25 February 2021

DRAX GROUP PLC (Symbol: DRX)

FULL YEAR RESULTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2020

Strong performance, strong delivery for stakeholders and strong progress on our strategy

Twelve months ended 31 December	**2020**	**2019**
Key financial performance measures		
Adjusted EBITDA (£ million)(1)(2)	412	410
Continuing operations	*366*	*371*
Discontinued operations – gas generation	*46*	*39*
Cash generated from operations (£ million)	413	471
Net debt (£ million)(3)	776	841
Adjusted basic EPS (pence)(1)	29.6	29.9
Total dividend (pence per share)	17.1	15.9
Total financial performance measures		
Coal and other asset obsolescence charges	(239)	-
Operating (loss) / profit (£ million)	(156)	48
Loss before tax (£ million)	(235)	(16)

Financial highlights

- Adjusted EBITDA from continuing and discontinued operations up £2 million to £412 million (2019: £410 million)
  - Includes estimated impact of Covid-19 of £60 million, principally SME customers
  - Strong performance in Pellet Production and Generation
- Strong cash generation and balance sheet
  - 1.9 x net debt to Adjusted EBITDA, with £682 million of cash and committed facilities at 31 December 2020
  - New carbon-linked RCF, Eurobond and infrastructure facilities with maturities to 2030 and reduced cost of debt
- Sustainable and growing dividend up 7.5% to 17.1 pence per share (2019: 15.9 pence per share)
  - Proposed final dividend of 10.3 pence per share (2019: 9.5 pence per share)

Operational highlights

- Pellet Production – 7% increase in production, improved quality and 5% reduction in cost
- Generation – 11% of UK's renewable electricity, strong operations and system support performance
- Customers – lower demand and an increase in bad debt provisions, principally SME customers
- Sustainability – sale of gas assets, end of coal generation, CDP Climate A- rating (2019: C) and TCFD Supporter

Will Gardiner, CEO of Drax Group said: "Drax has supported its customers, communities and employees throughout the Covid-19 pandemic and I want to thank colleagues across the Group for their commitment and hard work over the last year. We have delivered strong results, a growing dividend for shareholders and excellent progress against our business strategy.

"Our focus is on renewable power. Our carbon intensity is one of the lowest of all European power generators. We aim to be carbon negative by 2030 and are continuing to make progress. We are announcing today that we will not develop new gas fired power at Drax. This builds on our decision to end commercial coal generation and the recent sale of our existing gas power stations.

"The proposed acquisition of Pinnacle Renewable Energy will position Drax as the world's leading sustainable biomass generation and supply business, paving the way for us to develop bioenergy with carbon capture and storage (BECCS) – taking us even further in our decarbonisation."

2021 outlook

- Targeting carbon negative
  - No new gas generation at Drax Power Station, retain options for system support gas in next capacity auction
  - Completion of sale of existing gas generation (January 2021) and end of commercial coal (March 2021)
- Progressing biomass strategy
  - Proposed acquisition of Pinnacle Renewable Energy Inc. (Pinnacle) – supports long-term options for third-party supply, BECCS and biomass generation
  - BECCS – commencement of DCO planning process, potential FEED study and clarity on regional clusters
- Operations
  - Major planned outage on CfD unit and continued impact of Covid-19 on SME customers

  - Strong contracted power sales (2021–2023) 24.4TWh at £48.5/MWh

Operational review

<u>Pellet Production – *capacity expansion, improved quality and reduced cost*</u>

- Adjusted EBITDA up 63% to £52 million (2019: £32 million)
  - Pellet production up 7% to 1.5Mt (2019: 1.4Mt)
  - Reduction in fines (larger particle-sized dust)
  - Cost of production down 5% to $153/t[(4)] (2019: $161/t[(4)])
- Cost reduction plan – targeting $35/t (£13/MWh[(5)]) saving vs. 2018 on 1.9Mt by 2022 – annual savings of $64 million
  - $28 million of run-rate savings from projects delivered 2019-2020
    - Low-cost fibre, LaSalle (improved rail infrastructure, woodyard and sawmill co-location) and HQ relocation
  - $36 million of additional run-rate savings to be delivered by end of 2022
    - Expansion of Morehouse plant completed Q4 2020
    - Expansion of Amite and LaSalle, increased use of low-cost fibre and improved logistics
- Additional savings from $40 million investment in three 40kt satellite plants in US Gulf – commissioning from 2021, with potential for up to 0.5Mt – targeting 20% reduction in pellet cost versus current cost

<u>Power Generation – *flexible and renewable generation*</u>

- Adjusted EBITDA up 9% to £446 million (2019: £408 million)
  - Biomass generation up 5% to 14.1TWh (2019: 13.4TWh) – record CfD availability (Q2 2020 – 99.5%)
  - Good commercial availability across the portfolio – 91% (2019: 88%)
  - Strong contracted position provided protection from lower demand and reduction in ROC[(6)] prices
  - Includes £46 million from discontinued gas (2019: £39 million)
- System support (balancing mechanism, Ancillary Services and optimisation) of £118 million (2019: £120 million)
  - Hydro and gas – one-off hydro contracts in 2019, offset by higher demand for system support services in 2020
  - Lower level of biomass activity due to higher value in generation market
  - 2019 included benefit of buying back coal generation
- Pumped storage / hydro – excellent operational and system support performance
  - £73 million of Adjusted EBITDA (Cruachan, Lanark Galloway schemes and Daldowie) (2019: £71 million)
- Coal – 8% of output in 2020 and short-term increase in carbon emissions – utilisation of coal stock by March 2021
- Covid-19 – business continuity plan in place to ensure continued operation and two major outages completed

<u>Customers – *managing the impact of Covid-19 on SME customers*</u>

- Adjusted EBITDA loss of £39 million (2019: £17 million profit) inclusive of estimated £60 million impact of Covid-19
  - Reduced demand, MtM loss on pre-purchased power and increase in bad debt, principally SME customers
  - Continue to evaluate SME options to maximise value and alignment with strategy
- Development of Drax Customers Industrial & Commercial portfolio – increased sales to high-quality counterparties providing revenue visibility, while supporting the Group's flexible and renewable energy proposition
- Renewable and energy services expand Group system support capability and customer sustainability objectives

Other financial information

- Total operating loss from continuing operations of £156 million reflects:
  - £70 million MtM loss on derivative contracts
  - £239 million obsolescence charges, principally coal (includes £13 million associated with decision not to develop new gas generation at Drax Power Station)
  - £34 million of costs associated with coal closure (redundancy, pensions and site reparations), with annual run-rate savings once complete of c.£30-35 million
- Total loss after tax of £158 million includes £18 million reduced valuation of deferred tax asset resulting from UK Government's reversal of previously announced corporation tax rate change (adjusted impact of £14 million, 3.5 pence per share)
- Capital investment of £183 million[(7)] – continued invest in biomass strategy, some delay into 2021 due to Covid-19
  - 2021 expected investment of £190–210 million (excludes proposed acquisition of Pinnacle), includes expansion of LaSalle and Amite pellet plants and satellite plant development
- Net debt of £776 million, including cash and cash equivalents of £290 million (31 December 2019: £404 million)
  - 1.9 x net debt to EBITDA, with £682 million of total cash and committed facilities
  - Expect around 2 x net debt to EBITDA by end of 2022 inclusive of proposed acquisition of Pinnacle

Notes:

(1) Adjusted Results include continuing and discontinued operations and are stated after adjusting for exceptional items (including acquisition and restructuring costs, asset obsolescence charges and debt restructuring costs), and certain derivative financial instruments fair value remeasurements.
(2) Earnings before interest, tax, depreciation, amortisation, excluding the impact of exceptional items and certain remeasurements.
(3) Borrowings less cash and cash equivalents.
(4) Cost of production in US biomass self-supply business – raw fibre, processing into a wood pellet, delivery to port of Baton Rouge and loading to vessel for shipment to UK – Free on Board (FOB).

(5) Assuming a constant rate of $USD1.45/£GBP.
Cost of ocean freight, UK port and rail cost reflected in Generation business accounts in addition to price paid to US business for the wood pellet.
(6) Renewables Obligation Certificate.
(7) Capital investment of £183 million excludes the impact of non-cash accounting adjustments on additions to fixed assets.

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"), including in respect of the proposed acquisition of Pinnacle Renewable Energy Inc. ("Pinnacle") and, (subject to and conditional upon shareholders approval and other material matters precedent to completion), thereafter the performance and integration of Pinnacle as part of Drax, together forming the enlarged business, 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 Drax's current view and no assurance can be given that they will prove to be correct. Such events and statements involve risks and uncertainties. Actual results and outcomes may differ materially from those expressed or implied by those forward-looking statements. There are a number of factors, many of which are beyond the control of the Group, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These include, but are not limited to, factors such as: future revenues being lower than expected; increasing competitive pressures in the industry; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected. We do not intend to publicly update or revise these projections or other forward-looking statements to reflect events or circumstances after the date hereof, and we do not assume any responsibility for doing so.

Results presentation and webcast arrangements

Management will host a webcast presentation for analysts and investors at 9:00am (UK Time), Thursday 25 February 2021.

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.

In order to ask a question following the presentation please either dial-in using the conference call details below or submit a written question using the Q&A functionality on the webcast platform.

A copy of the presentation will be made available from 7:00am (UK time) on Thursday 25 February 2021 for download at: www.drax.com>>investors>>results-reports-agm>>#investor-relations-presentations or use the link https://www.drax.com/investors/results-reports-agm/#investor-relations-presentations

Event Title:	Drax Group plc: Full Year Results
Event Date:	Thursday 25 February 2021
	9:00am (UK time)
Webcast Live Event Link:	https://secure.emincote.com/client/drax/drax009
Conference call and pre-register Link:	https://secure.emincote.com/client/drax/drax009/vip_connect
Start Date:	Thursday 25 February 2021
Delete Date:	Friday 31 December 2021
Archive Link:	https://secure.emincote.com/client/drax/drax009

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Chair's statement

Introduction
Drax Group's purpose is to enable a zero carbon, lower cost energy future. This informs our strategy of building a long-term future for sustainable biomass, becoming the leading provider of electricity system stability in the UK, and giving customers control of their energy.

Since 2012, we have reduced Drax's carbon emissions by over 85%, principally reflecting our long-term investment in sustainable biomass. During the year we made further progress, announcing in February 2020 an end to commercial coal generation effective in March 2021. In January 2021, we completed the sale of our gas generation portfolio, further reducing our carbon emissions. More recently, on 8 February 2021, we announced the proposed acquisition of Pinnacle Renewable Energy Inc., which is expected to position Drax as the world's leading biomass generation and supply business, alongside the continued development of Drax's ambition to become carbon negative by 2030. The proposed acquisition is subject to shareholder approval and certain court and regulatory approvals.

There remains more we can do to reduce carbon emissions. With the right negative emissions framework from the UK Government, we aim to achieve our ambition to become a carbon negative company by 2030 using BECCS technology. We believe this technology could have global application in the delivery of negative carbon emissions. Through these activities, we expect to play a major role in delivering the UK's legally binding objective to achieve net zero carbon emissions by 2050 and support global efforts to reduce carbon emissions.

Operations, Covid-19 and supporting stakeholders
2020 witnessed the outbreak of Covid-19 with unprecedented global impact. For Drax, the safety and wellbeing of colleagues remained paramount. The Board held additional meetings, overseeing the Group's response, understanding the impact on colleagues, customers, communities and other stakeholders.

As a strategic part of the UK's critical national infrastructure, we recognise our responsibility to support the country's response to Covid-19 and our stakeholders. We maintained high levels of power generation throughout 2020, and we did not seek any Covid-19 financial support from the UK Government, nor did we furlough any employees.

We provided extra support to our customers, particularly the small and medium-size enterprises (SMEs) that were adversely affected. We froze energy payments from care homes in communities local to Drax and offered debt support to customers. We supported our communities in the UK and US with charitable donations and provided over 850 free laptops to enable home learning for students in our communities.

Throughout the pandemic, we have continued to engage with shareholders to explain our expectations of the impact of Covid-19 on the Group, and the Board has considered their feedback.

Operationally, our generation portfolio performed well. In 2020, the Group was the largest source of renewable electricity by output in the UK, providing 11% of the total from its biomass and hydro generation assets. We also provided the system support services and operational flexibility required to help maintain grid stability during the Covid-19 induced changes to power demand. Additionally, we completed two major outages on our gas and biomass assets, with the latter including a turbine upgrade which will help contribute to our strategy to reduce the cost of biomass.

Sustainable biomass has a long-term role to play in the UK and global energy markets, both as a flexible and sustainable source of renewable energy, and as a means of delivering negative carbon emissions. Key to securing this long-term role is reducing the cost of biomass and growing our supply chain. We believe these actions will deliver attractive returns to shareholders and enable a long-term future for sustainable biomass, which could include negative carbon emissions via BECCS.

Our Customers business, which supplies electricity and gas to businesses in the UK, experienced significant challenges associated with the impact of Covid-19. The SME market suffered most from this impact, with lower energy demand and, in some cases, an increase in business failures. Throughout the year, our teams have focused on supporting customers as well as working to deliver improvements. We continue to monitor the situation and assess the options for this part of the business.

Results and dividend
Adjusted EBITDA in 2020, including both continuing and discontinued operations, was £412 million (see below for further detail and a reconciliation to relevant IFRS measures). This was a small increase on 2019 (£410 million), despite the impact of Covid-19, which was principally associated with the performance of our Customers business. We believe this was a strong performance within the context of a challenging environment.

At the 2020 half year results, we confirmed an interim dividend of £27 million (6.8 pence per share). The Board proposes to pay a final dividend in respect of 2020 of £41 million, equivalent to 10.3 pence per share, making the full year 2020 dividend £68 million (17.1 pence per share) (2019: £63 million, 15.6 pence per share). This represents a 7.5% increase on 2019 and is consistent with our policy to pay a dividend which is sustainable and expected to grow as the strategy delivers stable earnings, strong cash flows and opportunities for growth.

In determining the continued appropriateness of the dividend, the Board considered a range of factors. These included trading performance, current liquidity, the outlook for the year in the context of Covid-19, as well as the steps being taken to support all stakeholders. The Board believes payment of the final dividend remains consistent with the Group's commitment to all stakeholders.

The Group has a clear capital allocation policy which it applied throughout 2020. In determining the rate of growth in dividends from one year to the next, the Board will take account of cash flows, the less predictable cash flows from the Group's commodity-linked revenue streams and future investment opportunities. The latter includes our stated intent to invest to expand the Group's biomass supply chain and reduce the cost of biomass. If there is a build-up of capital, the Board will consider the most appropriate mechanism to return this to shareholders.

People and values

The Board is committed to building a supportive, diverse and inclusive working environment where all colleagues feel they belong. To underpin this, in September we launched a new Diversity and Inclusion Policy and approach.

Listening to employees and ensuring a two-way dialogue is vital to understanding where we are doing well and where we can improve. In 2020, we asked employees for feedback on our values and their experience of working at Drax – which informed the evolution of our values – an important part of engagement as Drax continues to develop and change. Will Gardiner, our CEO, and I met regularly with the chairs of our workforce engagement forums. These meetings provided valuable ongoing insights and feedback for the Board in a period of significant change. This helped us to support the business in managing the transition to remote working and ensuring the safety and wellbeing of our workforce. On behalf of the Board, I would like to thank Will and the executive team for their leadership during this extraordinary year and all of our employees who have responded so well to the challenges presented in 2020.

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

Sustainability is at the heart of what we do and we believe that achieving a positive economic, social and environmental impact helps us create long-term value. We remain committed to promoting the UN Global Compact principles on respect for human rights, labour rights, the environment and anti-corruption.

Board changes

In April 2020, Andy Koss stepped down from the Board after four years as an Executive Director and 15 years with the Group. I would like to thank Andy for his valuable contribution to the Group in this period.

Conclusion

In 2020 we delivered a strong financial and operational performance in the context of the very challenging environment caused by Covid-19, supported our stakeholders and continued to pay a sustainable and growing dividend in line with our policy.

At the same time, we continued to make progress with our strategic objectives. Our biomass strategy is clear; we believe it can deliver sustainable long-term value to our stakeholders as we realise our purpose of enabling a zero carbon, lower cost energy future and we remain focused on this objective.

Philip Cox CBE
Chair

CEO's review

Drax Group's purpose is to enable a zero carbon, lower cost energy future. To deliver that purpose, our strategy is to build a long-term future for sustainable biomass, become the leading provider of system stability in the UK and give customers control of their energy.

Our purpose also drives our commitment to the battle against climate change. Since 2012 we have reduced the Group's carbon emissions by over 85%, we are the UK's largest renewable energy generator by output and have an ambition to become a carbon negative company by 2030.

Operationally, 2020 was a successful year, as we delivered increases in pellet production and increased availability across our generation fleet, in spite of the challenges we faced due to the Covid-19 pandemic. Our colleagues have responded tremendously to those challenges, with operational staff on site at power stations and pellet plants working in a safe manner, while the rest of our colleagues have had to work from home. As a result, we have had a limited number of Covid-19 cases although, sadly, one colleague in the US died with the virus.

Strategically, 2020 was a pivotal year for the Group. In February 2020 we announced an end to commercial coal generation, effective in March 2021. In January 2021 we completed the sale of our gas generation portfolio, which was announced in December 2020. Following these actions we believe our carbon emissions will be amongst the lowest of any European energy company.

As we work towards our purpose we continue to develop our options for BECCS, which we believe can become a world leading, UK-led and exportable solution for large-scale carbon negative power generation. Subject to the right negative emissions framework from the UK Government, we expect to be in a position to make further investment in the development of this option in 2021 and to advance our ambition to become a carbon negative company by 2030.

