

23 February 2023

DRAX GROUP PLC (Symbol: DRX)

FULL YEAR RESULTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2022

Strong performance, supporting security of supply, developing a pipeline of projects for carbon removals

Twelve months ended 31 December	2022	2021
Key financial performance measures		
Adjusted EBITDA (£ million) ⁽¹⁾⁽²⁾	731	398
Net debt (£ million) ⁽³⁾	1,206	1,108
Net debt to Adjusted EBITDA	1.6x	2.8x
Adjusted basic EPS (pence) ⁽¹⁾	85.1	26.5
Total dividend (pence per share)	21.0	18.8
Total financial performance measures from continuing operations		
Operating profit (£ million)	146	197
Profit before tax (£ million)	78	122

Will Gardiner, CEO of Drax Group, said: “Drax delivered a strong performance in 2022, and played a significant role in ensuring security of supply during a challenging year for the UK’s energy system.

“Our renewable generation – biomass, hydro and pumped storage – are a major source of power in the UK and during periods of peak demand when there was low wind and solar power, these assets collectively supplied up to 70% of the UK’s renewable power in certain periods.

“We believe that BECCS can become a world-leading solution for large-scale high-quality carbon removals and we are seeing increasing global policy support for its delivery.

“Drax stands ready to invest billions of pounds in the development of this technology and, following the introduction of the US Inflation Reduction Act, we are increasingly excited about the opportunities to deploy BECCS in the US. In response, the UK Government should accelerate its policy support for BECCS to make the UK a world leader in carbon removals, while attracting investment and delivering its net zero targets.

“Drax is a growing international business with strong cash returns which we are reinvesting to produce more renewable energy and deliver carbon removals while reducing our own carbon emissions. We aim to be at the heart of the energy transition, creating the jobs, renewable power and large-scale carbon removals that the world needs.”

Financial highlights – strong financial performance underpinning investment and a sustainable and growing dividend

- Adjusted EBITDA of £731 million up 84% (2021: £398 million)
- Strong liquidity and balance sheet – £698 million of cash and committed facilities at 31 December 2022
 - 1.6x Net debt to Adjusted EBITDA – significantly below 2x target
- Total dividend increased 11.7% to 21.0 pence per share (2021: 18.8 pence per share)
 - Proposed final dividend of 12.6 pence per share (2021: 11.3 pence per share)

Operational highlights – optimisation of supply chain and generation to support security of supply

- UK’s largest source of renewable power by output – 11% of annualised total, 19% of peak (up to 70% in-day peak)

Strategy highlights – developing a pipeline for carbon removals, biomass and dispatchable, renewable power

- Ambition to be a global leader in carbon removals
 - Global BECCS – developing a pipeline of projects in the US targeting long-term large-scale carbon removal
 - First new-build site chosen, with over 10 sites currently under evaluation
 - MoU agreed with large timberland owner to develop a pipeline of BECCS opportunities
 - MoU agreed with Respira for sale of 2Mt of carbon removals from new-build BECCS plants
 - UK BECCS – UK Government to confirm shortlisting for “Track 1” UK BECCS projects
- Ambition to be a global leader in sustainable biomass – targeting 8Mt of capacity and 4Mt of third-party sales by 2030
 - Addition of 0.5Mt of operational pellet production capacity and final investment decision (FID) on 0.6Mt in 2023
- Ambition to be a UK leader in dispatchable, renewable power
 - Aim to reach agreement regarding long-term incentives for biomass generation not operating as BECCS
 - Planning application submitted for 600MW expansion of Cruachan and connection agreement secured

Future positive – climate, nature, people

- Exiting gas sales on Customers SME business
- Drax Power Station sustainability sourcing requirements are compliant with UK law on sustainable sourcing
- Biomass produced using material from well-established forestry markets in the US, Canada and Europe
- Subject to national and regional regulation and typically supported by, and independently monitored for compliance by, forest certification schemes such as: the Forestry Stewardship Council® (FSC)⁽⁴⁾, Sustainable Forestry Initiative (SFI) and Programme for the Endorsement of Forest Certification® (PEFC)⁽⁵⁾
- Launch of Drax Foundation to deliver community initiatives that support education and skills development in Science, Technology, Engineering and Maths (STEM), and that improve green spaces and enhance biodiversity within local communities

Operational review

Pellet Production – increased production, flexible operations to support UK generation, addition of 0.5Mt of capacity

- Adjusted EBITDA up 56% to £134 million (2021: £86 million)
 - Production up 26% to 3.9Mt (2021: 3.1Mt, including Pinnacle since 13 April 2021)
 - Lower than planned production – delays achieving full production at new plants, North American rail restrictions and flexible production
- Optimisation of supply chain supports value for the Group
 - Flexible production to support generation
 - Sales to third parties under long-term contracts
 - Spot sales and purchases
- Addition of c.0.5Mt of production capacity – Demopolis, Leola and Russellville – completing commissioning and acquisition of Princeton
- 6% year-on-year production cost increase to \$152/t⁽⁶⁾ (2021: \$143/t⁽⁶⁾)
 - Inflation impact on utility costs (>35%) and fuel surcharges (barge and rail transport to port (>20%))
- Outlook – clear pathway to improved earnings profile
 - Incremental production at existing sites and addition of new capacity
 - Continued headwind from inflation in 2023
 - Development and introduction of new technologies and innovation, including c.£10 million R&D investment in a biomass sugar extraction plant
 - Increased use of residuals and a wider range of sustainable biomass materials

Generation – flexible operations and dispatch to capture value – increased system support and security of supply

- Adjusted EBITDA £696 million up 87% (2021: £372 million)
 - Optimisation of generation and logistics to support UK security of supply at times of higher demand
 - Summer – lower power demand, lower power generation and sale of reloaded biomass
 - Winter – maximise biomass deliveries to support increased generation at times of higher demand
 - Higher biomass and system costs reflecting a more challenging energy environment
- Strong pumped storage and hydro performance – value from increased system support activity and generation
- Six-month extension of coal at request of UK Government – winter contingency contract for security of supply
 - Units not called other than for testing
 - Closure of coal units in March 2023 following expiration of current agreement
- As at 17 February 2023, Drax had 23.3TWh of power hedged between 2023 and 2025 on its ROC and hydro generation assets at an average price of £152.8/MWh, inclusive of equivalent gas sales (transacted for the purpose of accessing additional liquidity for forward sales from ROC units and highly correlated to forward power prices) and the cost of unwinding equivalent gas sales. Excludes any sales under the CfD mechanism.

<i>Contracted power sales as at 17 February 2023</i>	2023	2024	2025
<i>Net ROC, hydro and gas (TWh)^(7/8/9)</i>	12.4	9.0	1.9
<i>- Average achieved £ per MWh</i>	158.1	149.2	135.7

Lower expected level of ROC generation in 2023 due to major planned outages on two units

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

- Adjusted EBITDA of £26 million (2021: £6 million) – continued improvement in profitability post impact of Covid-19
- Continued development of Industrial & Commercial (I&C) portfolio
 - 14.8TWh of power sales – 24% increase compared to 2021 (11.9TWh)

- Commencement of new supply contracts to three major high-quality customers supporting generation route to market

Other financial information

Profits

- Total operating profit from continuing operations of £146 million (2021: £197 million), including £298 million mark-to-market loss on derivative contracts and £25 million of exceptional costs
- Total profit after tax of £83 million (2021: £55 million profit after tax from continuing operations, including a £49 million non-cash charge from revaluing deferred tax balances)
- Depreciation, amortisation, impairment, loss on disposal and exceptional items of £286 million (2021: £209 million) reflects inclusion of Pinnacle for a full 12 months, plant upgrades and accelerated depreciation of certain pellet plant equipment in line with planned capital upgrades and asset impairment of £17 million

Capital investment

- 2022 capital investment of £255 million (2021: £238 million) – includes c.£90 million from OCGT projects
- 2023 expected capital investment of £570 – £630 million
 - £120 million maintenance, including two major planned outages on biomass units; £30 million enhancements; £430 million strategic – includes >£200 million OCGT and >£100 million pellet plant developments

Cash and interest

- Group cost of debt below 4.2%
- Cash Generated from Operations £320 million (2021: £354 million), inclusive of collateral payments (2021: £168 million inflow) typically associated with higher commodity prices and expected to unwind through 2023 and 2024
 - £234 million of collateral placed in 2022 (2021: £173 million held)
- Net debt of £1,206 million (31 December 2021: £1,108 million), including cash and cash equivalents of £238 million (31 December 2021: £317 million)
 - 1.6x Net debt to Adjusted EBITDA, inclusive of temporary collateral outflows – significantly below 2x target
 - 1.3x Net debt to Adjusted EBITDA, excluding collateral

Capital allocation policy – unchanged

- Maintain a strong balance sheet
- Invest in the core business and strategy, including new biomass pellet plants, the development of options for BECCS, and the expansion of pumped storage power station at Cruachan
- Pay a sustainable and growing dividend
- Return surplus capital to shareholders – if there is a build-up of capital, the Board will consider the most appropriate mechanism to return this to shareholders
 - Considerations include – timing of capital deployment, leverage profile, prevention of dilution and divestment of non-core assets

2023 financial and operational outlook

- Continued optimisation of biomass supply chain and generation to create value for the Group
- Baseload ROC generation, plus two planned major outages
- CfD unit held in reserve – operation subject to good ROC unit operational performance and market conditions
- Biomass generation cost >£100/MWh
- Forward selling of pumped storage and hydro underpins expectations
- Electricity Generator Levy applicable to ROC and hydro assets, but not pumped storage, CfD or coal

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 corporation tax rates, acquisition costs, gain on sale of Combined Cycle Gas Turbine generation assets, restructuring costs, debt restructuring costs and certain asset obsolescence charges and impairments), 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, gains or losses on disposal of assets and impairment of non-current assets, excluding the impact of exceptional items and certain remeasurements, earnings from associates and earnings attributable to non-controlling interests.
- (3) Borrowings including the impact of hedging instruments less cash and cash equivalents, excluding amounts attributable to non-controlling interests.
- (4) FSC® license code: FSC C119787.
- (5) PEFC® Chain of Custody certification (PEFC/16-37-1769).

- (6) 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.
- (7) Includes 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. 2024: 1.5TWh, 2025: 0.3TWh, presented net of cost of closing out gas positions at maturity and replacing with forward power sales.
- (8) Typical estimated annual biomass generation from ROC and CfD units c.13-14TWh based on estimated biomass availability, incrementally lower in 2023 due to major planned outages on two ROC units, expected to result in lower ROC cap versus 2022.
- (9) 2023 includes forward selling of pumped storage generation (0.1TWh) resulting in higher captured prices but lower system support availability.

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; uncertainty as to future investment and support achieved in enabling the realisation of strategic aims and objectives; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected, including the impact of prevailing economic and political uncertainty. 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 9:00am (UK Time), Thursday 23 February 2023.

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 23 February 2023 for download at: www.drax.com>>investors>>results-reports-agm>>#investor-relations-presentations or use the link <https://www.drax.com/investors/announcements-events-reports/presentations/>

Event Title:	Drax Group plc: Full Year Results
Event Date:	Thursday 23 February 2023
	9:00am (UK time)
Webcast Live Event Link:	https://secure.emincote.com/client/drax/drax024
Conference call and pre-register Link:	https://secure.emincote.com/client/drax/drax024/vjp_connect
Start Date:	Thursday 23 February 2023
Delete Date:	Thursday 23 February 2024
Archive Link:	https://secure.emincote.com/client/drax/drax024

For further information, please contact: rosie.corbett@fticonsulting.com

Website:	www.drax.com
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Chair's statement

The Group's three strategic objectives – to be a global leader in sustainable biomass pellets; to be a global leader in carbon removals; and to be a UK leader in dispatchable, renewable power – are aligned with a number of global energy policies. Such policies increasingly recognise the important role that sustainable biomass and carbon removals can play in the fight against climate change.

Since 2012, we have reduced our generation Scope 1 and 2 carbon emissions by approximately 99%, principally reflecting our long-term investment in sustainable biomass. And 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 North America.

While progressing our strategy, we also play an important role in supporting UK energy security. Using our biomass, pumped storage, and hydro assets, we generate large amounts of reliable, renewable electricity and provide important system support services to the UK power system. This reduces the UK's reliance on expensive fossil fuels like gas and complements the greater use of intermittent renewables such as wind.

In the future, biomass could offer a route to carbon removal using BECCS. But, it must be the right biomass. The Group is committed to this principle, in order to deliver positive outcomes for the climate, nature, and people.

On a personal note, this will be my final year as Chair since I plan to step down by 31 December 2023. By then, I will have served as a director for nine years, having joined the Board in January 2015. In that time, I have seen the continued transition of Drax from coal to biomass generation, the growth of our Pellet Production business and supply chain, the development of opportunities for BECCS, and the growth of the Group internationally. These actions have all been undertaken alongside our continuing commitment to deliver our purpose and contribute to the fight against climate change.

Operations

In North America, our Pellet Production business has continued to support efforts to optimise biomass power generation and safeguard security of supply in the UK. At the same time, the Pellet Production business has added over 500kt of extra production capacity.

In the UK, our generation portfolio has continued to support the UK power system and deliver high levels of flexible, dispatchable, renewable electricity. In 2022, the Group was once again the UK's largest source of renewable electricity by output, providing 11% of the total from its biomass, pumped storage, and hydro generation assets. At the UK Government's request, we agreed to make available our two coal-fired units for the winter of 2022-2023, if required, as a response to the European energy crisis following Russia's invasion of Ukraine.

Our Customers business, which supplies electricity to businesses and other organisations in the UK, has continued its recovery from the impact of Covid-19.

Results and dividend

Adjusted EBITDA in 2022 was £731 million. This was significantly higher than 2021 (£398 million), reflecting a strong performance across the Group. The balance sheet also remains strong, with Net debt at £1,206 million significantly below our target ratio of 2.0 times Net debt to Adjusted EBITDA.

At the 2022 Half Year Results, we confirmed an interim dividend of £34 million (8.4 pence per share). The Board proposes to pay a final dividend in respect of 2022 of £50 million, equivalent to 12.6 pence per share. This will make the full year 2022 dividend £84 million (21.0 pence per share) (2021: £75 million, 18.8 pence per share). This represents an 11.7% increase on 2021. It is also consistent with our policy to pay a dividend that is sustainable and expected to rise as the strategy delivers stable earnings, cash flows and opportunities for growth.

The Group has a clear capital allocation policy. In determining the rate of growth in dividends from one year to the next, the Board will take account of cash flows from contracted income, the less predictable cash flows from the Group's commodity-linked revenue streams, and future investment opportunities. This includes new biomass pellet plants, the development of options for BECCS in the UK and North America, and the expansion of our pumped storage power station at Cruachan. If there is a build-up of capital, the Board will consider the most appropriate mechanism to return this to shareholders.

Safety and sustainability

The safety, health and wellbeing of our colleagues and contractors, together with our environmental impact, remain priorities for the Group and the Board. We believe that safe, compliant, and sustainable operations are integral to the delivery of our strategy and crucial for sustained long-term performance. These fundamentally underpin the continued success of the Group. Safety and sustainability underpin our operational philosophy. We continue to work across the Group to identify, implement, and maintain high standards supported by a positive safety culture.

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 2022, we have continued our work as a Taskforce on Climate-Related Financial Disclosures (TCFD) supporter. For example, we have submitted science-based targets and identified opportunities for further reductions of carbon emissions in our supply chain.

