year, and considering:

- The Group's Business Plan (the Plan) which is prepared annually, updated three times during the year and also used for strategic decision-making, includes a range of financial forecasts and associated sensitivity analysis. This Plan covers a one-year period in detail, before extending into the medium term. Five years is considered to be an appropriate mid-point in this range, when considering length of forecast and expected accuracy over the forecast period.
- Within the forecast period, liquid commodity market curves and established contract positions 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. In particular, the Group benefits from the stable and material earnings stream available from the CfD and RO subsidies until 2027. Selecting a five-year period balances short-term market liquidity whilst including medium-term contractual positions.
- A significant proportion of the Group's debt facilities mature in this period, with 61% maturing in the four to 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.

The business considers longer term forecasts for other purposes, including value in use analyses and estimates of useful economic lives, in line with the requirements of accounting standards and as set out in the notes to the financial statements.

### Review of principal risks – viability

The Group's principal risks and uncertainties, have been considered over the period. The risks were evaluated, where possible, to assess the potential impact of each on the viability of the Group, should that risk arise unmitigated. The potential inputs were included, where appropriate, as sensitivities to the Plan and considered by the Board as part of the approval process.

### Relevant principal risks



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

A summary of the scenarios modelled can be seen below. In addition to modelling the impacts on a standalone basis, reasonable scenarios that included a combination of unforeseen plant outages, adverse movements in commodity prices and reductions in subsidy income were also considered.

As part of its review of principal risks and uncertainties, the Group considered risks related to climate change. This review concluded that such matters remained low risk to the Group over the period that viability has been assessed. In particular, the work performed over climate related risks, as part of the TCFD process, and in our impairment analysis, suggests that climate change does not currently present a significant threat to viability. The most likely way in which climate change risks could manifest is if they caused a failure in plant operations, either in the Pellet Production or Generation businesses. The impact of these scenarios are included in the analysis as noted in the table below.

Principal risk	Description of scenario modelled
Trading and Commodity	Power price downturn
Political and regulatory	Zero ROC recycle value after CP21
Plant operations/Climate change	10% increase in biomass forced outage rate
	90-day outage on CfD unit (in 2022)
	90-day outage on ROC unit (in 2022)
	Two-month outage of pellet production plants
Reasonable worst case	Combination of the scenarios above
	Prolonged period of volatile power prices coupled with generation outages

The outcomes of this, which did not reflect the benefit of available mitigating actions, indicated that the Group would be able to absorb these scenarios without significant impact upon its ability to meet liabilities as they fall due.

## Consideration of other risks to viability

### Strategy

If the Group is not successful in fulfilment of its strategic aims, then this could pose a threat in the longer-term. However, analysis of this risk suggests that this would materialise beyond the assessment period, and therefore consideration has been presented in the longer-term risks section below.

### Remaining principal risks

The remaining principal risks were considered and were not deemed to present a significant threat to viability over the assessment period.

### Longer-term risks

On a time horizon extending beyond the viability period, the two principal risks which are believed to be most significant are climate change and strategy.

Climate change could have a physical impact via an increase in the frequency of extreme weather events, leading to sustained reduced profitability for the Group as a result of supply chain disruptions. However, this also provides the Group with an opportunity, as we believe that we have a vital role to play in the ambitions to limit global warming being realised. In addition, as the speed of transition to lower-carbon/net-zero increases there is a risk that new policies and regulation impact the Group's operations or plans.

Failure to deliver on our strategic objectives could also pose a threat to the Group's viability. The achievement of these objectives is forecast in the period beyond the assessment period. If returns achieved from the initiatives were significantly below forecasts then, given the level of capital expenditure required to complete the plans, this could present a risk to the Group. However, a detailed analysis of the returns achievable, including reasonably possible downside scenarios and potential impacts on viability, would be performed ahead of any final commitment by the Board to progress strategic initiatives, in line with our long-standing disciplined approach to capital allocation.

In the case of both these risks, the Group has a proven record of rapidly adapting to changes in its environment, and deploying innovative solutions to protect its financial performance. Previous adverse events have arisen and provided challenges which tested the ability of the Group to deliver on its targets but, on each occasion, it has been able to respond positively. This provides the Board with confidence that risks can be sufficiently mitigated, and viability can be maintained during the assessment period.

### Review of financial forecasts

The Plan considers the Group's financial position, performance, cash flows, credit metrics and other key financial ratios and was most recently updated to reflect current market and external environment conditions in December 2021. It is built by business and includes growth assumptions appropriate to the markets each business serves. Climate change is also factored into these forecasts, as, for example, forecast future energy prices are based on decarbonisation agendas committed to by the UK government.

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

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

As part of stress-testing the Plan, a “reasonable worst case” scenario was constructed and assessed. Rather than a single event, the Board considers the most significant downside scenario that could reasonably arise in the assessment period, and materially impact viability, to be an aggregation of incidents either in a short timeframe or repeatedly during the period. For the purpose of creating the scenario, the severity of these incidents (for example, the duration of an unexpected outage) was based on experience of historical events where possible. Further detail is contained within the ‘Relevant principal risks’ section above.

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

### **Availability of adequate funding**

The Board expects these sources, along with cash flows generated, to provide adequate levels of funding to support the execution of the Group’s Plan.

During 2021, the Group refinanced the debt acquired as part of the Pinnacle transaction. The new facilities comprised a C\$300 million term loan and C\$10 million RCF. The facilities mature in 2024, with an option to extend by two years, subject to lender consent. These arrangements reduced the overall cost of debt to below 3.5%, strengthening the balance sheet.

Facilities of £364 million, €345 million, \$500 million and C\$300 million mature during the assessment period. The viability assessment assumes that these are renewed on similar terms. However, if the Group is unable to achieve refinancing within the viability period, the forecasts show that there would be adequate cash available to repay these facilities.

At 31 December 2021 the Group had total cash and committed facilities of £549 million, see note 5. The Plan demonstrates that the Group expects to operate within its current committed facilities for the duration of the assessment period.

The Board is confident that the Group has access to a range of options to maintain a diverse and well-balanced capital structure. Expectations Taking all of the above into account, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

### **Basis of Preparation and General Information**

The consolidated financial information for Drax Group plc (the Company) and its subsidiaries (together, the Group) set out in this preliminary announcement has been derived from the audited consolidated financial statements of the Group for the year ended 31 December 2021 (the financial statements).

This preliminary announcement does not constitute the full financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements were approved by the Board of directors on 23 February 2022. Statutory accounts for 2020 have been delivered to the Registrar of Companies and those for 2021 will be delivered in due course.

The report of the auditors on the financial statements was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report, and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006 or equivalent preceding legislation.

The financial statements have been prepared in accordance with the recognition and measurement principles of international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 as it applies in the United Kingdom.

The financial statements have been prepared on a going concern basis and on the historical cost basis, except for certain assets and liabilities that are measured at fair value (principally derivative financial instruments) and the assets and liabilities of the Group’s defined benefit pension schemes (measured at fair value and using the projected unit credit method respectively).

The principal accounting policies adopted in the preparation of the financial statements are set out in the 2020 Annual report and accounts, except for new standards applicable from 1 January 2021. The application of these new standards has not had a material impact on the financial statements.

The sale of Drax Generation Enterprise Ltd (which contained the Group’s CCGT portfolio) to VPI Generation Limited completed on 31 January 2021. The income, expenditure and cash flows of the disposed operations for both the current and previous year have been presented as discontinued operations, and the assets and liabilities of the disposed operations as at 31 December 2020 have been presented as held for sale in the Group’s consolidated financial statements. Reconciliations between continuing, discontinued and total amounts for each period are shown in note 12 to the Consolidated financial statements.

# Section 1: Consolidated financial statements

## Consolidated income statement

	Year ended 31 December 2021				Year ended 31 December 2020		
	Notes	Adjusted Results <sup>(1)</sup> £m	Exceptional items and certain remeasurements £m	Total Results £m	Adjusted Results <sup>(1)</sup> £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue	2	5,173.9	(85.9)	5,088.0	4,235.0	9.7	4,244.7
Cost of sales		(4,331.1)	134.3	(4,196.8)	(3,434.8)	(84.2)	(3,519.0)
<b>Gross profit</b>		<b>842.8</b>	<b>48.4</b>	<b>891.2</b>	800.2	(74.5)	725.7
Operating and administrative expenses <sup>(2)</sup>		(448.4)	(21.5)	(469.9)	(391.0)	(31.0)	(422.0)
Impairment losses on financial assets		(16.3)	–	(16.3)	(43.1)	–	(43.1)
Depreciation		(164.5)	(0.5)	(165.0)	(133.1)	–	(133.1)
Amortisation		(34.4)	–	(34.4)	(38.4)	–	(38.4)
Asset obsolescence charges	5	–	–	–	–	(239.3)	(239.3)
Losses on disposal of fixed assets		(9.4)	–	(9.4)	(5.9)	–	(5.9)
Income from associates		0.3	–	0.3	–	–	–
<b>Operating profit/(loss)</b>		<b>170.1</b>	<b>26.4</b>	<b>196.5</b>	188.7	(344.8)	(156.1)
Foreign exchange gains/(losses)	3	0.9	(5.1)	(4.2)	(2.2)	(0.6)	(2.8)
Interest payable and similar charges	3	(70.9)	(0.3)	(71.2)	(67.7)	(8.6)	(76.3)
Interest receivable	3	0.4	–	0.4	0.5	–	0.5
<b>Profit/(loss) before tax</b>		<b>100.5</b>	<b>21.0</b>	<b>121.5</b>	119.3	(354.0)	(234.7)
Tax:							
– Before effect of changes in tax rate	4	(11.7)	(5.7)	(17.4)	(9.1)	67.3	58.2
– Effect of changes in tax rate	4	(0.4)	(48.6)	(49.0)	(13.8)	(4.3)	(18.1)
Total tax (charge)/credit		(12.1)	(54.3)	(66.4)	(22.9)	63.0	40.1
<b>Net result from continuing operations <sup>(3)</sup></b>		<b>88.4</b>	<b>(33.3)</b>	<b>55.1</b>	96.4	(291.0)	(194.6)
<b>Net result from discontinued operations</b>	12	<b>16.7</b>	<b>7.4</b>	<b>24.1</b>	21.2	15.5	36.7
<b>Profit/(loss) for the period</b>		<b>105.1</b>	<b>(25.9)</b>	<b>79.2</b>	117.6	(275.5)	(157.9)
Attributable to:							
Owners of the Parent Company		105.6	(25.9)	79.7	117.6	(275.5)	(157.9)
Non-controlling interests		(0.5)	–	(0.5)	–	–	–
Earnings/(loss) per share:		Pence		Pence	Pence		Pence
<b>For net result from continuing operations attributable to the owners of the Parent Company</b>							
– Basic	6	22.3		13.9	24.3		(49.0)
– Diluted	6	21.5		13.5	23.8		(49.0)
<b>For net result for the period attributable to the owners of the Parent Company</b>							
– Basic	6	26.5		20.0	29.6		(39.8)
– Diluted	6	25.6		19.3	29.0		(39.8)

Notes:

(1) Adjusted results are stated after adjusting for exceptional items (including acquisition and restructuring costs, asset obsolescence charges and debt restructuring costs), and certain remeasurements. See note 5 for further details.

(2) The 2020 comparatives have been re-presented with £1.0 million of costs previously presented in an acquisition and restructuring line, now being presented within Operating and administrative costs.

(3) Net result from continuing operations of £88.4 million is inclusive of £(0.5) million attributable to non-controlling interests.