In February 2021 we were pleased to announce the proposed acquisition of Pinnacle Renewable Energy Inc. (Pinnacle) which we believe will position Drax as the world's leading biomass generation and supply business, delivering against our strategy to increase our self-supply capability, reduce our biomass production cost and create a long-term future for sustainable biomass. Completion of the proposed acquisition is subject to shareholder consents and the satisfaction of certain conditions precedent. More information on this can be found in our separate announcement released on 8 February 2021.

As we advance our strategy, we expect to deliver higher quality earnings, reduce commodity exposure and create opportunities for growth aligned with the UK's legally binding objective to become carbon neutral by 2050. This underpins our continued commitment to a sustainable and growing dividend.

Summary of 2020

Adjusted EBITDA, a key financial KPI, of £412 million from continuing and discontinued operations represents a small increase on 2019 (£410 million), inclusive of an estimated £60 million impact associated with Covid-19, principally on our Customers business. We believe that this was a strong underlying performance which reflects increased pellet production, biomass cost reduction and renewable power generation, offsetting the impact of Covid-19 on the Customers business. The Total operating loss for the year was £156 million, predominantly reflecting asset obsolescence charges and provisions for other costs following the announcement of the closure of coal generation at Drax Power Station.

Our balance sheet is strong with cash and total committed facilities of £682 million at 31 December 2020 and net debt of £776 million, giving a ratio of 1.9x net debt to Adjusted EBITDA from continuing and discontinued operations for the full year, in line with our long-term target.

During the year we completed a series of financing activities that extend the maturity of our debt to 2030 and reduce the cost of our debt whilst retaining the link between carbon emissions and the level of interest paid via a new ESG-linked revolving credit facility (RCF).

In further recognition of the progress we have made on ESG performance, in December 2020 the CDP awarded Drax an A- rating for our CDP Climate response (2019: C). Separately, we are now a TCFD Supporter and that framework is reflected in our forthcoming annual report.

Safety remains a primary focus. Since March 2020 our operational colleagues, working at power stations or pellet plants, have had to work in new ways to protect against outbreaks of Covid-19 on site, while maintaining our contribution to the integrity of the UK power system. I am very pleased with everyone's efforts in this area and that we did not have any outbreaks of Covid-19 at our sites in 2020.

In this context, the Total Recordable Incident Rate (TRIR), a key scorecard measure of safety, was 0.29 (2019: 0.22). This was not the level we expect. Although there were no major incidents, the number of minor reportable injuries did increase. We take any increase in the number of reportable incidents seriously and have implemented processes to improve risk assessment, alongside a campaign to raise awareness of good practice, ensuring the correct personal protective equipment is used.

Operational performance

In the US southeast, our Pellet Production operations reported Adjusted EBITDA of £52 million up 63% (2019: £32 million). This was a strong performance, reflecting increased levels of production, improved pellet quality and a continued focus on cost reduction.

Pellet production was 1.5 million tonnes (Mt), an increase of 7% (2019: 1.4Mt), which reflects a strong operational performance and good fibre availability compared to 2019 when heavy rainfall restricted commercial forestry activity.

Pellet quality, as measured by the level of fines (larger particle-sized dust) in each cargo improved in 2020. Lower levels of fines result in biomass that is easier and safer to handle throughout the supply chain. As such there are safety, operational and cost benefits in reducing the level of fines and we continue to work hard to deliver these improvements.

We remain focused on opportunities to deliver savings, across the supply chain, as part of our target to reduce the cost of biomass to £50/MWh on 5Mt by 2027.

As a part of this long-term goal we previously identified an intermediate programme of supply chain improvements, efficiencies and investments. We believe this will reduce the cost of biomass by $35/tonne (£13/MWh) on our existing portfolio by 2022 compared to 2018 (programme commenced in 2019). In 2020 this programme, alongside increased output and other incremental operational improvements, resulted in an average production cost of $153/tonne (2019: $161/tonne), a 5% saving year-on-year.

We expect to deliver further savings, as a part of this programme, by expanding our existing sites (LaSalle, Morehouse and Amite) by 0.4Mt. At the end of 2020 we completed the first phase of these – 0.1Mt at Morehouse – with the remaining capacity of 0.3Mt expected to come on stream by 2022. Realising these programmes will expand total capacity to 1.9Mt, providing economies of scale and allowing greater utilisation of low-cost residues.

In February 2020 we announced plans to further expand our existing infrastructure with the development of three new 40,000 tonne satellite plants. These sites will use lower cost sawmill residues and leverage our existing infrastructure in the US southeast to produce biomass at around 20% below the current cost of production. We believe this model could provide 0.5Mt per annum of additional lower-cost biomass and that these projects advance the Group's plans to create a long-term future for sustainable biomass, offer returns significantly ahead of the Group's cost of capital and attractive payback periods.

In Generation, the portfolio has performed strongly, with Adjusted EBITDA of £446 million from continuing and discontinued operations, an increase of 9% compared to 2019 (£408 million). The portfolio produced 6% of the UK's electricity between October 2019 and September 2020 (the most recent period for which data is available) and 11% of the UK's renewable electricity, making Drax the largest renewable generator by output in 2020.

This level of renewable generation is only possible thanks to a combination of portfolio availability and a resilient supply chain.

Portfolio availability (calculated based on the availability of each generation asset weighted by EBITDA contribution) was 91% (2019: 88%). Underlying this performance is a robust maintenance regime. During the year we completed major planned outages at Damhead Creek and Drax Power Station. The latter included the second in a series of high-pressure turbine upgrades across three biomass units which will deliver incremental thermal efficiency improvements and lower maintenance costs, reducing the cost of our biomass power generation. The final outage on the unit which operates under the contract for difference (CfD) scheme is scheduled to take place in 2021.

The logistical challenges of these major works, in a Covid-19 operating environment, are significant. We delivered the outages with minimum delay thanks to the diligence, skill and hard work of our teams and contractors.

Our biomass supply chain performed well and to date there has been no material impact from Covid-19 or Brexit on our supply chain or those of our key suppliers.

Our Scottish hydro operations – Cruachan Pumped Storage Power Station (Cruachan), and the Lanark and Galloway hydro schemes – have performed well. These assets provide renewable electricity, system support services, peak power generation and Capacity Market income. Taken together with the Daldowie energy from waste plant, Adjusted EBITDA was £73 million (2019: £71 million).

System support services (Balancing Market, ancillary services and portfolio optimisation) are an important part of the Group's strategy. They are also critical to the safe and reliable operation of the power system. Historically, baseload thermal power plants provided both electricity and a full range of system support services. As the UK power system decarbonises, intermittent renewable generation has progressively displaced these assets, creating new challenges in balancing the system.

Throughout 2020 our portfolio supported the system operator in managing the impact of Covid-19 on power demand. In the first half of 2020, a reduction in demand for electricity required flexible generators, like Drax, to turn-down and stabilise the system. In the second half of 2020, a combination of cold weather, lower wind speed and asset availability issues led to periods of increased demand. At these times, our flexible assets were able to increase output to help balance the system.

System Support Services and Optimisation – our measure of performance in the provision of these services was gross profit of £118 million, a small reduction on 2019 (£120 million), which included income from specific constraint contracts which were not expected to recur in 2020.

Cruachan, an important source of system support, was successful in a tender process to procure specific non-generation services – inertia and reactive power. The contract, which commenced in July 2020, is worth up to £5 million per year and is over a six-year period. This was the first tender of its kind and we expect the system operator to conduct further tenders over the coming years.

Merchant power prices remain an important part of the Group's earnings, but by focusing on flexible and renewable generation, the importance of merchant power prices has reduced. We have a strong forward power sales position in place until 2022. Beyond this date, whilst an exposure exists, it is largely associated with the three biomass units which operate under the Renewable Obligation Certificate (ROC) scheme.

In January 2021, following the UK's exit from the European Union, the UK introduced a new carbon emissions trading scheme to replace the existing European scheme to which the UK no longer has access. We believe that robust carbon pricing is essential for decarbonisation and an important component of long-term power prices. With a growing level of interconnection between the UK and continental Europe as well as growing ambition in terms of EU energy policy we believe that in the long-term UK carbon and power prices could trend towards European prices. We also believe that with greater demand for system support services, near-term power prices could become more volatile – driven by system support service requirements rather than commodity market fundamentals.

The end of commercial coal operations in March 2021, and final closure of the generating units in September 2022, is expected to result in annual cost savings of £30-35 million once complete. We believe that this will help to support the financial model for long-term biomass generation at Drax Power Station when the current renewable subsidy schemes end in March 2027. An employee consultation process was completed in 2020. Implementing the changes will result in the reduction of 206 roles and one-off costs of £34 million.

Our Customers business reported a loss at the Adjusted EBITDA level of £39 million (2019: £17 million profit). This reflects the significant reduction in demand caused by Covid-19, the cost associated with exiting hedged positions as market prices have fallen and the increased risk of business failure and bad debt – principally in the SME market, which represents around 30% of monthly billing. Looking beyond the impact of Covid-19 we will continue to monitor the wider Customer portfolio to ensure alignment with the Group's strategy.

Performance in Industrial and Commercial markets was stronger with the addition to the portfolio of long-dated power sales contracts to water utilities, providing revenue visibility over the next five years. Just as the Generation business provides system support services, so too can our Industrial and Commercial customer portfolio. Over time, we expect that this part of the Group, through efficiency and demand-side response, can contribute increasingly to the Group's system support services alongside generation. We continue to believe this approach will support long-term growth.

The Customers business has a differentiated market position – selling purely renewable power while helping over 2,000 independent renewable generators access the market.

Biomass strategy

Biomass has an important role to play in global energy markets as a flexible and sustainable source of renewable energy, as well as offering the potential to deliver negative emissions via BECCS. We believe that the key to securing this long-term role is to reduce the unit cost of biomass and develop greater direct control of the supply chain.

The Group is targeting control of 5Mt of self-supply capacity by 2027 (currently 1.6Mt, plus 0.4Mt in development) and to reduce the cost of biomass to £50/MWh by 2027. Through the delivery of these strategic objectives Drax aims to create a long-term future for sustainable biomass, including third-party supply, BECCS and merchant biomass generation.

The proposed acquisition of Pinnacle accelerates the Group's strategic objectives by adding 2.9Mt of biomass production capacity from 2022, being a combination of capacity available to Drax for self-supply and long-term third-party supply contracts to counterparties in Asia and Europe. In 2019, Pinnacle's production costs were around 20% lower than our own.

We intend to deliver further savings through the optimisation of existing biomass operations, greater utilisation of forestry residues, such as sawmill residues and the use of other lower cost renewable feedstocks.

The UK's Climate Change Committee (CCC) has set out what is required for the country to achieve its legally binding objective of being net zero by 2050. This includes an important role for BECCS to remove carbon from the atmosphere, creating negative emissions. BECCS is the only large-scale solution for negative emissions with renewable electricity and system support capabilities. Through combining BECCS with its existing biomass generation units at Drax Power Station, we believe we could remove millions of tonnes of carbon each year from 2027. In doing so Drax aims to become a carbon negative company by 2030.

The technology to deliver post-combustion BECCS exists and is proven at scale. In September 2020, Drax commenced a trial of one such technology provided by Mitsubishi Heavy Industries. In addition, we are developing innovative technology options, including C-Capture, a partnership with Leeds University, IP Group and BP, which has developed an organic solvent which could be used for BECCS.

Drax Power Station is in the Humber region, an area with the highest absolute level of carbon emissions in the UK, owing to the industry and manufacturing located there. This makes the region a natural site for large-scale carbon capture and storage for energy and industry. We continue to work in partnership with Equinor, National Grid and others as part of the Zero Carbon Humber campaign, which we believe can bring new investment, new jobs and world-leading and exportable negative emissions technologies to the UK.

We expect further clarity on the regulation and support for BECCS and the Humber cluster over the next two years and stand ready to develop this technology which is necessary in allowing the UK to deliver its target of a net zero economy by 2050.

We expect global demand for wood pellets to increase in the current decade, as other countries develop decarbonisation programmes that recognise the benefits of sustainable biomass for generation, opening up new sustainable markets. Whilst there is an abundance of unprocessed sustainable biomass material globally, there remains limited capacity to convert these materials into energy dense pellets, which have a low-carbon footprint and lower cost associated with transportation. The proposed acquisition of Pinnacle supports our biomass self-supply strategy which can be used as part of our options for merchant generator or BECCS, but equally it provides an immediate capability to serve the global market for biomass, underpinned by long-term off-take agreements.

Biomass sustainability

When sustainably sourced, biomass is renewable – and sustainably sourced biomass is an important part of UK and European renewable energy policy.

The legal framework and science which underpins this assessment is clear. Carbon emitted in the generation of renewable electricity is absorbed by and accounted for in the growth of forest stock. This is based on well-established principles set out by the Intergovernmental Panel on Climate Change, a UN body, which reconfirmed its long-standing position on sustainably sourced biomass in 2019. This interpretation is reflected in the European Union's second Renewable Energy Directive (RED II) and Taxonomy rules, which mirror RED II.

The Group provides full disclosure of the carbon emissions associated with our generation activities as part of our annual reporting. We also report the carbon emissions associated with our biomass supply chain, providing a greater level of disclosure than other forms of electricity generation that also have carbon emissions associated with their supply chains.

The Group's biomass life cycle carbon emissions in 2020 were 109kgCO2e/MWh of electricity (2019: 124 kgCO2e/MWh), almost half the UK Government's 200kgCO2e/MWh of electricity limit for biomass.

We maintain a rigorous and robust approach to biomass sustainability, ensuring the wood fibre used and pellets produced are fully compliant with the UK's mandatory standards as well as those of the EU. We use low-cost sawmill residues and forest residues, which are a by-product of commercial forestry processes, and thinnings from growing forests, which help improve forest stocks and forest health. The carbon emissions from using sustainably sourced biomass to produce electricity are balanced by the absorption of carbon from growing forests.

In the US southeast, the source for most of our biomass, increased demand for wood fibre has directly contributed to increased growth and protection of forests. Inventories have increased by over 90% since 1950 as more carbon is stored year after year, despite harvests also increasing.

Our forestry commitments are based on the latest available science from Forest Research, the UK's principal organisation for forest science. Our Responsible Sourcing Policy for Woody Biomass aims to ensure we only source biomass that makes a net positive contribution to climate change, protects and enhances biodiversity and has a positive social impact on local communities.

Our Policy goes beyond compliance, and our Independent Advisory Board on Sustainable Biomass (IAB), chaired by Sir John Beddington, provides guidance and independent oversight on the sourcing choices we make. The advice and scrutiny from the IAB means stakeholders can be assured that Drax will keep our policies under review and that the biomass we use follows the latest scientific research and best practice.

Other developments

In our Hydro business we are continuing to develop a long-term option for the expansion of Cruachan. Its location, ability to generate and absorb power from the grid, and full range of system support services makes it strategically important to the management of the UK power system and aligned with its future needs.

We are continuing to develop options for new gas generation, including four small open cycle gas turbine units at sites in Wales and eastern England. These flexible assets are intended to help meet peak demand and provide non-generation system support services. Any development remains subject to the Group's decarbonisation plans and the right price in a future Capacity Market auction.

We have taken the decision not to pursue the option to develop a new combined cycle gas power station at Drax Power Station and continue to assess options for the site.

People and values

Sustainability is at the heart of the Group and its culture. We believe that achieving a positive economic, social and environmental impact is key to delivering long-term value creation. Drax is a signatory to the UN Global Compact (UNGC) and we are committed to promoting the UNGC principles on respect for human rights, labour rights, the environment and anti-corruption.

The Board is committed to building a supportive, diverse and inclusive working environment where all colleagues feel they belong. This is underpinned by a new Diversity and Inclusion Policy and approach. We value the views of our employees and have incorporated their feedback in the development of our values. 2020 saw a significant improvement in the level of engagement which we measure as a KPI on the Group's corporate scorecard – used for our 2020 cash bonus plan and determination of vesting under our 2018 LTIP due to vest in 2021.

The strong performance and positive response to Covid-19 across the Group is testament to the hard work, diligence and spirit of our employees. I am proud to have them as colleagues and I thank them for their efforts in this most challenging of years.

Outlook

Looking forward, our focus is on progressing our strategy: to build a long-term future for sustainable biomass; to be the leading provider of system stability in the UK and to give customers control of their energy. Through achieving these strategic objectives, we expect to deliver tangible financial benefits – long-term earnings growth, strong cash generation and attractive returns for our shareholders.

Our principal focus remains the expansion of our biomass supply chain and the reduction of cost to provide a long-term future for sustainable biomass. This includes our ambition to become a carbon negative company by 2030 underpinned by the development of BECCS, using technology already proven at scale to deliver negative carbon emissions. Through our expertise in biomass we are leading the way in developing this world class technology and response to climate change.

We are making good progress with the delivery of our strategy and will build on this as we continue to play an important role in our markets as well as realising our purpose of enabling a zero carbon, lower cost energy future for the UK.