Delivering positive outcomes for climate, nature and people are at the core of the Group's business model, and ensuring that Drax only uses biomass which is sourced sustainably in the generation of electricity is central to this ambition.

Biomass, when sustainably sourced, supports good forestry, is a renewable source of energy, and we believe, is an important part of both UK and international renewable energy policies. The Group sources its biomass from well-established forestry markets, primarily in the US and Canada.

We support responsible forestry practices by providing incremental, secondary revenues to forest landowners through the purchase of material which is not otherwise merchantable to a sawmill. These materials are principally sawdust and sawmill residues, bark, branches, low-grade roundwood, and woody material from forest management activities. In addition, the markets we source from are subject to national and regional regulation. We supplement this regulation through our own biomass Responsible Sourcing Policy and supply chain checks, with third-party verification under the Sustainable Biomass Program in respect of woody biomass used at Drax Power Station.

People and values

The Board remains 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. Will Gardiner, our CEO, and I met regularly with the chairs of our workforce engagement forums during 2022, and we will continue to do so in 2023. These meetings provide valuable ongoing insights and feedback for the Board.

We monitor and challenge management on the steps being taken to address diversity, and the Board receives regular updates at Board meetings on the work being done. In recent years, we have made progress on diversity, particularly in senior roles. By the end of 2022, our female representation at Board level was 44% and 40% for the Executive Committee.

Summary

In 2022, we used our generation assets and our supply chain to provide large volume, reliable and flexible power; we enhanced security of supply in the UK; and we continued to deliver strong financial performance with a sustainable and growing dividend.

At the same time, we have made good progress with our strategic objectives. Our biomass growth strategy is clear and underpins our plans for biomass sales, opportunities for BECCS, and renewable power generation. Through these complementary opportunities, we believe we can deliver sustainable long-term value to our stakeholders as we realise our purpose of enabling a zero carbon, lower cost energy future and become a carbon negative company.

Philip Cox, CBE

CEO's review

2022 saw a significant increase in gas prices, leading to concerns about energy costs and security in the UK and beyond. At Drax we have continued to play our part. We are the UK's largest source of renewable power by output, a leading source of reliable and flexible generation, and our ambition is to become a carbon negative company by 2030.

Our portfolio generated over 4% of the UK's electricity between October 2021 and October 2022 (the most recent period for which data is available). We also generated 11% of the UK's renewable electricity over the same period, making Drax the largest renewable generator by output. In addition, our assets produced on average 19% of the UK's renewables at times of peak demand across the year and up to 70% on certain days. This underlines the important role that Drax plays in security of supply in the UK.

At the same time, we remain focused on our purpose – to enable a zero carbon, lower cost energy future – and our ambition to become a carbon negative company by 2030. This purpose and ambition drive our commitment to address climate change. Since 2012, the Group's actions have reduced our generation Scope 1 and 2 carbon emissions by approximately 99%.

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

We believe that Drax is a world leader in sustainable biomass and that BECCS can become a world leading, UK-led, exportable solution for large-scale carbon removals, subject to the right regulatory and investment framework. Reflecting this belief, we are continuing to develop an option for our UK BECCS project and opportunities to invest in BECCS in North America. We believe this could be the world's leading market for these types of technologies.

These benefits will only be possible with the right biomass – biomass that is sourced sustainably. At Drax we are committed to using the right biomass, that can deliver positive outcomes for the climate, nature, and people, and we have put in place policies, controls, and reviews to support this.

Through our strategy we are creating exciting opportunities for growth aligned to global decarbonisation efforts. Our investments in these areas are underpinned by high quality earnings and cash flows, which continue to support our commitment to a sustainable and growing dividend.

Summary of 2022

Safety remains a primary focus and, in 2022, the Total Recordable Incident Rate was 0.44 (2021: 0.22). This is not where we want our safety performance to be. However, as reported at the half year, the increase is explained in part by two developments. Firstly, a widening of the scope to include contractor incidents. Secondly, improvements in the recording of incidents in our Pellet Production business, including the Pinnacle sites we acquired in 2021.

Since the acquisition we have implemented a health, safety and environmental (HSE) improvement plan across our North American operations and invested in training, human resource, and capital projects to deliver improved performance. We are committed to a strong safety culture across the Group and remain focused on embedding these improvements to uplift performance accordingly.

Adjusted EBITDA of £731 million represents an 84% increase compared to 2021 (£398 million). This reflects increased pellet sales, a strong system support and renewable power generation performance across the portfolio, and improved profitability in our Customers business.

Our balance sheet is strong, with total cash and committed facilities of £698 million and Net debt of £1,206 million.

Operationally, the Group's biomass, pumped storage, and hydro assets have continued to support UK security of supply, providing power system stability at a time of higher gas prices and volatility on the power system.

We have used our pellet production and international supply chain to reprofile biomass from the summer to winter, maximising generation when it is most needed, based on system need and sustainable biomass supply.

While supporting UK security of supply, we have also progressed our options for BECCS in the UK and continued developing new opportunities for the technology in North America.

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

Electricity Generator Levy

In December 2022, the UK Government confirmed the details of a windfall tax – the Electricity Generator Levy (EGL) – on renewable and low-carbon generators, due for implementation in 2023. The levy will apply to the three biomass units operating under the Renewables Obligation (RO) scheme and our run-of-river hydro operations. However, it does not apply to the Contract for Difference (CfD) biomass unit, pumped storage hydro, or coal generation.

Through the second half of 2022, we engaged with the UK Government on the issue of windfall taxes, and their impact on the industry, to ensure a balanced approach. While we do not believe a levy on renewables is appropriate, we welcome clarity and the recognition that the cost base for biomass is different to intermittent renewables such as wind. This is an important distinction, as it means the EGL should not have an adverse impact on biomass generation.

Operational performance

Pellet Production

In North America, our Pellet Production business reported Adjusted EBITDA of £134 million, up 56% (2021: £86 million). This primarily reflects higher levels of production and sales, as well as revised transfer pricing in the second half of 2022.

Pellet production was 3.9 million tonnes (Mt), an increase of 27% (2021: 3.1Mt). This reflects a full 12 months' worth of production from Pinnacle's plants following the acquisition in April 2021. It also reflects increased capacity at Morehouse and LaSalle, both in Louisiana, following their expansion.

In addition, we commissioned three new plants during 2022: Demopolis in Alabama, plus Leola and Russellville (both in Arkansas). In September 2022, we acquired a 90 kiloton (kt) pellet plant in Princeton (British Columbia) from Princeton Standard Pellet Corporation. These four plants combined will add over 500kt of production when at full capacity.

In December 2022, the Group took a FID to develop two new pellet production projects. The first is a 450kt new-build pellet plant at Longview (Washington State) that includes the development of a new port facility at the location. The second is a 130kt expansion of our Aliceville site (Alabama). The combined investment in these projects is expected to be in the region of \$300 million, inclusive of the effect of inflation on construction costs.

The development of the new plant at Longview will provide the Group with access to a new fibre basket and we will also develop port infrastructure at the Port of Longview, adding a fifth port to the Group's North American supply chain, with the opportunity to consolidate additional capacity in the future.

The US Pacific North-West will be the Group's fourth major area of fibre supply alongside the US South; British Columbia; and Alberta. The new facility is expected to support further diversification of the Group's fibre sourcing production and export capacity, supporting sales into Asian and European markets, as well as own-use.

Taken together, existing operations and developments will give Drax a network of 18 pellet plants, with access to five deep-water ports on the East Coast and West Coast of North America.

In addition to our own-use of biomass, the Group also has contracts to supply 22Mt of biomass to Asian and European counterparties. These contracts extend into the 2030s, with total revenues of over \$4.1 billion.

Inflationary pressures, primarily in transportation and utilities in North America during 2022, contributed to an increase in our pellet production costs. Together with costs incurred in providing supply-side flexibility, production costs for the Pellet Production business are expected to be higher in 2023. These increased costs have been considered in an adjusted transfer price implemented in the second half of 2022.

We remain focused on opportunities to reduce the cost of biomass but will balance this against the need to optimise our supply chain to deliver value for the Group.

Generation

Adjusted EBITDA of £696 million from continuing operations was an increase of 87% on 2021 (£372 million, inclusive of £20 million from discontinued CCGT operations). This reflects a strong system support and renewable power generation performance across the portfolio, providing high levels of dispatchable renewable and low-carbon electricity and system support services, more than offsetting incrementally higher biomass costs and grid charges. In addition, there was no major planned outage undertaken in 2022, compared to one in 2021.

Against the backdrop of increasing concern around European energy security, we have optimised our biomass generation and logistics, buying back positions in the first half of the year and reprofiling to the second half. These actions provided additional security of supply to the UK at times of expected higher demand.

The process of moving generation between lower and higher demand periods has resulted in an incremental increase in achieved power prices – although this has not been without cost. We have incurred direct logistics costs associated with changing our delivery programme and managed an increased number of rail delivery cancellations in the UK due to driver availability.

Over the past 12 months, the cost of biomass in the European spot market has increased significantly, making it more challenging to procure and generate additional power with a margin. As a result of higher biomass prices, this created opportunities for the sale of biomass in addition to generation.

Most of the biomass we use is under long-term contracts. However, as we flagged during 2022, inflationary pressures in certain aspects of our supply chain have led to some cost increases and we expect this to continue in 2023.

Our pumped storage and hydro operations – Cruachan Pumped Storage Power Station and the Lanark and Galloway hydro assets – performed strongly helping to provide system stability. Together with the Daldowie energy from waste plant, Adjusted EBITDA was £171 million (2021: £68 million).

To move towards net zero, the UK needs to reduce its reliance on fossil fuel generation from unabated gas. It also needs to increase the amount of renewables, likely from intermittent wind and solar. In this context, the role of flexible, dispatchable renewables like biomass, pumped storage, and hydro has never been more important. They are dispatchable and dependent on neither the weather nor the price of gas. As such, we believe they represent a long-term part of the UK power mix.

This underpins our plans for a potential investment in the expansion of Cruachan Pumped Storage Power Station, and we continue to expect to take a FID in 2024.

In July 2022, at the request of the UK Government, Drax entered into an agreement with National Grid, to provide a "winter contingency" service to support the UK power system via its legacy coal units. The units will not generate commercially for the duration of the agreement and will only operate if, and when, instructed to do so by National Grid. To date National Grid has not instructed the units to run, other than for testing. The contract, which covers the period October 2022 to March 2023, provides a fixed fee for the provision of the units with National Grid remunerating Drax for costs, including the coal and carbon associated with any generation.

The winter contingency service agreement is not expected to interfere with our plans for developing BECCS at Drax Power Station. Site preparation works for BECCS are ongoing and will continue following formal closure of the coal units at the end of March 2023 on conclusion of the contract with National Grid.

In March 2022, the Group signed a development agreement with Engineering, Procurement and Construction (EPC) contractor Mytilineos for the development of three 299MW Open Cycle Gas Turbines (OCGTs). Each plant is expected to require investment in the region of £100 million across the period 2022 to 2024. This investment is underpinned by a 15-year Capacity Market agreement for delivery between 2024 and 2039. We are continuing to evaluate options for these projects, including their potential sale.

Customers

Our Customers business has performed well in 2022 with Adjusted EBITDA of £26 million (2021: £6 million). The performance is an improvement on 2021, when Covid-19 had an impact – principally in the area of the business working with SME customers.

Over the past two years, we have restructured the Customers business. This has included streamlining operations, with the closure of offices in Oxford and Cardiff, and rebranding the Haven Power Industrial & Commercial (I&C) business to Drax Energy Solutions. These changes will

support the development of our core I&C supply business, which has performed well with growth in the contracted sales position to high-quality customers.

We see an important role in supporting the decarbonisation of 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 carbon removals.

Our Customers business has seen some increase in bad debt, reflecting the impacts of higher prices. We have robust processes in place to manage this.

Strategy

Our strategy 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. These pillars are to be a global leader in sustainable biomass pellets; to be a global leader in carbon removals; and to be a UK leader in dispatchable, renewable power.

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.

To support this expected growth in demand for biomass products, Drax is targeting 8Mt of pellet production capacity by 2030. This will require the development of over 3Mt of new biomass pellet production capacity to supplement existing capacity and developments. We are developing a pipeline of organic projects, principally focused on North America, which includes the recently announced Longview project. We will also look at other opportunities where appropriate.

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 20 years of experience in biomass operations. The Group's innovation in coal-to-biomass engineering, together with the development of a leading position in carbon removals, 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 under long-term contracts.

A global leader in carbon removals

BECCS – UK

We continue to develop options for BECCS. We plan to transform Drax Power Station, through the addition of post combustion carbon capture to two of the existing biomass units, using sustainable biomass and technology from Drax's technology partner, Mitsubishi Heavy Industries (MHI). Captured carbon dioxide (CO₂) will be transported and stored by the Group's partners in the East Coast Cluster. By 2030 the project aims to permanently remove 8Mt of CO₂ per annum. An investment decision could be taken in 2024, subject to the right investment framework.

In addition, Drax awaits the outcome of its bid into the "Track 1" Power BECCS submission process and publication of the Government's Biomass Strategy. Alongside MHI's technology, we are supporting other innovative options for carbon capture. For example, Drax is an equity shareholder in C-Capture Limited, which is developing a solvent technology that could be used for BECCS and other applications. We believe this could deliver significant long-term cost savings for future projects.

BECCS – North America

We want to capitalise on our belief in the global need for BECCS and the technical expertise gained from our Drax Power Station project. Our ambition is to deliver 4Mt of carbon removals each year from BECCS outside of the UK by 2030. Accordingly, we are developing models and locational preferences for global BECCS developments, with a primary focus on North America.

Opportunities under consideration include new-build BECCS power stations, as well as developing options for a pellet plant with carbon capture, and using BECCS as an exportable solution, for example in coal-to-biomass-to-BECCS on non-Drax assets.

Key considerations for these opportunities include proximity to sustainable biomass fibre, carbon capture and storage (CCS) infrastructure, regulatory support, commercial potential, and technology.

We are currently evaluating a range of potential financial models for these projects. These could include long-term Power Purchase Agreements (PPAs), long-term Carbon Dioxide Removal (CDR) offtake agreements, and government investment frameworks. In September 2022, we announced a Memorandum of Understanding (MoU) with Respira, which could see the largest volume of CDRs traded so far globally. Under the MoU, Respira could purchase up to 2Mt of CDRs over a five-year period from our North American BECCS projects.

The regulatory environment for BECCS in the US continued to develop in 2022, with the inclusion of BECCS as an eligible technology under the Department of Energy climate goals funding scheme and the increase in 45Q support to \$85 per tonne of CO₂ captured, under the Inflation Reduction Act (2022).

Furthermore, a recent National Renewable Energy Laboratory report highlights that, by 2035, the US could need around 100Mt of carbon removals from BECCS to offset remaining carbon emissions in the power sector. In addition, recent State level developments in Louisiana and California have both been supportive of the development of BECCS.

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

The illustrative mitigation pathways assessed by the IPCC use significant volumes of CDRs, including BECCS, as a tool for mitigating climate change. IPCC modelling shows that between 0.5 and 9.5 billion tonnes of CDRs, including BECCS, could be required annually by 2050 to reach global net zero. The UN-backed Principles for Responsible Investment estimate that the CDR market could be worth over a trillion dollars by 2050.

We believe there are significant growth opportunities linked to BECCS in North America. To progress these opportunities in 2023, the Group expects to invest in development expenditure in the region of £30 million with a view to progressing these opportunities to a FID. We expect to update on progress with these opportunities in 2023.