# Consolidated statement of comprehensive income

	Years ended 31 December		
	Notes	2021 £m	2020 £m
<b>Profit/(Loss) for the period</b>		<b>79.2</b>	<b>(157.9)</b>
<b>Items that will not be subsequently reclassified to profit or loss:</b>			
Remeasurement of Defined benefit pension scheme		<b>30.7</b>	1.4
Deferred tax on remeasurement of Defined benefit pension scheme	4	<b>(7.2)</b>	(0.3)
Deferred tax on share-based payments	4	<b>5.4</b>	–
Net fair value gains on cost of hedging		<b>17.3</b>	53.3
Deferred tax on cost of hedging	4	<b>(7.7)</b>	(11.7)
Net fair value gains/(losses) on cash flow hedges		<b>1.1</b>	(33.0)
Deferred tax on cash flow hedges	4	<b>3.6</b>	5.1
<b>Items that may be subsequently reclassified to profit or loss:</b>			
Exchange differences on translation of foreign operations		<b>8.7</b>	(9.3)
Exchange differences on translation of foreign operations attributable to NCI		<b>(2.6)</b>	–
Net fair value losses on cash flow hedges		<b>(182.0)</b>	(38.4)
Net gains/(losses) on cash flow hedges reclassified to the income statement		<b>12.6</b>	(35.7)
Deferred tax on cash flow hedges	4	<b>37.6</b>	12.3
<b>Other comprehensive expense</b>		<b>(82.5)</b>	(56.3)
<b>Total comprehensive expense for the year</b>		<b>(3.3)</b>	(214.2)
<b>Attributable to:</b>			
Owners of the Parent Company		<b>(0.2)</b>	(214.2)
Non-controlling interests		<b>(3.1)</b>	–

# Consolidated balance sheet

	Notes	As at 31 December	
		2021 £m	2020 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill		416.3	248.2
Intangible assets		188.6	181.8
Property, plant and equipment		2,310.7	1,941.1
Right-of-use assets		119.8	29.0
Other fixed asset investments		5.5	1.5
Retirement benefit surplus		48.9	9.5
Deferred tax assets	4	28.7	65.3
Derivative financial instruments		357.5	103.8
		<b>3,476.0</b>	<b>2,580.2</b>
<b>Current assets</b>			
Inventories		199.1	208.2
ROC assets		301.4	139.6
Trade and other receivables and contract-related assets		641.9	525.3
Derivative financial instruments		888.6	179.5
Current tax assets		–	9.0
Cash and cash equivalents		317.4	289.8
Assets held for sale	12	–	261.3
		<b>2,348.4</b>	<b>1,612.7</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables and contract-related liabilities		(1,211.1)	(907.0)
Lease liabilities		(15.1)	(7.0)
Current tax liabilities		(3.4)	–
Borrowings	8	(40.6)	–
Derivative financial instruments		(962.7)	(311.5)
Liabilities directly associated with the assets held for sale	12	–	(82.5)
		<b>(2,232.9)</b>	<b>(1,308.0)</b>
<b>Net current assets</b>		<b>115.5</b>	<b>304.7</b>
<b>Non-current liabilities</b>			
Borrowings	8	(1,320.4)	(1,065.7)
Lease liabilities		(110.8)	(23.2)
Derivative financial instruments		(541.8)	(142.1)
Provisions		(86.4)	(91.2)
Deferred tax liabilities	4	(225.3)	(222.0)
Retirement benefit obligation		–	(1.3)
		<b>(2,284.7)</b>	<b>(1,545.5)</b>
<b>Net assets</b>		<b>1,306.8</b>	<b>1,339.4</b>
<b>Shareholders' equity</b>			
Issued equity		47.7	47.5
Share premium		432.2	430.0
Hedge reserve		(177.4)	(76.0)
Cost of hedging reserve		78.5	87.2
Other reserves		706.0	697.3
Retained profits		198.3	153.4
<b>Total equity attributable to the owners of the Parent Company</b>		<b>1,285.3</b>	<b>1,339.4</b>
Non-controlling interest		21.5	–

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<b>Total shareholders' equity</b>	<b>1,306.8</b>	1,339.4
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The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 23 February 2022.

Signed on behalf of the Board of directors:

**Andy Skelton**  
CFO

# 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
<b>At 1 January 2020</b>	<b>47.4</b>	<b>429.6</b>	<b>121.5</b>	<b>40.8</b>	<b>706.6</b>	<b>369.7</b>	<b>–</b>	<b>1,715.6</b>
Loss for the year	–	–	–	–	–	(157.9)	–	(157.9)
Other comprehensive (expense)/income	–	–	(89.7)	41.6	(9.3)	1.1	–	(56.3)
<b>Total comprehensive (expense)/income for the year</b>	<b>–</b>	<b>–</b>	<b>(89.7)</b>	<b>41.6</b>	<b>(9.3)</b>	<b>(156.8)</b>	<b>–</b>	<b>(214.2)</b>
Equity dividends paid (note 7)	–	–	–	–	–	(64.7)	–	(64.7)
Issue of share capital	0.1	0.4	–	–	–	–	–	0.5
<b>Total transactions with the owners</b>	<b>0.1</b>	<b>0.4</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(64.7)</b>	<b>–</b>	<b>(64.2)</b>
Movements on cash flow hedges released directly from equity	–	–	(133.1)	–	–	–	–	(133.1)
Deferred tax on cash flow hedges released directly from equity	–	–	25.3	–	–	–	–	25.3
Movements on cost of hedging released directly from equity	–	–	–	5.2	–	–	–	5.2
Deferred tax on cost of hedging released directly from equity	–	–	–	(0.4)	–	–	–	(0.4)
Movement in equity associated with share-based payments	–	–	–	–	–	5.2	–	5.2
<b>At 31 December 2020</b>	<b>47.5</b>	<b>430.0</b>	<b>(76.0)</b>	<b>87.2</b>	<b>697.3</b>	<b>153.4</b>	<b>–</b>	<b>1,339.4</b>
Profit/(loss) for the year	–	–	–	–	–	79.7	(0.5)	79.2
Other comprehensive (expense)/income	–	–	(127.1)	9.6	8.7	28.9	(2.6)	(82.5)
<b>Total comprehensive (expense)/income for the year</b>	<b>–</b>	<b>–</b>	<b>(127.1)</b>	<b>9.6</b>	<b>8.7</b>	<b>108.6</b>	<b>(3.1)</b>	<b>(3.3)</b>
Equity dividends paid (note 7)	–	–	–	–	–	(70.9)	–	(70.9)
Issue of share capital	0.2	2.2	–	–	–	–	–	2.4
Acquisition of subsidiary with NCI (note 11)	–	–	–	–	–	–	39.6	39.6
Investment of NCI	–	–	–	–	–	–	6.5	6.5
Transactions with NCI	–	–	–	–	–	(0.2)	(21.5)	(21.7)
<b>Total transactions with the owners in their capacity as owner</b>	<b>0.2</b>	<b>2.2</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(71.1)</b>	<b>24.6</b>	<b>(44.1)</b>
Movements on cash flow hedges released directly from equity	–	–	33.2	–	–	–	–	33.2
Deferred tax on cash flow hedges released directly from equity	–	–	(7.5)	–	–	–	–	(7.5)
Movements on cost of hedging released directly from equity	–	–	–	(23.7)	–	–	–	(23.7)
Deferred tax on cost of hedging released directly from equity	–	–	–	5.4	–	–	–	5.4
Movement in equity associated with share-based payments	–	–	–	–	–	7.4	–	7.4
<b>At 31 December 2021</b>	<b>47.7</b>	<b>432.2</b>	<b>(177.4)</b>	<b>78.5</b>	<b>706.0</b>	<b>198.3</b>	<b>21.5</b>	<b>1,306.8</b>

# Consolidated cash flow statement

	Years ended 31 December		
	Notes	2021 £m	2020 £m
<b>Cash generated from operations</b>	10	<b>354.5</b>	413.4
Income taxes refunded/(paid)		<b>12.4</b>	(48.3)
Interest paid		<b>(60.5)</b>	(59.2)
Interest received		<b>0.1</b>	0.3
<b>Net cash from operating activities</b>		<b>306.5</b>	306.2
<b>Made up of:</b>			
<b>Net cash from continuing operating activities</b>		<b>322.9</b>	269.7
<b>Net cash from discontinued operating activities</b>		<b>(16.4)</b>	36.5
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		<b>(191.0)</b>	(163.8)
Purchases of intangible assets		<b>(18.7)</b>	(10.6)
Proceeds from the sale of property, plant and equipment		<b>0.7</b>	1.6
Proceeds from the sale of other fixed asset investment		<b>–</b>	1.5
Acquisition of subsidiaries net of cash acquired	11	<b>(203.5)</b>	–
Proceeds on disposal of subsidiary net of cash disposed and costs of disposal		<b>183.7</b>	–
<b>Net cash used in investing activities</b>		<b>(228.8)</b>	(171.3)
<b>Made up of:</b>			
<b>Net cash used in continuing investing activities</b>		<b>(412.5)</b>	(134.8)
<b>Net cash used in discontinued investing activities</b>		<b>183.7</b>	(36.5)
<b>Cash flows from financing activities</b>			
Equity dividends paid	7	<b>(70.9)</b>	(64.7)
Investment of NCI		<b>6.5</b>	–
Acquisition of additional shares from NCI		<b>(21.5)</b>	–
Proceeds from issue of share capital		<b>2.4</b>	0.5
New borrowings drawn down	8	<b>302.6</b>	298.9
Repayment of other borrowings	8	<b>(256.3)</b>	(475.0)
Payment of principal on lease liabilities		<b>(13.2)</b>	(8.8)
<b>Net cash absorbed by financing activities</b>		<b>(50.4)</b>	(249.1)
<b>Made up of:</b>			
<b>Net cash absorbed by continuing financing activities</b>		<b>(50.4)</b>	(249.1)
<b>Net cash absorbed by discontinued financing activities</b>		<b>–</b>	–
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>27.3</b>	(114.2)
Cash and cash equivalents at 1 January		<b>289.8</b>	404.1
Effect of changes in foreign exchange rates		<b>0.3</b>	(0.1)
<b>Cash and cash equivalents at 31 December</b>		<b>317.4</b>	289.8

Non-cash transactions recognised in the Consolidated income statement are reconciled to operating cash flow as part of the disclosure provided in note 10. Further details of the cash flow impact of exceptional items can be found in note 5.



## 1 Segmental reporting

The Group is organised into three businesses, with a dedicated management team for each, and a central corporate office providing certain specialist and shared functions. The Group's businesses, which each represent a reportable segment are:

- Generation: power generation activities in the UK;
- Customers: supply of electricity and gas to business customers in the UK; and
- Pellet Production: production and sale of sustainable compressed wood pellets at our processing facilities in the US and Canada.

Pellet Production includes the financial results of Pinnacle Renewable Energy Inc. (Pinnacle) from the date of acquisition on 13 April 2021. Information reported to the Board for the purposes of assessing performance and making investment decisions is based on these three segments. The primary measure of profit or loss for each reportable segment presented to the Board on a regular basis is Adjusted EBITDA (as defined in note 13).

Operating costs are allocated to segments to the extent they are directly attributable to the activities of that segment. Corporate office costs are included within central costs.

When defining gross profit within the financial statements, the Group follows the principal trading considerations applied by its Generation, Customers and Pellet Production businesses when making a sale. In respect of Generation, this reflects the direct costs of the commodities to generate the power (such as biomass, coal, and carbon, or power purchased) and the relevant grid connection costs that arise. In respect of Customers, this reflects the direct costs of supply; being the costs of the power or gas supplied, together with costs levied on suppliers such as network costs, broker costs and renewables incentive mechanisms. In respect of the Pellet Production business, this reflects the direct costs of production, being the fibre, fuel and drying costs, in addition to direct freight and port costs.

Accordingly, cost of sales excludes depreciation, presented separately on the face of the income statement, indirect overheads and staff costs.

### 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, and thus drives higher prices and dispatch. Conversely, demand is typically lower in the summer months (April to September), when prices are lower.

This trend is experienced by all of our UK-based businesses, as they operate within the UK electricity and gas markets and is most notable within the Generation business due to its scale and the flexible operation of thermal generation plant when prices may be lower in the summer.

The Pellet Production business incurs certain costs that are higher in winter months due to the effects of inclement weather. Production volumes and margins are typically higher in the summer months. The business is protected from demand fluctuations as a result of seasonality by regular production and dispatch schedules under its contracts with customers, both intra-group and externally.

### Segment revenues and results

The following is an analysis of the Group's performance by reportable segment for the year ended 31 December 2021. The Board monitors the Adjusted results for the Group by reportable operating segment as presented in the tables below. The financial information in these tables is comprised solely of results from continuing operations. The Adjusted profit before tax from discontinued operations of £20.3 million (2020: £26.0 million) is attributable entirely to the Generation segment and is described in further detail in note 12. Segment Adjusted EBITDA is presented in note 5.

	Year ended 31 December 2021							
	Generation £m	Customers £m	Pellet Production £m	Central £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
<b>Revenue</b>								
External sales	2,651.2	2,359.6	163.1	–	–	5,173.9	(85.9)	5,088.0
Inter-segment sales	2,031.1	–	286.7	–	(2,317.8)	–	–	–
<b>Total revenue</b>	<b>4,682.3</b>	<b>2,359.6</b>	<b>449.8</b>	<b>–</b>	<b>(2,317.8)</b>	<b>5,173.9</b>	<b>(85.9)</b>	<b>5,088.0</b>
Cost of sales	(4,131.9)	(2,255.9)	(267.0)	–	2,323.7	(4,331.1)	134.3	(4,196.8)
<b>Segment gross profit</b>	<b>550.4</b>	<b>103.7</b>	<b>182.8</b>	<b>–</b>	<b>5.9</b>	<b>842.8</b>	<b>48.4</b>	<b>891.2</b>
Operating and administrative expenses	(198.9)	(81.7)	(96.9)	(70.9)	–	(448.4)	(21.5)	(469.9)
Impairment losses on financial assets	–	(16.3)	–	–	–	(16.3)	–	(16.3)
Depreciation and amortisation	(103.4)	(30.5)	(61.4)	(3.6)	–	(198.9)	(0.5)	(199.4)
Income from associates	–	–	0.3	–	–	0.3	–	0.3
Losses on disposal of fixed assets	(7.8)	(0.4)	(1.0)	(0.2)	–	(9.4)	–	(9.4)
<b>Operating profit/(loss)</b>	<b>240.3</b>	<b>(25.2)</b>	<b>23.8</b>	<b>(74.7)</b>	<b>5.9</b>	<b>170.1</b>	<b>26.4</b>	<b>196.5</b>
Foreign exchange gains/(losses)	2.0	(0.1)	(0.8)	(0.2)	–	0.9	(5.1)	(4.2)
Net interest charge	(4.4)	(5.6)	(19.6)	(40.9)	–	(70.5)	(0.3)	(70.8)
<b>Profit/(loss) before tax</b>	<b>237.9</b>	<b>(30.9)</b>	<b>3.4</b>	<b>(115.8)</b>	<b>5.9</b>	<b>100.5</b>	<b>21.0</b>	<b>121.5</b>

The segmental split of exceptional items and certain remeasurements are set out in note 5.