Will Gardiner
CEO

Financial review

Adjusted EBITDA (Continuing Ops)[1]	Adjusted EBITDA (Discontinued Ops)	Adjusted EBITDA (Continuing and discontinued Ops)	Total Operating (Loss)/ Profit
£366m (2019: £371m)	£46m (2019: £39m)	£412m (2019: £410m)	£(156)m (2019 re-presented: £48m)
Adjusted Revenue[1]	**Adjusted Profit After Tax[1]**	**Net debt[1]**	**Cash Generated from Operations**
£4,235m (2019 re-presented: £4,457m)	£96m (2019 re-presented: £99m)	£776m (2019: £841m)	£413m (2019: £471m)
Total revenue	**Total Loss After Tax**	**Net Debt to Adjusted EBITDA from continuing and discontinued operations[1]**	**Dividend per Share**
£4,245m (2019 re-presented: £4,468m)	£(195)m (2019 re-presented: £(10)m)	1.9x (2019: 2.1x)	17.1p (2019: 15.9p)

[1]Alternative performance measures (income statement values described as "Adjusted", plus net debt and net debt to Adjusted EBITDA calculations) are used throughout this financial review. All alternative performance measures are described in full and reconciled to corresponding IFRS values below.

The sale of Drax Generation Enterprise Ltd (which contained the Group's CCGT portfolio) to VPI Generation Limited was announced on 15 December 2020 and completed on 31 January 2021. The income, expenditure and cash flows of the disposed operations for both the current and previous year have been presented as discontinued operations, and the assets and liabilities of the disposed operations as at 31 December 2020 have been presented as held for sale in the Group's consolidated financial statements. Amounts presented in this financial review are for continuing operations unless otherwise stated. Reconciliations between continuing, discontinued and total amounts for each period are shown in note 18. Comparatives for 2019 have been re-presented to reflect the income and expenditure for the disposed operations as discontinued.

Tables in this financial review may not add down / across due to rounding.

Introduction

The Group's financial performance in 2020 has been robust, delivering Adjusted EBITDA from continuing and discontinued operations of £412 million, which represents a small increase compared to the previous year despite an estimated impact of approximately £60 million as a result of the Covid-19 pandemic, most notably affecting our Customers business (2019 Adjusted EBITDA from continuing and discontinued operations: £410 million).

Strong availability and output from our biomass generation units at Drax Power Station underpinned this result. In addition, we saw value from system support services captured across our flexible generation portfolio and the continuing delivery of our cost reduction targets for biomass pellet production.

We estimate the total financial impact of Covid-19 to be approximately £60 million. In our Customers business. we witnessed a reduction in demand an increased risk of business failure affecting our customers. This is reflected in costs incurred to exit our previously hedged positions and an increase in the provision for bad debt. In the Generation business, we saw a reduction in ROC recycle values and incurred increased outage costs, but largely offset this by delivering improved returns from flexible generation. We were also able to capture benefits from our substantial derivatives portfolio during a volatile period in markets.

Following the Board's decision to close our remaining coal-fired generation operations, which was announced in February 2020, we recognised asset obsolescence charges in respect of the associated fixed assets of £226 million during the year. In addition, following an employee consultation process, we have booked provisions in respect of redundancy, pension costs, and other closure costs totalling £34 million. Other closure costs include a provision for work to ensure the safety of the site following the closure of the coal units and a small inventory write down for coal we no longer expect to burn prior to closure. All costs associated with the closure of the coal units have been treated as exceptional items in the income statement.

The Total operating loss for the year – which includes depreciation, amortisation and the effect of exceptional items and certain derivative remeasurements – was £156 million (2019 re-presented: profit of £48 million). The year-on-year reduction principally reflects £239 million of asset obsolescence charges plus the £34 million of coal closure costs described above. The asset obsolescence charges are comprised of £226 million related to the coal units and a further £13 million in respect of the option to develop a new combined cycle gas turbine at Drax Power Station, which is no longer expected to proceed. These one-off costs, the majority of which are non-cash, have been partially offset by a reduction in losses arising on the remeasurement of derivative contracts, from £121 million in 2019 to £70 million in 2020, as a result of sterling strengthening during the year.

On 15 December 2020, we announced the sale of our CCGT portfolio to VPI Generation Limited for cash consideration of up to £193 million, subject to customary adjustments for working capital. This includes £29 million of contingent consideration associated with the option to develop a new CCGT at

Damhead Creek. The transaction subsequently completed on 31 January 2021. The CCGTs have performed well since being acquired in December 2018, delivering £46 million of Adjusted EBITDA in 2020 (2019: £39 million). However, they do not form part of the Group's core flexible and renewable generation strategy. The results of the CCGTs have been classified as discontinued operations in the Consolidated Financial Statements.

We continued to strengthen our balance sheet and capital structure during 2020. In August, we agreed a new infrastructure term loan facility agreement with committed funds in both sterling (£45 million) and euro (€126.5 million), with an option to increase by up to a further £75 million. In November €31.5 million was drawn under this agreement and a further £53 million was committed under the option which was subsequently drawn in December. These commitments have competitive effective interest rates inside the Group's current average cost of debt. Also in November we issued a new €250 million euro-denominated bond at 2.625% which achieved a rate of 3.24% when swapped back to sterling, a record low cost for a Drax public market issuance. At the same time, we redeemed the existing £350 million sterling bond and the £125 million ESG facility, resulting in an improved maturity profile and lower all-in cost of our debt portfolio. We also refinanced our Revolving Credit Facility, extending its final maturity date from 2022 out to 2025 and converted it into a £300 million facility with ESG credentials. This delivers further enhancements to liquidity. Overall, net cash payments in respect of debt reduced our borrowings by £176 million (2019: increased borrowings by £636 million, linked to acquisitions).

We continue to generate strong net operating cash inflows. Net cash from operating activities was £306 million in 2020 (2019: £413 million). The reduction when compared to the prior year principally reflects a net cash outflow from rebased derivative contracts of £27 million, as the benefit of cash accelerated from such activity unwound over the course of the year (2019: net cash inflow of £104 million). In addition, 2020 saw the introduction of the new tax payment regime for large companies, accelerating tax payments in the year of transition. Cash capital expenditure in the year was £174 million (2019: £171 million).

The Group's liquidity position remains strong and provides a solid platform from which we can continue to execute our strategy. At 31 December 2020, we held cash of £290 million (2019: £404 million) and total cash and total committed facilities of £682 million (2019: £615 million).

We remain fully committed to payment of a sustainable and growing dividend. The Board will recommend at the forthcoming Annual General Meeting a final dividend that takes total dividends for the financial year to £68 million, or 17.1 pence per share, an increase of £5 million or 1.2 pence per share when compared to 2019.

Financial Performance

Reconciliation of Adjusted EBITDA to Total Operating Loss

	£m
Adjusted EBITDA from continuing and discontinued operations	**412**
Remove EBITDA contribution from CCGT portfolio sold on 31 January 2021	(46)
Adjusted EBITDA from continuing operations	**366**
Depreciation, amortisation and losses on disposal of fixed assets	(177)
Adjusted Operating profit	**189**
Asset obsolescence charges due to coal closure	(226)
Asset obsolescence charges due to decision not to develop CCGT at Drax Power Station	(13)
Provision for coal closure costs	(34)
Acquisition and restructuring costs	(1)
Derivative remeasurements	(70)
Total Operating Loss	**(156)**

Adjusted EBITDA

Group Adjusted EBITDA from continuing and discontinued operations of £412 million was slightly ahead of the prior year (2019: £410 million) despite the impact of Covid-19. This represents a robust performance in what has been a challenging year. Excluding the contribution from the CCGT portfolio, classified as discontinued in the consolidated financial statements, Adjusted EBITDA from continuing operations was £366 million (2019: £371 million).

Our Generation business contributed Adjusted EBITDA from continuing and discontinued operations of £446 million (2019: £408 million), an increase of 9% or £38 million compared to the previous year. This result was underpinned by a 5% increase in total output from biomass in 2020, to 14.1TWh compared to 13.4TWh in 2019. This was supported by availability of 91% (2019: 88%). Our strong generation hedge book also provided protection against volatility in commodity markets resulting from Covid-19.

Despite this performance, Generation has been affected by the pandemic. ROC recycle values fell during 2020 and the cost of performing outage work at our sites increased as a result of implementing social distancing measures to enable this work to be carried out safely. These factors were offset by strong performance in the short-term and balancing markets plus some value captured from within the derivatives portfolio attributable to market volatility during the Covid-19 pandemic.

Our pumped storage and hydro assets in Scotland continued to perform well. Cruachan pumped storage power station contributed significantly to overall gross margin from system support activity of £118 million. This reduced slightly from £129 million in 2019, due to specific constraint contract income and benefits associated with closing out positions as our coal generation forecasts reduced, neither of which were expected to recur in

2020.This reflects the benefit of generating plant that is flexible and can turn up and down at short notice to meet demand.

The CCGT portfolio performed strongly, particularly in the final quarter of the year as cold weather and low wind led to opportunities in the balancing market. Total output from the CCGTs was 2.8 TWh (2019: 2.9 TWh) with an EBITDA contribution of £46 million (2019: £39 million). On 15 December 2020, we announced the sale of the CCGT portfolio to VPI Generation Limited for total cash consideration of up to £193 million, including £29 million of consideration contingent on the development of a new CCGT at the Damhead Creek site. The sale subsequently completed on 31 January 2021. Initial cash consideration received on 1 February was £188 million, including £24 million in respect of adjustments for working capital.

Coal contributed approximately 8%, or 1.6TWh, of our total generation volume in 2020 (2019: 3%) and a small loss, as the economics remain very challenging. Following the decision to close the remaining coal units, made in February 2020, total closure costs of £34 million have been provided for and treated as exceptional items and excluded from Adjusted EBITDA – a reconciliation of these amounts is provided in note 17. The trading performance of the coal units continues to form part of our Adjusted results and will do so until closure. The units will cease commercial generation in March 2021 and close entirely following the completion of Capacity Market obligations in September 2022, at which point we expect to see cost savings in excess of £30 million per annum. Some of this benefit will begin to materialise during 2021.

The Generation business acquires biomass pellets predominantly in US dollars, Canadian dollars and euros, which we actively hedge over a rolling five-year period, to manage our foreign currency exposure to a weaker pound. The renewable support (CfD and ROCs) received in respect of biomass generation is subject to UK inflation indices, while some of our biomass pellet contracts are subject to US inflation indices. This exposure is managed as part of our active long-term financial derivatives hedging programme.

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

From time to time, for example where market conditions or our trading expectations change, action may be needed in accordance with these policies to rebalance our portfolio. During 2020, this included restructuring in-the-money foreign currency exchange and inflation contracts, to balance short and long positions across the duration of the hedge. The value of such activity increased in 2020, due to market volatility during the Covid-19 pandemic. The financial impact of these activities – which is driven by market prices at the point of execution – is included within the cost of sales of our Generation business and therefore is reflected in our Adjusted Gross profit and Adjusted EBITDA. This reflects the fact that the principal purpose of holding these contracts is to manage and de-risk the cost of purchasing fuel.

Performance in our Pellet Production business has been strong, in terms of both quality and quantity of pellets. Adjusted EBITDA of £52 million (2019: £32 million) increased by 63% and reflects a record year for output with 1.5Mt of pellets produced (2019: 1.4Mt) and 1.5Mt shipped (2019: 1.3Mt). In addition to increasing output and lowering the overall cost per tonne, we improved pellet quality during the year, with a reduction in fines (larger particle-sized dust) when measured at disport from 7.9% in 2019 to 5.0% in 2020, a 37% reduction in the year.

This performance comes against a backdrop of Covid-19 and Hurricane Laura, the latter of which significantly affected the areas where we operate in August 2020. Our teams successfully operated our plants throughout these challenges to deliver a strong performance, with total pellets produced 6% ahead of the previous year – a testament to their hard work, focus and shared commitment to the business and one another.

We continued to make good progress with our biomass cost savings initiatives, with the overall cost per tonne of pellets produced in the year standing at $153 per tonne (2019: $161 per tonne), a reduction of approximately 5%. In addition to the increase in tonnage year-on-year contributing to the lower cost per tonne, we commissioned a dry shavings facility at the La Salle plant, enabling us to process less expensive residual fibre products.

As set out in the CEO's statement, above, there are three potential business models for post-2027 operations. We believe that the strategy to expand self-supply and reduce biomass costs supports all three of these models.

Our Customers business made an Adjusted EBITDA loss of £39 million in 2020 (2019: Adjusted EBITDA profit of £17 million). We believe the reduction of £56 million can be primarily attributed to the impact of the Covid-19 pandemic. Excluding this impact, the result for the year would have been more in line with that in 2019.

The majority of this impact was taken in the first half of the year and, despite a further national lockdown during November 2020, the second half of the year has out-turned broadly in line with the expectations we set out at our interim results in July.

We have experienced reduced demand in the Customers business as a consequence of lockdown and social distancing measures in the UK, although this effect saw some recovery in the second half of the year. Combined electricity and gas volumes sold in 2020 of 17.5TWh were approximately 7% lower than last year (2019: 18.9TWh). As a result, revenues have reduced, and we incurred costs to exit previously hedged positions as demand estimates reduced and market prices fell. Overall, gross profit in the Customers business reduced by £50 million, from £134 million in 2019 to £84 million in 2020. This reduction was primarily attributable to the effects of the pandemic. This impact was partially mitigated by delivering operating cost savings across the Group during the year, with consolidated Adjusted operating and administrative expenses from both continuing and discontinued operations £16 million lower in 2020 than the prior year.

Covid-19 has also increased our expectation of business failures and bad debt charges, particularly in the SME segment and among customers in higher-risk industries. This is reflected in the charge for impairment losses on trade receivables for the year of £43 million, which has increased by £25 million compared to the prior year (2019: £18 million). The bad debt charge for the year represents 2% of total Customers revenue, including revenues derived from lower-risk segments and larger Industrial and Commercial customers, up from less than 1% in 2019.

The overall provision for trade receivables at the end of 2020 of £60 million (2019: £47 million) is based on a consistent methodology with that used at the end of prior periods, updated to reflect our experience of cash collections and potential customer business failures in the period since the first lockdown came into effect in March 2020, and using that experience to inform our assumptions about future performance. In addition, we have credit insurance coverage to help further mitigate some of this risk.

We will continue to monitor the wider Customers portfolio to ensure alignment with the Group's strategy. Whilst we remain cautious about the trajectory for Covid-19 recovery in our forecasts, we anticipate a return to profitability at EBITDA level for this business.

Central and other costs, which reflect our core services functions including our innovation teams, were £50 million in 2020 (2019: £46 million). The increase from the previous year reflects additional investment of £8 million in innovation activities in support of our strategy, including the development of BECCS and the zero-carbon Humber project, and an increase in insurance costs. Other central operating costs reduced – in 2019 we incurred one-off costs associated with implementing a new operating structure and a higher level of costs associated with working capital management initiatives which have not recurred in 2020. In 2021 we expect the overall trend of investment in innovation to continue.

Total Operating (Loss)/Profit

The Total operating loss for 2020 of £156 million (2019 re-presented: profit of £48 million) includes the effect of exceptional items and remeasurement gains and losses on derivative contracts that are excluded from Adjusted results.

In February 2020, we announced the decision to cease commercial coal generation at Drax Power Station by March 2021, with the units closing fully once existing Capacity Market obligations are concluded in September 2022. Following this decision, we recognised asset obsolescence charges in respect of associated fixed assets of £226 million. We have also provided for total closure costs of £34 million in respect of employee termination benefits and necessary site reorganisation costs, within the £25-35 million range previously estimated. A breakdown of these costs, and the location of the provisions in our consolidated balance sheet, is provided in note 17. All costs associated with the closure of coal have been treated as exceptional items and excluded from Adjusted results. See notes 7 and 17 for more information.

Net fair value remeasurement losses on derivative contracts included in operating profit were £70 million (2019 re-presented: losses of £121 million) reflecting movements in the mark-to-market position on our portfolio of commodity and financial derivative contracts, to the extent they do not qualify for hedge accounting. A further £22 million of net fair value remeasurement gains on power, gas and carbon trades related to the CCGT portfolio (2019: £12 million loss) is included in the result arising on discontinued operations.

The net losses in 2020 are predominantly the result of the strengthening of sterling in the period, which drives the unwind of previously built-up gains resulting from the value of our extensive portfolio of foreign currency exchange contracts. These exchange contracts provide protection against changes in exchange rates for fuel purchases denominated in foreign currencies over a five-year period.

Depreciation and amortisation in the year, including losses on disposal of assets, totalled £177 million (2019 re-presented: £194 million) a decrease of £17 million compared to the previous year. Following the decision taken in February 2020 to close coal generation, associated fixed assets were fully written down and no longer attract any depreciation charges. A further £19 million (2019: £16 million) of depreciation relates to the CCGT portfolio and is presented in the result from discontinued operations.

Profit After Tax and Earnings per Share

Adjusted profit after tax from continuing and discontinued operations of £118 million (2019: £118 million) results in Adjusted earnings per share (EPS) of 29.6 pence (2019: 29.9 pence).

Adjusted profit after tax and EPS from continuing and discontinued operations have remained broadly consistent year-on-year, largely reflecting a combination of the factors described above, offset by an £8 million increase in Adjusted net interest charges and a £4 million increase in the Adjusted tax charge.

The Total loss after tax from continuing and discontinued operations of £158 million is significantly reduced from the equivalent profit of £1 million for the prior year, with a corresponding reduction in Total EPS from nil pence in 2019 to a loss per share of 39.8 pence in 2020. Total loss after tax reflects exceptional items and certain remeasurements, including the derivative remeasurements, coal asset obsolescence charges and coal closure costs described above. In addition, it includes £8 million of charges related to refinancing activity (2019: included £5 million of costs associated with the acquisition bridge facility) described in further detail below.

The Adjusted tax charge for continuing and discontinued operations of £28 million (2019: £24 million) reflects an effective tax rate of 19%, in line with the standard rate of corporation tax in the UK. This reflects the benefit of patent box tax credits in respect of the biomass unit conversions. Total patent box credits included for 2020 are £8 million (2019: £8 million). This was offset by the negative impact of revaluing deferred tax liabilities following the UK Government's decision to reverse the previously announced reduction in future corporation tax rates in the first half of the year. The total impact of this change was £18 million, with £4 million relating to deferred tax balances associated with the written down coal assets treated as an exceptional item. The remaining £14 million charge, which reduces Adjusted EPS by 3.5 pence, is included in Adjusted Results.