A UK leader in dispatchable, renewable generation

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

Long-term biomass generation and pumped storage hydro can provide these increasingly important services and we are developing an option for new pumped storage – the expansion of Cruachan Power Station – to provide an additional 600MW of dispatchable long-duration storage to the power system. A planning application was submitted in May 2022, and any investment remains subject to the right investment infrastructure and support.

The location, flexibility and range of services Cruachan can provide makes it strategically important to the UK power system. A FID could be taken in 2024 and the development operational by 2030. Any investment decision will depend on the right regulatory framework.

Biomass sustainability

Delivering positive outcomes for climate, nature and people are central to our plans. Ensuring that we only use biomass that is sourced sustainably is key to this ambition.

Biomass, when sustainably sourced, supports good forestry, is a renewable source of energy, and we believe represents an important part of both UK and international renewable energy policy.

Drax sources its biomass from well-established forestry markets mainly in the US and Canada, as well as Europe. The main output from these markets is sawlogs, which are processed for use in construction and manufacturing. When used in this way, these materials represent a source of long-term carbon storage and, when the forest regenerates or is replanted, the growing trees absorb carbon from the atmosphere.

Drax supports these forest economies by providing incremental secondary revenues to forest landowners through the purchase of material which is not otherwise merchantable to a sawmill and has limited alternative uses. These materials include bark, branches, low-grade wood and woody matter from forest management activities (thinning), in addition to purchasing sawmill residues. This reduces the risk of wildfire and the spread of disease, and allows for replanting of the forest. Where there would otherwise be no demand for these materials, they are sometimes burned at the roadside, as happens in British Columbia.

In the US South, the periodic thinning of a forest helps improve the size and quality of sawlogs when the trees reach maturity, the economic value of the timber produced and the carbon absorbed and stored, as well as forest health and biodiversity.

If forests were not thinned, the revenue from sawlogs would be reduced and landowners may consider other uses for their land, such as agricultural crops and livestock farming. The management of forestland to produce sawlogs ensures forests are growing vigorously and absorbing carbon, which means forests remain a carbon sink.

Forests in the areas where Drax sources material are subject to national and regional regulation and typically supported by, and independently monitored for compliance by, forest certification schemes. These include the Forestry Stewardship Council (FSC® C119787), the Sustainable Forestry Initiative (SFI), and the Programme for the Endorsement of Forest Certification® (PEFC) (PEFC/16-37-1769).

We supplement this regulation through our own Responsible Sourcing Policy and supply chain checks, with third-party verification under the Sustainable Biomass Program (SBP), in respect of woody biomass used at Drax Power Station.

Outlook

The Group is continuing to play an important role in supporting energy security of supply in the UK, using our supply chain and flexible, renewable generation portfolio to provide large volumes of reliable renewable power and system stability at a time of higher gas prices.

Our long-term focus remains on progressing our strategy and our ambition to become a carbon negative company by 2030, underpinned by the development of BECCS. The potential for the growth in carbon removals, the opportunity this could afford BECCS in the UK and our plans for North America is significant, and we expect to make further progress on these options during 2023.

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.

Will Gardiner

Chief Executive Officer

Financial Review

Adjusted EBITDA from continuing and discontinued operations	Adjusted operating profit from continuing operations	Total operating profit from continuing operations	Cash generated from operations
£731m (2021: £398m)	£469m (2021: £170m)	£146m (2021: £197m)	£320m (2021: £354m)
Adjusted basic earnings per share from continuing and discontinued operations	Total basic earnings per share from continuing and discontinued operations	Net debt to Adjusted EBITDA ratio	Total dividend per share
85.1 pence (2021: 26.5 pence)	21.3 pence (2021: 20.0 pence)	1.6 times (2021: 2.8 times)	21.0 pence (2021: 18.8 pence)

Introduction

Consolidated Adjusted EBITDA of £731 million (2021: £398 million) reflects a strong performance from all business units as we benefited from the integrated nature of our business model, against a backdrop of volatile macroeconomic conditions. Cash generated from operations of £320 million (2021: £354 million) is stated after cash collateral outflows of £407 million during the year, associated with forward sales of power (2021: inflows of £168 million). Excluding the impact of these cash collateral outflows, the underlying cash generated from operations grew significantly, reflecting the increase in Adjusted EBITDA.

Closing Net debt to Adjusted EBITDA of 1.6 times (2021: 2.8 times) is significantly below the Group's long-term target of 2.0 times and reduces to 1.3 times if collateral posted of £234 million is adjusted for (2021: 3.2 times, collateral held of £173 million).

Total operating profit was £146 million (2021: £197 million). Total gross profit increased by £132 million to £1,023 million (2021: £891 million) but this was offset by increases in operating and administrative expenses, impairment losses on financial assets, increased depreciation charges, and impairment of non-current assets.

Capital expenditure of £255 million grew 7% compared to £238 million in 2021, with £127 million spent on major strategic initiatives, including £90 million on the development of our OCGT projects. The proposed full year dividend of 21.0 pence per share reflects a 12% increase on the previous year (2021: 18.8 pence per share) as the Group continues to pay a sustainable and growing dividend in line with its long-standing capital allocation policy.

		Year end 31 December	
		2022	2021
Financial performance (£m)	Total gross profit	1,023	891
	Operating and administrative expenses	(543)	(470)
	Impairment losses on financial assets	(48)	(16)
	Depreciation and amortisation	(239)	(199)
	Impairment of non-current assets	(42)	-
	Other	(6)	(10)
	Total operating profit	146	197
	Exceptional costs and certain remeasurements	323	(26)
	Adjusted operating profit	469	170
	Adjusted depreciation, amortisation, asset obsolescence charges and losses on disposal of fixed assets	261	208
	Adjusted EBITDA from continuing operations	731	378
Adjusted EBITDA from discontinued CCGT operations	-	20	
Adjusted EBITDA from continuing and discontinued operations	731	398	
Capital expenditure (£m)	Capital expenditure for the year	255	238
Cash and Net debt (£m unless otherwise stated)	Cash generated from operations	320	354
	Net debt*	1,206	1,108
	Net debt to Adjusted EBITDA (times)*	1.6	2.8
	Cash and committed facilities	698	549
Earnings (pence per share)	Adjusted basic	85.1	26.5
	Total basic	21.3	20.0
Distributions (pence per share)	Interim dividend	8.4	7.5
	Proposed final dividend	12.6	11.3
	Total dividend	21.0	18.8

We calculate Adjusted financial performance measures, which exclude income statement volatility from derivative financial instruments and the impact of exceptional items. This allows management and stakeholders to better compare the performance of the Group between the current and previous year without the effects of this volatility and one off or non-operational items. Adjusted financial performance measures are described more fully in the APMs glossary, with a reconciliation to their statutory equivalents in note 4.

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 2021 have been classified as discontinued operations in the Consolidated financial statements. References to financial performance measures throughout this document refer to continuing operations, unless otherwise stated. Tables in this financial review may not add down/across due to rounding.

*In previous years Net debt was presented on a 'before the impact of hedging' basis. However, we consider including the impact of foreign currency hedges associated with borrowings to better reflect the economic reality of the Group's indebtedness, i.e. to reflect the fixed GBP cash flows of foreign currency denominated debt. Thus, all references to 'Net debt' now refer to the position including the impact of hedging, unless otherwise stated. A reconciliation of and between these measures can be seen in note 4.

Financial performance

Adjusted EBITDA

Adjusted EBITDA of £731 million is an 84% increase (2021: £398 million). All business units delivered an increase in Adjusted EBITDA compared to the previous year.

Our Pellet Production business generated Adjusted EBITDA of £134 million (2021: £86 million). This reflects increased production volumes attributable to commissioning new sites and a full year of ownership of Pinnacle, an uplift in the Group's intercompany sales price between our Pellet Production and Generation businesses, and increased value achieved from sales of biomass in the spot market, partially offset by increased costs of production.

Our Pellet Production business produced 3.9Mt of pellets and shipped 4.7Mt (2021: 3.1Mt produced and 3.2Mt shipped). Of this volume 2.2Mt was sold to third parties (2021: 1.2Mt). Increased volume produced primarily reflects the full year impact of the acquired Pinnacle sites, which were added in April 2021 and additional volumes achieved from the commissioning of new sites.

Against the background of volatile commodity prices, the Pellet Production business contributed significant value to the Group by providing flexibility in biomass supply to Drax Power Station. During 2022 we saw cost increases and inflationary pressures, particularly in relation to utilities and transportation, and incurred additional costs reprofiling biomass cargoes, both own use and third-party, to support the provision of flexible generation to the UK power system. The value achieved in the Generation business exceeded the extra costs incurred.

We also incurred commissioning costs at new sites as we continue to invest to expand capacity to support future growth opportunities in North America.

Despite these cost increases, we continue to see opportunities for cost reduction through additional production at existing plants, driving efficiencies in production and logistics, and implementing new technologies and innovation.

Our Generation business contributed £696 million of Adjusted EBITDA, all from continuing operations (2021: £372 million, inclusive of £20 million from discontinued CCGT operations). Reprofiling of generation during the year allowed Drax Power Station to support security of supply and maximise generation during the winter months, based on the needs of the UK power system.

This optimisation was underpinned by strong operational performance, which effectively mitigated the increased risk of an unplanned outage during periods of high power prices. In line with our hedging policy, we managed this increased risk by retaining a proportion of generating capacity unhedged.

The Group's hydro and pumped storage assets continued to supply renewable electricity and essential services to the UK power system and, inclusive of the results of the Daldowie energy from waste plant, contributed £171 million of Adjusted EBITDA in 2022 (2021: £68 million). This increase was achieved through higher hedged power prices, increased rainfall in 2022 against a particularly low year in 2021, and increased provision of critical services to the system operator in support of system stability. This result is net of a £6 million payment to the Voluntary Energy Redress Fund.

The extension to the availability of the coal units at Drax Power Station at the request of the UK Government, as discussed in the CEO's Review, delivered income during the final quarter of 2022.

The Customers business contributed £26 million of Adjusted EBITDA during 2022, a significant increase on the £6 million delivered in 2021. This reflects continued improvement from 2020, when the impact of Covid-19 resulted in a loss of £39 million. Volumes sold increased to 19.4TWh in 2022 (2021: 18.7TWh).

Our policy is to fully hedge power purchases for the duration of a sales contract at the point that the contract is signed, based on the customer's forecast consumption. During 2022, because of increased market prices and lower customer demand profiles, we benefited from the resale of forward hedged power back into the merchant market above the contracted rate. Most of this benefit arose in the first half of 2022.

The total bad debt charge for 2022, net of credits, was £48 million (2021: £16 million), an increase of £32 million. This increase reflects the impact of higher commodity prices, which feeds through to increased revenues and gross profit but also to increased gross trade receivables. Before the application of credits, the bad debt charge represents 1.4% of total revenue for the Customers business (2021: 1.4%).

The overall bad debt provision at 31 December 2022 of £61 million (representing 18% of the Group's gross trade receivables balance) compares to £47 million at 31 December 2021 (20% of the Group's gross trade receivables balance). The net trade receivables balance relating to the Customers segment at 31 December 2022 was £244 million (31 December 2021: £161 million).

The bad debt provision reflects forward-looking consideration of the potential impacts of UK Government support to customers and other macroeconomic conditions. The Energy Bill Relief Scheme, introduced by the UK Government, became effective from 1 October 2022. It provides financial support for non-domestic UK energy customers by implementing a cap on their energy tariff. This scheme ends in March 2023 and will be replaced by the Energy Bill Discount Scheme, which will continue to provide support for businesses via a discount on their tariff, as opposed to a cap.

Subsequent to 31 December 2022, following a strategic review the Group decided to exit the market for supplying gas to SME business customers, leading to the end of all gas sales by the Group. Having already ceased acquiring new gas customers, no renewal contracts will be offered after May 2023. We anticipate the portfolio will reduce by over 50% by the end of 2023 and be almost entirely gone by the end of 2024.

Innovation, capital projects, and other costs of £124 million (2021: £65 million) primarily reflects increased spending to support our growth ambitions and progress opportunities on major projects which have not reached the stage where costs can be capitalised (such as global

BECCS). Innovation and capital projects accounts for £12 million of this increase. The main components of the £47 million increase in other costs were insurance costs (£8 million), elimination of intra-group profits (£10 million) and additional variable pay charges (£7 million).

Total operating profit

Total operating profit from continuing operations decreased from £197 million in 2021 to £146 million in 2022. Within this is an increase in Total gross profit of £132 million to £1,023 million (2021: £891 million) and an increase in Total operating expenses of £73 million to £543 million (2021: £470 million) reflecting the factors discussed above in relation to Adjusted EBITDA.

The difference between Adjusted EBITDA and Total operating profit results from adjustments for a net loss on exceptional costs and certain remeasurements of £323 million (2021: a net gain of £26 million) and charges associated with fixed assets of £261 million (2021: £208 million). These factors are discussed further below.

The net loss from remeasurements on derivative contracts of £298 million (2021: a £49 million gain), reflects adverse movements in the valuation of gas and inflation contracts, offset by favourable movements in the valuation of our foreign exchange portfolio, as sterling weakened during 2022. The Group excludes these certain remeasurements from Adjusted results to present a clear and consistent review of the underlying performance, as described in note 4.

Exceptional costs for 2022 totalled £25 million (2021: £22 million). Of this charge, £19 million reflects the write down of previously capitalised costs in respect of a billing system where the Group has stopped development and where proceedings have been issued against the supplier to recover damages for misrepresentation and breach of contract. The Group no longer expects that any future economic benefit will be recovered as an ongoing intangible asset. In accordance with accounting standards, the previously capitalised balance has therefore been impaired. Following consideration with external professional advisers, the Group continues to believe this previously incurred expenditure will be recovered from the supplier, and there has been no change in this position during 2022. Accordingly, an associated contingent asset has been disclosed.

The remaining £6 million of the 2022 charge relates to previously capitalised Software as a Service costs, which were written off following a change in accounting policy effective 1 January 2022.

Depreciation and amortisation charges increased from £199 million in 2021 to £239 million in 2022. Of this increase, £13 million is attributable to the inclusion of Pinnacle for a full year in 2022, and £7 million to depreciation on new sites. The remainder is attributable to accelerated depreciation of certain pellet plant equipment in line with planned capital upgrades.

Adjusted impairments of non-current assets was £17 million (2021: £nil). Of this total charge £9 million relates to the impairment of the Group's fourth OCGT development opportunity, which is considered unlikely to be developed at the current time. The three projects that have already secured Capacity Market contracts remain in development, ready to meet their obligations when those contracts commence in 2024. The expected economic benefit to the Group continues to be attractive. A further £8 million relates to a partial impairment of the assets of the Daldowie energy from waste plant, due to a reduction in the forecast earnings over the remaining period of ownership to 2026, when the assets will be transferred back to Scottish Water after they triggered an option in the Private Finance Initiative agreement.

Profit after tax and earnings per share

Total net interest charges for 2022 of £68 million reduced in the year (2021: £75 million). The movement included a foreign exchange gain of £11 million (2021: £4 million loss) which resulted from the weakening of sterling during 2022, and the subsequent revaluation of intercompany loans denominated in foreign currencies. This reduction has been offset by an increase in monetisation fees related to the facility available to accelerate cash flows associated with trade receivables in the Customers business, as that facility has increased in size from £200 million to £400 million during 2022, as discussed in note 7.