The following is an analysis of the Group's performance by reportable operating segment for the year ended 31 December 2020:

	Generation £m	Customers £m	Pellet Production £m	Central £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
<b>Revenue</b>								
External sales	2,115.7	2,119.3	–	–	–	4,235.0	9.7	4,244.7
Inter-segment sales	1,530.1	–	231.0	–	(1,761.1)	–	–	–
<b>Total revenue</b>	<b>3,645.8</b>	<b>2,119.3</b>	<b>231.0</b>	<b>–</b>	<b>(1,761.1)</b>	<b>4,235.0</b>	<b>9.7</b>	<b>4,244.7</b>
Cost of sales	(3,036.9)	(2,035.0)	(127.4)	–	1,764.5	(3,434.8)	(84.2)	(3,519.0)
<b>Segment gross profit</b>	<b>608.9</b>	<b>84.3</b>	<b>103.6</b>	<b>–</b>	<b>3.4</b>	<b>800.2</b>	<b>(74.5)</b>	<b>725.7</b>
Operating and administrative expenses	(209.0)	(80.1)	(51.9)	(50.0)	–	(391.0)	(31.0)	(422.0)
Impairment losses on financial assets	–	(43.1)	–	–	–	(43.1)	–	(43.1)
Depreciation and amortisation	(104.0)	(36.7)	(27.6)	(3.2)	–	(171.5)	–	(171.5)
Asset obsolescence charge	–	–	–	–	–	–	(239.3)	(239.3)
(Losses)/gains on disposal of fixed assets	(1.1)	0.8	(5.6)	–	–	(5.9)	–	(5.9)
<b>Operating profit/(loss)</b>	<b>294.8</b>	<b>(74.8)</b>	<b>18.5</b>	<b>(53.2)</b>	<b>3.4</b>	<b>188.7</b>	<b>(344.8)</b>	<b>(156.1)</b>
Foreign exchange gains/(losses)	1.2	(0.3)	–	(3.1)	–	(2.2)	(0.6)	(2.8)
Net interest charge	(2.9)	(6.6)	(12.8)	(44.9)	–	(67.2)	(8.6)	(75.8)
<b>Profit/(loss) before tax</b>	<b>293.1</b>	<b>(81.7)</b>	<b>5.7</b>	<b>(101.2)</b>	<b>3.4</b>	<b>119.3</b>	<b>(354.0)</b>	<b>(234.7)</b>

The accounting policies applied for the purpose of measuring the segments' profits or losses, assets and liabilities are the same as those used in measuring the corresponding amounts in the Group's financial statements.

#### Capital expenditure by segment

Assets and working capital are monitored on a consolidated basis; however, spend on capital projects is monitored by operating segment.

	Additions to intangible assets		Additions to property, plant and equipment <sup>(1)</sup>	
	2021 £m	2020 £m	2021 £m	2020 £m
Generation	<b>3.4</b>	1.9	<b>103.2</b>	157.9
Customers	<b>8.9</b>	6.2	<b>0.1</b>	0.5
Pellet Production	<b>8.2</b>	–	<b>108.6</b>	58.5
Central	<b>1.8</b>	0.5	<b>3.6</b>	3.1
<b>Total</b>	<b>22.3</b>	8.6	<b>215.5</b>	220.0

Total cash outflows in relation to capital expenditure during the year for continuing and discontinued operations were £209.7 million (2020: £174.4<sup>(1)</sup> million). Capital expenditure excluding movements on decommissioning provisions was £237.8 million (2020: £199.7 million).

Note:

(1) The difference between the cost capitalised and the cash flow in 2020 is predominantly a result of the recognition of the asset associated with the increase in the decommissioning provision in the year, a non-cash adjustment of £28.9 million.

#### 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 2021, the Pellet Production segment sold biomass pellets with a total value of £286.5 million (2020: £231.0 million) to the Generation segment and the Generation segment sold electricity, gas and ROCs with a total value of £2,031.1 million (2020: £1,530.1 million) to the Customers segment.

The impact of all intra-group transactions, including any unrealised profit arising, is eliminated on consolidation.

#### Major customers

There was no individual customer that represented 10% or more of total revenue for the year ended 31 December 2021 (2020: consolidated revenue includes £495.2 million from one individual customer). These revenues arose in the Generation segment.

#### Geographical analysis of revenue and non-current assets

The geographic information analyses the Group's revenue and non-current assets by the Company'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.

In prior years all of the Group's revenue was UK based and all non-current assets, excluding the Pellet Production plant assets which are located in North America, were all located in the UK. Since the acquisition of Pinnacle, the Group now has third party pellet sales to additional locations, as seen in the table below. Pinnacle's non-current assets are located in North America, in both the US and Canada.

	Revenue from continuing operations (based on location of customer) £m		Non-current assets <sup>(1)</sup> (based on asset's location) £m	
	31 December 2021 £m	31 December 2020 £m	31 December 2021 £m	31 December 2020 £m
North America	11.5	–	987.4	323.8
Europe	39.1	–	–	–
Asia	93.0	–	–	–
UK	4,944.4	4,244.7	2,053.5	2,077.8
<b>Total</b>	<b>5,088.0</b>	<b>4,244.7</b>	<b>3,040.9</b>	<b>2,401.6</b>

(1) Non-current assets comprise goodwill, intangible assets, PP&E, right-of-use assets and investments.

## 2 Revenue

### Accounting policy

Revenue represents amounts receivable for goods or services provided to customers in the normal course of business, net of trade discounts, VAT and other sales-related taxes and excludes transactions between Group companies. Revenue is presented gross in the income statement as the Group controls the specified good or service prior to the transfer to the customer.

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

The Group recognises the income or costs arising from the Contract for Difference (CfD) (see below) in the 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.

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

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

Revenue from the sale of electricity and gas directly to business customers through the Customers business is recognised on the supply of electricity or gas when a contract exists, supply has taken place, a quantifiable price has been established or can be determined and the receivables are expected to be recovered. Energy supplied is measured based upon metered consumption and contractual rates; however, where a supply has taken place but is not yet measured or billed, the revenue is estimated based on consumption statistics and selling price estimates and is recognised as accrued income. 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.

Revenue on contracts for the sale of electricity and gas is satisfied over time and is recognised in line with the progress of those contracts. The revenue recognised per unit of energy supplied is based on the total estimated revenue and cost inputs for fixed price customers contracts, and contracted prices for variable price contracts. Assumptions are applied consistently but third-party costs can be variable, therefore actual outcomes may vary from initial estimates.

The Group is eligible for, and applies, the practical expedient available in IFRS 15 and has not disclosed information related to the transaction price allocated to remaining performance obligations. The right to receive consideration from a customer is at an amount that corresponds directly with the value to the customer of the Group's performance completed to date.

The Group produces biomass pellets. External pellet sales are recognised when the customer obtains control of the pellets which is generally at the point the pellets are loaded onto the shipping vessel. The amount of revenue recognised is based on the contracted price for the pellets. For Cost, insurance and freight (CIF) sales, where freight is also arranged for the customer, this is considered a separate performance obligation and revenue from the freight portion is recognised over the period the vessel sails.

### CfD payments

The Group is party to a CfD with the Low Carbon Contracts Company (LCCC), a Government-owned entity responsible for delivering elements of the Government's Electricity Market Reform Programme. Under the contract, the Group makes or receives payments in respect of electricity dispatched from a specific biomass-fuelled generating unit. The payment is calculated by reference to a strike price of £100 per MWh. The base year for the strike price was 2012 and it increases each year in line with the UK Consumer Price Index (CPI) and changes in system balancing costs. The strike price at 31 December 2021 was £118.54 per MWh.

When market prices (based on average traded prices in the preceding season) are above/below the strike price, the Group makes/receives an additional payment to/from LCCC equivalent to the difference between that market power price and the strike price, for each MWh produced from the generating unit supported by the CfD. Such payments are in addition to amounts received from the sale of the power in the wholesale market and either increase or limit the total income from the power dispatched from the relevant generating unit to the strike price in the CfD contract.

## ROC sales

The generation and sale of Renewable Obligation Certificates (ROCs) is a key driver of the Group's financial performance. The Renewable Obligation (RO) scheme places an obligation on electricity suppliers to source an increasing proportion of their electricity from renewable sources. Under the RO scheme, ROCs are certificates issued to generators of renewable electricity which are then sold bilaterally to counterparties, including suppliers, to demonstrate that they have fulfilled their obligations under the RO scheme. ROCs are managed in compliance periods (CPs), running from April to March annually. CP1 commenced in April 2002. At 31 December 2021 the Group is operating in CP20.

To meet its obligations a supplier can either submit ROCs or pay the "buy-out" price at the end of the CP. The buy-out price was set at £30 per ROC in CP1 and rises with the UK Retail Price Index (RPI). The buy-out price in CP20 is £50.80. ROCs are typically procured in arm's-length transactions with renewable generators at a market price slightly lower than the buy-out price for that CP. At the end of the CP, the amounts collected from suppliers paying the buy-out price form the "recycle fund", which is distributed on a pro-rata basis to suppliers who presented ROCs in a CP.

The financial benefit of a ROC recognised in the income statement at the point of generation is thus comprised of two parts: the expected value to be obtained in a sale transaction with a third-party supplier relating to the buy-out price, and the expected value of the recycle fund benefit to be received at the end of the CP. During the year, the Group made sales (and related purchases) of ROCs to help optimise its working capital position.

External sales of ROCs in the table below includes £339.8 million of such sales (2020: £495.2 million), with a similar value reflected in cost of sales. External ROC sales are recognised at the point the ROCs are transferred to the counterparty.

Further analysis of revenue for the year ended 31 December 2021 is provided in the table below. The financial information in these tables is comprised solely of results from continuing operations:

	Year ended 31 December 2021		
	External £m	Intra-group £m	Total £m
<b>Generation</b>			
Electricity sales	1,790.2	1,688.5	3,478.7
ROC sales	538.6	342.6	881.2
CfD income	234.9	–	234.9
Ancillary services	50.6	–	50.6
Other income	36.9	–	36.9
<b>Customers</b>			
Electricity and gas sales	2,358.9	–	2,358.9
Other income	0.7	–	0.7
<b>Pellet Production</b>			
Pellet sales	157.4	286.5	443.9
Other income	5.7	0.2	5.9
<b>Elimination of intra-group sales</b>	–	(2,317.8)	(2,317.8)
<b>Total adjusted consolidated revenue</b>	<b>5,173.9</b>	<b>–</b>	<b>5,173.9</b>
Certain remeasurements	(85.9)	–	(85.9)
<b>Total consolidated revenue</b>	<b>5,088.0</b>	<b>–</b>	<b>5,088.0</b>

Certain remeasurements losses of £85.9 million (2020: gains of £9.7 million) are comprised of gains and losses on derivative contracts that are used to manage risk exposures associated with the Group's revenue, not designated into hedge accounting relationships under IFRS 9.

Revenue recognised in the period that was included within contract liabilities at the start of the year was £5.4 million (2020: £13.3 million).

Revenue recognised in the period from performance obligations satisfied or partly satisfied in the previous period was £nil (2020: £nil).

The following is an analysis of the Group's revenues for the year ended 31 December 2020:

	Year ended 31 December 2020		
	External £m	Intra-group £m	Total £m
<b>Generation</b>			
Electricity sales	1,049.2	1,156.3	2,205.5
ROC sales	650.2	373.8	1,024.0
CfD income	342.3	–	342.3
Ancillary services	36.4	–	36.4
Other income	37.6	–	37.6
<b>Customers</b>			
Electricity and gas sales	2,118.8	–	2,118.8
Other income	0.5	–	0.5
<b>Pellet Production</b>			
Pellet sales	–	231.0	231.0
<b>Elimination of intra-group sales</b>	–	(1,761.1)	(1,761.1)
<b>Total adjusted consolidated revenue</b>	<b>4,235.0</b>	<b>–</b>	<b>4,235.0</b>
Certain remeasurements	9.7	–	9.7
<b>Total consolidated revenue</b>	<b>4,244.7</b>	<b>–</b>	<b>4,244.7</b>

### 3 Net finance costs

Finance costs reflect expenses incurred in managing the debt structure (such as interest payable on bonds) as well as foreign exchange gains and losses, the unwinding of discounts on provisions for reinstatement of the Group's sites at the end of their useful lives, net interest charged on the Group's defined benefit pension scheme obligations and lease liabilities. These are offset by interest income that the Group generates through efficient use of short-term cash surpluses, for example through investment in money market funds.

#### Refinancing activity in 2021

Changes in the Group's financing structure during 2021 are described in note 8.