The Group continued to benefit from Research and Development Expenditure Credits (RDEC) in 2020, with claims totalling £6 million recognised as a reduction in cost of sales and operating expenses (2019: £3 million).

The Total tax credit for continuing and discontinued operations of £32 million includes the tax attributable to exceptional items and derivative remeasurements. A full reconciliation of the Group's tax credit for the year is provided in note 6.

Cash taxes paid during the year were £48 million (2019: £10 million). In 2020, the Group fell into the new arrangements in respect of corporation tax payments for very large companies in the UK for the first time. As a result, the Group must now make tax payments earlier than under the previous regime and the increase compared to the prior year is a one-off impact on transition.

Capital Expenditure

We maintain a disciplined approach to capital expenditure, with all significant projects subject to appraisal and prioritisation by a Capital Committee prior to approval. This committee ensures overall adherence to our capital allocation policy and maintenance of an appropriate net leverage profile.

In 2020, total capital expenditure of £200 million, excluding additions to decommissioning assets of £29 million, compares with £172 million in the previous year. This was lower than previous expectations as a result of the deferral of some projects due to Covid-19. This includes non-essential works at Drax Power Station, and delayed timing of some investments in our biomass supply chain.

The increase compared to 2019 principally reflects execution of our strategy, with significant investments made in the expansion of our US pellet production facilities, alongside smaller projects within our generation portfolio to enhance efficiency. Notably the expansion at our pellet production facility in Morehouse commissioned in November 2020. The extensions at La Salle and Amite are expected to come online by 2022.

Capital investment in our Customers business has been limited to £7 million (2019: £20 million). The past capitalised spend associated with a new billing system of £19 million was stopped in 2019 and the Group is engaged in active discussion with the supplier reflecting the supplier's failure to perform under this contract. No amounts have been provided against this value as the Group believes that the carrying amount will be recovered in full, supported by legal advice.

Cash and Net Debt

We remain focussed on cash flow discipline and maintaining a robust balance sheet. This is underpinned by prudent risk management which provides protection in times of economic uncertainty and a strong platform from which to execute our strategy.

The Group continued to generate strong cash from operations in 2020, with a total inflow of £413 million (2019: £471 million) before interest and tax payments. This reflects our focus on cash flow discipline and continued management of working capital. Cash received in respect of 2019 Capacity Market income in January 2020 (£72 million) and a net cash inflow resulting from increased generation and a corresponding reduction in coal inventories was offset by a net outflow from rebasing of derivative contracts and an increase in net purchases of ROC assets.

Net cash generated from operating activities in the year was £306 million (2019: £413 million). In 2020, the Group experienced the impact of the new arrangements in respect of corporation tax payments for very large companies in the UK, as described above, which increased cash tax payments by £38 million compared to the prior year.

Our liquidity position remains strong, reflected by all three of our ratings agencies evaluating our liquidity assessment as Strong. At 31 December 2020 we held cash of £290 million (31 December 2019: £404 million), total borrowings were £1,066 million (31 December 2019: £1,245 million) and as a result net debt was £776 million (31 December 2019: £841 million). During the first half of 2020, the Group was assigned its first Short-Term Issuer rating equivalent to investment grade from DBRS. This affirmed the strength of our balance sheet, strong near-term contracted earnings, plus the depth and breadth of our available sources of liquidity.

Our net debt to Adjusted EBITDA ratio, based on Adjusted EBITDA for continuing and discontinued operations, was 1.9x at 31 December 2020 (2019: 2.1x). After adjusting for timing differences related to Capacity Market income and cash across the current and previous period, the net debt to EBITDA ratio was 1.9x at both 31 December 2020 and 31 December 2019. On a proforma basis, taking into account the initial proceeds on sale of the CCGT portfolio (£188 million – see below) and removing the associated EBITDA contribution (£46 million), net debt to Adjusted EBITDA at 31 December 2020 was 1.6x.

During the year, the Group continued to enhance its access to capital and strengthen the balance sheet. In August, we announced the agreement of a new Infrastructure term loan agreement with committed funds in both sterling (£45 million) and euro (€126.5 million), with a range of maturities between 2024 and 2030. €31.5 million was drawn under the agreement at 31 December 2020. The agreement also included an option to increase the facility by up to a further £75 million of which £53 million was agreed in November and drawn in December. The remaining commitments were subsequently drawn on 18 February 2021.

In November 2020, the Group issued €250 million of euro-denominated senior secured notes which mature in 2025. The 2.625% issuance achieved Drax's lowest ever priced public offering which, once swapped back to sterling, reflected an interest rate of 3.24% per annum. The proceeds of this issuance were, along with existing cash flows, used to redeem the Group's £350 million 2022 sterling bond and the £125 million ESG term loan facility. Total costs in respect of the redeemed facilities, including the non-cash impact of deferred finance costs, of £8 million have been treated as an exceptional item in the income statement, in line with previous practice.

A significant proportion, almost 90%, of the Group's debt now falls due in 2025 or later.

Following the issue of the euro-denominated notes in 2020, £610 million or 57% of the Group's closing borrowings balance is denominated in foreign currencies (2019: £374 million, 30%). The carrying amount of our foreign currency borrowings and, consequently, the value of reported net debt is subject to FX volatility as a result of translating balances at rates prevailing at the balance sheet date under IFRS.

Adjusted Results from Continuing and Discontinued Operations 2020

£m	Continuing Operations	Discontinued Operations	Cumulative
Revenue	4,235	206	4,441
Cost of Sales	(3,435)	(127)	(3,562)
Adjusted Gross Profit	**800**	**79**	**879**
Operating Expenses	(391)	(33)	(424)
Impairment losses on Trade Receivables	(43)	-	(43)
Adjusted EBITDA	**366**	**46**	**412**
Depreciation & Amortisation	(177)	(19)	(196)
Net finance charges	(69)	(1)	(70)
Adjusted Profit before tax	**119**	**26**	**145**
Taxation	(23)	(5)	(28)

Adjusted Profit after Tax	**96**	**21**	**117**
Impact of exceptional items and certain remeasurements	(291)	16	(275)
Total (Loss)/Profit after Tax	**(195)**	**37**	**(158)**

We use derivatives, including cross-currency swaps, to hedge the sterling cost of the interest payments and future principal repayments in respect of these facilities. In note 12, in addition to net debt per the IFRS balance sheet, we set out a reconciliation of net debt that incorporates the impact of relevant financial derivatives to fix the value of sterling principal repayments. At 31 December 2020, this resulted in net debt adjusted for hedging of £819 million.

In November 2020, we also concluded the refinancing of the revolving credit facility (RCF). The new RCF matures in 2025, with an option to extend by one year, and replaces the previous facility. This £300 million facility provides increased liquidity, enabling the full facility to be drawn as cash (previously restricted to £165 million). The RCF has a customary margin grid referenced over LIBOR and represents a small reduction in cost compared to the previous facility. It includes an embedded ESG component that adjusts the margin based on the Group's carbon intensity measured against an annual benchmark.

The RCF is available to manage low points in the cash cycle and was undrawn at 31 December 2020. Committed facilities of £45 million and €95 million under our new Infrastructure term loan agreement also remained undrawn at 31 December 2020. Available cash on hand and committed, undrawn facilities provide substantial headroom over our short-term liquidity requirements.

Net cash released from working capital in 2020 was £37 million (2019: cash absorbed by working capital of £51 million). We actively optimise our working capital position by managing payables, receivables and inventories to make sure the working capital committed is closely aligned with operational requirements. As in previous periods, we have maintained our strong cash flow focus and continued to deliver working capital benefits from making sales and purchases of ROC assets and utilisation of payment facilities, however the overall utilisation of these facilities has decreased compared to 2019.

Historically, cash from ROCs has typically been realised several months after the ROC was earned, usually at the end of the ROC compliance period; however, the Group is able to limit the overall impact of ROCs on working capital by making separate sales and purchases in the compliance period. During 2020, such transactions generated a net cash outflow of £74 million due to more purchases than sales in the period. The overall working capital inflow from ROCs of £23 million reflects an overall reduction in ROC assets held on the balance sheet due to decreased generation in the year. The Group also has access to facilities enabling it to sell ROC trade receivables on a non-recourse basis. Utilisation of these facilities at 31 December 2020 was £nil (31 December 2019: £nil).

In the first half of 2020, the Group rebased several foreign currency contracts, which resulted in a working capital benefit, with total cash released from rebased trades still outstanding at 31 December 2020 of £24 million (in the prior year, total cash released from rebased trades still outstanding at 31 December 2019 was £84 million). A similar exercise for cross-currency swaps resulted in cash released from outstanding trades at 31 December 2020 of £56 million (31 December 2019: £23 million). The overall net outflow associated with rebasing activity in 2020 was therefore £27million (2019: a net inflow of £104 million).

The Group holds a large portfolio of forward and option contracts for various commodities and financial products. These contracts are held to de-risk the business, by protecting the sterling value of future cash flows in relation to the sale or purchase of key commodities. We manage our exposures in accordance with our trading and risk management policies. These policies provide flexibility to optimise our trading position, working capital and liquidity when market conditions allow, whilst ensuring downside protection and prudent risk management are maintained.

In addition, the Group has access to a £200 million receivables monetisation facility, which accelerates associated cash flows and mitigates exposure to credit risk. The Group also has access to a number of payment facilities to leverage scale and efficiencies in transaction processing and also facilitates a supply chain financing scheme, which enables certain suppliers to accelerate their payment and which supports the wider working capital efficiency of the Group. There are no changes to the Group's payment terms under this arrangement, nor would there be if the arrangement were to fall away. The balances outstanding at 31 December 2020 and the change in utilisation in respect of each of these facilities is set out in note 15.

The overall net cash outflow for the period was £114 million (2019: net inflow of £122 million), after cash payments for capital expenditure of £174 million (2019: £171 million), dividend payments of £65 million (2019: £59 million), net repayments of borrowings of £176 million (2019: net proceeds from new borrowings of £636 million) and payments in respect of acquisitions of £nil (2019: £692 million).

Distributions

We have a long-standing capital allocation policy. This policy sets out our commitments to robust financial metrics that underpin our strong credit rating, to invest in our core business, to pay a sustainable and growing dividend and finally to return surplus capital to shareholders as appropriate.

At the Annual General Meeting on 22 April 2020, shareholders approved payment of a final dividend for the year ended 31 December 2019 of 9.5 pence per share (£38 million). The final dividend was paid on 15 May 2020.

On 28 July 2020, the Board resolved to pay an interim dividend for the six months ended 30 June 2020 of 6.8 pence per share (£27 million), representing 40% of the expected full year dividend. The interim dividend was paid on 2 October 2020.

At the forthcoming Annual General Meeting, on 21 April 2021, the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2020 of 10.3 pence per share (£41 million), payable on or before 14 May 2021. Shares will be marked ex-dividend on 22 April 2021. This brings the total dividend payable for 2020 to £68 million and delivers 7.5% growth on 2019.

Other Information

Covid-19, Brexit and Going Concern

We continue to monitor and assess developments and the potential future impact of the Covid-19 pandemic on our operations and financial performance. As described above, our financial performance in 2020 was robust despite an estimated £60 million impact on Adjusted EBITDA, and we have maintained a strong balance sheet with a net debt to Adjusted EBITDA (from continuing and discontinued operations) ratio of 1.9x at 31 December 2020.

Looking forward, our business plan for 2021 and beyond reflects our central assumptions regarding the likely duration of the pandemic, and the nature of the associated restrictions such as social distancing. These factors, alongside wider macroeconomic considerations, can affect the demand for, and price of, power. We continue to expect a detrimental impact, when compared to pre-Covid expectations, in our Customers' business due to the reduction in demand and increase in bad debt risk described above. Our forecasts for 2021 assume a gradual easing of lockdown in the UK will commence as the roll-out of Covid-19 vaccinations progresses.

We are monitoring developments following the end of the Brexit transition period. Our consideration of risk impacts in respect of Brexit is set out below.

In addition to the routine scenario planning incorporated into our business plan process, we have modelled a series of scenarios based on our principal risks, a reasonable worst case and more extreme scenarios. These scenarios have helped us to test the Group's financial resilience over both the next 12 months and a longer period for the purpose of viability reporting (see below). In particular, we have considered the impact of extended generation outages across our portfolio, taking into account risks associated with plant operations and supply chain, as well as commodity price exposure. To date, such modelling has indicated that, while there would be a financial impact, none of the scenarios modelled would result in an impact to the Group's liquidity, solvency, or covenants that could not be remediated by taking mitigating action. In reaching this conclusion, no additional financing was contemplated beyond existing committed facilities.

Consequently, the Directors have a reasonable expectation that the Group will continue to meet its obligations as they fall due for at least the next twelve months, while operating within the means of its current capital structure. Accordingly, the Directors have adopted the going concern basis when preparing the consolidated financial statements.

Sale of CCGT Portfolio

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

The sale completed on 31 January 2021. The Group received the initial consideration of £188 million on 1 February 2021 which included £24 million in respect of working capital adjustments. The final consideration is subject to a completion accounts process which is expected to conclude in the first half of 2021. The Group anticipates recording a small premium on sale in its 2021 consolidated financial statements. The sale price represents a return over the Group's period of ownership significantly ahead of the Group's weighted average cost of capital.

In the consolidated financial statements for the year ended 31 December 2020, the results of the CCGT portfolio (revenue of £181 million, Adjusted EBITDA of £46 million and profit after tax of £37 million) have been presented as discontinued operations in the consolidated income statement, and the assets and liabilities shown as held for sale in the consolidated balance sheet. Transaction costs of £4 million have been expensed to the income statement as incurred and recognised as an exceptional item within discontinued operations in line with our policy. The consolidated income statement for the year ended 31 December 2019 has been re-presented to show the results for the CCGT portfolio on a consistent basis as discontinued operations. See note 18 for further details.

Proposed Acquisition of Pinnacle Renewable Energy

On 8 February 2021, the Group announced the proposed acquisition of 100% of the issued share capital of Pinnacle Renewable Energy Inc. (Pinnacle) at a price of C$11.30 per share. This values the fully diluted equity of Pinnacle at C$385 million, with an implied enterprise value of C$741 million including C$356 million of net debt. The acquisition price will be paid in Canadian dollars and we expect to manage that exposure within our existing foreign exchange risk processes.

The acquisition remains subject to Drax and Pinnacle shareholder approval, court approval, regulatory approvals and the satisfaction of certain other customary conditions. Completion is expected to occur in the second or third quarter of 2021.

The acquisition will be funded from cash and existing arrangements and is expected to be cash generative with 2022 EBITDA consensus of C$99 million. Net debt to Adjusted EBITDA in 2021 is expected to be above Drax's long-term target of around 2x immediately following completion of the acquisition but it is expected to return to around this level by the end of 2022.

Andy Skelton
Chief Financial Officer

Viability statement

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

The assessment of viability was led by the CEO and CFO in conjunction with divisional and functional management teams and presented to the Board as part of the annual planning process. In reviewing this assessment, the Board has considered the principal risks faced by the Group, relevant financial forecasts and sensitivities, the availability of adequate funding and the strength of the Group's control environment.

Assessment period

The Board conducted this assessment over a period of three years (2019: three years), selected for the following reasons:

- The Group's Business Plan (the Plan) which is prepared annually, updated three times during the year and also used for strategic decision-making, includes a range of financial forecasts and associated sensitivity analysis. This Plan covers a three-year period in detail, before extending into the medium term.
- Within the three-year period, liquid commodity market curves and established contract positions are used in the forecasts. Liquid curves typically cover a one to two-year window and contracts cover periods between one and ten years. In particular, the Group benefits from the stable and material earnings stream available from the CfD until 2027. Selecting a three-year period balances short-term market liquidity against longer-term contractual positions.
- There is limited certainty around the Group's markets and regulatory regimes. However, in selecting a three-year period the Board has assumed no material changes to the medium-term regulatory environment and associated support regimes beyond those already announced at the date of this report.

The business considers longer term forecasts for other purposes, including value in use analyses and estimates of useful economic lives in respect of its businesses and fixed assets, as set out in the notes to the financial statements.

Review of principal risks

The Group's principal risks and uncertainties, set out in detail below, have been considered over the period.

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

The risks were evaluated, where possible, to assess the potential impact of each on the viability of the Group, should that risk arise in its unmitigated form. The potential inputs were included, where appropriate, as sensitivities to the Plan and considered by the Board as part of the approval process, in January 2021, before the Plan was adopted by the Group. In addition, reasonable scenarios that included a combination of unforeseen plant outages, increases in commodity prices and reductions in subsidy income were also considered. The outcomes of this analysis, which did not reflect the potential benefit of available mitigating actions, indicated that the Group would be able to absorb the impact of such scenarios without significant impact upon its ability to meet liabilities as they fall due.

As part of its review of principal risks and uncertainties, the Group considered emerging risks related to Covid-19, the end of the Brexit transition period and climate change. This review concluded that such matters remained low risk to the Group from a viability perspective.

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

Review of financial forecasts

The Plan considers the Group's financial position, performance, cash flows, credit metrics and other key financial ratios and was most recently updated to reflect current market and external environment conditions in December 2020, including assumptions related to the ongoing impact of Covid-19. It is built by business and segment and includes growth assumptions appropriate to the markets each business serves.