The Total tax credit of £4 million includes a charge of £67 million on Adjusted results offset by a credit of £72 million on exceptional items and certain remeasurements, the latter predominantly driven by the tax impact of the £302 million of certain remeasurements discussed in note 4.

The effective tax rate applicable to the Group's Adjusted pre-tax profits of 17% (2021: 12%) is below the standard rate of corporation tax in the UK and includes the effect of tax rates in overseas jurisdictions. This rate is lower than the standard rate in the UK because of credits attributable to Patent Box and the super-deduction for qualifying plant and machinery, announced in March 2021 and running until March 2023. The increase in effective tax rate from 2021 has been driven by growth in UK-based profits, diluting the impact of the Patent Box and super-deduction credits.

The exceptional deferred tax credit of £10 million in 2022 (2021: £49 million charge) relates to the corporation tax rate changes announced by the UK Government in 2021, being a planned increase from 19% to 25% in April 2023.

In November 2022 the UK Government announced the Electricity Generator Levy. The levy is not deductible for corporation tax purposes and therefore will result in an increase in the Group's effective tax rate for 2023. Payment of the levy will be in line with the Group's arrangements for corporation tax payments, once substantively enacted.

Adjusted and Total profit after tax attributable to the discontinued CCGT operations was £nil during 2022 (2021: £17 million and £24 million respectively). The above factors all contributed to Adjusted basic earnings per share of 85.1 pence (2021: 26.5 pence) and a Total basic earnings per share figure of 21.3 pence (2021: 20.0 pence).

Capital expenditure

Capital expenditure in the year was £255 million (2021: £238 million). £127 million was on strategic initiatives, including £90 million in respect of development of our OCGT projects and £19 million on UK BECCS, £79 million on maintenance capital, £27 million on enhancing existing assets and £22 million on Health, safety, environment and IT.

The OCGT projects are progressing in line with the requirement to be operational at the beginning of their Capacity Market contracts in 2024. Delivery of our UK BECCS project is subject to a final investment decision, which is expected in 2024 and dependent on the right regulatory and investment framework. Commissioning of certain pellet assets in North America progressed more slowly than anticipated during 2022. Our capital projects and operations teams are focused on achieving full production capacity as soon as possible during 2023.

In September 2022 the Pellet Production business completed the acquisition of a 90kt pellet plant in Princeton, British Columbia, for consideration of C\$11.5 million. The plant will contribute to the Group's strategy to increase pellet production to 8Mt per year by 2030.

Cash and Net debt

Cash generated from operations

Operating cash flows before movements in working capital and defined benefit pension obligations for the period was £734 million (2021: £337 million), primarily reflecting the increase in Adjusted EBITDA.

Cash generated from operations in 2022, inclusive of movements in working capital, of £320 million compares to £354 million in 2021. The total outflow of £403 million on working capital includes an outflow during the year of £407 million relating to cash collateral. This has been driven by increased use of exchange traded contracts during the year, with increased commodity prices meaning that counterparty credit limits had to be managed carefully. Exchange traded contracts typically require an up-front margin payment and cash collateralisation of mark-to-market positions. Excluding the cash flows in relation to collateral during the year there was a small working capital inflow.

At 31 December 2022, the Group had posted £234 million of cash collateral (2021: held £173 million of cash collateral). When the associated trades mature in 2023 and 2024 there will be a corresponding working capital inflow, however market movements and new trades will continue to determine overall cash collateral requirements in the future.

There was a net outflow in relation to trade and other receivables during the year. Excluding movements in working capital facilities and cash collateral postings, trade receivables increased by £551 million. This was driven primarily by higher billing in the Customers business, reflecting increased commodity prices. The facility available to accelerate cash flows associated with trade receivables in the Customers business, on a non-recourse basis, was extended during 2022 from £200 million to £400 million. The extended facility was fully utilised during the year, resulting in a cash inflow of £200 million and a corresponding reduction in receivables. This reduction was offset by an outflow of £234 million on collateral posted, as described above, which is recorded within receivables.

The overall working capital inflow of £317 million from payables in 2022 was predominantly driven by increases in the Customers business, reflecting higher commodity prices on power and gas purchases. This was partially offset by the change from holding net cash collateral of £173 million at the beginning of 2022 to having posted £234 million at the end of the year, with the gross movement on collateral at the beginning of 2022 showing as a reduction in payables.

A £114 million inflow from renewable certificate assets was driven by the monetisation of ROCs using available facilities, partially offset by the increase in ROC assets attributable to generation in the year.

Cash outflows on inventories totalled £133 million during 2022, resulting in part from the reprofiling of generation from summer to winter, meaning more cash was held in inventory at 31 December 2022.

Net cash movements

Capital expenditure cash flows for 2022 totalled £175 million (2021: £209 million). Cash flows associated with capital expenditure on the three OCGT projects are significantly lower than the accounting additions recorded because of the use of letters of credit to extend payment terms. The amount outstanding under these arrangements at 31 December 2022 was £65 million (31 December 2021: £nil).

Corporation tax payments totalled £39 million in 2022 (2021: £12 million receipts), reflecting higher UK payments on account in respect of the increased profits chargeable to corporation tax.

Net debt and Net debt to Adjusted EBITDA

	Year ended 31 December	
	2022 £m	2021 £m
Cash and cash equivalents	238	317
Current borrowings	(44)	(41)
Non-current borrowings	(1,397)	(1,320)
Net debt before impact of hedging instruments	(1,203)	(1,044)
Impact of hedging instruments	(2)	(64)
Net debt	(1,206)	(1,108)
Impact of collateral	234	(173)
Net debt excluding collateral	(972)	(1,281)
Adjusted EBITDA	731	398
Net debt to Adjusted EBITDA (times)	1.6	2.8
Net debt excluding collateral to Adjusted EBITDA (times)	1.3	3.2

The Net debt to Adjusted EBITDA ratio is significantly below our target of 2.0 times at 31 December 2022, and reduces to 1.3 times when adjusted for cash collateral posted.

In previous years, Net debt was presented on the 'before impact of hedging' basis. However, we consider including the impact of foreign currency hedges associated with borrowings to better reflect the economic reality of the Group's indebtedness position. Thus, all references to 'Net debt' now refer to the position including the impact of hedging, unless otherwise stated. The impact of this change on Net debt at 31 December 2022 is to increase it by £2 million.

Liquidity

	Year ended 31 December	
	2022	2021
Cash and cash equivalents	238	317
RCF available but not utilised	260	231
Short-term liquidity facility	200	—
Total cash and committed facilities	698	549

Cash and committed facilities at 31 December 2022 of £698 million (2021: £549 million) provide substantial headroom over our short-term liquidity requirements. In addition to cash-on-hand, the Group has access to a £300 million ESG Revolving Credit Facility (RCF) and a C\$10 million RCF, to manage low points in the cash cycle. The £300 million ESG RCF expires in January 2025, with a one-year extension clause. No cash has been drawn under this RCF since its inception over three years ago, but £46 million was drawn for letters of credit at 31 December 2022 (31 December 2021: £74 million drawn for letters of credit).

In December 2022 the Group agreed a new 12-month £200 million liquidity facility with its existing lending group. This facility provides an additional source of liquidity to the Group's £300 million RCF. The new facility was temporarily drawn during December, to support optimisation of generation and associated cash collateral postings, but was undrawn at 31 December 2022. Separately, £44 million was drawn under an uncommitted facility during the second half of 2022 and remained outstanding at 31 December 2022 also to support optimisation of generation during winter (31 December 2021: £nil).

During the first half of 2022, the Group utilised existing cash reserves to repay its index-linked term loan facility, with a total cash outflow of £41 million. Our liquidity position remains robust, having put additional measures in place during the year in response to the volatility in commodity markets. All three of our ratings agencies evaluated our outlook as stable during the year.

Derivatives

We use derivatives to hedge commodity price and foreign exchange risk. In 2022 there was significant volatility in these markets, leading to a net £302 million charge related to certain remeasurements, which we continue to adjust for when presenting Adjusted results. Increases in the value of foreign exchange related derivative contracts were more than offset by increases in liabilities in relation to gas and inflation trades.

Rebasing is a process whereby the rates agreed in a contract 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. At the end of 2022, outstanding cash received from rebased cross-currency swap trades was £43 million (2021: £48 million).

Distributions

In line with our long-standing capital allocation policy, the Group is committed to paying a growing and sustainable dividend. On 25 July 2022, the Board approved an interim dividend for the six months ended 30 June 2022 of 8.4 pence per share. This was paid on 7 October 2022 with a record date of 26 August 2022.

At the Annual General Meeting on 26 April 2023, the Board will recommend to shareholders a resolution to pay a final dividend for the year ended 31 December 2022 of 12.6 pence per share. If approved, the final dividend will be paid on 19 May 2023, with a record date of 21 April 2023.

Taken together with the interim dividend this would give a total dividend for 2022 of 21.0 pence per share (2021: 18.8 pence per share), representing a 12% increase, in line with our policy of paying a sustainable and growing dividend.

Our capital allocation policy is unchanged and incorporates maintaining our credit rating; investing in the core business; paying a sustainable and growing dividend and then returning surplus capital beyond investment requirements.

Going concern and viability

The Group's financial performance in 2022 was strong, delivering improved profitability and a decrease in the Net debt to Adjusted EBITDA ratio. Our financing platform is stable, with most of our principal debt repayments due from 2025 onwards and significant liquidity headroom available from both committed and uncommitted facilities.

The Group refreshes its business plan and forecasts throughout the year, including scenario modelling designed to test the resilience of the Group's financial position and performance to several possible downside scenarios. Based on its review of the latest forecast, the Board is satisfied that the Group has sufficient headroom in its cash and committed facilities, combined with available mitigating actions, to be able to meet its liabilities as they fall due across a range of scenarios.

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

Other information

Non-Controlling Interest purchase

On 30 September 2022, the Group completed the acquisition of the remaining 10% minority interest in Alabama Pellets LLC for cash consideration of \$22 million. Alabama Pellets LLC contained the two pellet plants at Aliceville and Demopolis, prior to their reorganisation into separate entities. This acquisition provided the Group with economic rights over a further 66kt of biomass production capacity.

Pension plan merger

Historically, the Group has operated two defined benefit pension schemes, the Drax ESPS scheme and the Drax 2019 scheme. On 31 January 2023 these two schemes were merged. The impact of this will be to reduce levels of administrative expenses and time taken to manage the two schemes, as well as providing the ability to pool the assets of the schemes when making investment decisions. There will be no change to members' benefits as a result of the merger.

Andy Skelton

CFO

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted International Accounting Standards and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), set out in FRS 101 Reduced Disclosure Framework. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 22 February 2023 and is signed on its behalf by:

Will Gardiner
Chief Executive Officer

Consolidated income statement

	Notes	Year ended 31 December 2022			Year ended 31 December 2021		
		Adjusted results ⁽¹⁾ £m	Exceptional items and certain remeasurements £m	Total results £m	Adjusted results ⁽¹⁾ £m	Exceptional items and certain remeasurements £m	Total results £m
Revenue	2	8,159.2	(383.9)	7,775.3	5,173.9	(85.9)	5,088.0
Cost of sales		(6,837.7)	85.7	(6,752.0)	(4,331.1)	134.3	(4,196.8)
Gross profit		1,321.5	(298.2)	1,023.3	842.8	48.4	891.2
Operating and administrative expenses		(542.8)	–	(542.8)	(448.4)	(21.5)	(469.9)
Impairment losses on financial assets		(48.0)	–	(48.0)	(16.3)	–	(16.3)
Depreciation		(208.0)	–	(208.0)	(164.5)	(0.5)	(165.0)
Amortisation		(31.4)	–	(31.4)	(34.4)	–	(34.4)
Impairment of non-current assets		(16.6)	(24.9)	(41.5)	–	–	–
Other losses		(5.8)	–	(5.8)	(9.4)	–	(9.4)
Income from associates		0.5	–	0.5	0.3	–	0.3
Operating profit/(loss)		469.4	(323.1)	146.3	170.1	26.4	196.5
Foreign exchange gains/(losses)		14.8	(3.8)	11.0	0.9	(5.1)	(4.2)
Interest payable and similar charges		(83.1)	(0.4)	(83.5)	(70.9)	(0.3)	(71.2)
Interest receivable		4.3	–	4.3	0.4	–	0.4
Profit/(loss) before tax		405.4	(327.3)	78.1	100.5	21.0	121.5
Tax:							

– Before effect of changes in tax rate	3	(64.5)	62.2	(2.3)	(11.7)	(5.7)	(17.4)
– Effect of changes in tax rate	3	(2.9)	9.6	6.7	(0.4)	(48.6)	(49.0)
Total tax (charge)/credit		(67.4)	71.8	4.4	(12.1)	(54.3)	(66.4)
Net profit/(loss) from continuing operations ⁽²⁾		338.0	(255.5)	82.5	88.4	(33.3)	55.1
Net profit from discontinued operations		–	–	–	16.7	7.4	24.1
Profit/(loss) for the period		338.0	(255.5)	82.5	105.1	(25.9)	79.2
Attributable to:							
Owners of the Parent Company		340.6	(255.5)	85.1	105.6	(25.9)	79.7
Non-controlling interests		(2.6)	–	(2.6)	(0.5)	–	(0.5)
Earnings per share:		Pence		Pence	Pence		Pence
For net profit from continuing operations attributable to the owners of the Parent Company							
– Basic	5	85.1		21.3	22.3		13.9
– Diluted	5	82.2		20.5	21.5		13.5
For net profit for the period attributable to the owners of the Parent Company							
– Basic	5	85.1		21.3	26.5		20.0
– Diluted	5	82.2		20.5	25.6		19.3

Notes:

(1) Adjusted results are stated after adjusting for exceptional items (including impairment of non-current assets, acquisition costs and restructuring costs), and certain remeasurements. See note 4 for further details.

(2) The 2022 Adjusted net profit from continuing operations of £338.0 million (2021: £88.4 million) is inclusive of £(2.6) million (2021: £(0.5) million) attributable to non-controlling interests.