A reconciliation of Net finance costs is in the table below:

	Years ended 31 December	
	2021 £m	2020 £m
<b>Interest payable and similar charges:</b>		
Interest payable on borrowings measured at amortised cost	(59.2)	(57.1)
Interest on lease liabilities	(4.9)	(1.0)
Unwinding of discount on provisions	(0.6)	(0.4)
Amortisation of deferred finance costs – excluding amounts identified below	(5.7)	(5.9)
Other financing charges	(0.5)	(3.3)
<b>Total interest payable and similar charges included in Adjusted results</b>	<b>(70.9)</b>	<b>(67.7)</b>
<b>Interest receivable:</b>		
Interest income on bank deposits	0.1	0.2
Net finance credit in respect of defined benefit scheme	0.3	0.3
<b>Total interest receivable included in Adjusted results</b>	<b>0.4</b>	<b>0.5</b>
<b>Foreign exchange gains/(losses) included in Adjusted results</b>	<b>0.9</b>	<b>(2.2)</b>
<b>Total recurring net finance costs included in Adjusted results</b>	<b>(69.6)</b>	<b>(69.4)</b>
<b>Exceptional costs of debt restructure:</b>		
Fees to exit existing facilities (note 8)	–	(3.8)
Acceleration of deferred costs in relation to previous facilities	–	(4.8)
<b>Total exceptional costs of debt restructure</b>	<b>–</b>	<b>(8.6)</b>
Certain remeasurements on financing derivatives	(5.4)	(0.6)

<b>Total net finance costs</b>	<b>(75.0)</b>	<b>(78.6)</b>
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Foreign exchange gains and losses in net finance costs arise on the retranslation of non-derivative balances denominated in foreign currencies to prevailing rates at the balance sheet date.

#### 4 Current and deferred taxation

The tax charge includes both current and deferred tax. The tax charge reflects the estimated effective tax on the profit before tax for the Group for the year ended 31 December 2021 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the Consolidated income statement.

##### 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 balance sheet 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, based on specialist independent tax advice. No uncertain tax provisions have been recognised in the current or prior year.

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 recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred taxes are recognised in other comprehensive income or directly in equity respectively.

The Group has utilised the relief available under the research and development expenditure credit regime (RDEC). Under this regime, research and development tax credits are accounted for as development grants, in line with IAS 20 Government Grants and are recorded in operating profit within the Consolidated income statement, with the corresponding receivable being offset against corporation tax payable.

In accounting for taxation, the Group makes assumptions regarding the treatment of items of income and expenditure for tax purposes. The Group believes that these assumptions are reasonable, based on prior experience and consultation with advisers. Full provision is made for deferred taxation at the rates of tax prevailing at the period end 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.

	Years ended 31 December	
	2021 £m	2020 £m
<b>Total tax charge/(credit) from continuing operations comprises:</b>		
Current tax		
– Current year	7.7	11.2
– Adjustments in respect of prior periods	1.4	(12.3)
Deferred tax		
– Before impact of tax rate changes	7.3	(62.4)
– Adjustments in respect of prior periods	1.0	5.3
– Effect of changes in tax rate	49.0	18.1
	<b>66.4</b>	<b>(40.1)</b>

	Years ended 31 December	
	2021 £m	2020 £m
<b>Tax charged/(credited) on items recognised in other comprehensive income:</b>		
Deferred tax on remeasurement of defined benefit pension scheme	7.2	0.3
Deferred tax on share-based payments	(5.4)	–
Deferred tax on cash flow hedges	(41.2)	(17.4)
Deferred tax on cost of hedging	7.7	11.7
	<b>(31.7)</b>	<b>(5.4)</b>

	2021 £m	2020 £m
<b>Tax charged/(credited) on items released directly from equity:</b>		
Deferred tax on cost of hedging	<b>(5.4)</b>	0.4
Deferred tax on cash flow hedges	<b>7.5</b>	(25.3)
	<b>2.1</b>	(24.9)

UK corporation tax is the main tax for the Group and is calculated at 19% (2020: 19%) of the assessable profit or loss for the year. Due to the Group's overseas operations the federal tax rates in the US of 21% (2020: 21%) and the corporate tax rate in Canada of 27% (2020: not relevant to the Group) are also relevant to the Group's tax charge.

No tax charge or credit arose on the disposal of Drax Generation Enterprise Ltd as the gain arising from the disposal was exempt from tax by virtue of the substantial shareholding exemption.

The tax rate for the full year, before the impact of changes in tax rates, is lower than the standard corporation tax rate applicable in the UK, principally due to the tax benefit arising from UK Patent Box claims and the new super-deduction introduced in the Finance Act 2021, which allows for a 130% in-year deduction for tax purposes against the cost of qualifying capital expenditure on plant and machinery incurred from April 2021.

The Finance Act 2021 contains legislation to increase the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. Management has therefore remeasured the deferred tax assets and liabilities at this higher rate of tax where these are expected to be realised or settled on or after 1 April 2023. The impact of this rate increase is a net £49.0 million deferred tax charge through the Total column of the Consolidated income statement (2020: 17% to 19% rate increase resulting in a net £18.1 million charge).

Drax completed the acquisition of Pinnacle Renewable Energy Inc. on 13 April 2021. The Group tax charge above includes the tax charge in respect of the results of the Pinnacle Group for the period under Drax ownership.

The Group tax charge for the year can be reconciled to the profit before tax as follows:

	Year ended 31 December 2021			Year ended 31 December 2020		
	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
<b>Profit/(loss) before tax from continuing operations</b>	<b>100.5</b>	<b>21.0</b>	<b>121.5</b>	119.3	(354.0)	(234.7)
Profit/(loss) before tax multiplied by the rate of corporation tax in the UK of 19% (2020: 19%)	<b>19.2</b>	<b>4.0</b>	<b>23.2</b>	22.6	(67.3)	(44.7)
<b>Effects of:</b>						
Adjustments in respect of prior periods	<b>2.4</b>	–	<b>2.4</b>	(7.0)	–	(7.0)
Expenses not deductible for tax purposes	<b>2.8</b>	<b>1.7</b>	<b>4.5</b>	2.5	–	2.5
Effect of changes in tax rate	<b>0.4</b>	<b>48.6</b>	<b>49.0</b>	13.8	4.3	18.1
Difference in overseas tax rates	<b>(1.1)</b>	–	<b>(1.1)</b>	0.1	–	0.1
Patent box benefit	<b>(8.0)</b>	–	<b>(8.0)</b>	(8.0)	–	(8.0)
Tax effect of RDEC credit	<b>(0.9)</b>	–	<b>(0.9)</b>	(1.1)	–	(1.1)
UK super-deduction	<b>(2.7)</b>	–	<b>(2.7)</b>	–	–	–
<b>Total tax charge/(credit)</b>	<b>12.1</b>	<b>54.3</b>	<b>66.4</b>	22.9	(63.0)	(40.1)

In the medium term, the Group anticipates that the underlying effective tax rate will be marginally lower than the main rate of corporation tax in the UK. This is principally due to tax relief arising from the UK Patent Box regime (see below) and the UK capital allowances super-deduction (applicable FY21-FY23). These benefits are partially offset by US federal tax rates of 21% and the Canadian corporate income tax rate of 27%.

Drax Power was granted a patent to protect certain intellectual property it owns and which attaches to the technology developed to manage the combustion process in generating electricity from biomass. Under UK tax legislation the Company is entitled to apply a lower rate of tax to some of its profits each year which are derived from utilisation of the patented technology.

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
<b>At 1 January 2020</b>	(26.7)	(194.6)	1.7	(20.1)	27.5	(27.5)	16.1	(223.6)
Credited to the income statement	9.1	13.0	0.6	4.4	6.7	4.2	1.0	39.0
Charged to other comprehensive income in respect of actuarial gains	–	–	–	–	–	–	(0.3)	(0.3)
Credited to other comprehensive income in respect of cash flow hedges	17.4	–	–	–	–	–	–	17.4
Charged to other comprehensive income in respect of cost of hedging	(11.7)	–	–	–	–	–	–	(11.7)
Credited to equity in respect of cash flow hedges	25.3	–	–	–	–	–	–	25.3
Charged to equity in respect of cost of hedging	(0.4)	–	–	–	–	–	–	(0.4)
Effect of changes in foreign exchange rates	–	–	–	–	(0.7)	–	(0.3)	(1.0)
Transferred to liabilities held for sale	–	(1.4)	–	–	–	–	–	(1.4)
<b>At 1 January 2021</b>	<b>13.0</b>	<b>(183.0)</b>	<b>2.3</b>	<b>(15.7)</b>	<b>33.5</b>	<b>(23.3)</b>	<b>16.5</b>	<b>(156.7)</b>
(Charged)/credited to the income statement	(5.6)	(64.4)	–	(3.5)	11.7	5.4	(0.9)	(57.3)
Charged to other comprehensive income in respect of actuarial gains	–	–	–	–	–	–	(7.2)	(7.2)
Credited to other comprehensive income in respect of share-based payments	–	–	–	–	–	–	5.4	5.4
Credited to other comprehensive income in respect of cash flow hedges	41.2	–	–	–	–	–	–	41.2
Charged to other comprehensive income in respect of cost of hedging	(7.7)	–	–	–	–	–	–	(7.7)
Charged to equity in respect of cash flow hedges	(7.5)	–	–	–	–	–	–	(7.5)
Credited to equity in respect of cost of hedging	5.4	–	–	–	–	–	–	5.4
Impact of acquisition	–	(44.7)	–	(0.6)	14.4	(0.8)	19.6	(12.1)
Effect of changes in foreign exchange rates	–	(0.5)	–	(0.1)	0.4	–	0.1	(0.1)
<b>At 31 December 2021</b>	<b>38.8</b>	<b>(292.6)</b>	<b>2.3</b>	<b>(19.9)</b>	<b>60.0</b>	<b>(18.7)</b>	<b>33.5</b>	<b>(196.6)</b>
<b>Deferred tax balances (after offset) for financial reporting purposes:</b>								
<b>Net Canadian deferred tax asset</b>	<b>–</b>	<b>(38.1)</b>	<b>–</b>	<b>(0.2)</b>	<b>17.5</b>	<b>(0.4)</b>	<b>26.6</b>	<b>5.4</b>
<b>Net US deferred tax asset</b>	<b>–</b>	<b>(27.6)</b>	<b>–</b>	<b>–</b>	<b>42.5</b>	<b>(0.3)</b>	<b>8.7</b>	<b>23.3</b>
<b>Net UK deferred tax liability</b>	<b>38.8</b>	<b>(226.9)</b>	<b>2.3</b>	<b>(19.7)</b>	<b>–</b>	<b>(18.0)</b>	<b>(1.8)</b>	<b>(225.3)</b>

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so, otherwise they are shown separately in the balance sheet.

Within the above trade losses deferred tax asset of £60.0 million there is £36.5 million (2020: £33.5 million) in relation to start-up losses in the US business. The remaining £23.5 million relates to Pinnacle US (£6.0 million) and Pinnacle Canada (£17.5 million) acquired during the year.

The US business is profitable at a profit before tax level in 2021 and as a result, the net deferred tax asset has reduced by £3.7 million in 2021. As a result of deductions for accelerated capital allowances and other timing differences, the US business is expected to report a loss for tax purposes for 2021. The Canadian business generated a small loss before tax in 2021.

The future reversal of timing differences and the expected reversal of accelerated capital allowances, coupled with the profitability, stable output and forecast improvement in operational performance, mean that the Canadian and US businesses anticipate that they will generate sufficient profits in the medium term against which to utilise the deferred tax asset.

## 5 Alternative performance measures (APMs)

See the APMs Glossary table to these financial statements for details of all APMs used, the APMs 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. The Directors believe that this approach is useful and provides a clear and consistent view of underlying trading performance. Certain remeasurements and exceptional items are excluded from Adjusted results and presented in a separate column. The Group believes that this presentation provides useful information about the financial performance of the business and is consistent with the way executive management and the Board assess the performance of the business.



The Group has a policy and framework for the determination of transactions as exceptional. All transactions presented as exceptional are also approved by the Audit Committee. In these financial statements, the following transactions have been designated as exceptional items and presented separately:

- Costs associated with the acquisition and integration of Pinnacle Renewable Energy Inc. (2021 and 2020, Pellet production)
- The restructuring of the Customers business (2021, Customers).
- Operating expenditure which was incurred as a direct result of the decision to cease commercial coal generation (2021 and 2020, Generation).
- Tax rate change (2021, all segments).
- Costs incurred as a result of restructuring the Group's debt in 2020, including facility break costs and the acceleration of the amortisation of deferred finance costs associated with the redeemed facilities (2020, Central).
- Asset obsolescence charges relating to coal-specific assets written-off following the decision to cease commercial coal generation in March 2021 and the decision not to pursue the option of creating a CCGT at Drax Power Station (2020, Generation).

Certain remeasurements comprise gains or losses on derivative contracts to the extent that those contracts do not qualify for hedge accounting, or hedge accounting is not effective, and those gains or losses are either i) unrealised and relate to the delivery of commodity contracts in future periods, or ii) are realised in relation to the delivery of commodity contracts in the current period. The effect of excluding certain remeasurements from the Adjusted results is to reflect commodity sales and purchases at contracted prices – i.e. at the all-in-hedged amount paid or received in respect of the delivery of the commodity in question, to better reflect the trading performance of the Group in Adjusted results.