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

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

As part of stress-testing the Plan, a "reasonable worst case" scenario was also constructed and assessed. Rather than a single event, the Board considers the most significant scenario that could reasonably arise in the assessment period, and materially impact viability, to be an aggregation of multiple incidents either in a short timeframe or repeatedly during the period. For the purpose of creating the scenario, the severity of these incidents (for example, the duration of an unexpected outage) was based on experience of actual historical events or reasonably foreseeable future downside scenarios.

The reasonable worst case considered the impact on earnings, cash flow and the net debt to Adjusted EBITDA ratio as a result of a series of incidents including unexpected generation outages, pellet production outages, a reasonable reduction in Customers gross margin, increases in commodity prices and a loss of ROC income during the period. Whilst the outcomes from this scenario were severe, they indicated that the Group would continue to operate within the restrictions of its financing arrangements and would have sufficient cash to meet its liabilities as they fall due once likely mitigating actions were taken into account. Such mitigating actions included potentially reducing levels of capital expenditure and dividend payments if required. The impact would also be partially mitigated through the earnings stability provided by the CfD, the Group's proven ability to trade effectively in volatile markets, use of existing committed and undrawn facilities and reductions in other discretionary expenditure. Based on its review, the Board is satisfied the viability of the Group would be preserved in a range of scenarios, with various mitigating actions available, sufficient to manage the risk, including significant deterioration of commodity market prices.

Availability of adequate funding

The sources of funding available to the Group are set out in note 14 to the financial statements. The Board expects these sources, along with stable cash flows generated by the Group from its normal operations, to provide adequate levels of funding to support the execution of the Group's Plan.

During 2020, the Group issued €250 million of loan notes and entered into a new infrastructure term loan facilities agreement with committed funds in both Sterling (£45.0 million) and Euro (€126.5 million), with an option to increase by up to a further £75.0 million. At the year end, the loan notes were drawn in full and a further €31.5 million and £53.0 million drawn under the infrastructure facilities. The proceeds of these issuances were, along with existing cash flows, used to redeem the Group's £350 million 2022 sterling bond and the £125 million ESG term loan facility.

These arrangements both extended the maturity profile of the Group's debt and reduced the overall cost of debt, further strengthening the balance sheet. No significant repayments of debt fall due within the assessment period.

In addition, the Group completed the refinancing of its revolving credit facility. The new £300 million facility matures in 2025 with an option to extend by one year. This replaces the previous RCF, which was due to mature in 2021, and provides increased liquidity with the full facility now able to be drawn as cash (the previous facility restricted cash drawn to support liquidity to £165 million).

At 31 December 2020 the Group had total cash and committed facilities of £682 million. The Plan demonstrates that the Group expects to operate within its current committed facilities for the duration of the three-year viability period.

The Board is confident that the Group has access to a range of options to maintain a diverse and well-balanced capital structure.

Expectations

The Directors have considered a range of factors in their assessment of viability over the next three years, including the latest Plan, scenario analysis, levels of funding, the control environment and the principal risks and uncertainties facing the Group. The Directors have also considered the availability of actions within their control in the event of plausible negative scenarios occurring. Based on this, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Principal risks and uncertainties

The effective management of risk supports the delivery of our strategy

Identifying, assessing and managing risks across the Group is an integral part of the delivery of our strategy. We manage the commercial and operational risks faced by the Group in accordance with policies and processes approved by the Board.

The Board is responsible for determining risk appetite and ensuring the effectiveness of risk management and internal controls across the Group. The Group has a comprehensive system of governance controls to manage all key risks.

Group approach to risk management

The risk appetite is the level of risk that the Group is prepared to tolerate, and which might arise in the day-to-day conduct of our business and seeking to realise our strategic objectives. Risk appetite can vary depending on the nature of the risk and expected returns. Risk appetite also informs the expected behaviours from our employees, contractors and business partners, and the investment required to support risk management activities. We consider a range of risk categories including environment, people, health and safety, political and regulatory, strategic, operational, financial, and climate change. The Board determines the risk appetite of the Group and seeks to ensure that emerging and existing risks are identified and managed to increase the likelihood that the Group's business objectives will be achieved. The Group has a Risk Management Policy, approved by the Board, which defines its approach to risk management. The key elements of the policy are to:

- Identify risks that have the potential to threaten the achievement of our strategic objectives and assess the likelihood of the risk occurring using a risk scoring methodology which ensures a consistent approach when assessing all risks.
- Consider the possible impact to the business in the event of any risks arising and put in place appropriate mitigating controls intended to manage identified risks to an acceptable level.
- Assign responsibility and define accountabilities for the identification, assessment and management of risk and provide resources to enable appropriate measures to be taken.
- Provide a framework to enable the escalation and reporting on potential and emerging risks and the effectiveness of the mitigations and controls to support management decision making.
- Regularly monitor changes in the internal and external environment of our business, review the Group's principal risks against such changes to ensure our analysis remains accurate and relevant and review the effectiveness of mitigation strategies and the application of the risk framework employed.

The risk management approach manages, rather than eliminates, the risk of failure to achieve strategic and business objectives, and provides reasonable, but not absolute, assurance against material misstatement or loss.

Risk management governance

The risk management governance structure includes the Executive Committee (from which are identified the owners accountable for each principal risk) and our risk management committees whose shared responsibilities include:

- Ensuring that risks including new, potential and emerging risks are identified, assessed and managed effectively within defined risk appetites and limits.
- Ensuring that risks associated with the Group's principal risk categories are identified, analysed and managed appropriately.
- Ensuring that changes in the internal business and external macro environment that affect the principal risks are kept under review and responded to appropriately.
- Driving completion of the actions required to reduce risk exposure and improve risk mitigation.
- Driving an appropriate risk management culture that promotes and creates balanced risk-taking behaviour and clear accountability.

- Demonstrating robust governance of risk management by reviewing and challenging risk management across the Group.

In line with good governance the risk management committees undertake regular reviews of business unit and financial risks and receive reports from business units and risk owners reflecting their specialist areas and technical knowledge. The Executive Committee also undertake deep dive reviews of all the principal risks through the course of the year and receive reports from the risk management committees and principal risk owners.

In addition, the Audit Committee and Board review the suitability and effectiveness of risk management processes and controls on behalf of the Board and receive updates from management at each meeting. The Board also receives updates on the risk management framework.

Internal control

The Group has a well-defined internal control system supported by policies and procedures, documented levels of authority which support decision-making and accountability for management across the Group.

The Board has adopted a schedule of matters which are required to be brought to it for a decision, below which authority is delegated through the Executive Committee to a combination of sub-committees and management enabling them to make decisions on behalf of the Group and its businesses on a day-to-day basis. The most recent review of the schedule of matters by the Board was in December 2020. The internal control system is designed to ensure that the directors and executive maintain effective oversight and direction for all material strategic, operational, financial and organisational issues.

Under authority delegated by the Board, the Audit Committee, approves and implements a programme of internal audits covering various aspects of the Group's activities for the next financial year. The programme evolves based on an assessment of the key risks of the Group, the existing assurance and controls in place to manage the risks, the core financial control framework and observations arising from management's review, discussion and challenge by the Audit Committee including responses to findings from the observations arising from the work of the Internal Audit function and support of other specialist advisers. The programme is reviewed quarterly and refreshed to reflect developments within the Group as well as changes in wider practices, informed by the experience of internal and external personnel.

During 2020 internal audits were performed either by team members of the Group's internal audit function or with effect from July 2020 by KPMG who was formerly the Group's co-source internal audit function provider. The internal audit function reports to the CFO and the appointment of KPMG was considered and approved by the Audit Committee. The findings and recommendations from each internal audit are documented in a report for internal distribution and action. A full copy of the report is distributed to the Executive Committee and the Audit Committee. Each report includes the status of management responses to the findings and recommendations and details of the actions that management propose to take. Each meeting of the Executive Committee considers the status of closing recommended actions. In addition, the Audit Committee receives a full internal audit and quarterly internal controls update report at each meeting.

Based on the assessments undertaken by each of the Executive Committee and the Audit Committee during 2020 and considered at the meeting of the Board held in finalising the annual report and accounts, the Board determined that it was not aware of any significant deficiency or material weakness in the system of internal control.

Overall risk assessment

The Board has assessed the principal risk categories including assessing continued emerging risks arising from the unexpected events of the Covid-19 pandemic and the ongoing uncertainty experienced during the year concerned with Brexit. As an immediate response to the pandemic, the Group deployed its disaster recovery arrangements which facilitated assessment of the potential impact and subsequent monitoring of mitigation measures. As the appreciation of key issues and challenges matured, the initial crisis threat was de-escalated, and actions were monitored through established teams.

Throughout the year particular attention was given to ensure the Group remained as materially unaffected by possible Brexit outcomes including a no deal exit from the EU. Any additional change in managing these and other new and emerging risks has not materially affected the categorisation of the Group's principal risks. Therefore the nine principal risk categories disclosed below remain unchanged from 2019, when climate change was added as a principal risk reflecting the increasing medium to longer term focus on such risks, and their importance to the Group's strategy and the nature of the Group's sector and operations.

<table>
<tr><td colspan="2">Drax Group plc Board</td><td>Audit Committee</td><td rowspan="6">External audit</td></tr>
<tr><td colspan="3">Group Executive Committee</td></tr>
<tr><td>1st line of defence</td><td>2nd line of defence</td><td>3rd line of defence</td></tr>
<tr><td>Management controls</td><td>Risk management</td><td>Internal Audit</td></tr>
<tr><td>Policies and procedures</td><td>Compliance</td><td></td></tr>
<tr><td>Understanding of risk management</td><td>Oversight by management committees</td><td></td></tr>
</table>

Risk impact of Covid-19

The ongoing Covid-19 pandemic has had and is expected to continue to have an impact on the global economy, our customers, suppliers and the health, safety and wellbeing of our employees and contractors. The Group prioritises health, safety and wellbeing and has put in place a number of actions and additional measures to safeguard all those who are still required to attend the Group's operational sites. This includes the Group ensuring it remains cognisant of any continual changing guidelines issued by the UK Government and US authorities .All of the actions implemented enabled the Group to meet its obligations as part of the UK's critical national infrastructure generating power and supporting the UK's energy market and our business customers while protecting our employees.

The Group has an incident crisis management process enabling timely response to events when they occur which comprises of strategic (led by the Executive Committee), in addition to tactical and operational level teams (led by management). In response to Covid-19 these teams developed and implemented additional policies and procedures around health, safety, IT systems, remote working practices, wellbeing communications and engagement. In response to the continual changing environment created by the pandemic constant monitoring of these plans and their effectiveness is being undertaken.

Since the start of the pandemic and as it has evolved, the Board has received regular reports from management and supported critical decisions connected with the Group's response to the events and activities as outlined above. This has included for example, how the Group has adjusted its working practices across all of its operation sites, its communication strategy with and on safeguarding its employees, implementing new IT infrastructure to support changes in working practices away from offices, and being able to continue to accurately track its financial and non-financial business performance. The Board also received reports on how Covid-19 might impact risks in the medium to longer term enabling them to reassess the future impact on all of the Group's principal risks.

The impact of Covid-19 on each principal risk and the mitigating actions adopted in response to the risk are detailed in each risk category below .

The Group has kept under review its financial forecasts and its best estimates of the financial impact of the associated risks which were initially disclosed in the Trading Update issued in April 2020 and thereafter in the Half Year results. The initial analysis has remained broadly unchanged in terms of the impact on the Group for the 2020 financial year and is fully reflected in its Viability Statement (please see above). Additional information on the commercial and financial impact for the Group of Covid-19 during the 2020 financial year can be found in the Financial Review, above.

The Board recognise that going forward the effects of the Covid-19 pandemic continues to carry inherent uncertainties and future impacts may well continue to evolve even when events have returned to relative normality. These impacts could lead to further change in UK Government policy, macroeconomic policy and the behaviours of people and markets that may impact some of the Group's risks. The Board continues to have regular engagement with management on the Group's response to any of these risks in order to assess, monitor and promptly respond to any evolving impact of Covid-19 on our operations and business, including impacts for all our stakeholders.

Risk impact of Brexit

Throughout 2020 the Group continued to monitor and prepare for the UK's customs exit from the EU including managing for a no deal Brexit. An internal working group consisting of relevant management chaired by a member of the Executive Committee, regularly reviewed developments in negotiations and possible effects on the Group's activities. This included updating the Executive Committee and Board on Brexit risks and initiatives to mitigate the impact from a range of possible negotiation outcomes that continually changed during the transition period while operating under the withdrawal agreement until 24 December 2020 when the UK/European Union Free Trade Agreement (FTA) was officially announced. Throughout the EU exit process, Drax held Chairmanship of the Energy UK trade association Brexit Working Group which undertook regular meetings attended by various UK Government organisations. Post the transition period management directly, and through its association with Energy UK have continued to monitor closely the release and interpretation of further details relating to the FTA in order that we can look to clarify fully the potential impacts on our trading operations, supply chain and regulatory requirements. The Group's ongoing focus will be to ensure that our business mitigates any adverse effects to its operations from the FTA and it has put in place a number of actions and measures to manage risks it identified around a number of key areas. These included:

- Considering the Finance and Commodity Trading risks from potential restrictions in access to financial, carbon, renewable energy Guarantee of Origin certificates, (GoOs) and commodity markets. The Group developed contingency plans to respond to the revised approach to carbon trading post 1 January 2021 to allow it to effectively meet the Group's regulatory requirements relating to carbon. There were also preparations to ensure the Group's ability to secure and continue to trade renewable energy GoOs, as well as operations to manage its other financial and commodity exposures, such as FX, effectively from 1 January 2021. The Group is adapting to the post FTA environment, particularly with close monitoring of the detailed implementation of UK Allowances, including possible linkage to the EU Emissions Trading Scheme (ETS).
- Considering the people risks from potential constraints in free movement of people and access to talent. Further consideration and planning have been placed on Group-wide recruitment and retention, talent management and succession planning.
- Considering the risks from potential import constraints and tariffs on the Group's fuel and critical commodity supply. An operational review considered alternative port arrangements, a review of goods at risk of shortage and planning for key plant operations supplies. This included engaging with supply chain partners to ensure their Brexit readiness and managing for increased supply lead times. Other potential import risks associated with UK Government policy arose as a result of Covid-19, where the need to give priority to the importing of other products such as medicines and the closing of French ports to UK import and export freight, increased the potential to add further congestion and delays to the import of critical spares and commodities.
- Considering potential changes to regulation and policy and the risks from loss of engagement with European-based stakeholders to discuss emerging policy and understand potential divergence of compliance requirements and/or market rules. The Group continues to promote the benefits of biomass and is engaged with government, regulators, and other interest groups, both in the UK and internationally. This is to ensure our views and positions on current and forthcoming legislation, regulations, energy and environmental policy issues, that may have implications for our business, are represented and that we are able to listen to and consider the views of others in helping to reach consensus on the future for biomass.

Generally, the overall financial and non-financial risk impact to the Group of Brexit to date has been minimal. However, the above key risk areas still remain a focus of the Group. While the UK Government continues to develop plans to manage the longer-term economic effects of Covid-19 there remains uncertainty about any additional economic effects which may result from the implementation of the FTA on our customers, suppliers and other stakeholders. For these reasons, the Group will continue to monitor any potential change to Brexit risks during 2021 as the full interpretation and implementation of the FTA takes place and where necessary expects to update its mitigating actions to minimise any effects on business operations.

Principal risk categories

The Group has identified nine principal risk categories that it considers having material operational impact and on its business. These and other key risks are considered within an established programme by which management, executive and the Board consider how risk and our ability to respond to risks evolves. Set out below are the principal risks reflecting that assessment:

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

Environment, health and safety

Context

The safety, health and wellbeing of our employees and contractors, wherever they work in respect of the Group's business, is a priority for the business and is vital to the continued success of the Group. We believe that a safe, compliant, and sustainable business model is critical to the delivery of our strategy and crucial for sustained long-term performance.

Safety and environmental management are foundational to our operational philosophy and we continue to work across the Group to maintain high standards and a culture of safe working. Compliance with environmental legislation and our environmental permits and consents is essential to ensure the long-term future of the business. We have a focus on emerging legislation and regulatory changes in both safety and environmental aspects. These are important for our people and our reputation and we recognise the value attributed to effective measures and good practices by our stakeholders.

Risk and impact

- Our operations involve a range of potential hazards to personnel and the environment, that arise from the processes we perform and the equipment which we use. This includes heavy plant and machinery at our sites in the US and UK.
- The biomass that we use to generate electricity is combustible so the production, preparation and transportation (whether within our sites or in transit between sites) requires careful management to minimise the risk of fire or explosion.
- We operate various plants at high temperatures and pressures, as well as requiring a focus on maintaining dam integrity, as we generate electricity at 400kV for transmission onto the National Grid.

Covid-19

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

Key mitigations

- Maintaining robust management systems designed to mitigate risk.
- Training employees to a high level of competence, to appreciate and manage environment, health, and safety risks.
- Tracking and reporting events and near misses, prompt investigations and timely implementation of corrective actions.
- Regular monitoring of processes and incidents to identify trends in performance.
- Routine auditing of compliance against standards, policy, and procedures.
- A proactive and structured approach to supporting the wellbeing of our colleagues, by focusing on promoting personal resilience and encouraging healthy habits for physical wellbeing.
- Engaging with regulators and stakeholders to identify improvements to our systems and operations.
- Proactive identification of future legislation and appropriate investment to optimise performance.
- Effective governance framework including an executive level Safety, Health, Environment and Wellbeing Leadership Committee, to oversee governance, review and challenge the management of safety, health, environment, and wellbeing risks across the Group.
- Development of plans for 2021 that align all businesses to the key focus areas to drive improvement in our HSE performance, whilst building upon the 2019 One Safe Drax vision and aligning with our Safe People, Safe Systems & Process, and Safety Assurance approach.
- Raising awareness through shared experiences of events or near misses with colleagues across different sites. This includes sharing of videos and interviews of those who had first-hand experience of the events.