Consolidated statement of comprehensive income

	Notes	Year ended 31 December	
		2022 £m	2021 £m
Profit for the period		82.5	79.2
Items that will not be subsequently reclassified to profit or loss:			
Remeasurement of defined benefit pension scheme		(24.4)	30.7
Deferred tax on remeasurement of defined benefit pension scheme	3	6.1	(7.2)
Deferred tax on share-based payments	3	–	5.4
Net fair value (losses)/gains on cost of hedging		(19.0)	17.3
Deferred tax on cost of hedging	3	2.2	(7.7)
Net fair value gains on cash flow hedges		205.5	1.1
Deferred tax on cash flow hedges	3	(49.5)	3.6
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations attributable to the owner of the Parent Company		42.4	8.7
Exchange differences on translation of foreign operations attributable to non-controlling interests		3.4	(2.6)
Net fair value losses on cash flow hedges		(593.1)	(182.0)
Net gains on cash flow hedges reclassified to profit or loss		432.9	12.6
Deferred tax on cash flow hedges	3	43.9	37.6
Other comprehensive income/(expense)		50.4	(82.5)
Total comprehensive income/(expense) for the year		132.9	(3.3)
Attributable to:			
Owners of the Parent Company		132.1	(0.2)

Non-controlling interests	0.8	(3.1)
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Consolidated balance sheet

	As at 31 December	
	2022 £m	2021 £m
	Notes	
Assets		
Non-current assets		
Goodwill	424.2	416.3
Intangible assets	142.3	188.6
Property, plant and equipment	2,388.0	2,310.7
Right-of-use assets	138.3	119.8
Investments	6.9	5.5
Retirement benefit surplus	38.5	48.9
Deferred tax assets	3 37.3	28.7
Derivative financial instruments	421.7	357.5
	3,597.2	3,476.0
Current assets		
Inventories	348.1	199.1
Renewable certificate assets	187.8	301.4
Trade and other receivables and contract assets	1,227.0	641.9
Derivative financial instruments	796.3	888.6
Cash and cash equivalents	238.0	317.4
	2,797.2	2,348.4
Liabilities		
Current liabilities		
Trade and other payables and contract liabilities	(1,527.9)	(1,211.1)
Lease liabilities	(22.7)	(15.1)
Current tax liabilities	(23.3)	(3.4)
Borrowings	(44.3)	(40.6)
Derivative financial instruments	(989.4)	(962.7)
	(2,607.6)	(2,232.9)
Net current assets	189.6	115.5
Non-current liabilities		
Borrowings	(1,396.6)	(1,320.4)
Lease liabilities	(130.4)	(110.8)
Provisions	(58.6)	(86.4)
Deferred tax liabilities	3 (141.6)	(225.3)
Derivative financial instruments	(735.4)	(541.8)
	(2,462.6)	(2,284.7)
Net assets	1,324.2	1,306.8
Shareholders' equity		
Issued equity	47.9	47.7
Share premium	433.3	432.2
Hedge reserve	(152.0)	(177.4)
Cost of hedging reserve	40.1	78.5
Other reserves	747.7	706.0
Retained profits	193.8	198.3
Total equity attributable to the owners of the Parent Company	1,310.8	1,285.3
Non-controlling interests	13.4	21.5
Total shareholders' equity	1,324.2	1,306.8

The Consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of Directors on 22 February 2023.

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
At 1 January 2021	47.5	430.0	(76.0)	87.2	697.3	153.4	–	1,339.4
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)
Total comprehensive (expense)/income for the year	–	–	(127.1)	9.6	8.7	108.6	(3.1)	(3.3)
Equity dividends paid (note 6)	–	–	–	–	–	(70.9)	–	(70.9)
Issue of share capital	0.2	2.2	–	–	–	–	–	2.4
Acquisition of subsidiary with non-controlling interests	–	–	–	–	–	–	39.6	39.6
Contributions from non-controlling interests	–	–	–	–	–	–	6.5	6.5
Acquisition of non-controlling interests without a change in control	–	–	–	–	–	(0.2)	(21.5)	(21.7)
Total transactions with the owners in their capacity as owner	0.2	2.2	–	–	–	(71.1)	24.6	(44.1)
Movements on cash flow hedges released directly from equity	–	–	33.2	–	–	–	–	33.2
Deferred tax on cash flow hedges released directly from equity (note 3)	–	–	(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 (note 3)	–	–	–	5.4	–	–	–	5.4
Movement in equity associated with share-based payments	–	–	–	–	–	7.4	–	7.4
At 1 January 2022	47.7	432.2	(177.4)	78.5	706.0	198.3	21.5	1,306.8
Profit/(loss) for the year	–	–	–	–	–	85.1	(2.6)	82.5
Other comprehensive income/(expense)	–	–	39.7	(16.8)	42.4	(18.3)	3.4	50.4
Total comprehensive income/(expense) for the year	–	–	39.7	(16.8)	42.4	66.8	0.8	132.9
Equity dividends paid (note 6)	–	–	–	–	–	(78.9)	–	(78.9)
Issue of share capital	0.2	1.1	–	–	–	–	–	1.3
Contributions from non-controlling interests	–	–	–	–	–	–	1.3	1.3
Acquisition of non-controlling interests without a change in control	–	–	–	–	(0.7)	(9.3)	(10.2)	(20.2)
Total transactions with the owners in their capacity as owner	0.2	1.1	–	–	(0.7)	(88.2)	(8.9)	(96.5)
Movements on cash flow hedges released directly from equity	–	–	(19.1)	–	–	–	–	(19.1)
Deferred tax on cash flow hedges released directly from equity (note 3)	–	–	4.8	–	–	–	–	4.8
Movements on cost of hedging released directly from equity	–	–	–	(28.8)	–	–	–	(28.8)
Deferred tax on cost of hedging released directly from equity (note 3)	–	–	–	7.2	–	–	–	7.2
Movement in equity associated with share-based payments	–	–	–	–	–	9.5	–	9.5
Deferred tax on share-based payments released directly from equity (note 3)	–	–	–	–	–	7.4	–	7.4
At 31 December 2022	47.9	433.3	(152.0)	40.1	747.7	193.8	13.4	1,324.2

Consolidated cash flow statement

	Notes	Year ended 31 December	
		2022 £m	2021 £m
Cash generated from operations	7	320.3	354.5
Income taxes (paid)/refunded		(38.7)	12.4
Interest paid		(77.2)	(60.5)
Interest received		3.3	0.1
Net cash from operating activities		207.7	306.5
Made up of:			
Net cash from continuing operating activities		207.7	322.9
Net cash from discontinued operating activities		–	(16.4)
Cash flows from investing activities			
Purchases of property, plant and equipment		(163.9)	(191.0)
Purchases of intangible assets		(10.8)	(18.7)
Proceeds from the sale of property, plant and equipment		1.6	0.7
Acquisition of businesses net of cash acquired		(7.6)	(203.5)
Proceeds on disposal of subsidiary net of cash disposed and costs of disposal		–	183.7
Net cash used in investing activities		(180.7)	(228.8)
Made up of:			
Net cash used in continuing investing activities		(180.7)	(412.5)
Net cash used in discontinued investing activities		–	183.7
Cash flows from financing activities			
Equity dividends paid	6	(78.9)	(70.9)
Contributions from non-controlling interests		1.3	6.5
Acquisition of non-controlling interests without a change in control		(19.6)	(21.5)
Proceeds from issue of share capital		1.2	2.4
Draw down of facilities		188.5	302.6
Repayment of facilities		(186.4)	(256.3)
Payment of principal of lease liabilities		(18.0)	(13.2)
Net cash absorbed by financing activities		(111.9)	(50.4)
Made up of:			
Net cash absorbed by continuing financing activities		(111.9)	(50.4)
Net cash absorbed by discontinued financing activities		–	–
Net (decrease)/increase in cash and cash equivalents		(84.9)	27.3
Cash and cash equivalents at 1 January		317.4	289.8
Effect of changes in foreign exchange rates		5.5	0.3
Cash and cash equivalents at 31 December		238.0	317.4

Non-cash transactions recognised in the Consolidated income statement are reconciled to operating cash flow as part of the disclosure provided in note 7. Further details of the cash flow impact of exceptional items can be found in note 4.

1 Segmental reporting

Reportable segments are presented in a manner consistent with internal reporting provided to the chief operating decision maker which is considered to be the Board. The Group is organised into three businesses, with a dedicated management team for each. Central corporate and commercial functions provide certain specialist and shared services, including optimisation of the Group's positions. The Board reviews the performance of each of these businesses separately, and each represents a reportable segment:

Pellet Production: production and subsequent sale of biomass pellets at the Group's processing facilities in North America;

Generation: power generation activities in the UK; and

Customers: supply of electricity and gas to non-domestic customers in the UK.

Operating costs are allocated to the reportable segments to the extent they are directly attributable to the activities of that segment. Central corporate function costs that are not directly attributable to the activities of a reportable segment are included within Innovation, capital projects and other costs. Innovation, capital projects and other costs is not a reportable segment as it does not earn revenues.

When defining gross profit within the Consolidated financial statements, the Group follows the principal trading considerations applied by its Pellet Production, Generation and Customers businesses when making a sale. In respect of the Pellet Production business, this reflects the direct costs

of production, being fibre, fuel and drying costs, direct freight and port costs, or third-party pellet purchases. In respect of Generation, this reflects the direct costs of the commodities to generate the power 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.

Accordingly, cost of sales excludes indirect overheads and staff costs (presented within operating and administrative expenses), and depreciation (presented separately on the face of the Consolidated income statement).

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 higher generation. Conversely, demand is typically lower in the summer months (April to September) when temperatures are milder, and therefore prices are generally lower.

This trend is experienced by all of the Group's UK-based businesses, as they operate within the UK electricity and gas markets. It is most notable within the Generation business due to its scale and the flexible operation of its thermal generation plant.

The Pellet Production business incurs certain costs that are higher in winter months due to the impact of weather conditions, such as fibre drying costs and heating costs. Production volumes and margins are typically higher in the summer months. The business is protected from demand fluctuations 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 2022. Revenue for each segment is split between sales to external parties and inter-segment sales. Inter-segment sales are eliminated in the intra-group eliminations column along with any adjustment required for unrealised profits.

The financial information in these tables is comprised solely of results from continuing operations. There were no amounts attributable to discontinued operations in the year ended 31 December 2022. Adjusted EBITDA by reportable segment is presented in note 4.

	Year ended 31 December 2022							
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m
Revenue								
External sales	377.2	3,638.9	4,143.1	–	–	8,159.2	(383.9)	7,775.3
Inter-segment sales	425.4	3,719.3	–	–	(4,144.7)	–	–	–
Total revenue	802.6	7,358.2	4,143.1	–	(4,144.7)	8,159.2	(383.9)	7,775.3
Cost of sales	(501.9)	(6,479.2)	(3,985.0)	–	4,128.4	(6,837.7)	85.7	(6,752.0)
Segment gross profit/(loss)	300.7	879.0	158.1	–	(16.3)	1,321.5	(298.2)	1,023.3
Operating and administrative expenses	(167.3)	(183.5)	(84.3)	(113.6)	5.9	(542.8)	–	(542.8)
Impairment losses on financial assets	–	–	(48.0)	–	–	(48.0)	–	(48.0)
Depreciation and amortisation	(119.9)	(98.6)	(25.5)	(3.3)	7.9	(239.4)	–	(239.4)
Impairment of non-current assets	–	(16.6)	–	–	–	(16.6)	(24.9)	(41.5)
Other losses	(2.0)	(3.8)	–	–	–	(5.8)	–	(5.8)
Income from associates	0.5	–	–	–	–	0.5	–	0.5
Operating profit/(loss)	12.0	576.5	0.3	(116.9)	(2.5)	469.4	(323.1)	146.3

Further information on the main revenue streams of each segment is presented in note 2.

The impact of exceptional items and certain remeasurements is set out in note 4.

The following is an analysis of the Group's performance by reportable segment for the year ended 31 December 2021:

	Year ended 31 December 2021							
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m
Revenue								
External sales	163.1	2,651.2	2,359.6	–	–	5,173.9	(85.9)	5,088.0
Inter-segment sales	286.7	2,031.1	–	–	(2,317.8)	–	–	–
Total revenue	449.8	4,682.3	2,359.6	–	(2,317.8)	5,173.9	(85.9)	5,088.0
Cost of sales	(267.0)	(4,131.9)	(2,255.9)	–	2,323.7	(4,331.1)	134.3	(4,196.8)
Segment gross profit	182.8	550.4	103.7	–	5.9	842.8	48.4	891.2
Operating and administrative expenses	(96.9)	(198.9)	(81.7)	(70.9)	–	(448.4)	(21.5)	(469.9)
Impairment losses on financial assets	–	–	(16.3)	–	–	(16.3)	–	(16.3)
Depreciation and amortisation	(61.4)	(103.4)	(30.5)	(3.6)	–	(198.9)	(0.5)	(199.4)
Other losses	(1.0)	(7.8)	(0.4)	(0.2)	–	(9.4)	–	(9.4)

Income from associates	0.3	–	–	–	–	0.3	–	0.3
Operating profit/(loss)	23.8	240.3	(25.2)	(74.7)	5.9	170.1	26.4	196.5

Adjusted operating profit from discontinued operations for the year ended 31 December 2021 was £20.3 million. This amount was attributable entirely to the Generation segment.

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

Capital expenditure by reportable segment

Assets and working capital are monitored on a consolidated basis; however, capital expenditure is monitored by reportable segment.

	Year ended 31 December			
	Additions to intangible assets		Additions to property, plant and equipment	
	2022 £m	2021 £m	2022 £m	2021 £m
Pellet Production	–	8.2	66.0	108.6
Generation	2.8	3.4	171.5	103.2
Customers	2.3	8.9	0.3	0.1
Innovation, capital projects and other	4.3	1.8	8.2	3.6
Total	9.4	22.3	246.0	215.5

Total cash outflows in relation to capital expenditure during the year for continuing operations were £174.7 million (2021: £209.7 million). In 2022, the cash outflow in relation to property, plant and equipment is lower than the cost capitalised in property, plant and equipment predominantly as a result of £64.6 million (2021: £nil) of deferred letters of credits issued in relation to the construction of the OCGT assets.

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 2022, the Pellet Production segment sold biomass pellets and provided associated services with a total value of £425.4 million (2021: £286.7 million) to the Generation segment and the Generation segment sold electricity, gas and renewable energy certificates with a total value of £3,719.3 million (2021: £2,031.1 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, in either the current or previous financial year, that represented 10% or more of total revenue.

Geographical analysis of revenue and non-current assets

The geographic information analyses the Group's revenue and non-current assets by the entity's country of domicile. In presenting the geographic information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

The Group's revenue and non-current assets for the Generation and Customers segments are all UK based. The Group's Pellet Production segment has third-party pellet sales to both the UK and other locations around the world. The Pellet Production segment's non-current assets are located in North America, in both Canada and the US.

	Revenue from continuing operations (based on location of customer)	
	31 December 2022 £m	31 December 2021 £m
	North America (Canada and US)	10.6
Europe	27.6	39.1
Asia	275.4	93.0
UK	7,461.7	4,944.4
Total	7,775.3	5,088.0

	Non-current assets ⁽¹⁾ (based on asset's location)	
	31 December 2022 £m	31 December 2021 £m
	Canada	542.6
US	502.6	473.8
UK	2,054.5	2,053.5
Total	3,099.7	3,040.9

(1) Non-current assets comprise goodwill, intangible assets, property, plant and equipment, right-of-use assets and investments.

2 Revenue

The majority of the Group's revenue is within the scope of IFRS 15. The other sources of the Group's revenue outside the scope of IFRS 15 comprise certain remeasurements, amounts reclassified to revenue for gains and losses on UK CPI inflation swaps and income from the Government's Energy Bill Relief Scheme (EBRS). See note 4 for further details of certain remeasurements.

	Year ended 31 December 2022			Year ended 31 December 2021		
	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m
Revenue from contracts with customers	7,882.5	–	7,882.5	5,170.3	–	5,170.3
Other revenue	276.7	(383.9)	(107.2)	3.6	(85.9)	(82.3)
Total revenue	8,159.2	(383.9)	7,775.3	5,173.9	(85.9)	5,088.0

Accounting policy

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

A summary of the Group's principal revenue streams, along with the nature and timing of performance obligations, payment terms, methods of recognising revenue, and any estimation uncertainties, is given in the table below. Further details on significant elements of revenue, principally how the Contract for Difference (CfD) and Renewable Obligation (RO) schemes operate and the related accounting, are provided below the table.