	Years ended 31 December	
	2021 £m	2020 £m
<b>Exceptional items:</b>		
Inventory provision as a result of coal closure	(0.3)	(4.8)
Acquisition costs	(7.9)	(1.0)
Restructuring costs	(5.2)	–
Integration costs	(4.1)	–
Coal closure costs	(4.8)	(30.0)
Asset obsolescence charges	–	(239.3)
<b>Exceptional items included within Operating Profit</b>	<b>(22.3)</b>	<b>(275.1)</b>
Cost of debt restructure (note 3)	–	(8.6)
<b>Exceptional items included in Profit Before Tax</b>	<b>(22.3)</b>	<b>(283.7)</b>
<b>Taxation on Exceptional items</b>	<b>(46.1)</b>	48.6
<b>Exceptional items after taxation</b>	<b>(68.4)</b>	<b>(235.1)</b>
<b>Remeasurements:</b>		
Net fair value remeasurements on derivative contracts included in revenue	(77.0)	8.7
Net remeasurements realised on maturity of derivative contracts included in revenue	(8.9)	1.0
Net fair value remeasurements on derivative contracts included in cost of sales	36.6	(46.6)
Net remeasurements realised on maturity of derivative contracts included in cost of sales	98.0	(28.2)
Net remeasurements reclassified to profit or loss on discontinued hedges included in cost of sales	–	(4.6)
<b>Remeasurements included within Operating Profit</b>	<b>48.7</b>	<b>(69.7)</b>
Net fair value remeasurements on derivative contracts included in Interest payable and similar charges	(0.3)	–
Net fair value remeasurements on derivative contracts included in Foreign exchange gains/(losses)	(5.1)	(0.6)
<b>Remeasurements included in Profit Before Tax</b>	<b>43.3</b>	<b>(70.3)</b>
Taxation on certain remeasurements	(8.2)	14.4
<b>Remeasurements after taxation</b>	<b>35.1</b>	<b>(55.9)</b>
<b>Reconciliation:</b>		
<b>Adjusted net result from continuing operations</b>	<b>88.4</b>	96.4
Exceptional items after tax	(68.4)	(235.1)
Remeasurements after tax	35.1	(55.9)
<b>Profit/(loss) after tax</b>	<b>55.1</b>	<b>(194.6)</b>

Asset obsolescence charges in the table above is comprised of:

	2021 £m	2020 £m
Asset obsolescence charges for property, plant and equipment due to coal closure	–	225.1
Asset obsolescence charges for intangible assets due to coal closure	–	0.8
Asset obsolescence charges due to decision not to develop CCGT at Drax Power Station	–	13.4

Total asset obsolescence charges	–	239.3
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Adjusted EBITDA, Adjusted profit after tax and Total profit after tax are key measures of profitability for the Group but, as a result of discontinued operations, are not visible on the face of the income statement. Therefore, a reconciliation is provided below:

	Year ended 31 December 2021			Year ended 31 December 2020		
	Adjusted EBITDA £m	Adjusted profit after tax £m	Total profit after tax £m	Adjusted EBITDA £m	Adjusted profit after tax £m	Total profit after tax £m
Continuing operations	377.9	88.4	55.1	366.1	96.4	(194.6)
Discontinued operations	20.3	16.7	24.1	45.9	21.2	36.7
<b>Total</b>	<b>398.2</b>	<b>105.1</b>	<b>79.2</b>	<b>412.0</b>	<b>117.6</b>	<b>(157.9)</b>

For each item designated as exceptional the table below summarises the impact of the item on the Adjusted results and the tax charge from continuing operations, and the total cash flow from continuing and discontinuing operations:

	Year ended 31 December 2021							
	Revenue £m	Gross profit £m	Operating profit £m	Profit/(loss) before tax £m	Tax (credit)/ charge £m	Profit/(loss) for the period £m	Basic earnings/ (loss) per share Pence	Cash flow from Operating activities £m
<b>Total results IFRS measure</b>	<b>5,088.0</b>	<b>891.2</b>	<b>196.5</b>	<b>121.5</b>	<b>(66.4)</b>	<b>55.1</b>	<b>13.9</b>	<b>306.5</b>
<b>Certain remeasurements:</b>								
Net fair value remeasurement on derivative contracts	85.9	(48.7)	(48.7)	(43.3)	8.2	(35.1)	(8.8)	–
<b>Exceptional items:</b>								
Inventory provision as a result of coal closure	–	0.3	0.3	0.3	(0.1)	0.2	0.1	–
Acquisition costs	–	–	7.9	7.9	–	7.9	1.8	7.9
Restructuring costs	–	–	5.2	5.2	(0.8)	4.4	1.1	4.4
Integration costs	–	–	4.1	4.1	(0.8)	3.3	0.8	3.3
Operating expenditure as a result of coal closure	–	–	4.8	4.8	(0.8)	4.0	1.2	–
Impact of tax rate change	–	–	–	–	48.6	48.6	12.2	–
<b>Total</b>	<b>85.9</b>	<b>(48.4)</b>	<b>(26.4)</b>	<b>(21.0)</b>	<b>54.3</b>	<b>33.3</b>	<b>8.4</b>	<b>15.6</b>
<b>Adjusted totals</b>	<b>5,173.9</b>	<b>842.8</b>	<b>170.1</b>	<b>100.5</b>	<b>(12.1)</b>	<b>88.4</b>	<b>22.3</b>	<b>322.1</b>

	Year ended 31 December 2020							
	Revenue £m	Gross profit £m	Operating (loss)/profit £m	(Loss)/profit before tax £m	Tax charge/ (credit) £m	(Loss)/ profit for the period £m	Basic (loss)/ earnings per share Pence	Cash flow from Operating activities £m
<b>Total results IFRS measure</b>	4,244.7	725.7	(156.1)	(234.7)	40.1	(194.6)	(49.0)	306.2
<b>Certain remeasurements:</b>								
Net fair value remeasurement on derivative contracts	(9.7)	69.7	69.7	70.3	(14.4)	55.9	14.1	–
<b>Exceptional items:</b>								
Inventory provision as a result of coal closure	–	4.8	4.8	4.8	(0.8)	4.0	1.0	–
Acquisition costs	–	–	1.0	1.0	(0.2)	0.8	0.2	0.8
Operating expenditure as a result of coal closure	–	–	30.0	30.0	(5.1)	24.9	6.3	–
Asset obsolescence charges – coal closure	–	–	225.9	225.9	(38.7)	187.2	47.1	–
Asset obsolescence charges – Repower	–	–	13.4	13.4	(2.3)	11.1	2.8	–
Cost of debt restructure	–	–	–	8.6	(1.5)	7.1	1.8	–
<b>Total</b>	<b>(9.7)</b>	<b>74.5</b>	<b>344.8</b>	<b>354.0</b>	<b>(63.0)</b>	<b>291.0</b>	<b>73.3</b>	<b>0.8</b>
<b>Adjusted totals</b>	<b>4,235.0</b>	<b>800.2</b>	<b>188.7</b>	<b>119.3</b>	<b>(22.9)</b>	<b>96.4</b>	<b>24.3</b>	<b>307.0</b>

Adjusted EBITDA from continuing and discontinued operations is a key measure of performance for the Group, but is not visible from the face of the income statement. A reconciliation from the Adjusted operating profit from continuing operations visible on the face of the income statement is shown below:

	Year ended 31 December 2021		
	Attributable to		
	the owners of the Parent Company £m	NCI £m	Total £m

<b>Adjusted operating profit</b>	<b>170.6</b>	<b>(0.5)</b>	<b>170.1</b>
Depreciation and amortisation	<b>198.3</b>	<b>0.6</b>	<b>198.9</b>
Loss on disposal of fixed assets	<b>9.3</b>	<b>0.1</b>	<b>9.4</b>
Other gains	<b>(0.3)</b>	<b>–</b>	<b>(0.3)</b>
Adjusted EBITDA from continuing operations	<b>377.9</b>	<b>0.2</b>	<b>378.1</b>
Adjusted EBITDA from discontinued operations	<b>20.3</b>	<b>–</b>	<b>20.3</b>
<b>Adjusted EBITDA from continuing and discontinued operations</b>	<b>398.2</b>	<b>0.2</b>	<b>398.4</b>

Year ended  
31 December 2020<sup>(1)</sup>  
£m

<b>Adjusted operating profit</b>	188.7
Depreciation and amortisation	171.5
Loss on disposal of fixed assets	5.9
Adjusted EBITDA from continuing operations	366.1
Adjusted EBITDA from discontinued operations	45.9
<b>Adjusted EBITDA from continuing and discontinued operations</b>	<b>412.0</b>

(1) No split between amounts attributable to Drax and amounts attributable to NCI has been presented as, prior to 2021, the Group had no NCI and so all amounts were attributable to the owners of the Parent Company.

Year ended 31 December 2021

	Generation £m	Customers £m	Pellet Production £m	Central £m	Intra-group eliminations £m	Adjusted Results £m
<b>Segment Adjusted EBITDA:</b>						
Continuing operations	<b>351.5</b>	<b>5.7</b>	<b>85.7</b>	<b>(70.9)</b>	<b>5.9</b>	<b>377.9</b>
Discontinued operations	<b>20.3</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>20.3</b>
<b>Total</b>	<b>371.8</b>	<b>5.7</b>	<b>85.7</b>	<b>(70.9)</b>	<b>5.9</b>	<b>398.2</b>

Year ended 31 December 2020

	Generation £m	Customers £m	Pellet Production £m	Central £m	Intra-group eliminations £m	Adjusted Results £m
<b>Segment Adjusted EBITDA:</b>						
Continuing operations	399.9	(38.9)	51.7	(50.0)	3.4	366.1
Discontinued operations	45.9	–	–	–	–	45.9
<b>Total</b>	<b>445.8</b>	<b>(38.9)</b>	<b>51.7</b>	<b>(50.0)</b>	<b>3.4</b>	<b>412.0</b>

## Cash and committed facilities

The below table reconciles the Group's cash and committed facilities of £548.8 million (2020: £681.9 million).

	2021 £m	2020 £m
Cash and cash equivalents	317.4	289.8
Revolving credit facility (RCF) available but not utilised <sup>(1)</sup>	231.4	232.2
Customers trade receivable factoring facility available but not utilised (note 10)	–	29.9
2020 Private placement facility available but not utilised (note 8)	–	130.0
<b>Total cash and committed facilities</b>	<b>548.8</b>	<b>681.9</b>

(1) The Group's available balance on the RCF facility (includes £300 million and C\$10 million RCF, see note 8) is reduced by letters of credit drawn under the RCF. At 31 December 2021 £74.4 million letters of credit were drawn (2020: £67.8 million).

## 6 Earnings per share

Earnings per share (EPS) represents the amount of earnings (post-tax profits) attributable to each ordinary share in issue. Basic EPS is calculated by dividing the Group's earnings (profit after tax in accordance with IFRS) by the weighted average number of ordinary shares that were in issue during the year. Diluted EPS demonstrates the impact 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 contingency period (such as those to be issued under employee share schemes), were exercised and treated as ordinary shares as at the balance sheet date.

	Years ended 31 December	
	2021	2020
<b>Earnings attributable to equity holders of the Company (£m), made up of:</b>	<b>79.7</b>	<b>(157.9)</b>
Net result from continuing operations	55.6	(194.6)
Net result from discontinued operations	24.1	36.7
<b>Number of shares:</b>		
<b>Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)</b>	<b>398.4</b>	396.8
Effect of dilutive potential ordinary shares under share plans	14.2	8.2
<b>Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)</b>	<b>412.6</b>	405.0

Repurchased shares are not included in the weighted average calculation of shares. For the purpose of calculating diluted EPS, the weighted average calculation of shares excludes any share options that would have an anti-dilutive impact.

	Years ended 31 December	
	2021	2020
<b>Total earnings/(loss) per share</b>		
Earnings/(loss) per share – basic (pence)	20.0	(39.8)
Earnings/(loss) per share – diluted (pence)	19.3	(39.8)

Application of the same calculation to Adjusted profit after tax of £105.6 million results in Adjusted basic EPS of 26.5 pence and Adjusted diluted EPS of 25.6 pence (2020: Adjusted profit after tax of £117.6 million, Adjusted basic EPS of 29.6 pence and Adjusted diluted EPS of 29.0 pence).

	Years ended 31 December	
	2021	2020
<b>Earnings per share from continuing operations</b>		
Earnings/(loss) per share – basic (pence)	13.9	(49.0)
Earnings/(loss) per share – diluted (pence)	13.5	(49.0)

Application of the same calculation to Adjusted profit after tax from continuing operations of £88.9 million results in Adjusted basic EPS of 22.3 pence and Adjusted diluted EPS of 21.5 pence (2020: Adjusted profit after tax from continuing operations of £96.4 million, Adjusted basic EPS of 24.3 pence and Adjusted diluted EPS of 23.8 pence).

	Years ended 31 December	
	2021	2020
<b>Earnings per share from discontinued operations</b>		
Earnings per share – basic (pence)	6.1	9.2
Earnings per share – diluted (pence)	5.8	9.1

Application of the same calculation to Adjusted profit after tax from discontinued operations of £16.7 million results in Adjusted basic EPS of 4.2 pence and Adjusted diluted EPS of 4.1 pence (2020: Adjusted profit after tax from discontinued operations of £21.2 million, Adjusted basic EPS of 5.3 pence and Adjusted diluted EPS of 5.2 pence).