Changes in factors impacting risk in 2020

- Personal safety performance for the year with TRIR and LTIR continues in line with industry benchmarks.
- Use of a Group-wide reporting tool for environment, health and safety incidents.
- Creation of a new role and appointment of a Group HSE Director with responsibility to drive HSE improvements via a cohesive strategy across all our businesses.
- At our Daldowie fuel plant, we have been working to deliver sustained improvements to our odour minimisation strategy and commissioned an upgrade to our regenerative thermal oxidiser (RTO).
- We invested in significant upgrades to our turbines and associated equipment at Drax power station which will result in lower carbon emissions and improved fuel efficiency.

Covid-19

- Significant changes were introduced to working arrangements with HSE leadership's top priority being, the health and wellbeing of all of our colleagues. This involved fully supporting all employees through that change and providing support which focused on physical, emotional and mental wellbeing.
- Risk assessments were undertaken at each operating site to identify mitigations to reduce the likelihood of workplace transmission of the virus and to protect key workers. All employees except those required on operational sites have been asked to work from home in line with Government's advice both in the UK and US. The Group's HSE response is adjusted according to the continual changing UK Government and US authority guidelines.

Political and regulatory

Context

We remain alert to changes in Government policy at UK and EU level. The energy sector is subject to detailed legislation and regulation that is frequently changing as the economic and industrial trends towards decarbonising and decentralising become more exacting. In addition, the wider regulatory and compliance environment applicable to businesses is also increasing with growing requirements in transparency and accountability.

Covid-19

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

Risk and impact

- Changes to UK Government policy, regulations or tariffs may increase the costs to operate, reduce operational efficiency and affect our ability to realise our strategy, which may adversely affect our financial and operational performance, results and cash flows. Issues include reform to legal framework following Brexit; data privacy regulation; network access and electric charging arrangements; environmental regulation; wholesale market arrangements including access and impacts on liquidity; and consumer service and affordability requirements.
- A more complex and challenging regulatory environment increases: the costs to operate, the threat of regulatory investigation, the risk of non-compliance, and penalties/sanctions. Brexit may create further uncertainty and additional costs associated with changes in regulatory reporting or divergence in compliance requirements.
- Biomass represented 75% of our generation in 2020 (77% in 2019) and, longer term, we are aiming to increase our biomass self-supply to five million tonnes per annum. The regulatory environment is evolving which could increase costs and mean anticipated returns are significantly lower than expectations. Our ability to influence EU requirements on biomass acceptability/sustainability may be impaired post-Brexit.
- Following the UK's transition to the EU/UK FTA, the UK Government has announced it will establish its own ETS. The aim is to link the new UK ETS to the EU ETS to ensure continued alignment on decarbonisation via a market-based pricing regime, although this will take time and there is no guarantee it will come to fruition. The price of carbon under the UK ETS remains unknown as the auctioning of allowances is not expected to begin until Q2 2021. Until that point, UK energy markets are likely to use the EU ETS price as a proxy, however this is by no means a perfect hedge and there is the potential that once trading of UK allowances commence there could be a number of teething issues such as limited market liquidity in a smaller market.

Key mitigations

- Engaging with politicians across the political spectrum and Government officials, to understand and influence perception, and communicate our socio-economic value in supporting the UK's ambition to achieve net zero by 2050.
- Working with stakeholders to maintain Drax as a thought leader on priority policy and regulatory issues.
- Engaging with regulators and industry bodies to understand their priorities and seek to influence strategic direction of, and ensure compliance with, regulatory requirements.
- Working with Energy UK to identify market improvements, enhance competition and develop voluntary codes of practice.
- Maintaining regulatory and compliance control frameworks to mitigate the risk of non-compliance covering risk assessment; policy development; adequate process; training; audit; and continual improvement.
- Working with leaders and key stakeholders in those regions where Drax is seeking to evolve its economic impact, to identify areas of common purpose and share ideas for creating jobs, investment and new growth opportunities.

Changes in factors impacting risk in 2020

- Overall risk levels heightened as a result of increased regulatory intervention within the Group's Generation and Customer business and lack of clarity around UK Government policy some of which resulted from Covid-19 and Brexit.
- The ongoing and drawn out negotiations around Brexit during the year and the subsequent transition to the UK/EU FTA continued to create uncertainty. Weakened sterling and difficulties in cross border trade can influence fuel costs and/or lead to financial distress issues with our customers. Delays at ports can affect our supplies of fuel and components although the nature of our dedicated supply chain mitigates this risk.
- Many ancillary services require policy, regulatory and market change to ensure generators are suitably compensated for these services.
- The UK Government has introduced a price cap for domestic power retailers; we remain vigilant to the risk that this could be extended to some SMEs.
- The smart meter roll out continues and the obligation to install a smart meter for every customer by the middle of 2021 (where reasonable steps have been exhausted) will move to fixed annual targets thereafter.
- Further failures of small energy suppliers (and resulting cost mutualisation across the industry).
- The UK Government has confirmed it believes that the Carbon Price Support is set at approximately the right level, although the longer-term level is dependent on prevailing commodity prices and terms within the UK/EU FTA.
- Ofgem is reviewing the way in which network businesses are remunerated and user access is procured/costs allocated, which will impact the cost base of generators and retailers.

Covid-19

- The financial impact on Government funding over the immediate and longer term will result in a reassessment of investment priorities for this and future administrations both in the UK and elsewhere which could affect Drax business model and financial prospects.
- Ofgem is reviewing the fundamental design of the power market in light of the impact on balancing costs of Covid-19 demand-levels (which offer an insight to the future supply/demand balance) and general efficiency/effectiveness of market with increasing proportion of zero marginal cost generation.

Strategic

Context

The Group's purpose is to enable a zero carbon lower cost energy future, with an ambition to become a carbon negative company by 2030. Underpinning the Group's purpose and ambition are three strategic aims:
1) to build a long-term future for sustainable biomass, 2) to be the leading provider of power system stability, and
3) to give all our customers control of their energy.
Through this strategy the Group aims to deliver long-term growth opportunities, including investment in new technologies for alternative fuels, which we believe have the potential to support earnings beyond 2027, when the subsidies we receive for generating electricity from biomass are curtailed.

Additionally, the Group aims to deliver higher quality, diversified and sustainable earnings, whilst also supporting the UK's ambition to achieve net zero by 2050.

Strategic

Risk and impact
Strategic risks are defined as those that could materially undermine any of the Group's strategic aims.

Sustainable biomass
Building a long-term future for sustainable biomass requires the achievement of an economically sustainable level of fuel cost relative to other energy sources. A primary objective is to increase biomass self-supply to five million tonnes per annum and reduce the cost of generation to £50 per MWh by 2027 to achieve and sustain an economic level of cost for sustainable biomass generation.

- There is a risk to the availability of feasible expansion opportunities and the successful identification and delivery of initiatives to reduce the current cost of biomass.
- Irrespective of the economics of sustainable biomass there is a risk that biomass is not accepted either in the UK or in other jurisdictions as a renewable source of energy. Growth opportunities, investment and innovation into new technologies required to further improve the economics and carbon reduction potential of sustainable biomass could therefore all be limited.

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

To enable us to build the right portfolio of assets and associated business models to achieve our aim, it is important that the market values flexibility and system services at the right economic levels and procures those services through mechanisms that we are able to participate in effectively.

- There is a risk that the market does not value flexibility and system services at the right economic levels or procures those services through mechanisms that we are not able to participate in effectively.
- There is a risk that unexpected changes to electricity supply and demand could reduce electricity demand and volatility, and therefore limit the market for system stability products.

Customer Control
Drax aims to enable all its business customers to decarbonise their energy sources and control energy use and cost.

- The Customers business needs to compete profitably in all the customer segments it serves. As the market evolves, there is a risk that the economic viability of the Customers business is undermined by changes in market operations and rules, or an emerging mismatch in some segments between Drax's aim and services and the requirements of the customer.

Capital
Delivering any one of the strategic aims requires the ability to access and effectively allocate the capital required while maintaining a corporate credit rating in the BB range.

- There is a risk that investor sentiment moves away from Drax and its strategic direction. This could happen if for example sustainable biomass becomes unattractive, or Drax allocates capital poorly and underperforms.

Key Mitigations
Sustainable biomass
- Adoption of an integrated plan to expand biomass self-supply capability, reduce the cost of sustainable biomass to an economically sustainable level and develop innovative approaches to fuels. Allocation of c. £600 million with rigorous tracking and reporting on cost reduction achieved.
- Drax is a pro-active advocate for sustainable biomass. An Independent Advisory Board is tasked to challenge our science-based approach and assumptions on sustainable biomass and publish their recommendations.

System stability
- We maintain and invest into a central Group market modelling capability and embed it into planning and option assessment and test/cross check against third party scenarios.
- Continually evaluate a) the current and projected performance of our own portfolio of assets, and b) the value gained from changing the composition of the asset portfolio to better fulfil a strategy in line with the Group's view of the market outlook.

Customer control
- The Customers business introduced a programme to reshape the customer portfolio in 2020, including emphasising growth in the customer segments aligned to Drax's purpose.
- The organisation includes a new growth unit from which Drax branded electric vehicles and electric assets propositions were launched to support decarbonisation and control of customers' energy.

Capital
- We continue to run a full investor relations programme, covering equity and debt markets.
- The Group has evolved further its approach to capital allocation. This provides rigour and consistency in assessing the technical, financial, and strategic justification of new projects across the Group, in particular for investments in new and emerging technologies.

Changes in factors impacting risk in 2020
- The Brexit negotiations during the year and subsequent transition to the UK/EU FTA had a relatively immaterial impact on the Group's strategic aims.
- The disposal of the Group's CCGT Portfolio, announced on 15 December 2020, which completed on 31 January 2021, combined with our commitment to close the coal generation assets, delivers a fully renewable generation portfolio for system services. However, it reduces the assets available to provide system flexibility.
- Markets for system stability continue evolving, with the introduction of the new ESO market for synchronous compensation. The Group bid successfully for a contract for Cruachan and will watch to see how the market evolves.
- Experience from the Group's €250 million bond issue indicates that demand exists for "green" investment, and with it a view that the strategic risk for access to capital is not currently high.

Covid-19
- Demand for electricity fell in the Customers business and some customers experienced financial distress. Therefore, focus shifted during 2020 from the delivery of strategic aims to managing the impact.
- There was a slowdown in the delivery of the Government agenda on the environment, with a delay to COP26 and the publication of a white paper on Energy.
- However, publications such as from the Committee on Climate Change and the Government indicate a growing commitment to bioenergy carbon capture and storage (BECCS), and with it acknowledgement that sustainable biomass is seen as an accepted part of the UK's future.

Biomass acceptability

Context

Sustainability legislation at EU and UK level, as well as in other countries in which we operate and where we source biomass, in addition to public understanding of the benefits of the supply chain and technology is evolving. Attitudes to the benefits of biomass as a renewable source may not align with our strategy and investment case, which may impact our plans and mean that actual returns differ from those we expected. Brexit introduced new risks as the ability of the UK to influence future EU policy on biomass sustainability requirements is likely to reduce and there is the potential for policy divergence which might make our operations and obligations more complex and costly.

Risk and impact

- Sustainability policy changes on the sourcing and use of biomass in the UK, EU or other countries in which we operate or from which we source biomass could be unworkable and make it difficult for us to comply with policy requirements or adversely affect our ability to claim subsidy in support of economic biomass generation. Changes in policy could increase costs, make it difficult to source biomass, or reduce the current support for the benefits of biomass.
- Detractors and some environmental non-governmental organisations (eNGOs) may influence policymakers against biomass use resulting in reduced support for the benefits of biomass.
- Being outside the EU may reduce the UK's influence on biomass acceptability and future sustainability requirements, potentially leading to multiple compliance requirements (policy divergence).

Key mitigations

- Increased transparency in how we evidence sustainability.
- Working with academics, think tanks and specialist consultants to improve understanding and analysis of the benefits of biomass.
- Engaging with key eNGOs to discuss issues of contention.
- Forging closer relationships with suppliers on sustainability through the supplier relationship programme.
- Maintaining strong processes to ensure compliance with regulation.
- Increased engagement across all European Institutions (Commission, Parliament, Council), and relevant UK Government departments.
- Developing and maintaining strong relationships with policymakers.
- Continued engagement within our supply chain to ensure compliance with prevailing regulations and standards, as well as opportunities to enhance actions which support sustainable and responsible sourcing strategies and bio-diversity which is integral to our philosophy.

Changes in factors impacting risk in 2020

- BEIS has announced it will create a new bioenergy strategy that will be published in 2022, reassessing the role of biomass in the context of achieving net zero.
- Evidencing of our forest biomass sourcing commitments.
- The Independent Advisory Board (IAB) of scientists, and leaders in the field of sustainability providing impartial advice and guidance operated throughout 2020.
- The EU has confirmed it will review several relevant pieces of legislation including the EU ETS, LULUCF, REDII – potentially giving rise to policy changes and some possible divergence in sustainability criteria between the UK and Europe.
- Any tightening of reductions in GHG emissions targets in Europe and increased number of commitments to coal phase out among EU Member States provides the opportunity to supply new markets with sustainable biomass.

Covid-19

- The UK Government discussions on policy changes have continued. Indications are that as part of the wider economic recovery plans, UK Government will bring forward and have a greater focus on its sustainability policies.

Plant operations

Context

The reliability of our operating plants both in the UK and the US is critical to our ability to create value for the Group. Some of our plants are old, for example, Drax Power Station was built approximately fifty years ago and our hydro plants nearly one hundred years ago. The plants and production facilities are highly complex and require careful management to operate, with many required to run flexibly and promptly to respond to the demands of the electricity system. For Drax Power Station specifically, the plant was originally constructed to generate electricity from coal, and we have converted four of the six units to use biomass, rather than the fuel for which they were originally designed.

Risk and impact

- As plant ages, the operational reliability and integrity could reduce. Single or multi point failures of plant across our portfolio, and incidents arising from the handling and combustion of biomass, could result in forced outages in our generation or pellet production plants.
- Successful generation using biomass requires stringent quality to be maintained throughout our pellet production plants and the supply chain, which continues to evolve and mature. Our suppliers may experience operational or financial difficulties which impair their ability to sustain continued compliance or result in inadequate standards being met. Poor quality could result in additional costs (as we may be required to source material from other suppliers) or inadequate volume of materials, leading to loss of generation which could adversely affect financial performance and results.
- Brexit could impede the future availability and delivery of materials or parts longer term or increase our costs to operate in securing such items.

Covid-19

- Given ongoing uncertainty over the timing and availability of measures to support a return to more normal working patterns it is unclear whether future planned or unplanned events at our sites could incur additional costs or delays in execution which could impact operational performance and/or future financial results. The pandemic has impacted the financial and operational performance of many businesses. The prolonged period of such impacts could result in businesses on which Drax relies failing or being restricted in their ability to deliver products or services as we might normally expect. This could have further impact in the event we suffer interruptions or forced outages or increase our costs to operate where we need to find alternative suppliers or business partners.

Key mitigations

- Implementing a comprehensive plant investment and maintenance programme, that is risk-based and reflects the challenges of operating complex equipment, some of which is old, supported by engineering excellence.
- Ensuring plant is designed to prevent and control major hazards.
- Maintaining robust management systems, designed to identify and mitigate risk.
- Maintaining the stringent safety procedures in place for handling biomass and dust management.
- Managing the plant as a portfolio to ensure losses are minimised.
- Undertaking significant research and development on the production of wood pellets, as well as the handling and burning of biomass.
- Full testing of all biomass supplies prior to acceptance, and the use of contractual rights to reject out of specification cargoes.
- Sampling and analysis through the supply chain, to increase understanding of causes of fuel quality issues.
- Maintaining insurance in place to cover losses from plant failure where possible.
- Employing advanced condition monitoring systems to alert any possible plant failures before they occur where practicable.

Changes in factors impacting risk in 2020

- Completion of a significant planned maintenance outage on Unit 3 at Drax Power Station with installation of a new high-pressure turbine unit and replacement hot reheat pipework and upgraded unit control system.
- Planned maintenance outages across the hydro and CCGT fleet which included major overhauls of the gas turbine at Damhead Creek and steam turbines at both Damhead Creek and Shoreham.
- Baton Rouge rail chambering yard fully commissioned.

Covid-19

- The risks for the potential to lose production time as a result of key operational employees being affected by the pandemic increased. The Group continues to operate all of its plants reflecting the latest UK Government and US authorities' guidelines whilst protecting the safety of its employees and sub-contractors. The measures implemented by management to address the increased risks resulted in additional costs and challenges associated with the 2020 outages across our generating assets and in particular the planned outage of Unit 3 at Drax Power Station.

Trading and commodity

Context

Sales of power and Renewable Obligation Certificates (ROCs) represented £1,699 million (2019: £1,857 million) of our revenue from continuing operations in 2020 in our Generation business and our Customers business made sales of £2,119 million (2019: £2,226 million) of electricity and gas.

The margins derived from our Power Generation and Customers businesses are influenced by the liquidity of the commodity markets and our ability to secure desired prices in a volatile market. Non-commodity costs are also volatile and inherently difficult to hedge.

The income value derived through the generation of ROC's was £490 million (2019: £528 million). The value which we derive from ROC's can change from that of prior years and our future forecasts.