Revenue stream (Segment)	Nature and timing of performance obligations, including significant payment terms	Method of recognising revenue, including any estimation uncertainties
Pellet sales (Pellet Production)	<p>The Group produces biomass pellets which are sold to external customers. Customers generally obtain control of the pellets at the point the pellets are loaded onto the shipping vessel for freight on board (FOB) sales.</p> <p>Where freight is also arranged for the customer, these sales are known as Cost, insurance and freight (CIF) sales. The freight component is considered a separate performance obligation.</p> <p>Invoices are raised in line with contractual terms and are usually payable within four-10 days.</p>	<p>Revenue is recognised at the point that the pellets are loaded onto the shipping vessel. The amount of revenue recognised is based on the contracted price of the pellets.</p> <p>For CIF sales, revenue for the freight portion is recognised over the period the vessel sails.</p>
Electricity sales (Generation)	<p>The Group's Generation business has contracts for wholesale electricity sales. 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. This is measured based on energy supplied to the customer with the amount billed based on the units of electricity supplied.</p> <p>Invoices are raised in line with the Grid Trade Master Agreement (GTMA) contractual terms and are payable on the fifth banking day following the date of invoice.</p>	<p>Revenues are measured based upon metered output at rates specified under contract terms or prevailing market rates as applicable. These are recognised under the output method, whereby revenue is recognised based on the value transferred to the customer.</p>
Renewable certificate sales (Generation)	<p>Renewable Obligation Certificates (ROCs) and Renewable Energy Guarantees of Origins (REGOs) are sold to counterparties at a point in time.</p> <p>ROCs sold to optimise working capital are invoiced in line with contractual terms and are usually payable within two days.</p> <p>Invoices for ROC sales to third parties are raised when the ROCs are transferred, typically four-five months following the end of the compliance period in which they were generated. Invoices are usually payable within seven days.</p>	<p>External ROC and REGO sales are recognised at the point the relevant certificates are transferred to the counterparty.</p>
CfD income/payment (Generation)	<p>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</p>	<p>The Group recognises the income or costs arising from the CfD in the Consolidated income statement as a component of revenue at the point the Group meets its performance obligation under the CfD contract. This is considered to be the point at which the relevant generation is delivered and the payment becomes</p>

Revenue stream (Segment)	Nature and timing of performance obligations, including significant payment terms	Method of recognising revenue, including any estimation uncertainties
	specific biomass-fuelled generating unit. Invoices are raised seven days following the date of supply and are settled within 10-28 days.	contractually due.
Ancillary services (Generation)	Ancillary services refers to the provision of a range of system support services to National Grid. Most contracts are for the delivery of a specific service either continually or on an ad-hoc basis over a period of time. Invoices are raised and subsequently settled in line with National Grid Company Ancillary Services settlement calendar, typically monthly.	Revenue is recognised by reference to the stage of completion of the contractual performance obligations, which are calculated by reference to the amount of the contract term that has elapsed. Depending on contract terms, this approach may require judgement in estimating probable future outcomes.
Other income (All segments)	Other income is derived from the sale of goods (for example, by-products from electricity generation such as ash and gypsum) or the provision of services. The customer obtains control typically at the point of delivery to their premises or upon collection.	Revenue is recognised at the point the control of the goods is transferred to the customer.
Electricity and gas sales (Customers)	The Group's Customers business sells electricity and gas directly to business customers. Energy supplied is measured based upon metered consumption and contractual rates. The Customers business also has long-term contracts for the sale of electricity and gas, which are deemed as being satisfied over time in line with the progress of the contracts. Invoices are raised in line with contractual terms. For small and medium-sized enterprise (SME) customers, payment is generally due within 10-14 days. For Industrial and Commercial (I&C) customers, payment is generally due between 28-90 days.	Revenue is recognised on the supply of electricity or gas when a contract exists, supply has taken place, a quantifiable price has been established or can be determined and the amounts receivable are expected to be recovered. Where supply has taken place but has not yet been measured or billed, revenue is estimated based on consumption statistics and selling price estimates and is recognised as accrued income. This estimate is not considered to be a key source of estimation uncertainty because historical experience has demonstrated that these estimates are materially accurate based on the subsequent billings and settlements. Where contracts for the sale of electricity and gas are held, revenue is recognised in line with the progress of the contracts. The revenue recognised per unit of energy supplied is based on the total estimated revenue and cost inputs for fixed price contracts and contracted prices for variable price contracts. Assumptions are applied consistently but third-party costs can vary, therefore actual outcomes may vary from initial estimates.
EBRS income (Customers)	The UK Government introduced the EBRS, running from 1 October 2022 to 31 March 2023. Energy supplied to non-domestic customers in this period will have a discount applied for the customer under the scheme to cap their energy tariff. The Customers business is claiming this discount back from the Government. Payment is due 10 days post submission of a claim, which typically occurs monthly.	The discounted price of electricity and gas supplied under the EBRS is recognised in revenue as it is supplied. The discount amount claimed back from the UK Government is recognised within revenue over the same period as the underlying discounted revenue it relates to is recognised. The revenue received from the UK Government is included within EBRS income. The Group does not recognise any additional revenue from the scheme than it would have done if it were not introduced.

Renewable certificate sales

The generation and sale of renewable certificates, primarily ROCs and REGOs, is a key driver of the Group's financial performance.

The 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 2022 the Group is operating in CP21.

To meet its obligations a supplier can either submit ROCs or pay the buy-out price at the end of the CP. The buy-out price rises annually in line with the UK Retail Price Index (RPI). The buy-out price for CP21 is £52.88 (2021: CP20 £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 from the recycle fund, which is distributed on a pro-rata basis to the suppliers who presented ROCs during a CP.

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

External sales of ROCs in the table below includes £604.5 million of such sales (2021: £339.8 million), with a similar value reflected in cost of sales.

REGOs are certificates that enable suppliers to prove that energy supplied to their customers came from a renewable source. One REGO is issued to a generator for every MWh of renewable energy they generate.

CfD income/payment

The payment is calculated by reference to a strike price per MWh. The base year for the strike price was 2012 and it increases each year in line with the UK Consumer Price Index (CPI) and changes in system balancing costs. The strike price at 31 December 2022 was £126.37 per MWh (2021: £118.54).

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

Gas sales

To support the Group's ambition to be carbon negative by 2030, a decision was made in January 2023 to phase out the Group's gas supply contracts in the Opus Energy part of the Customers business. Having already ceased acquiring new gas customers, following internal processes and a regulatory driven 60-day grace period, no renewal contracts will be offered after May 2023. It is anticipated that the portfolio will reduce by over 50% by the end of 2023 and be almost entirely gone by the end of 2024.

Further analysis of revenue for the year ended 31 December 2022 is provided in the table below:

	Year ended 31 December 2022		
	External £m	Inter-segment £m	Total £m
Pellet Production			
Pellet sales	369.3	425.2	794.5
Other income	7.9	0.2	8.1
Total Pellet Production	377.2	425.4	802.6
Generation			
Electricity sales	2,633.1	3,293.3	5,926.4
Renewable certificate sales	851.5	426.0	1,277.5
CfD payment	(45.7)	–	(45.7)
Ancillary services	73.0	–	73.0
Other income	127.0	–	127.0
Total Generation	3,638.9	3,719.3	7,358.2
Customers			
Electricity and gas sales	3,853.1	–	3,853.1
EBRS income	289.2	–	289.2
Other income	0.8	–	0.8
Total Customers	4,143.1	–	4,143.1
Elimination of inter-segment sales	–	(4,144.7)	(4,144.7)
Total consolidated revenue in Adjusted results	8,159.2	–	8,159.2
Certain remeasurements	(383.9)	–	(383.9)
Total consolidated revenue in Total results	7,775.3	–	7,775.3

Certain remeasurements losses of £383.9 million (2021: £85.9 million) is 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 £6.6 million (2021: £5.4 million).

Revenue recognised in the period from performance obligations satisfied or partly satisfied in the previous period was £nil in the current and previous financial year.

Electricity sales in the Generation segment were net of a £6.1 million payment to a Voluntary Energy Redress Fund.

The following is an analysis of the Group's revenues for the year ended 31 December 2021:

	Year ended 31 December 2021		
	External £m	Inter-segment £m	Total £m
Pellet Production			
Pellet sales	157.4	286.5	443.9
Other income	5.7	0.2	5.9
Total Pellet Production	163.1	286.7	449.8
Generation			
Electricity sales	1,790.2	1,688.5	3,478.7
Renewable certificate 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
Total Generation	2,651.2	2,031.1	4,682.3
Customers			
Electricity and gas sales	2,358.9	–	2,358.9
Other income	0.7	–	0.7
Total Customers	2,359.6	–	2,359.6
Elimination of inter-segment sales	–	(2,317.8)	(2,317.8)
Total consolidated revenue in Adjusted results	5,173.9	–	5,173.9
Certain remeasurements	(85.9)	–	(85.9)
Total consolidated revenue in Total results	5,088.0	–	5,088.0

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

3 Current and deferred tax

The tax credit or charge includes both current and deferred tax. It reflects the estimated tax on the profit before tax for the Group for the year ended 31 December 2022 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the Consolidated income statement, in line with IAS 12.

Accounting policy

Current tax includes UK corporation tax, corporate income tax in Canada and US income tax. It is based on the taxable profit or loss for the year in the relevant jurisdiction. Taxable profit or loss differs from profit or loss before tax as reported in the Consolidated income statement, because it excludes items of income or expenditure that are either taxable or deductible in other years or never taxable or deductible. The Group's liability (or asset) for current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

A provision is made for those matters for which the tax determination is uncertain, but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases is based on specialist 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 credited or charged against profit or loss in the Consolidated income statement, except when they relate to items that are recognised in OCI or directly in equity, in which case the current and deferred taxes are recognised in the Consolidated statement of comprehensive income or directly in the Consolidated statement of changes in equity respectively.

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

In accounting for tax, the Group makes assumptions regarding the treatment of items of income and expenditure for tax purposes. The Group believes that these assumptions are reasonable, based on prior experience and consultation with advisers. These assumptions are consistent with other assumptions used in these financial statements. Full provision is made for deferred tax at the rates of tax prevailing at the reporting date unless future rates have been substantively enacted. Deferred tax assets are recognised where it is considered more likely than not that they will

be recovered. The recoverability of the deferred tax asset is considered an estimate as it relies on the future profitability of the Group's businesses.

	Year ended 31 December	
	2022 £m	2021 £m
Total tax credit/(charge) from continuing operations comprises:		
Current tax		
– Current year	(66.0)	(7.7)
– Adjustments in respect of prior periods	1.9	(1.4)
Deferred tax		
– Before impact of tax rate changes	61.9	(7.3)
– Adjustments in respect of prior periods	(0.1)	(1.0)
– Effect of changes in tax rate	6.7	(49.0)
Total tax credit/(charge)	4.4	(66.4)

	Year ended 31 December	
	2022 £m	2021 £m
Tax credited/(charged) on items recognised in other comprehensive income:		
Deferred tax on remeasurement of defined benefit pension scheme	6.1	(7.2)
Deferred tax on share-based payments	–	5.4
Deferred tax on cash flow hedges	(5.6)	41.2
Deferred tax on cost of hedging	2.2	(7.7)
Total tax credit	2.7	31.7

	Year ended 31 December	
	2022 £m	2021 £m
Tax credited/(charged) on items released directly from equity:		
Deferred tax on cost of hedging	7.2	5.4
Deferred tax on cash flow hedges	4.8	(7.5)
Deferred tax on share-based payments	7.4	–
Total tax credit/(charge)	19.4	(2.1)

UK corporation tax is the main income tax for the Group and is calculated at 19% (2021: 19%) of the assessable profit or loss for the year.

Due to the Group's overseas operations, the US income tax rate of 21% (2021: 21%) and the Canadian corporate income tax rate of 27% (2021: 27%) are also relevant to the Group's tax charge.

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 UK 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 between 1 April 2021 and 31 March 2023.

Drax Power Limited was granted a patent to protect certain intellectual property it owns and which attaches to the technology developed to manage the combustion process in generating electricity from biomass. Under UK tax legislation, the company is entitled to apply a lower tax rate of 10% to profits derived from utilisation of the patented technology.

The Finance Act 2021 also contained legislation to increase the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. The impact of this rate increase is a net £6.7 million deferred tax credit through Total results in the Consolidated income statement (2021: £49.0 million charge).

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

	Year ended 31 December 2022			Year ended 31 December 2021		
	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m
Profit/(loss) before tax from continuing operations	405.4	(327.3)	78.1	100.5	21.0	121.5
Profit/(loss) before tax multiplied by the rate of corporation tax in the UK of 19% (2021: 19%)	77.0	(62.2)	14.8	19.2	4.0	23.2
Effects of:						
Adjustments in respect of prior periods	(1.8)	–	(1.8)	2.4	–	2.4

Expenses not deductible for tax purposes	4.5	–	4.5	2.8	1.7	4.5
Impact of tax rate change	2.9	(9.6)	(6.7)	0.4	48.6	49.0
Difference in overseas tax rates	(1.3)	–	(1.3)	(1.1)	–	(1.1)
Patent Box benefit	(9.6)	–	(9.6)	(8.0)	–	(8.0)
Tax effect of RDEC credit	(0.8)	–	(0.8)	(0.9)	–	(0.9)
UK super-deduction	(3.5)	–	(3.5)	(2.7)	–	(2.7)
Total tax charge/(credit)	67.4	(71.8)	(4.4)	12.1	54.3	66.4

The movements in deferred tax assets and liabilities during each year are shown below.

	Financial instruments £m	Accelerated capital allowances £m	Non-trade losses £m	Intangible assets £m	Trade losses £m	Other liabilities £m	Other assets £m	Total £m
At 1 January 2021	13.0	(183.0)	2.3	(15.7)	33.5	(23.3)	16.5	(156.7)
(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)
At 1 January 2022	38.8	(292.6)	2.3	(19.9)	60.0	(18.7)	33.5	(196.6)
Credited/(charged)to the income statement	77.3	(24.9)	(1.8)	7.0	15.7	(20.7)	16.0	68.6
Credited to other comprehensive income in respect of actuarial gains	–	–	–	–	–	6.1	–	6.1
Charged to other comprehensive income in respect of cash flow hedges	(5.6)	–	–	–	–	–	–	(5.6)
Credited to other comprehensive income in respect of cost of hedging	2.2	–	–	–	–	–	–	2.2
Credited to equity in respect of cash flow hedges	4.8	–	–	–	–	–	–	4.8
Credited to equity in respect of cost of hedging	7.2	–	–	–	–	–	–	7.2
Credited to equity in respect of share-based payments	–	–	–	–	–	–	7.4	7.4
Impact of acquisition	–	(0.8)	–	–	–	–	–	(0.8)
Effect of changes in foreign exchange rates	–	(3.0)	–	–	4.4	–	1.0	2.4
At 31 December 2022	124.7	(321.3)	0.5	(12.9)	80.1	(33.3)	57.9	(104.3)
Deferred tax balances (after offset) for financial reporting purposes:								
Net Canadian deferred tax asset at 31 December 2022	–	(49.6)	–	0.2	27.1	(1.0)	32.7	9.4
Net US deferred tax asset 31 December 2022	–	(30.6)	–	–	53.0	–	5.5	27.9
Net UK deferred tax liability 31 December 2022	124.7	(241.1)	0.5	(13.1)	–	(32.3)	19.7	(141.6)
Net Canadian deferred tax asset at 31 December 2021	–	(38.1)	–	(0.2)	17.5	(0.4)	26.6	5.4
Net US deferred tax asset 31 December 2021	–	(27.6)	–	–	42.5	(0.3)	8.7	23.3
Net UK deferred tax liability 31 December 2021	38.8	(226.9)	2.3	(19.7)	–	(18.0)	(1.8)	(225.3)

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 Consolidated balance sheet. Within the above trade losses deferred tax asset of £80.1 million (2021: £60.0 million) there is £53.0 million (2021:

£42.5 million) in relation to losses in the US Pellet Production business. The remaining £27.1 million relates to losses of the Canadian Pellet Production business (2021: £17.5 million).