## 7 Dividends

	Years ended 31 December	
	2021 £m	2020 £m
<b>Amounts recognised as distributions to equity holders in the year (based on the number of shares in issue at the record date):</b>		
Interim dividend for the year ended 31 December 2021 of 7.5 pence per share paid on 8 October 2021 (2020: 6.8 pence per share paid on 2 October 2020)	29.9	27.0
Final dividend for the year ended 31 December 2020 of 10.3 pence per share paid on 14 May 2021 (2019: 9.5 pence per share paid on 15 May 2020)	41.0	37.7
	<b>70.9</b>	<b>64.7</b>

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 2021 of 11.3 pence per share (equivalent to approximately £45 million) payable on or before 13 May 2022. The final dividend has not been included as a liability as at 31 December 2021. This would bring total dividends payable in respect of the 2021 financial year to £75 million.

The Group has a long-standing capital allocation policy. This policy is based on a commitment to robust financial metrics that underpin the Group's strong credit rating, investment in the core business, paying a sustainable and growing dividend, and returning surplus capital to shareholders. The Board is confident that the dividend is sustainable and expects it to grow as the implementation of the Group's strategy generates an increasing proportion of stable earnings and cash flows. In determining the rate of growth in dividends, the Board will take account of future investment opportunities and the less predictable cash flows from the Group's commodity-linked revenue streams.

In future years, if there is a build-up of capital in excess of the Group's investment needs, the Board will consider the most appropriate mechanism to return this to shareholders.

## 8 Borrowings

### Accounting policy

The Group measures all debt instruments (whether financial assets or financial liabilities) initially at fair value, which equates to the principal value of the consideration paid or received. Subsequent to initial measurement, debt instruments are measured at amortised cost using the effective interest method. Transaction costs (any such costs incremental and directly attributable to the issue of the financial instrument) are included in the calculation of the effective interest rate and are amortised over the 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 payable to the lender, which entitle the Group to draw down at any time over a fixed period, but the repayment date is fixed regardless of when the loan is drawn down, are recognised on a systematic basis over the period the Group is able to draw down. Loan commitment fees payable to the lender, which entitle the Group to draw down at any time over a fixed period, but the loan has the same fixed term regardless of when the loan is drawn down, are deferred until draw down and recognised over the life of the instrument as part of the effective interest rate, if draw down is probable. If draw down is not probable they are recognised on a systematic basis, over the period the Group is able to draw down.

Fees that are paid for the availability of a facility, such that the amount and timing of draw down can vary at the Group's discretion (such as a revolving credit facility, or 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 arising recognised as a component of net FX gains or losses in the period they arise. Where hedging instruments are used to fix cash flows associated with debt instruments, the debt instrument and the hedging instrument are measured and presented separately on the balance sheet.

The Group's net borrowings at each year end were as follows:

	Years ended 31 December	
	2021 £m	2020 £m
<b>Secured borrowing at amortised cost:</b>		
2.625% loan notes 2025 €250m <sup>(1)</sup>	207.2	220.1
6.625% loan notes 2025 \$500m <sup>(2)</sup>	367.0	362.4
Index-linked loan £35m <sup>(3)</sup>	40.6	38.4
UK infrastructure private placement facilities (2019) <sup>(4)</sup>	370.0	367.5
UK infrastructure private placement facilities (2020) <sup>(5)</sup>	201.2	77.3
CAD term facility C\$300m <sup>(6)</sup>	175.0	–
<b>Total borrowings</b>	<b>1,361.0</b>	<b>1,065.7</b>
<b>Split between:</b>		
Current liabilities	40.6	–
Non-current liabilities	1,320.4	1,065.7

(1) 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 3.24%

(2) 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 4.9%

- (3) Provides a term loan facility maturing in March 2022. On maturity the principal amount (£35.0m) multiplied by the index ratio (UK RPI) will become payable. Interest is payable on the loan at a fixed rate of 5.3% multiplied by the index ratio. As at 31 December 2021 the value of the index ratio added to the principal amount was £5.6 million (2020: £3.4 million)
- (4) Provides committed facilities totalling £375m 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%
- (5) Provides committed facilities totalling £98m and €126.5m 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 3.7%
- (6) This facility matures in 2024 with the option to extend by two years and has a customary margin grid reference over the Canadian dollar offered rate (CDOR). No interest rate or cross-currency interest rate swaps are in place to hedge the facility, so the Group is exposed to movements in both floating interest rates and movements in the Canadian dollar

Current borrowings relate to the repayment of the Group's index-linked loan. The loan is due for repayment on 31 March 2022.

In 2020 the Group entered a new infrastructure term loan facility agreement. At 31 December 2020 £53.0 million and €31.5 million were drawn and £45.0 million and €95.0 million were committed. On 18 February 2021, the Group drew down the remaining committed amounts under its 2020 infrastructure term loan facilities agreement.

On acquisition of Pinnacle, the Group acquired three senior debt facilities denominated in Canadian dollars totalling C\$441.0m. The facilities comprised a revolver, delayed draw and term loan. Subsequently, on 13 July 2021, the Group completed the refinancing of all three Canadian dollar facilities acquired from Pinnacle. The new facilities include a C\$300 million term loan and C\$10 million RCF. The balance on the facilities were repaid from the cash proceeds received from the new facility and the Group's existing cash reserves.

The Group's committed £300 million RCF had no cash drawings as at 31 December 2021 or 31 December 2020. The Group also has access to certain non-recourse trade receivable finance facilities and payment facilities, as described in note 10, which are utilised to accelerate working capital cash inflows and defer cash outflows. See note 5 for further details on the Group's cash and committed facilities.

The weighted average interest rate payable at the balance sheet date on the Group's borrowings was 3.49% (as at 31 December 2020: 3.88%).

### Compliance with loan covenants

The Group has customary financial covenants, principally in relation to consolidated net income and the consolidated net income to debt ratio. The consolidated net income to debt ratio broadly equates to an EBITDA to net debt calculation and is calculated in line with the Group's financial covenant requirements in the loan facility agreements. The Group is required to test its financial covenants every six months and has complied with all financial covenants during the current year and prior year. The Group has significant headroom and expects to continue to comply with these financial covenants in future periods under all reasonably possible downside scenarios. The Group also has conditions placed on its dividend payments as a result of the financing facilities.

### Reconciliation of borrowings

The table below shows the movement in borrowings during the current and previous year:

	Year ended 31 December 2021		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
<b>Borrowings at 1 January</b>	<b>1,085.3</b>	<b>(19.6)</b>	<b>1,065.7</b>
<b>Cash movements:</b>			
Drawdown of 2020 Infrastructure private placement facilities	130.8	(0.5)	130.3
Repayment of debt acquired from Pinnacle	(253.1)	–	(253.1)
Drawdown of C\$300m term facility	173.1	(0.8)	172.3
Other cash movements	(3.2)	–	(3.2)
<b>Non-cash movements:</b>			
Borrowings acquired on acquisition of Pinnacle (note 11)	256.3	–	256.3
Indexation of linked loan	2.2	–	2.2
Amortisation of deferred finance costs (note 3)	–	5.7	5.7
Amortisation of USD loan note premium	(0.3)	–	(0.3)
Effect of foreign exchange rates	(14.9)	–	(14.9)
<b>Borrowings at 31 December</b>	<b>1,376.2</b>	<b>(15.2)</b>	<b>1,361.0</b>

	Year ended 31 December 2020		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
<b>Borrowings at 1 January</b>	1,267.5	(22.3)	1,245.2
<b>Cash movements:</b>			
Extension of ESG facility	–	(0.8)	(0.8)
Drawdown of 2025 €250 million loan notes	225.5	(3.4)	222.1
Repayment of ESG facility	(125.0)	–	(125.0)
Drawdown of 2020 Infrastructure private placement facilities	81.4	(3.8)	77.6
Repayment of 2022 fixed loan notes	(350.0)	–	(350.0)
<b>Non-cash movements:</b>			
Acceleration of deferred finance costs in relation to previous facilities (note 3)	–	4.8	4.8
Indexation of linked loan	0.5	–	0.5
Amortisation of deferred finance costs (note 3)	–	5.9	5.9
Amortisation of USD loan note premium	(0.4)	–	(0.4)
Effect of foreign exchange rates	(14.2)	–	(14.2)
<b>Borrowings at 31 December</b>	1,085.3	(19.6)	1,065.7

## 9 Reconciliation of net debt

Net debt is calculated by taking the Group's borrowings (note 8) and subtracting cash and cash equivalents. The table below reconciles net debt in terms of changes in these balances across the year:

	Years ended 31 December	
	2021 £m	2020 £m
<b>Net debt at 1 January</b>	<b>(775.9)</b>	(841.1)
Increase/(decrease) in cash and cash equivalents	<b>27.3</b>	(114.2)
(Increase)/decrease in borrowings	<b>(310.2)</b>	165.3
Effect of changes in foreign exchange rates	<b>15.2</b>	14.1
<b>Net debt at 31 December</b>	<b>(1,043.6)</b>	(775.9)

Borrowings include listed bonds, bank debt and RCFs only to the extent drawn in cash, net of any deferred finance costs. Borrowings do not include other financial liabilities such as IFRS 16 lease liabilities and trade and other payables.

The Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of net debt. This reflects the nature of the contracts included in this balance which, prior to the application of IFRS 16, were predominantly not held on the balance sheet and instead disclosed as operating commitments. The exclusion of lease liabilities from the calculation of net debt is also consistent with the Group's covenant reporting requirements.

The Group does not include balances related to supply chain financing or factoring in the definition of net debt. These facilities do not increase our working capital cycle beyond the Group's standard payment terms and are only short-term balances. Therefore, the balances do not meet the Group's definition of borrowings and so are excluded from net debt.

A reconciliation of the change in borrowings during the year is set out in the table on note 8.

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 (see note 8). If USD and EUR balances were translated at the hedged rate, rather than the rate prevailing at the balance sheet date, the carrying amount of the Group's borrowings would be impacted. The table below reconciles net debt excluding the impact of hedging instruments, as disclosed in the table above, to net debt including the impact of hedging instruments through translating the borrowings at the hedged rates:

	Years ended 31 December	
	2021 £m	2020 £m
<b>Net debt excluding the impact of hedging instruments</b>	<b>(1,043.6)</b>	(775.9)
Impact of hedging instruments	<b>(64.4)</b>	(43.2)
<b>Net debt including the impact of hedging instruments</b>	<b>(1,108.0)</b>	(819.1)

## 10 Notes to the consolidated cash flow statement

### Cash generated from operations

Cash generated from operations is the starting point of the Group's cash flow statement. The table below makes adjustments for any non-cash accounting items to reconcile the Group's net profit/(loss) for the year to the amount of cash generated from the Group's operations.

	Years ended 31 December	
	2021 £m	2020 £m
<b>Profit/(loss) for the year – continuing</b>	<b>55.1</b>	<b>(194.6)</b>
<b>Profit for the year – discontinued</b>	<b>24.1</b>	<b>36.7</b>
<b>Adjustments for:</b>		
Interest payable and similar charges	<b>70.9</b>	74.0
Interest receivable	<b>(0.3)</b>	(0.6)
Effect of foreign exchange rates	<b>1.3</b>	(1.0)
Tax charge/(credit)	<b>68.1</b>	(26.0)
RDEC credit	<b>(7.5)</b>	(5.7)
Depreciation of property, plant and equipment	<b>149.8</b>	144.1
Amortisation of intangible assets	<b>34.4</b>	38.4
Depreciation of right-of-use assets	<b>15.2</b>	7.9
Income from associates	<b>(0.3)</b>	–
Asset obsolescence charge	<b>–</b>	239.4
Losses on disposal	<b>9.4</b>	6.0
Profit on disposal of subsidiaries	<b>(16.2)</b>	–
Certain remeasurements of derivative contracts <sup>(1)</sup>	<b>(74.6)</b>	31.4
Defined benefit pension scheme current service cost	<b>6.3</b>	8.4
Defined benefit pension scheme past service (credit)/cost	<b>(2.6)</b>	7.4
Non-cash charge for share-based payments	<b>7.4</b>	5.2
Provision movements recognised in the income statement	<b>–</b>	20.4
<b>Operating cash flows before movement in working capital</b>	<b>340.5</b>	<b>391.4</b>
<b>Changes in working capital:</b>		
Decrease in inventories	<b>37.4</b>	87.1
(Increase)/decrease in receivables	<b>(58.0)</b>	25.1
Increase/(decrease) in payables	<b>209.7</b>	(98.4)
(Increase)/decrease in ROC assets	<b>(161.8)</b>	23.1
<b>Total cash released from working capital</b>	<b>27.3</b>	<b>36.9</b>
Defined benefit pension scheme contributions	<b>(13.3)</b>	(14.9)
<b>Cash generated from operations</b>	<b>354.5</b>	<b>413.4</b>

(1) Certain remeasurements of derivative contracts includes the effect of non-cash unrealised gains and losses recognised in the income statement and cash realised from derivative contracts designated into hedge relationships under IFRS 9, where the gain or loss is held in the hedge reserve pending release to the income statement in the period the hedged transaction occurs.

The Group has a strong focus on cash flow discipline and managing liquidity. The Group enhances its working capital position by managing payables, receivables and inventories to make sure the working capital committed is closely aligned with operational requirements. When compared to the year end position, such measures have been utilised to a broadly consistent level throughout the year unless otherwise stated. The impact of these actions on the cash flows of the Group is described below.