Risk and impact

- Liquidity and volatility in trading conditions and unexpected changes in commodity prices could result in lower margins and a reduction in cash flow in our Generation business.
- Delivery of commercial value from the flexibility of our portfolio and leveraging a complicated supply chain with uncertain running regimes requires effective execution of our trading strategy and opportunities to trade being available in a liquid market.
- The Generation business may fail to secure future system support services contracts which are a source of revenue diversity for the Group, amounting to £118 million in 2020.
- The value of ROCs generated may be lower than forecast, for example if the recycle value outturns are below our projections due to higher than anticipated renewable generation.
- Supplier failures continue to lead to supplier mutualisation processes being invoked (whereby their costs and commitments are shared among other suppliers), notably for ROCs, resulting in increased costs, albeit this level is capped.

Key mitigations

- Ensuring high levels of forward power sales for 2021 to 2023 and the Contract for Difference for the one biomass generation unit reduces our exposure to volatility.
- Operating three biomass units under a single ROC cap for Drax Power Station provides increased opportunities for greater flexibility of generation and to add additional value.
- Additional value is provided through the increased flexibility and optimisation capabilities provided by Drax's hydro assets.
- Customers' energy supply and commodity price exposures for fixed price sales are hedged with third parties where necessary.
- Purchasing wood pellets under long-term contracts with fixed pricing increases price certainty over extended periods.
- Engaging with wood pellet suppliers to ensure delivery schedules are met, and any shortfalls addressed to limit the impact on power generation.
- Hedging fluctuations in ROC generation from wind farms through weather derivatives.
- The value of the Group's ROC production is hedged by selling ROCs to the Customers supply business and other counterparties. This is supplemented by assessing opportunities to mitigate Recycle Fund volatility and analysing possible outturns.
- Significant hedging of forward foreign exchange (see the Financial Review, above, for more details).
- Coal stocks are being managed for remaining commercial operations and Capacity Market obligations.

Changes in factors impacting risk in 2020

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

Covid-19

- The potential bad debt risk increased as a result of the impact to the markets and the economy. The Group continues to hedge commodity and foreign exchange exposures on a long-term basis protecting against any near-term volatility in prices and hedges energy supply to provide support to its energy customers.

Information systems and security

Context

Our IT systems and data are essential to supporting the delivery of the day-to-day business operations of the Group and make sure our financial, legal, regulatory and compliance obligations are met. Our systems must also evolve in order to contribute to the delivery of our strategy. The systems need to be fit for purpose and the confidentiality, availability and integrity of the systems and data needs to be ensured.

Risk and impact

- Any absence or delay to the implementation of key IT systems transformation to support the business affects our ability to deliver our strategy and results in additional unforeseen costs.
- Reduced performance or reduced availability of IT systems, data and facilities affecting our operations adversely. For example, interrupting supply of electricity or impeding the accurate recording of electricity supplied to and used by our customers.
- Security compromise of our systems and data including personal data; causing operational and financial impact and regulatory non-compliance.

Key mitigations

- Maintaining and refreshing business continuity, disaster recovery and crisis management plans.
- Maintaining effective and up-to-date cyber security measures, including a protect, detect, respond, and recover strategy, which evolve to address known new or potential threats.
- Implementing a Group IT Strategy and identifying key projects to deliver Group-wide services, improving security, resilience and performance. The IT Board, a sub-committee of the Executive Committee, provides oversight and governance.
- Periodic external assessment of the integrity and adequacy of our IT and cyber security arrangements which are assessed and challenged by subject matter experts, as well as the Board and Audit Committee.
- Scenario events in which we assess our capability to respond to potential circumstances or threats.

Changes in factors impacting risk in 2020

- The enforcement of key compliance regulations such as the NIS Directive, which is ongoing, have increased the potential financial cost to the business.
- Work continued on integrating hydro and gas asset systems where it was applicable to do so.
- Further work embedding the IT operating model has been undertaken to better support strategic objectives of the Group and improve efficiency of technology processes.
- Ongoing programme of improvement to security, monitoring of key IT controls and IT and security risk management.
- A formalised and approved new Target Architecture which enables us to deliver the IT systems and capabilities flexibly and in support of business needs.

Covid-19

- There continued to be a manageable impact on the delivery timelines of a number of planned IT activities, driven by the availability of resources and other priorities to ensure the business remained operational. The adoption of new technology and changes in existing IT systems was necessary to facilitate the safe home working for many of the Group’s employees and has helped to improve the IT environment.

Climate Change

Context

According to the Intergovernmental Panel on Climate Change, global warming is likely to reach 1.5°C as early as 2030, causing changes in the climate system with associated impacts. It is important we assess the impact of climate change on our business and our preparedness to manage risks related to both the physical impacts of climate change and the transition to a low carbon economy.

Risk and impact

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

Key mitigations

- Sourcing from a wide geographical range of third-party pellet mills.
- US Pellet Production business has developed stockpiles to alleviate incidences of wet weather-related production interruption.
- Aspects of the physical impacts of climate change on new installations are addressed under planning laws.
- Working with Energy UK on a framework to better manage the physical impacts of climate change on thermal generating facilities.
- Modelling of reservoir spillway capacities at Cruachan Dam, to understand capacity for extreme weather events. Robust business strategy informed by net zero 2050 scenario.
- Establishment of a carbon negative ambition and a Climate Policy, underpinning a business strategy consistent with UK Government climate change policy.
- Engagement with stakeholders, including close liaison with UK Government, on future policies.
- Diversification of generation portfolio with acquisition completed in 2018.
- Drax innovation team tracking technology advances and developing new technologies such as BECCS.

Changes in factors impacting risk in 2020

- Short-term interruption to fibre production at our LaSalle Pellet Production plant in 2020 caused primarily by adverse weather conditions in the US in 2020.
- Ongoing development and review of external greenhouse gas corporate accounting and reporting guidance, frameworks, and standards.
- Publication and implementation of a new Climate Policy for the Group.
- Completion of work by Strathclyde University to understand the potential changes in long-term weather patterns at Cruachan Dam. Results show that current predicted extremes are manageable.

Covid-19

- The economic recovery plans that are starting to emerge indicate the UK Government will use the opportunity to bring forward policy and actions that help drive Corporate focus on sustainability and climate change action.

People

Context

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

Risk and impact

- Our performance and the delivery of our strategy is dependent upon having high-quality, suitably experienced employees and engaged colleagues at all levels of the organisation reflecting the diversity in wider society.
- Whilst we continue to invest in our people, including supporting them in the development of their capabilities through training and development programmes, we may be unable to recruit and retain people with the necessary skills and experience which could in turn affect our ability to execute our strategy. Examples include our ability to recruit people supporting work on new technologies such as BECCS and alternative fuels and the expansion of our biomass facilities in the US.
- The Group is undertaking significant change associated with implementing our strategy and improving operational effectiveness. Examples include the closure of our Coal generating assets and also changes to our operations where we generate electricity as we transition to alternative viable fuels.

Key mitigations

- Conducting a comprehensive and systematic assessment of our talent and succession plan.
- Implementing consistent Group-wide performance management, potential assessment, and career development frameworks.
- Providing workforce engagement forums enabling colleagues and management to communicate, share ideas and views on any business-related issues, gain feedback and explore opportunities for new ways of working such as our Fit for the Future programme.
- Conducting regular colleague surveys to monitor engagement levels and alignment of people with Group values .
- Continued investment employees personal and career development to enhance business performance and provide the Group with a relevant pipeline of talent in critical roles.
- Ensuring regular colleague communications, and involvement in the business through our MyVoice Forums .
- Maintaining reward packages that aid recruitment and retention.
- A diversity and inclusion strategy that aligns to our organisational vision and goals .
- Engaging our colleagues with defining the behaviours that sit behind our Values .

Changes in factors impacting risk in 2020

- During the year, the Group's focus on implementing its HR strategy has mitigated various risks and lessened the probability and impact of the overall people risk category. The Group is aware that, as it manages the wider context of rapidly changing people risks, the HR strategy will need to remain agile to address anticipated increases to probability and impact in the short-term.
- We reviewed our HR strategy and reshaped our priorities putting together a comprehensive five-year HR plan centred around:
- developing our HR foundations to enable the organisation to be efficiently fit for the future.
- raising business performance and building organisational capability through the empowerment of our people.
- continuing to develop and improve to be best in class for people leadership.
- supporting the delivery of Drax plans, purpose, and operational excellence as part of business as usual.
- ongoing development of our workforce engagement forums.
- making the organisational and people changes to align with 'fit for the future' thinking, driving consistency, efficiencies, improvements in decision making and reduction in cost.

Covid-19

- There has been a wide change in working practices in particular for office-based employees. Management continues to provide an increased focus on "keeping our people safe" within business continuity planning throughout the pandemic, through increased communications and wellbeing activity, community activity, and making appropriate policy changes.

Directors’ responsibilities statement

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

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

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

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 24 February 2021 and is signed on its behalf by:

Will Gardiner
CEO

Financial statements

Basis of Preparation and General Information

The consolidated financial information for Drax Group plc (the Company) and its subsidiaries (together, the Group) set out in this preliminary announcement has been derived from the audited consolidated financial statements of the Group for the year ended 31 December 2020 (the financial statements).

This preliminary announcement does not constitute the full financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements were approved by the Board of directors on 24 February 2021. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered in due course.

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

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

The principal accounting policies adopted in the preparation of the financial statements are set out in the 2019 Annual report and accounts, except for new standards applicable from 1 January 2020. The application of these new standards has not had a material impact on the financial statements.

The sale of Drax Generation Enterprise Ltd (which contained the Group's CCGT portfolio) to VPI Generation Limited was announced on 15 December 2020 and completed on 31 January 2021. The income, expenditure and cash flows of the disposed operations for both the current and previous year have been presented as discontinued operations, and the assets and liabilities of the disposed operations as at 31 December 2020 have been presented as held for sale in the Group's consolidated financial statements. Reconciliations between continuing, discontinued and total amounts for each period are shown in note 18 to the consolidated financial statements. Financial information for 2019 has been re-presented to reflect the income and expenditure for the disposed operations as discontinued.

Post balance sheet events

On 8 February 2021, the Group announced the proposed acquisition of Pinnacle Renewable Energy Inc. (Pinnacle), which is subject to the approval of Drax and Pinnacle shareholders, court approval and regulatory approvals. If all required approvals are received, the acquisition is expected to complete in the second or third quarter of 2021. Under the acquisition agreement, Drax will acquire the entire issued share capital of Pinnacle, valuing the fully diluted equity of Pinnacle at C$385 million (£226 million, at a rate of C$1.7/£), with an enterprise value of C$741 million, including C$356 million of net debt.

Consolidated income statement

	Notes	Year ended 31 December 2020 Adjusted Results[1] £m	Exceptional items and certain remeasurements £m	Total Results £m	Year ended 31 December 2019[2] Adjusted Results[1] £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue	2	**4,235.0**	**9.7**	**4,244.7**	4,457.1	10.5	4,467.6
Cost of sales		**(3,434.8)**	**(84.2)**	**(3,519.0)**	(3,658.7)	(131.7)	(3,790.4)
Gross profit		**800.2**	**(74.5)**	**725.7**	798.4	(121.2)	677.2
Operating and administrative expenses	3	**(391.0)**	**(30.0)**	**(421.0)**	(409.1)	–	(409.1)
Impairment losses on financial assets	11	**(43.1)**	**–**	**(43.1)**	(18.0)	–	(18.0)
Adjusted EBITDA[1]		**366.1**			371.3		
Depreciation		**(133.1)**	**–**	**(133.1)**	(151.5)	–	(151.5)
Amortisation		**(38.4)**	**–**	**(38.4)**	(42.0)	–	(42.0)
Asset obsolescence charges	7	**–**	**(239.3)**	**(239.3)**	–	–	–
Losses on disposal of fixed assets		**(5.9)**	**–**	**(5.9)**	(0.1)	–	(0.1)
Other gains		**–**	**–**	**–**	0.9	–	0.9
Acquisition and restructuring costs	7	**–**	**(1.0)**	**(1.0)**	–	(9.0)	(9.0)
Operating profit/(loss)		**188.7**	**(344.8)**	**(156.1)**	178.6	(130.2)	48.4
Foreign exchange (losses)/gains	5	**(2.2)**	**(0.6)**	**(2.8)**	(1.6)	2.0	0.4
Interest payable and similar charges	5	**(67.7)**	**(8.6)**	**(76.3)**	(61.2)	(5.2)	(66.4)
Interest receivable	5	**0.5**	**–**	**0.5**	2.0	–	2.0
Profit/(loss) before tax		**119.3**	**(354.0)**	**(234.7)**	117.8	(133.4)	(15.6)
Tax:							
– Before effect of changes in tax rate	6	**(9.1)**	**67.3**	**58.2**	(17.5)	25.1	7.6
– Effect of changes in tax rate	6	**(13.8)**	**(4.3)**	**(18.1)**	(1.7)	–	(1.7)
Total tax (charge)/credit		**(22.9)**	**63.0**	**40.1**	(19.2)	25.1	5.9
Net result from continuing operations		**96.4**	**(291.0)**	**(194.6)**	98.6	(108.3)	(9.7)
Net result from discontinued operations	18	**21.2**	**15.5**	**36.7**	19.5	(9.3)	10.2
Profit/(loss) for the period		**117.6**	**(275.5)**	**(157.9)**	118.1	(117.6)	0.5
Earnings/(loss) per share:		**Pence**		**Pence**	Pence		Pence
For net result from continuing operations							
– Basic	8	**24.3**		**(49.0)**	24.9		(2.5)
– Diluted	8	**23.8**		**(49.0)**	24.8		(2.5)
For net result for the period							
– Basic	8	**29.6**		**(39.8)**	29.9		0.1
– Diluted	8	**29.0**		**(39.8)**	29.7		0.1

All results are attributable to owners of the parent.

Notes:
(1) Adjusted Results, including Adjusted EBITDA, are defined in the glossary below.
(2) 2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the sale of the CCGT assets. See note 18.

Consolidated statement of comprehensive income

	Notes	Years ended 31 December 2020 £m	2019 £m
(Loss)/profit for the period		**(157.9)**	0.5
Items that will not be subsequently reclassified to profit or loss:			
Actuarial gains/(losses) on defined benefit pension scheme		**1.4**	(21.5)
Deferred tax on actuarial gains/(losses) on defined benefit pension scheme	6	**(0.3)**	4.3
Losses on equity investments		**–**	(0.1)
Net fair value gains on cost of hedging		**53.3**	56.3
Deferred tax on cost of hedging	6	**(11.7)**	(9.7)
Net fair value losses on cash flow hedges		**(33.0)**	(112.8)
Deferred tax on cash flow hedges	6	**5.1**	25.0
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations	16	**(9.3)**	(11.2)
Net fair value (losses)/gains on cash flow hedges		**(38.4)**	71.9
Net (losses)/gains on cash flow hedges reclassified to the income statement		**(35.7)**	19.2
Deferred tax on cash flow hedges	6	**12.3**	(19.9)
Other comprehensive (expense)/income		**(56.3)**	1.5
Total comprehensive (expense)/income for the year attributable to owners of the parent		**(214.2)**	2.0

Consolidated balance sheet

	Notes	As at 31 December 2020 £m	2019 £m
Assets			
Non-current assets			
Goodwill		**248.2**	248.2
Intangible assets		**181.8**	206.9
Property, plant and equipment		**1,941.1**	2,327.4
Right-of-use assets		**29.0**	31.4
Other fixed asset investments		**1.5**	3.0
Retirement benefit surplus		**9.5**	7.0
Deferred tax assets	6	**65.3**	45.3
Derivative financial instruments		**103.8**	152.3
		2,580.2	3,021.5
Current assets			
Inventories		**208.2**	292.0
ROC assets		**139.6**	162.7
Trade and other receivables	11	**525.3**	608.8
Derivative financial instruments		**179.5**	193.7
Current tax assets		**9.0**	–
Cash and cash equivalents	13	**289.8**	404.1
Assets held for sale	18	**261.3**	–
		1,612.7	1,661.3
Liabilities			
Current liabilities			
Trade and other payables		**(907.0)**	(1,039.2)
Lease liabilities		**(7.0)**	(6.3)
Current tax liabilities		**–**	(37.8)
Derivative financial instruments		**(311.5)**	(216.5)
Liabilities directly associated with the assets held for sale	18	**(82.5)**	–
		(1,308.0)	(1,299.8)
Net current assets		**304.7**	361.5
Non-current liabilities			
Borrowings	14	**(1,065.7)**	(1,245.2)
Lease liabilities		**(23.2)**	(26.2)
Derivative financial instruments		**(142.1)**	(72.9)
Provisions		**(91.2)**	(54.2)
Deferred tax liabilities	6	**(222.0)**	(268.9)
Retirement benefit obligation		**(1.3)**	–
		(1,545.5)	(1,667.4)
Net assets		**1,339.4**	1,715.6
Shareholders' equity			
Issued equity	16	**47.5**	47.4
Share premium	16	**430.0**	429.6
Treasury shares	16	**(50.4)**	(50.4)
Hedge reserve		**(76.0)**	121.5
Cost of hedging reserve		**87.2**	40.8
Other reserves	16	**747.7**	757.0
Retained profits	10	**153.4**	369.7
Total shareholders' equity		**1,339.4**	1,715.6

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 24 February 2021.