The future expected reversal of accelerated capital allowances and other timing differences, coupled with the profitability (inclusive of the impact of transfer pricing adjustments), stable output and forecast improvement in operational performance, mean that the US and Canadian businesses expect to generate sufficient profits in the short to medium term against which to utilise the deferred tax assets. The estimates used when assessing the future profitability of the US and Canadian businesses have been approved by the Board and are consistent with estimates used in the going concern assessment and in the Viability statement.

As at 31 December 2022 the Group held £79.2 million (2021: £79.2 million) of UK capital losses available for offset against future chargeable gains. These losses are unrecognised for deferred tax purposes as the Group does not currently expect UK taxable gains to arise that would be eligible to offset against these losses.

4 Alternative performance measures

The Alternative Performance Measures (APMs) glossary provides details of all APMs used, each APM's closest IFRS equivalent, the reason why the APM is used by the Group and a definition of how each APM is calculated.

The Group presents Adjusted results in the Consolidated income statement. The Directors believe that this approach is useful as it 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 to present as exceptional. All transactions presented as exceptional are approved by the Audit Committee.

In these Consolidated financial statements, the following transactions have been designated as exceptional items and presented separately:

- Impairment charges incurred on the application of the Group's new accounting policy for SaaS costs, consistent with the IFRIC agenda decision (2022, All segments), and on costs associated with the Customers billing system (2022, Customers).
- Costs associated with the acquisition and integration of Pinnacle (2021, Pellet Production).
- Costs relating to 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, Generation).
- Impact of UK tax rate change on deferred tax balances (2022 and 2021, Generation and Customers). See note 3 for further information.

Certain remeasurements comprise gains or losses on derivative contracts to the extent that those contracts do not qualify for hedge accounting, or hedge accounting is not effective, and those gains or losses are either i) unrealised and relate to derivative contracts with a maturity in future periods, or ii) are realised in relation to the maturity of derivative contracts in the current period. The effect of excluding certain remeasurements from 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, and financial contracts in the period they are intended to hedge, to present a clear and consistent review of the trading performance of the Group in Adjusted results.

Volatility in financial and commodity markets has continued in 2022, in part due to the conflict in Ukraine. This has resulted in significant movements in the remeasurement gains and losses on certain derivative financial instruments which do not qualify for hedge accounting, or where hedge accounting is ineffective, as shown in the table below, principally relating to gas, certain foreign currency contracts, inflation and oil.

	Year ended 31 December	
	2022 £m	2021 ⁽¹⁾ £m
Exceptional items:		
Inventory provision as a result of coal closure	–	(0.3)
Acquisition costs	–	(7.9)
Restructuring costs	–	(5.2)
Integration costs	–	(4.1)
Coal closure costs	–	(4.8)
Impairment of non-current assets	(24.9)	–
Exceptional items included within operating profit and profit before tax	(24.9)	(22.3)
Tax on exceptional items	4.7	2.5
Impact of tax rate change	(9.8)	(50.2)
Exceptional items after tax	(30.0)	(70.0)
Certain remeasurements:		
Net fair value remeasurements on derivative contracts included in revenue	(441.4)	(77.0)
Net remeasurements realised on maturity of derivative contracts included in revenue	107.7	(8.9)
Net hedge ineffectiveness reclassified to profit or loss included in revenue	(50.2)	–
Net fair value remeasurements on derivative contracts included in cost of sales	32.6	36.6
Net remeasurements realised on maturity of derivative contracts included in cost of sales	53.1	98.0
Certain remeasurements included within operating profit	(298.2)	48.7
Net remeasurements on maturity of derivative contracts included in interest payable and similar charges	(0.4)	(0.3)
Net fair value remeasurements on derivative contracts included in foreign exchange gains/(losses)	(3.8)	(5.1)
Certain remeasurements included in profit before tax	(302.4)	43.3
Tax on certain remeasurements	57.5	(8.2)
Impact of tax rate change	19.4	1.6
Certain remeasurements after tax	(225.5)	36.7
Reconciliation of profit after tax from continuing operations:		
Adjusted profit after tax	338.0	88.4
Exceptional items after tax	(30.0)	(70.0)
Certain remeasurements after tax	(225.5)	36.7
Total profit after tax	82.5	55.1

(1) Comparative amounts for the year ended 31 December 2021 have been re-presented to split out the impact of tax rate change between exceptional items and certain remeasurements.

For each item designated as exceptional or as a certain remeasurement, the table below summarises the impact of the item on the Adjusted profit after tax and Adjusted basic EPS from continuing operations and the total cash flow from continuing and discontinued operations.

	Year ended 31 December 2022							
	Revenue £m	Gross profit £m	Operating profit £m	Profit before tax £m	Tax credit/(charge) £m	Profit/(loss) for the period £m	Basic earnings/(loss) per share Pence	Net cash from operating activities £m
Total results IFRS measure	7,775.3	1,023.3	146.3	78.1	4.4	82.5	21.3	207.7
Certain remeasurements:								
Net fair value remeasurement on derivative contracts	383.9	298.2	298.2	302.4	(57.5)	244.9	61.2	–
Impact of tax rate change	–	–	–	–	(19.4)	(19.4)	(4.8)	–
Exceptional items:								
Impairment of non-current assets	–	–	24.9	24.9	(4.7)	20.2	5.0	–
Impact of tax rate change	–	–	–	–	9.8	9.8	2.4	–
Total	383.9	298.2	323.1	327.3	(71.8)	255.5	63.8	–
Adjusted results totals	8,159.2	1,321.5	469.4	405.4	(67.4)	338.0	85.1	207.7

Year ended 31 December 2021⁽¹⁾

	Revenue £m	Gross profit/(loss) £m	Operating profit/(loss) £m	Profit/(loss) before tax £m	Tax (charge)/credit £m	Profit/(loss) for the period £m	Basic earnings/(loss) per share Pence	Net cash from operating activities £m
Total results IFRS measure	5,088.0	891.2	196.5	121.5	(66.4)	55.1	13.9	306.5
Certain remeasurements:								
Net fair value remeasurement on derivative contracts	85.9	(48.7)	(48.7)	(43.3)	8.2	(35.1)	(8.8)	–
Impact of tax rate change	–	–	–	–	(1.6)	(1.6)	(0.4)	–
Exceptional items:								
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
Coal closure costs	–	–	4.8	4.8	(0.8)	4.0	1.2	–
Impact of tax rate change	–	–	–	–	50.2	50.2	12.6	–
Total	85.9	(48.4)	(26.4)	(21.0)	54.3	33.3	8.4	15.6
Adjusted results totals	5,173.9	842.8	170.1	100.5	(12.1)	88.4	22.3	322.1

(1) Comparative amounts for the year ended 31 December 2021 have been re-presented to split out the impact of tax rate change between exceptional items and certain remeasurements.

Adjusted EBITDA from continuing and discontinued operations is a key measure of performance for the Group. A reconciliation from Adjusted operating profit from continuing operations as per the Consolidated income statement is shown below:

	Year ended 31 December 2022		
	Attributable to		
	Owners of the Parent Company £m	NCI £m	Total £m
Adjusted operating profit/(loss)	472.0	(2.6)	469.4
Depreciation and amortisation	237.2	2.2	239.4
Impairment losses on non-current assets	16.6	–	16.6
Other losses	5.7	0.1	5.8
Income from associates	(0.5)	–	(0.5)
Adjusted EBITDA	731.0	(0.3)	730.7

	Year ended 31 December 2021		
	Attributable to		
	Owners of the Parent Company £m	NCI £m	Total £m
Adjusted operating profit	170.6	(0.5)	170.1
Depreciation and amortisation	198.3	0.6	198.9
Other losses	9.3	0.1	9.4
Income from associates	(0.3)	–	(0.3)
Adjusted EBITDA from continuing operations	377.9	0.2	378.1
Adjusted EBITDA from discontinued operations	20.3	–	20.3
Adjusted EBITDA from continuing and discontinued operations	398.2	0.2	398.4

Year ended 31 December 2022						
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	Total £m
Segment Adjusted EBITDA:						
Continuing operations	133.7	695.5	25.8	(113.6)	(10.4)	731.0

Year ended 31 December 2021						
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	Total £m
Segment Adjusted EBITDA:						
Continuing operations	85.7	351.5	5.7	(70.9)	5.9	377.9
Discontinued operations	–	20.3	–	–	–	20.3
Total	85.7	371.8	5.7	(70.9)	5.9	398.2

Net debt

Net debt is calculated by taking the Group's borrowings, adjusting for the impact of associated hedging instruments, and subtracting cash and cash equivalents.

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. USD and EUR balances are translated at the hedged rate, rather than the rate prevailing at the reporting date, which impacts the carrying amount of the Group's borrowings. Net debt excludes the share of borrowings and cash and cash equivalents attributable to NCI. See the APMs glossary for further details on the calculation of Net debt.

	As at 31 December	
	2022 £m	2021 £m
Borrowings	(1,440.9)	(1,361.0)
Cash and cash equivalents	238.0	317.4
Net cash and borrowings	(1,202.9)	(1,043.6)
NCI's share of cash and cash equivalents in non-wholly owned subsidiaries	(0.7)	–
Net debt excluding the impact of hedging instruments	(1,203.6)	(1,043.6)
Impact of hedging instruments	(2.4)	(64.4)
Net debt	(1,206.0)	(1,108.0)
Collateral posted/(received)	234.0	(172.8)
Net debt excluding collateral	(972.0)	(1,280.8)

The table below reconciles Net debt in terms of changes in these balances across the year:

	Year ended 31 December	
	2022 £m	2021 £m
Net debt at 1 January	(1,108.0)	(819.1)
(Decrease)/increase in cash and cash equivalents	(85.6)	27.3
Increase in borrowings	(8.6)	(310.2)
Effect of changes in foreign exchange rates	(65.8)	15.2
Movement in the impact of hedging instruments	62.0	(21.2)
Net debt at 31 December	(1,206.0)	(1,108.0)

Borrowings include listed bonds, bank debt and RCFs (to the extent drawn in cash), net of any deferred finance costs. Borrowings do not include other financial liabilities such as 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 Consolidated 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 the Group's 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.

The Group has a long-term target for Net debt to Adjusted EBITDA of around 2.0 times.

As at 31 December	
2022	2021

Adjusted EBITDA (continuing and discontinued operations) (£m)	731.0	398.2
Net debt (£m)	(1,206.0)	(1,108.0)
Net debt excluding collateral (£m)	(972.0)	(1,280.8)
Net debt to Adjusted EBITDA ratio	1.6	2.8
Net debt (excluding collateral) to Adjusted EBITDA ratio	1.3	3.2

Cash and committed facilities

The below table reconciles the Group's available cash and committed facilities:

	As at 31 December	
	2022 £m	2021 £m
Cash and cash equivalents	238.0	317.4
RCF available but not utilised ⁽¹⁾	260.1	231.4
Liquidity facility available but not utilised	200.0	–
Total cash and committed facilities	698.1	548.8

(1) The Group's available balance on the RCF facility (includes £300 million and C\$10 million RCF) is reduced by letters of credit drawn under the RCF. At 31 December 2022 £46.0 million letters of credit were drawn (2021: £74.4 million).

Further commentary on total cash and committed facilities is contained within the Financial review.

5 Earnings per share

Earnings per share (EPS) represents the amount of earnings (post-tax profit or losses) attributable to each ordinary share in issue. Basic EPS is calculated by dividing the Group's earnings attributable to owners of the Parent Company (profit or loss after tax in accordance with IFRS excluding amounts attributable to NCI) 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 reporting date. Repurchased shares of 13.8 million (2021: 13.8 million) held in the Treasury shares reserve 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.

	Year ended 31 December	
	2022	2021
Earnings attributable to equity holders of the Parent Company for the purposes of basic and diluted earnings per share (£m), made up of:	85.1	79.7
Net result from continuing operations	85.1	55.6
Net result from discontinued operations	–	24.1
Number of shares (millions):		
Weighted average number of ordinary shares for the purposes of basic earnings per share	400.4	398.4
Effect of dilutive potential ordinary shares under share plans	14.0	14.2
Weighted average number of ordinary shares for the purposes of diluted earnings per share	414.4	412.6

	Year ended 31 December			
	2022		2021	
Earnings per share attributable to the owners of the Parent Company	Adjusted results	Total results	Adjusted results	Total results
Earnings – profit after tax (£m)	340.6	85.1	105.6	79.7
Earnings per share – basic (pence)	85.1	21.3	26.5	20.0
Earnings per share – diluted (pence)	82.2	20.5	25.6	19.3

	Year ended 31 December			
	2022		2021	
Earnings per share from continuing operations attributable to the owners of the Parent Company	Adjusted results	Total results	Adjusted results	Total results
Earnings – profit after tax (£m)	340.6	85.1	88.9	55.6
Earnings per share – basic (pence)	85.1	21.3	22.3	13.9
Earnings per share – diluted (pence)	82.2	20.5	21.5	13.5

There were no discontinued operations in the year. The Total profit after tax from discontinued operations in 2021 of £24.1 million, resulted in Total basic EPS of 6.1 pence and Total diluted EPS of 5.8 pence. Application of the same calculation to Adjusted profit after tax from discontinued operations in 2021 of £16.7 million, resulted in Adjusted basic EPS of 4.2 pence and Adjusted diluted EPS of 4.1 pence.

6 Dividends

	Year ended 31 December	
	2022 £m	2021 £m
Amounts recognised as distributions to equity holders in the year (based on the number of shares in issue at the record date):		
Interim dividend for the year ended 31 December 2022 of 8.4 pence per share paid on 7 October 2022 (2021: 7.5 pence per share paid on 8 October 2021)	33.7	29.9
Final dividend for the year ended 31 December 2021 of 11.3 pence per share paid on 13 May 2022 (2020: 10.3 pence per share paid on 14 May 2021)	45.2	41.0
Total distributions	78.9	70.9

At the forthcoming Annual General Meeting, the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2022 of 12.6 pence per share (equivalent to approximately £50 million) payable on or before 19 May 2023. The final dividend has not been included as a liability as at 31 December 2022. This would bring total dividends payable in respect of the 2022 financial year to £84 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.

7 Notes to the consolidated cash flow statement

Accounting policy

In accordance with IAS 7 the Group has elected to classify cash flows from interest paid and interest received as cash flows from operations, dividends paid as cash flows from financing activities, and dividends received as cash flows from investing activities. The interest repayment on lease liabilities is included within interest paid, and the lease principal repayment is presented within cash flows from financing activities.