The cash flow impacts described below are based on the estimated impact on the current year when compared to the cash flows that would have been received had the Group not taken these actions. The current year impact is also adjusted to take account of actions taken in prior years, which have accelerated cash flows that would otherwise have been received in the current year had no actions been taken. The intention is to present the overall cumulative impact on the current year cash flow from the actions taken.

Cash from ROCs is typically realised several months after the ROC is earned; however, through standard ROC sales and ROC purchase arrangements the Group is able to accelerate cash flows over a proportion of these assets. The net impact of ROC purchases and ROC sales on operating cash flows was a £22.3 million outflow (2020: £74.0 million outflow), due to fewer ROCs being sold at the end of 2021 compared to the end of the previous year. This is reflected as an increase (2020: increase) in ROC assets and is a component of the overall net increase of £161.8 million (2020: decrease of £23.1 million) in ROC assets shown in the table above. The Group also has access to facilities enabling it to sell ROC trade receivables on a non-recourse basis. These facilities were utilised during the year but no amounts remained outstanding at 31 December 2021 (2020: £nil).



Utilisation of both of these methods to accelerate cash flows is higher around the middle of ROC compliance periods (1 April to 31 March) as the Group has generated a large amount of ROCs but energy suppliers do not yet require ROCs to settle their obligation. At the start of the compliance period the Group has not generated large amounts of ROCs, and towards the end of the compliance period energy suppliers are purchasing ROCs to settle their obligation, therefore utilisation of these methods is lower as the Group has less ROCs available.

From time to time, where market conditions change, the Group can rebase foreign currency contracts (including cross-currency interest rate swaps). In 2021, this generated a working capital outflow of £32.0 million (2020: £26.7 million outflow) due to less cash being released from rebased trades at the end of 2021 than in the prior year. This is reflected as an adjustment to derivative remeasurements in the table above. The total cash benefit released from related trades that remained outstanding at 31 December 2021 was £48.1 million (2020: £80.1 million). This cash benefit is made up of £nil (2020: £24.4 million) released from foreign currency contracts and £48.1 million (2020: £55.7 million) from cross-currency interest rate swaps.

The Customers business has access to a £200.0 million facility which enables it to accelerate cash flows associated with amounts receivable from energy supply customers on a non-recourse basis, which generated a net cash inflow of £30.0 million in the year ended 31 December 2021 (2020: net cash inflow of £7.8 million), reflected as a reduction in receivables in the table above. Utilisation of the facility was £200.0 million at 31 December 2021 (2020: £170.0 million).

The Customers' receivables facility was due to mature in June 2022. Subsequent to the year end the Group has refinanced this facility, extending the maturity to January 2027 and increasing the size of the facility to £300.0 million.

There has been significant volatility in power and commodity markets during 2021. The Group actively manages the liquidity requirements, including collateral, associated with the hedging of power and other commodities. At 31 December 2021 the Group had a net posting of collateral. However, the design of the Group's trading agreements and methods of lodging collateral resulted in a cash inflow of £168.3 million in 2021 (2020: £12.0 million inflow) reflected as an increase (2020: increase) in payables in the table above.

The Group has sought to normalise payments across its supplier base resulting in certain suppliers extending payment terms and some reducing terms. Suppliers are able to access a supply chain finance facility provided by a bank, for which funds can be accelerated in advance of the normal payment terms. The facility does not affect the Group's working capital, as payment terms remain unaltered with the Group. At 31 December 2021, the Group had trade payables of £50.4 million (2020: £43.7 million) related to reverse factoring. The Group also has access to a number of payment facilities to leverage scale and efficiencies in transaction processing, whilst providing a working capital benefit for the Group due to a short extension of payment terms within a normal working capital cycle. The amount outstanding under these facilities at 31 December 2021 was £62.2 million (2020: £63.6 million).

## Changes in liabilities arising from financing cash flows

A reconciliation of the movements in liabilities arising from financing activities for both cash and non-cash changes is provided below:

	As at 31 December 2021		
	Borrowings £m	Lease liabilities £m	Total £m
<b>Balance at 1 January</b>	<b>1,065.7</b>	<b>30.2</b>	<b>1,095.9</b>
Cash flows from financing activities	46.3	(13.2)	33.1
Impact of foreign exchange rates	(14.9)	2.7	(12.2)
Other movements	7.6	45.1	52.7
Acquisition of subsidiary	256.3	61.1	317.4
<b>Balance at 31 December</b>	<b>1,361.0</b>	<b>125.9</b>	<b>1,486.9</b>

  

	As at 31 December 2020		
	Borrowings £m	Lease liabilities £m	Total £m
<b>Balance at 1 January</b>	<b>1,245.2</b>	<b>32.5</b>	<b>1,277.7</b>
Cash flows from financing activities	(176.1)	(8.8)	(184.9)
Impact of foreign exchange rates	(14.2)	(0.2)	(14.4)
Other movements	10.8	6.7	17.5
<b>Balance at 31 December</b>	<b>1,065.7</b>	<b>30.2</b>	<b>1,095.9</b>

Other movements principally relate to the amortisation of deferred finance costs, discounting of lease liabilities and lease additions in the year.

## 11 Acquisitions

### Accounting policy

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 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 subsidiaries are recognised in the Consolidated balance sheet, and the revenues and profit or loss of the acquired subsidiaries are recognised in the Consolidated income statement. Acquisition-related costs are recognised as an expense in the Consolidated income statement in the period they are incurred.

Goodwill is measured as the excess of the:

- consideration transferred;
- 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 company that are voluntarily replaced are recognised as post-acquisition remuneration. Share based payment awards held by employees of the acquired company that are obliged to be replaced are allocated between post-acquisition remuneration, treated as an expense, and pre-acquisition remuneration which is treated as part of the overall consideration.

### Acquisition of Pinnacle

The Group announced the proposed acquisition of Pinnacle Renewable Energy Inc. (Pinnacle) on 8 February 2021. The acquisition was approved by shareholders on 31 March 2021 and subsequently completed on 13 April 2021. The primary reason for the acquisition is to advance the Group's biomass strategy by more than doubling its biomass production capacity, significantly reducing its cost of biomass production and adding a major biomass supply business underpinned with high-quality Asian and European counterparties.

The Group signed an agreement for the acquisition of 100% of the issued share capital of Pinnacle by Drax Canadian Holdings Inc., a wholly owned subsidiary of the Group (the acquisition). The acquisition was implemented by way of a statutory plan of arrangement in accordance with the laws of the Province of British Columbia, Canada, at a price of C\$11.30 per share (representing a premium of 13% based on the closing market price on 5 February 2021 of C\$10.04 per share) and therefore valuing the fully diluted equity of Pinnacle at C\$385 million (£222 million).

The acquisition was financed from the Group's existing cash reserves, which included amounts drawn down in February under the infrastructure term loan facilities, agreed in 2020 (see note 8).

Transaction costs in relation to the acquisition were £8.9 million, of which £1.0 million was recognised in the prior year and £7.9 million has been recognised as an expense in the current year within Operating and administrative expenses. The Group has also incurred integration costs of £4.1 million to date, also recognised within Operating and administrative expenses. See note 5.

The purchase consideration consisted of the following:

	£m
Cash paid to ordinary shareholders	218.1
Cash paid to settle existing share-based payment awards	4.2
<b>Total purchase consideration</b>	<b>222.3</b>

There was no contingent consideration in relation to the acquisition.

### Acquisition date fair values

As part of the accounting for the Pinnacle acquisition, the assets and liabilities acquired are measured at fair value on the acquisition date. Property, plant and equipment have been measured at fair value using a Depreciated Replacement Cost (DRC) approach. This approach estimates what it would cost to produce or construct a modern equivalent asset of similar capacity and utility. The cost is then adjusted to reflect:

- physical depreciation (such as wear and tear, decay, deterioration due to age and loss not prevented by current maintenance);
- functional obsolescence (the loss caused by internal factors resulting in a decrease in the ability to serve the purpose for which it was manufactured); and
- economic obsolescence (the loss in value caused by external adverse conditions, such as poor market demand for a product, industrial reorientation, and excessive governmental regulations).

The valuation is performed by an independent valuation specialist. A fair value uplift of £23.6 million (C\$40.8 million) has been recognised on the carrying value of Property, plant and equipment acquired as part of the acquisition. If different assumptions and inputs were used this could have resulted in a different fair value.

The Pinnacle business held a number of long-term customer contracts at the acquisition date. As part of the acquisition accounting, these existing customer contracts were required to be measured at their fair value. In determining the fair value of these contracts estimates are required for inputs to the valuation such as the margin associated with these customer contracts, the required return for assets used to generate these contract revenues, retention rates, and an appropriate discount rate based on the risk profile of these contracts. A change to any of these inputs can significantly impact the fair value calculated for these customer contracts. An asset with a fair value of £35.9 million (C\$62.1 million) has been recognised in relation to customer contracts at acquisition.

The Group and Pinnacle had a pre-existing relationship relating to long-term supply contracts under which Pinnacle supplied the Group with biomass pellets at a fixed price. Valuing the pre-existing relationship compared to current market transactions involves estimation of what the pricing for an identical biomass contract would be at the acquisition date, which, given the highly illiquid nature of the biomass market, with very few spot market transactions and contracts being negotiated bilaterally with no quoted market price, is inherently judgemental. On acquisition the Group assessed the terms of these supply contracts compared to current market transactions for an identical contract. Pricing for current market transactions for the purpose of this exercise was assessed based on the existing portfolio of the Group and Pinnacle contracts. These supply contracts were determined to be consistent with the pricing for current market transactions for an identical contract and the settlement provision for terminating these contracts would have been immaterial. As a result, no consideration has been attributed to the settlement of the pre-existing relationship and therefore no gain or loss relating to the pre-existing relationship has been recognised.

The fair values of the acquired Property, plant and equipment, contract asset and pre-existing relationship are inherently judgemental and involve a high degree of estimation, meaning valuations based on different methodologies or assumptions may have resulted in a materially different fair value. However, these valuations have been performed by specialists, using appropriate methodologies and information. No new information is expected to become available within the next financial year that would be relevant for the acquisition date fair values. Therefore, these valuations are not expected to be revisited and consequently do not have a significant risk of a material adjustment to the

carrying amounts within the next financial year. As such these fair value measurements have not been disclosed as key sources of estimation uncertainty for the Group.

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, liabilities assumed and non-controlling interest as at 13 April 2021 were as follows:

	Fair value £m
Property, plant and equipment and intangible assets	326.2
Right-of-use assets	60.4
Other non-current assets	4.3
Inventories	26.8
Trade and other receivables	29.4
Cash and cash equivalents	18.8
Trade and other payables	(37.1)
Lease liabilities	(61.1)
Borrowings	(256.3)
Deferred tax liabilities	(12.1)
Other liabilities	(3.3)
<b>Net identifiable assets acquired</b>	<b>96.0</b>
Less: non-controlling interest	(39.6)
Add: goodwill	165.9
<b>Net assets acquired</b>	<b>222.3</b>

Goodwill on acquisition predominantly relates to the value of uncontracted revenues and synergies expected to be realised by combining Pinnacle with the Group's existing pellet business. The increased size of the Group's pellet business is expected to enable greater flexibility, opportunities to optimise the Group's pellet production operations and logistics across the enlarged portfolio and to increase knowledge. The goodwill is not expected to be deductible for tax purposes. Goodwill is required to be denominated in the functional currency of the operations to which the goodwill is allocated to. The goodwill on the Pinnacle acquisition relates to both CAD and USD functional currency operations. This resulted in goodwill of C\$97.4 million and \$151.9 million which, when translated at the acquisition date, resulted in £165.9 million of goodwill. These goodwill balances are translated at the balance sheet rates into the Group's presentational currency of GBP.

The non-controlling interest has been measured at the proportionate share of the identifiable net assets of the acquiree at the acquisition date.

#### **Acquired receivables**

The Group acquired receivables with a fair value of £22.9 million (C\$39.6 million). These trade receivables had a gross contracted value of £22.9 million (C\$39.6 million). No provision for receivables was recognised due to the risk of default within the Pinnacle business being considered to be extremely low.

#### **Contingent liabilities**

No contingent liabilities or indemnification assets have been recognised on acquisition of Pinnacle.

#### **Revenue and profit contribution**

From the acquisition date to 31 December 2021 £213.7 million of revenue and £17.7 million of net loss has been recognised in the Consolidated income statement relating to Pinnacle. If the acquisition had occurred on 1 January 2021, being the start of the current reporting period, it is estimated that Group consolidated revenue of £5,230.5 million and Group consolidated net profit of £69.9 million would have been recognised in the Consolidated income statement. In determining these amounts, it has been assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2021.

## Reconciliation of net cash outflow from investing activities

	Cash outflow/(inflow)
	£m
Cash paid to acquire Pinnacle	222.3
Less balances acquired:	
Cash	(18.8)
<b>Net cash outflow</b>	<b>203.5</b>

## 12 Assets held for sale and discontinued operations

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

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

### Accounting policy

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

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

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

Impairment losses and subsequent reversals of impairment losses are recognised in the income statement. Reversals of impairment losses are only recognised to the extent they reverse a prior impairment. If an impairment loss is recognised in relation to a disposal group the impairment would be allocated first to goodwill and then on a pro-rata basis to the non-current assets within the disposal group.

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

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

The component is classified as a discontinued operation at the earlier of when it is disposed of or when the component meets the held for sale criteria.

When an operation is classified as a discontinued operation its results are presented separately in the Consolidated income statement. The results of the discontinued operation are also re-presented in the Consolidated income statement as discontinued in any comparative periods.

### Assets held for sale

On 15 December 2020, the Group announced it had reached an agreement for the sale of Drax Generation Enterprise Limited (DGEL), which held the Group's CCGT portfolio, to VPI Generation Limited. Accordingly, these assets were a disposal group and were recognised as held for sale at 31 December 2020.

On 31 January 2021, the Group completed the sale of its CCGT generation portfolio to VPI Generation Limited for cash consideration of up to £193 million, subject to customary adjustments. This included £29 million of contingent consideration associated with the option to develop the site at Damhead Creek. The sale price represents a return over the Group's period of ownership significantly ahead of the Group's weighted average cost of capital.

The Group received initial consideration of £188 million in February 2021, which included £24 million in respect of customary working capital adjustments. A completion accounts process concluded in July 2021, subsequent to the balance sheet date, that finalised working capital adjustments at £22 million, amending the initial consideration to £186 million.

A reconciliation of the gain on disposal, and net assets disposed of, is set out below:

	£m
Consideration received or receivable	
Cash	188.0
Fair value of contingent consideration	27.7
Carrying amounts of net assets disposed	(198.6)
<b>Gross gain on disposal</b>	<b>17.1</b>
Other expenses:	
Transaction costs	(4.2)
Net mark-to-market losses	(4.4)
<b>Net gain on disposal</b>	<b>8.5</b>

The Group recognised certain transaction-related and mark-to-market costs, as incurred, during the year ended 31 December 2020. As a result, recognition of the net gain on disposal in the Group's income statement is spread across 2020 and 2021, as illustrated below:

	Year ended 31 December		Total £m
	2021 £m	2020 £m	
Gross gain on disposal	17.1	–	17.1
Transaction costs	(0.9)	(3.3)	(4.2)
Mark-to-market costs	(1.1)	(3.3)	(4.4)
<b>Net gain on disposal</b>	<b>15.1</b>	<b>(6.6)</b>	<b>8.5</b>

The following assets and liabilities were reclassified as held for sale in relation to the agreed sale of DGEL at 31 December 2020:

	As at 31 December 2020 £m
Property, plant and equipment	195.4
Right-of-use assets	5.3
Trade and other receivables	58.3
Inventories	0.9
Deferred tax asset (note 4)	1.4
<b>Total assets</b>	<b>261.3</b>
Lease liabilities	(5.6)
Provisions	(13.8)
Trade and other payables	(63.1)
<b>Total liabilities</b>	<b>(82.5)</b>
<b>Net assets held for sale</b>	<b>178.8</b>

The assets and liabilities were disposed of on 31 January 2021 and as such no assets or liabilities were held for sale at 31 December 2021.

## Discontinued operations

The income and expenses of the CCGT portfolio have been classified as discontinued operations.

	Year ended 31 December 2021			Year ended 31 December 2020		
	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	51.8	(2.5)	49.3	205.8	(25.3)	180.5
Cost of sales	(31.6)	(7.2)	(38.8)	(127.3)	47.7	(79.6)
<b>Gross profit/(loss)</b>	<b>20.2</b>	<b>(9.7)</b>	<b>10.5</b>	78.5	22.4	100.9
Operating expenses	0.1	(1.9)	(1.8)	(32.6)	(3.3)	(35.9)
<b>Adjusted EBITDA</b>	<b>20.3</b>			45.9		
Depreciation and amortisation	–	–	–	(19.2)	–	(19.2)
Other gains	–	17.1	17.1	–	–	–
<b>Operating profit</b>	<b>20.3</b>	<b>5.5</b>	<b>25.8</b>	26.7	19.1	45.8
Net finance costs	–	–	–	(0.7)	–	(0.7)
<b>Profit before tax on discontinued operations</b>	<b>20.3</b>	<b>5.5</b>	<b>25.8</b>	26.0	19.1	45.1
Total tax (charge)/credit	(3.6)	1.9	(1.7)	(4.8)	(3.6)	(8.4)
<b>Profit after tax from discontinued operations and total profit from discontinued operations</b>	<b>16.7</b>	<b>7.4</b>	<b>24.1</b>	21.2	15.5	36.7
<b>Earnings per share</b>	<b>Pence</b>		<b>Pence</b>	<b>Pence</b>		<b>Pence</b>
on profit for the period from discontinued operations attributable to owners of the parent						
– Basic	4.2		6.1	5.3		9.2
– Diluted	4.1		5.8	5.2		9.1

## 13 Alternative performance measures (APMs) glossary table

The measures described below are used throughout the Annual report and accounts and are measures that are not defined within IFRS but provide additional information about financial performance and position that is used by the Board to evaluate the Group's trading performance. These measures have been defined internally and may therefore not be comparable to APMs presented by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself 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	<p>The Group's Adjusted results are consistent with the way executive management and the Board assess the performance of the Group. Adjusted results are intended to reflect the underlying trading performance of the Group's businesses and are presented to assist users of the financial statements in evaluating the Group's trading performance and performance against strategic objectives on a consistent basis.</p> <p>Adjusted results excludes exceptional items and certain remeasurements.</p> <p>Exceptional items are those transactions that, by their nature, do not reflect the trading performance of the Group in the period.</p> <p>Certain remeasurements comprise fair value gains and losses that do not qualify for hedge accounting. 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.</p>	Total results measured in accordance with IFRS excluding the impact of exceptional items and certain remeasurements (defined in note 5).

		Adjusted results are the metrics used in the calculation of adjusted basic earnings per share.	
Adjusted EBITDA	Operating profit*	Adjusted EBITDA is the primary measure used by executive management and the Board to assess the financial performance of the Group as it provides a more comparable assessment of the Group's year-on-year trading performance. It is also a key metric used by the investor community to assess performance of the Group's operations.	Earnings before interest, tax, depreciation and amortisation, excluding the impact of exceptional items and certain remeasurements (defined in note 5). Adjusted EBITDA attributable to non-controlling interests is excluded.  Adjusted EBITDA is stated from both continuing operations and discontinued operations.
Net debt	Borrowings less cash and cash equivalents	Net debt is the prominent metric used by debt rating agencies and the investor community to assess the strength of a company and its balance sheet.  Net debt is used in the calculation of the Group's financial covenant requirements.	Total borrowings less cash and cash equivalents. Total borrowings include external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities (see note 9) but excludes other financial liabilities such as lease liabilities calculated in accordance with IFRS 16, pension obligations and trade and other payables.  Net debt adjusted for the impact of hedging instruments which deducts the value of hedging instruments attributed to the Group's borrowings which are hedged from net debt.
Cash and committed facilities	Cash and cash equivalents	This is a key measure of the Group's 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 undrawn RCF facility, loan facilities and Customers' trade receivable factoring facility.
Debt service	Finance costs	This is a measure showing the cost of the Group's external borrowings (bonds and bank loans).	Interest payable and similar charges less any charges unrelated to external borrowings.
Net debt to Adjusted EBITDA ratio	Borrowings less cash and cash equivalents divided by operating profit	The net debt to Adjusted EBITDA 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 EBITDA are held constant.  The Group has a long-term target for net debt to Adjusted EBITDA of around 2.0x.	Net debt divided by Adjusted EBITDA. Expressed as a ratio to 1.
Cost of production	Cost of sales	A key metric showing the cost of produced biomass.  This has been part of the Group's strategy to reduce biomass costs.	Cost of sales attributable to biomass production divided by tonnes of biomass produced.  Expressed as a cost per tonne produced.
Capital expenditure	Plant, Property and Equipment (PPE) additions and Intangible asset additions	Used to show the Group's total spend on PPE and intangible assets in a year.	Plant, Property and Equipment (PPE) additions plus Intangible asset additions less any additions to decommissioning assets.

\* Operating profit is presented on the Group income statement; however, it is not defined per IFRS. It is a generally accepted profit measure.

## 14 Glossary

### **Adjusted EBITDA**

Earnings before interest, tax, depreciation and amortisation, excluding the impact of exceptional items and certain remeasurements. Adjusted EBITDA is typically stated as the combined value from both continuing and discontinued operations.

### **Adjusted results**

Financial performance measures prefixed with “Adjusted” are stated after adjusting for material, one-off exceptional items (such as asset obsolescence charges, acquisition and restructuring costs or debt restructuring costs), and certain remeasurements on derivative contracts.

### **Ancillary services**

Services provided to national grid used for balancing supply and demand or maintaining secure electricity supplies within acceptable limits, for example Black Start contracts. They are described in Connection Condition 8 of the Grid Code.

### **Availability**

Average percentage of time the units were available for generation.

### **BECCS**

Bioenergy with carbon capture and storage, with carbon resulting from power generation captured and stored.

### **BEIS**

The Government Department for Business, Energy and Industrial Strategy, bringing together the responsibilities for business, industrial strategy, science, innovation, energy and climate change.

### **Black start**

Procedure used to restore power in the event of a total or partial shutdown of the national electricity transmission system.

### **Biomass**

Organic material of non-fossil origin, including organic waste, that can be converted into bioenergy through combustion. Drax uses woody biomass from low grade wood, sawmill residues and forest residues, in the form of compressed wood pellets, to generate electricity at Drax Power Station.

### **Capacity market**

Part of the Government’s Electricity Market Reform, the Capacity Market is intended to ensure security of electricity supply by providing a payment for reliable sources of capacity.

### **Carbon capture and storage (CCS)**

The process of trapping or collecting carbon emissions from a large-scale source and then permanently storing them.

### **Carbon price support**

A tax upon fossil fuels (including coal) used to generate electricity. It is charged as a levy on coal delivered to the power station.

### **CCC**

The UK’s Climate Change Committee.

### **Contracts for difference (CfD)**

A mechanism to support investment in low-carbon electricity generation. The CfD works by stabilising revenues for generators at a fixed price level known as the “strike price”. Generators will receive revenue from selling their electricity into the market as usual. However, when the market reference price is below the strike price they will also receive a top-up payment for the additional amount. Conversely, if the reference price is above the strike price, the generator must pay back the difference.

### **Combined Cycle Gas Turbines (CCGT)**

A form of highly efficient energy generation technology that combines a gas-fired turbine with a steam turbine.

### **ESG**

Environmental, Social and Governance.

### **EU ETS**

The EU Emissions Trading System is a mechanism introduced across the EU to reduce emissions of CO<sub>2</sub>; the scheme is capable of being extended to cover all greenhouse gas emissions.

### **Forced outage**

Any reduction in plant availability, excluding planned outages.

### **Frequency response**

The automatic change in generation output or demand to maintain a system frequency of 50Hz.

### **Grid charges**

Includes transmission network use of system charges (TNUoS), balancing services use of system charges (BSUoS) and distribution use of system charges (DUoS).



**Headroom and footroom**

Positive “reserve” (see below) may be termed headroom and negative reserve as footroom.

**IFRS**

International Financial Reporting Standards.

**Inertia**

The stored energy in the large rotating mass of a generator, which assists in maintaining system stability. Wind and solar power sources have no inertia.

**Lost time incident rate (LTIR)**

The frequency rate is calculated on the following basis: (fatalities and lost time injuries)/hours worked x 100,000. Lost time injuries are defined as occurrences where the injured party is absent from work for more than 24 hours.

**Net debt**

Comprises cash and cash equivalents, short-term investments less overdrafts and borrowings net of deferred finance costs.

**Net debt to Adjusted EBITDA ratio**

The value of Net debt divided by Adjusted EBITDA (both as defined above), expressed as the number of times the value of Net debt exceeds the value of Adjusted EBITDA. The Group has a long-term target of around 2.0x Net debt to Adjusted EBITDA.

**NGO**

Non-governmental organisation.

**Open Cycle Gas Turbine (OCGT)**

A free-standing gas turbine, using compressed air, to generate electricity.

**Planned outage**

A period during which scheduled maintenance is executed according to the plan set at the outset of the year.

**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.

**RIDDOR**

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

**ROCs**

A Renewable Obligation Certificate (ROC) is a certificate issued to an accredited generator for electricity generated from eligible renewable sources.

**Summer**

The calendar months April to September.

**System operator**

National Grid Electricity Transmission. Responsible for the coordination of electricity flows onto and over the transmission system, balancing generation supply and user demand.

**TCFD**

Task Force on Climate-related Financial Disclosures.

**Total recordable incident rate (TRIR)**

The frequency rate is calculated on the following basis: (fatalities, lost time injuries + worse than first aid injuries)/hours worked x 100,000.

**Total results**

Financial performance measures prefixed with “Total” are calculated in accordance with IFRS.

**UK ETS**

The UK Emissions Trading System is a mechanism introduced across the UK to reduce emissions of CO<sub>2</sub>; the scheme is capable of being extended to cover all greenhouse gas emissions.

**Voltage control/reactive power**

Maintenance of voltage within specified limits in order to “push” power around the system to maintain safety and stability.

**Winter**

The calendar months October to March.