Cash generated from operations

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

	Year ended 31 December	
	2022 £m	2021 £m
Profit for the year – continuing	82.5	55.1
Profit for the year – discontinued	–	24.1
Adjustments for:		
Interest payable and similar charges	83.1	70.9
Interest receivable	(4.3)	(0.3)
Tax (credit)/charge	(4.4)	68.1
Research and development tax credits	(5.5)	(7.5)
Income from associates	(0.5)	(0.3)
Depreciation of property, plant and equipment	187.7	149.8
Amortisation of intangible assets	31.4	34.4
Depreciation of right-of-use assets	20.3	15.2
Impairment of non-current assets	41.5	–
Losses on disposal of fixed assets	5.5	9.4
Gain on disposal of subsidiaries	–	(16.2)
Other losses	0.3	–
Certain remeasurements of derivative contracts ⁽¹⁾	288.7	(74.6)
Non-cash charge for share-based payments	9.6	7.4
Effect of foreign exchange rates	(2.2)	1.3
Operating cash flows before movement in working capital	733.7	336.8
Changes in working capital:		
(Increase)/decrease in inventories	(133.4)	37.4

Increase in receivables	(379.0)	(27.4)
Increase in payables	431.8	15.0
(Decrease)/increase in net collateral postings ⁽²⁾	(406.8)	168.3
Decrease in provisions	(29.1)	(4.2)
Decrease/(increase) in renewable certificate assets	113.7	(161.8)
Total cash (absorbed by)/released from working capital	(402.8)	27.3
Net movement in defined benefit pension obligations ⁽³⁾	(10.6)	(9.6)
Cash generated from operations	320.3	354.5

(1) Certain remeasurements of derivative contracts includes the effect of non-cash unrealised gains and losses recognised in the Consolidated income statement and their subsequent cash realisation. It also includes the cash and non-cash impact of deferring and recycling gains and losses on derivative contracts designated into hedge relationships under IFRS 9, where the gain or loss is held in the hedge reserve and then released to the Consolidated income statement in the period the hedged transaction occurs.

(2) The £168.3 million increase in collateral received in the prior year has been re-presented. Previously this was included in the movement in receivables as a £30.6 million increase and movement in payables as a £198.9 million increase.

(3) The comparative figure has been re-presented to combine the defined benefit scheme current and past service costs and contributions into a net defined benefit pension obligation.

The Group has generated cash from operations of £320.3 million during the year (2021: £354.5 million). This resulted from a cash inflow from operating activities before working capital of £733.7 million (2021: £336.8 million). This was offset by a £10.6 million (2021: £9.6 million) cash outflow in respect of pension obligations and a net working capital outflow of £402.8 million (2021: £27.3 million inflow), principally due to collateral payments. The most significant factors making up these cash movements are explained in further detail below.

The £288.7 million adjustment for certain remeasurements of derivative contracts (2021: £(74.6) million adjustment) predominantly relates to net unrealised losses recognised within the Consolidated income statement, where cash has not yet been paid or received by the Group. These net unrealised losses were offset by a net cash outflow due to realised losses on maturing trades.

From time to time, where market conditions change, the Group can rebase foreign currency contracts including cross-currency interest rate swaps. Rebasing trades accelerates certain cash flows at the point of rebasing that would have been received on maturity or at contractual payment dates per the original terms of the trade. There is an equal and opposite reduction in cash flows (less rebasing fees) on the original maturity or contractual payment dates. At 31 December 2022 the Group had accelerated £43.1 million of cash flows through the use of rebasing (2021: £48.1 million). The reduction in accelerated cash flows reflects the unwinding of the cash benefit as the original maturity or contractual payment dates pass. The accelerated cash flows related wholly to rebased cross-currency interest rate swaps in the current and prior year. The impact of rebasing is reflected within the Certain remeasurements of derivative contracts line in the table above.

The Group has a strong focus on cash flow discipline and managing liquidity. The Group enhances its working capital position by managing payables, receivables, inventories and renewable certificate assets to make sure the working capital committed is closely aligned with operational requirements. The impact of these actions on the cash flows of the Group is explained further below.

High levels of volatility in power and commodity markets have continued during 2022. Cash collateral is sometimes paid or received in relation to the Group's commodity and treasury trading activities. When derivative positions are out of the money for the Group, collateral may be required to be paid to the counterparty. When derivative positions are in the money, collateral may be received from counterparties. These positions reverse when contracts are settled and the collateral is returned.

The Group actively manages the liquidity requirements, including collateral, associated with the hedging of power and other commodities. At 31 December 2022 the Group had a net posting of collateral. However, the design of the Group's trading agreements and methods of posting collateral, such as being able to utilise letters of credit and surety bonds to meet collateral requirements, aims to minimise cash outflows resulting from collateral requirements where possible. The Group has had a net cash outflow of £406.8 million during the year due to collateral (2021: £168.3 million inflow). At 31 December 2022 the Group held £nil in cash collateral receipts (2021: £205.6 million) recognised in payables and had posted £234.0 million (2021: £32.8 million) of cash collateral payments recognised in receivables. The Group also had £54.5 million (2021: £42.5 million) of letters of credit and £165.0 million (2021: £107.1 million) of surety bonds utilised covering commodity trading collateral requirements. Letters of credit and surety bonds utilised at the reporting date have reduced the requirement for cash collateral payments, which has reduced the amount by which receivables has increased.

The £379.0 million (2021: £27.4 million) cash outflow due to an increase in receivables in 2022 is predominantly related to the Customers segment as a result of higher power and gas prices during the year, resulting in higher amounts receivable from customers.

The Customers business has access to a facility which enables it to accelerate cash flows associated with amounts receivable from energy supply customers on a non-recourse basis. The Group has refinanced this facility during the year, extending the maturity to January 2027 and increasing the size of the facility to £300.0 million from £200.0 million. The Group also agreed a further increase to the £300.0 million limit, to £400.0 million, for the period November 2022 to January 2024. Utilisation of the facility was £400.0 million at 31 December 2022 (2021: £200.0 million). The additional utilisation of this facility has resulted in a £200.0 million cash inflow which has offset the increase in receivables described above to lead to the net £379.0 million cash outflow.

The movement in renewable certificate assets during the year includes a combination of generation, utilisation, purchases and sales. The £113.7 million cash inflow is predominantly due to the Group's use of standard renewable certificate sale and renewable certificate purchase arrangements. Cash from renewable certificates, and in particular ROCs, is typically realised several months after they are earned; however, through these arrangements, the Group is able to accelerate cash flows over a proportion of these assets. At 31 December 2022 the Group had accelerated £331.2 million of cash flows using these standard renewable certificate sales (2021: £199.8 million). This cash inflow was offset by a net cash outflow as a result of renewable certificates generated and still held by the Group.

The Group had a £431.8 million (2021: £15.0 million) cash inflow due to an increase in payables during the year. This increase is predominantly due to increased levels of power repurchases within the Generation business in the current year, as well as higher accruals as a result of both increased volumes and higher prices in the Customers business.

The Group has sought to normalise payments across its supplier base resulting in certain suppliers extending payment terms and some reducing terms. The Group's suppliers are able to access a supply chain finance facility provided by a bank, for which funds can be accelerated in advance of the normal payment terms. At 31 December 2022, the Group had trade payables of £53.9 million (2021: £50.4 million) related to reverse

factoring. The facility does not directly impact the Group's working capital, as payment terms remain unaltered with the Group and would remain the same should the facility fall away.

The Group also has access to 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 of less than 12 months. The amount outstanding under these facilities at 31 December 2022 was £214.5 million (2021: £62.2 million) resulting in a cash inflow of £152.3 million. Utilisation of these payment facilities has reduced the cash outflow in the purchases of property, plant and equipment line in the Consolidated cash flow statement by £64.6 million and has also impacted the movement in payables line in the table above by £87.7 million.

The cash outflow of £133.4 million as a result of the increase in inventories results in part from the planned build-up of inventories due to the reprofiling of generation from summer into winter.

Changes in liabilities arising from financing cash flows

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

	As at 31 December 2022		
	Borrowings £m	Lease liabilities £m	Total £m
Balance at 1 January	1,361.0	125.9	1,486.9
Cash flows from financing activities	2.1	(18.0)	(15.9)
Effect of foreign exchange rates	71.3	11.5	82.8
Other movements	6.5	33.7	40.2
Balance at 31 December	1,440.9	153.1	1,594.0

	As at 31 December 2021		
	Borrowings £m	Lease liabilities £m	Total £m
Balance at 1 January	1,065.7	30.2	1,095.9
Cash flows from financing activities	46.3	(13.2)	33.1
Effect 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
Balance at 31 December	1,361.0	125.9	1,486.9

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

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 a measure defined under IFRS. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

APM	Closest IFRS equivalent measure	Purpose	Definition
Adjusted results	Total results	<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. 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> <p>Adjusted results are the metrics used in the calculation of Adjusted basic and Adjusted diluted EPS.</p>	Total results measured in accordance with IFRS excluding the impact of exceptional items and certain remeasurements (defined in note 4).
Adjusted EBITDA	Operating profit ⁽¹⁾	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 the performance of the Group's operations.	<p>Earnings before interest, tax, depreciation and amortisation, gains or losses on disposal of assets, fair value adjustments on contingent consideration, and impairment of non-current assets, excluding the impact of exceptional items and certain remeasurements (defined in note 4). Adjusted EBITDA excludes any earnings from associates and Adjusted EBITDA attributable to non-controlling interests.</p> <p>Adjusted EBITDA is stated from both continuing operations and discontinued operations, where appropriate.</p>
Adjusted basic EPS	Basic EPS	Adjusted basic EPS represents the amount of Adjusted earnings (Adjusted post-tax earnings) attributable to each ordinary share.	Adjusted basic EPS is calculated by dividing the Group's Adjusted earnings attributable to the owners of the Parent Company (Adjusted profit after tax) by the weighted average number of ordinary shares in issue during the period.
Adjusted diluted EPS	Diluted EPS	Adjusted diluted EPS demonstrates the impact upon the Adjusted basic EPS if all outstanding share options, that are expected to vest on their future maturity dates and where the shares are considered to be dilutive, were exercised and treated as ordinary shares as at the reporting date.	Adjusted diluted EPS is calculated by dividing the Group's Adjusted earnings attributable to the owners of the Parent Company (Adjusted profit after tax) by the weighted average number of ordinary shares in issue during the period and dilutive potential ordinary shares under share plans.
Net debt	Borrowings less cash and cash equivalents	Net debt is a key measure of the Group's liquidity and its ability to manage current obligations.	Total borrowings including the impact of hedging instruments less cash and cash equivalents. Total borrowings include

APM	Closest IFRS equivalent measure	Purpose	Definition
		<p>Net debt is used as a basis by debt rating agencies and in the calculation of the Group's financial covenant requirements.</p> <p>The impact of hedging instruments included within Net debt shows the economic substance of the Net debt position, in terms of actual expected future cash flows to settle that debt.</p>	<p>external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities but excludes other financial liabilities such as lease liabilities calculated in accordance with IFRS 16, pension obligations and trade and other payables. Net debt excludes the proportion of cash and borrowings in non-wholly owned entities that would be attributable to the non-controlling interests.</p> <p>Net debt includes the impact of hedging instruments meaning that any borrowings that have hedging instruments in place are adjusted to reflect those borrowings at the hedged rate.</p>
Net debt to Adjusted EBITDA ratio	Borrowings less cash and cash equivalents divided by operating profit	<p>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 Adjusted EBITDA are held constant.</p> <p>The Group has a long-term target for Net debt to Adjusted EBITDA of around 2.0 times.</p>	Net debt divided by Adjusted EBITDA. Expressed as a multiple.
Cash and committed facilities	Cash and cash equivalents	<p>This is a key measure of the Group's available liquidity and the Group's ability to manage its current obligations.</p> <p>It shows the value of cash available to the Group in a short period of time.</p>	Total cash and cash equivalents plus the value of the Group's committed but undrawn facilities (including the Group's RCFs, loan facilities and the Customers trade receivable factoring facility).
Cost of production	Cost of sales	<p>A key metric showing the cost of produced biomass.</p> <p>Also, a key metric in monitoring the Group's strategy to reduce biomass costs.</p>	Costs of sales attributable to biomass production plus an allocation of operating expenses not directly attributable to biomass production, divided by tonnes of biomass produced. Expressed as a cost per tonne produced.
Capital expenditure	Property, plant and equipment (PPE) additions and intangible asset additions	Used to show the Group's total spend on PPE and intangible assets in a year.	PPE additions plus intangible asset additions.

(1) Operating profit is presented on the Group's Consolidated income statement; however, it is not defined per IFRS. It is a generally accepted measure of profit.

Glossary

Ancillary services

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

Availability

Average percentage of time the units were available for generation.

BECCS

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

BEIS

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

In February 2023, BEIS was split into three new departments: the Department for Business and Trade, the Department for Energy Security and Net Zero, and the Department for Science, Innovation and Technology.

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. The Group uses low-grade wood, sawmill residues and forest residues, in the form of compressed wood pellets, to generate electricity at Drax Power station or sell the pellets to third parties.

Capacity Market

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

Carbon capture and storage (CCS)

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

Carbon price support

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

CCC

The UK's Climate Change Committee.

Clearcutting

An important forest regeneration technique that supports sustainable forest management. It happens when most (or all) trees in an area are harvested simultaneously. It is a well-established forestry practice in many regions, including the UK, Europe and North America.

Contracts for difference (CfD)

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

Combined Cycle Gas Turbines (CCGT)

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

Dispatchable power

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

EBRS

The UK Government's Energy Bill Relief Scheme.

ESG

Environmental, Social and Governance.

EU ETS

The EU Emissions Trading System is a mechanism introduced across the EU to reduce carbon emissions; the scheme is capable of being extended to cover all greenhouse gas emissions.

First Nations

Any of the groups of indigenous peoples in Canada.

Forced outage/Unplanned outage

Any reduction in plant availability, excluding planned outages.

FSC®

Forest Stewardship Council: an international non-governmental organisation which promotes responsible management of the world's forests.

Frequency response

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

GHG

Greenhouse Gas.

Grid charges

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

Headroom and footroom

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

IAB

Independent Advisory Board, comprising scientists, academics, and forestry experts who provide independent challenge, insight and advice into the Group's activities.

IFRS

International Financial Reporting Standards.

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.

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.

PEFC®

Programme for the Endorsement of Forest Certifications: an independent, non-profit, non-governmental organisation that promotes sustainable forest management through independent third-party certification.

Pulp log

A low value and bulky product, generally produced from the top of trees or from production thinnings, with the principal use of making wood pulp for paper production.

Rebasing

Rebasing is when the Group releases cash from an open derivative contract that is in a mark-to-market asset position by modifying the rate per the contract. A cash payment equivalent to the reduction in the mark-to-market asset is received by the Group from the counterparty, less any applicable fees.

Reserve

Generation or demand available to be dispatched by the System Operator to correct a generation/demand imbalance, normally at two or more minutes' notice.

Response

Automatic change in generator output aimed at maintaining a system frequency of 50Hz. Frequency response is required in every second of the day.

RIDDOR

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

Right Biomass

Biomass that will deliver positive outcomes for climate, nature and people.

ROC

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

Saw log

A felled tree trunk suitable for being processed at a sawmill for cutting up into lumber.

SBP

Sustainable Biomass Program: a certification system designed for woody biomass used in industrial energy production.

Summer

The calendar months April to September.

Sustainable biomass

Biomass which complies with the UK Renewables Obligation Order 2015: definition of "sustainable source", Schedule 3, Land Criteria.

System operator

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

TCFD

Taskforce on Climate-related Financial Disclosures.

Thinning

Thinning operations correct over-crowding, and improve the health and vigour of those trees which remain. Thinning targets small, malformed, and diseased trees for removal, allowing the healthier trees the space, light, and soil to reach maturity sooner. Thinning also mitigates the risk of pest infestation and wildfire, while speeding the development of a more mature forest with increased plant diversity.

Total recordable incident rate (TRIR)

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

Total results

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

UK ETS

The UK Emissions Trading Scheme is a mechanism introduced across the UK to reduce carbon emissions; the scheme is capable of being extended to cover all greenhouse gas emissions.

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.