Signed on behalf of the Board of directors:

Andy Skelton
CFO

Consolidated statement of changes in equity

	Issued equity £m	Share premium £m	Treasury shares £m	Hedge reserve £m	Cost of hedging £m	Other reserves £m	Retained profits £m	Total £m
At 1 January 2019	**47.0**	**424.7**	**(47.1)**	**199.9**	**(8.9)**	**768.2**	**442.7**	**1,826.5**
Profit for the year	–	–	–	–	–	–	0.5	0.5
Other comprehensive (expense)/income	–	–	–	(16.6)	46.6	(11.2)	(17.3)	1.5
Total comprehensive (expense)/income for the year	**–**	**–**	**–**	**(16.6)**	**46.6**	**(11.2)**	**(16.8)**	**2.0**
Equity dividends paid (note 9)	–	–	–	–	–	–	(58.9)	(58.9)
Issue of share capital (note 16)	0.4	4.9	–	–	–	–	–	5.3
Total transactions with owners	**0.4**	**4.9**	**–**	**–**	**–**	**–**	**(58.9)**	**(53.6)**
Movements on cash flow hedges released directly from equity	–	–	–	(78.9)	–	–	–	(78.9)
Deferred tax on cash flow hedges released directly from equity	–	–	–	17.1	–	–	–	17.1
Movements on cost of hedging released directly from equity	–	–	–	–	3.8	–	–	3.8
Deferred tax on cost of hedging released directly from equity	–	–	–	–	(0.7)	–	–	(0.7)
Repurchase of shares (note 16)(1)	–	–	(3.3)	–	–	–	–	(3.3)
Movement in equity associated with share-based payments	–	–	–	–	–	–	2.7	2.7
At 31 December 2019	**47.4**	**429.6**	**(50.4)**	**121.5**	**40.8**	**757.0**	**369.7**	**1,715.6**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(157.9)**	**(157.9)**
Other comprehensive (expense)/income	**–**	**–**	**–**	**(89.7)**	**41.6**	**(9.3)**	**1.1**	**(56.3)**
Total comprehensive (expense)/income for the year	**–**	**–**	**–**	**(89.7)**	**41.6**	**(9.3)**	**(156.8)**	**(214.2)**
Equity dividends paid (note 9)	**–**	**–**	**–**	**–**	**–**	**–**	**(64.7)**	**(64.7)**
Issue of share capital (note 16)	**0.1**	**0.4**	**–**	**–**	**–**	**–**	**–**	**0.5**
Total transactions with owners	**0.1**	**0.4**	**–**	**–**	**–**	**–**	**(64.7)**	**(64.2)**
Movements on cash flow hedges released directly from equity	**–**		**–**	**(133.1)**	**–**	**–**	**–**	**(133.1)**
Deferred tax on cash flow hedges released directly from equity	**–**		**–**	**25.3**	**–**	**–**	**–**	**25.3**
Movements on cost of hedging released directly from equity	**–**		**–**	**–**	**5.2**	**–**	**–**	**5.2**
Deferred tax on cost of hedging released directly from equity	**–**		**–**	**–**	**(0.4)**	**–**	**–**	**(0.4)**
Movement in equity associated with share-based payments	**–**		**–**	**–**	**–**	**–**	**5.2**	**5.2**
At 31 December 2020	**47.5**	**430.0**	**(50.4)**	**(76.0)**	**87.2**	**747.7**	**153.4**	**1,339.4**

Note:

(1) Repurchase of shares reflects the cost of acquiring ordinary shares as part of the share buy-back programme announced on 20 April 2018. At 31 December 2020 these shares have not been cancelled and are recognised as treasury shares

Consolidated cash flow statement

	Notes	Years ended 31 December 2020 £m	2019 £m
Cash generated from operations	15	**413.4**	471.2
Income taxes paid		**(48.3)**	(9.6)
Interest paid		**(59.2)**	(50.3)
Interest received		**0.3**	2.1
Net cash from operating activities, made up of:		**306.2**	413.4
Net cash from continuing operating activities		**269.7**	384.0
Net cash from discontinued operating activities		**36.5**	29.4
Cash flows from investing activities			
Purchases of property, plant and equipment		**(163.8)**	(142.3)
Purchases of software assets		**(10.6)**	(29.1)
Proceeds from the sale of property, plant and equipment		**1.6**	–
Proceeds from the sale of other fixed asset investment		**1.5**	–
Acquisition of subsidiaries		**–**	(691.7)
Net cash used in investing activities, made up of:		**(171.3)**	(863.1)
Net cash used in continuing investing activities		**(134.8)**	(833.7)
Net cash used in discontinued investing activities		**(36.5)**	(29.4)
Cash flows from financing activities			
Equity dividends paid	9	**(64.7)**	(58.9)
Proceeds from issue of share capital		**0.5**	5.3
Purchase of own shares		**–**	(3.3)
Repayment of borrowings		**(475.0)**	(550.0)
New borrowings drawn down		**298.9**	1,202.8
Repayment of principal on lease liabilities		**(8.8)**	(7.4)
Other financing costs paid		**–**	(16.9)
Net cash (absorbed by)/generated from financing activities, made up of:		**(249.1)**	571.6
Net cash (absorbed by)/generated from continuing financing activities		**(249.1)**	571.6
Net cash generated from/(absorbed by) discontinued financing activities		**–**	–
Net (decrease)/increase in cash and cash equivalents		**(114.2)**	121.9
Cash and cash equivalents at 1 January		**404.1**	289.0
Effect of changes in foreign exchange rates		**(0.1)**	(6.8)
Cash and cash equivalents at 31 December	13	**289.8**	404.1

Non-cash transactions recognised in the income statement are reconciled to operating cash flow as part of the disclosure provided in note 15. Significant non-cash transactions in 2020 included asset obsolescence charges of £239.3 million (see note 7). There were no material non-cash transactions in the previous year.

The Group recorded a net loss of £275.5 million (2019: net loss £117.6 million) arising on exceptional items and certain remeasurements in the Consolidated income statement in 2020. Acquisition and restructuring costs of £1.0 million (2019: £9.0 million) are included in cash generated from operations (see note 15) and cash paid in respect of debt restructuring of £3.8 million in net cash from operating activities (2019: £5.2 million in cash used in financing activities). All other exceptional items and remeasurements are non-cash and adjusted in the reconciliation shown in note 7.

1 Segmental reporting

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

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

Information reported to the Board, who are considered the Chief Operating Decision Maker, for the purposes of assessing performance and making investment decisions is based on these three segments. The measure of profit or loss for each reportable segment presented to the Board on a regular basis is Adjusted EBITDA.

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

Segment revenues and results

The following is an analysis of the Group's performance by reportable operating segment for the year ended 31 December 2020. The Board monitors the Adjusted Results for the Group by reportable operating segment as presented in the tables below. The financial information in these tables is comprised solely of results from continuing operations. The net result from discontinued operations of £36.7 million (2019: £10.2 million) is attributable entirely to the Generation segment and is described in further detail in note 18:

	Year ended 31 December 2020						
	Generation £m	Customers £m	Pellet Production £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue							
External sales	2,115.7	2,119.3	–	–	4,235.0	9.7	4,244.7
Inter-segment sales	1,530.1	–	231.0	(1,761.1)	–	–	–
Total revenue	3,645.8	2,119.3	231.0	(1,761.1)	4,235.0	9.7	4,244.7
Segment gross profit	608.9	84.3	103.6	3.4	800.2	(74.5)	725.7
Segment Adjusted EBITDA	399.9	(38.9)	51.7	3.4	416.1		
Central costs					(50.0)	–	(50.0)
Consolidated Adjusted EBITDA					366.1		
Asset obsolescence charge					–	(239.3)	(239.3)
Depreciation and amortisation					(171.5)	–	(171.5)
Losses on disposal of fixed assets					(5.9)	–	(5.9)
Acquisition and restructuring costs					–	(1.0)	(1.0)
Operating profit/(loss)					188.7	(344.8)	(156.1)
Net interest charge					(67.2)	(8.6)	(75.8)
Foreign exchange losses					(2.2)	(0.6)	(2.8)
Profit/(loss) before tax					119.3	(354.0)	(234.7)

Other than acquisition and restructuring costs of £1.0 million, exceptional items and certain remeasurements relate entirely to the Generation segment. This includes asset obsolescence charges and inventory provisions, as set out in note 7.

The following is an analysis of the Group's performance by reportable operating segment for the year ended 31 December 2019:

	Year ended 31 December 2019						
	Generation £m	Customers £m	Pellet Production £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue							
External sales	2,188.0	2,269.1	–	–	4,457.1	10.5	4,467.6
Inter-segment sales	1,512.7	–	229.4	(1,742.1)	–	–	–
Total revenue	3,700.7	2,269.1	229.4	(1,742.1)	4,457.1	10.5	4,467.6
Segment gross profit	580.8	134.1	84.1	(0.6)	798.4	(121.2)	677.2
Segment Adjusted EBITDA	369.0	17.4	31.5	(0.6)	417.3		
Central costs					(46.0)	–	(46.0)
Consolidated Adjusted EBITDA					371.3		
Acquisition and restructuring costs					–	(9.0)	(9.0)
Depreciation and amortisation					(193.5)	–	(193.5)
Losses on disposals					(0.1)	–	(0.1)
Other gains					0.9	–	0.9
Operating profit/(loss)					178.6	(130.2)	48.4
Net interest charge					(59.2)	(5.2)	(64.4)
Foreign exchange (losses)/gains					(1.6)	2.0	0.4
Profit/(loss) before tax					117.8	(133.4)	(15.6)

2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the sale of the CCGT assets. See note 18.

The accounting policies applied for the purpose of measuring the segments' profits or losses, assets and liabilities are the same as those used in measuring the corresponding amounts in the Group's financial statements. The external revenues and results of all the reporting segments are subject to seasonality, with higher dispatch and prices in the winter months compared to summer months.

Capital expenditure by segment

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

	Additions to intangible assets 2020 £m	**Additions to property, plant and equipment 2020 £m**	Additions to intangible assets 2019 £m	Additions to property, plant and equipment 2019 £m
Generation	**1.9**	**157.9**	0.8	129.9
Customers	**6.2**	**0.5**	18.9	0.6
Pellet Production	**–**	**58.5**	0.3	17.9
Central	**0.5**	**3.1**	0.8	2.9
Total	**8.6**	**220.0**	20.8	151.3

Total cash outflows in relation to capital expenditure during the year for continuing and discontinued operations were £174.4 million (2019: £171.4 million). The difference between the cost capitalised and the cash flow in 2020 is predominantly a result of the recognition of the asset associated with the increase in the decommissioning provision in the year, a non-cash adjustment of £28.9 million.

See the Group Financial Review, above, for further details about key capital investments in the year.

Intra-group trading

Intra-group transactions are carried out at management's best estimate of arm's-length, commercial terms that, where possible, equate to market prices. During 2020, the Pellet Production segment sold wood pellets with a total value of £231.0 million (2019: £229.4 million) to the Generation segment and the Generation segment sold electricity, gas and ROCs with a total value of £1,530.1 million (2019: £1,512.7 million) to the Customers segment.

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

Major customers

Total consolidated revenue for the year ended 31 December 2020 includes £495.2 million from one individual customer (2019: £575.7 million from one individual customer) that represented 10% or more of total revenue for the year. These revenues arose in the Generation segment.

2 Revenue

Accounting policy

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

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

The Group recognises the income or costs arising from the Contract for Difference (CfD) (see below) in the income statement as a component of revenue at the point the Group meets its performance obligation under the CfD contract. This is considered to be the point at which the relevant generation is delivered and the payment becomes contractually due.

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

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

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

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

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

CfD payments

The Group is party to a CfD with the Low Carbon Contracts Company (LCCC), a Government-owned entity responsible for delivering elements of the Government's Electricity Market Reform Programme. Under the contract, the Group makes or receives payments in respect of electricity dispatched from a specific biomass-fuelled generating unit. The payment is calculated by reference to a strike price of £100 per MWh. The base year for the strike price was 2012 and it increases each year in line with the UK Consumer Price Index and changes in system balancing costs. The strike price at 31 December 2020 was £116.49 per MWh.

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

ROC sales

The generation and sale of Renewable Obligation Certificates (ROCs) is a key driver of the Group's financial performance. The Renewable Obligation (RO) scheme places an obligation on electricity suppliers to source an increasing proportion of their electricity from renewable sources. Under the RO scheme, ROCs are certificates issued to generators of renewable electricity which are then sold bilaterally to counterparties, including suppliers, to demonstrate that they have fulfilled their obligations under the RO scheme. ROCs are managed in compliance periods (CPs), running from April to March annually. CP1 commenced in April 2002. At 31 December 2020 the Group is operating in CP19.

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

The financial benefit of a ROC recognised in the income statement at the point of generation is thus comprised of two parts: the expected value to be obtained in a sale transaction with a third party supplier relating to the buy-out price and the expected value of the recycle fund benefit to be received at the end of the CP. During the year, the Group made sales (and related purchases) of ROCs to help optimise its working capital position. External sales of ROCs in the table below includes £495.2 million of such sales (2019: £575.7 million), with a similar value reflected in cost of sales.

Biomass pellet sales

The Group produces biomass pellets. The performance obligation is the delivery of the pellets to the customer. Delivery of the pellets is deemed to be when the customer obtains control of the pellets which is dependent on the individual shipping terms of the contract, but is generally when the product is loaded onto the shipping vessel. The amount of revenue recognised is based on the contract price for the pellets.

Further analysis of revenue for the year ended 31 December 2020 is provided in the table below:

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

Certain remeasurements of £9.7 million (2019: £10.5 million) are comprised of gains and losses on derivative contracts that are used to manage risk exposures associated with the Group's revenue, not designated into hedge accounting relationships under IFRS 9.

Revenue recognised in the period that was included within contract liabilities at the start of the year was £13.3 million (2019: £12.5 million).

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

The following is an analysis of the Group's revenues for the year ended 31 December 2019:

	Year ended 31 December 2019(1) External £m	Intra-group £m	Total £m
Power Generation			
Electricity sales	1,123.3	1,115.0	2,238.3
ROC sales	733.7	368.1	1,101.8
CfD income	261.7	–	261.7
Ancillary services	46.2	1.8	48.0
Other income	23.1	27.8	50.9
Customers			
Electricity and gas sales	2,226.1	–	2,226.1
Other income	43.0	–	43.0
Pellet Production			
Pellet sales	–	229.4	229.4
Elimination of intra-group sales	–	(1,742.1)	(1,742.1)
Total adjusted consolidated revenue	4,457.1	–	4,457.1
Certain remeasurements	10.5	–	10.5
Total consolidated revenue	4,467.6	–	4,467.6

Note:
(1) 2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the sale of the CCGT assets. See note 18.

In November 2018 the UK Capacity Market was suspended and was subsequently reinstated in 2019. As a result of the reinstatement, included within electricity sales in the 2019 table above is £6.8 million of capacity market income relating to the period from October 2018 – December 2018.

3 Operating expenses

This note sets out the material components of operating and administrative expenses in the Consolidated income statement and a detailed breakdown of the fees paid to the Group's auditor, Deloitte LLP, in respect of services they provided to the Group during the year.

	Years ended 31 December	
	2020 **£m**	2019 (1) £m
The following expenditure has been charged in arriving at operating profit:		
Staff costs	**196.3**	174.3
Repairs and maintenance expenditure on property, plant and equipment	**100.1**	96.3
Other operating and administrative expenses	**124.6**	138.5
Total operating and administrative expenses	**421.0**	409.1

Note:
(1) 2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the sale of the CCGT assets. See note 18.

Included in total operating and administrative expenses above is £11.5 million of expenditure relating to research and development activities (2019: £2.7 million). In addition, the Group claims Research and Development Expenditure Credit (RDEC) relief on costs presented within cost of sales.

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

Accordingly cost of sales excludes depreciation, presented separately on the face of the income statement, and staff costs to the extent included in operating and administrative expenses and set out in the table above.

Auditor's remuneration

	Years ended 31 December	
	2020 **£'000**	2019 £'000
Audit fees:		
Fees payable for the audit of the Group's consolidated financial statements	**1,025.0**	863.9
Fees payable for the audit of the Company's subsidiaries	**38.0**	36.0
	1,063.0	899.9
Other fees:		
Review of the Group's half-year condensed consolidated financial statements	**98.0**	96.2
Other services	**2.0**	2.0
Total audit-related fees	**1,163.0**	998.1
Other assurance services	**226.0**	180.0
Total non-audit fees	**226.0**	180.0
Total auditor's remuneration	**1,389.0**	1,178.1

The Group fee relates to the audit of all the subsidiaries to a statutory materiality. In addition, certain head office companies are not required for the Group audit opinion, the allocation of which is included in the fees payable for the audit of the Company's subsidiaries disclosed above. Audit fees payable for the audit of the Group's consolidated financial statements in 2020 includes £88,000 in relation to the 2019 audit.

Other assurance services provided by Deloitte LLP in 2020 consist of agreed upon procedures and other assurance services provided in connection with the bond refinancing in October 2020 and the proposed acquisition of Pinnacle Renewable Energy Inc (2019: assurance and agreed-upon procedures performed in connection with the bond issuance in May 2019).

Details of the Company's policy on the use of the auditor for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out on the Group's website (https://www.drax.com/about-us/compliance-and-policies/). No services were provided pursuant to contingent fee arrangements.

4 Review of fixed assets for impairment

Accounting policy

The Group reviews its fixed assets (or, where appropriate, groups of assets known as cash-generating units (CGUs)) whenever there is an indication that an impairment loss may have been suffered. The Group assesses the existence of indicators of impairment at least annually.

In respect of the Customers and Pellet Production businesses, the Group considers the smallest groups of assets that generate independent cash flows to be equivalent to the operating entities within those businesses – Haven Power, Opus Energy and Drax Biomass.

In respect of the Generation business, the Group generally considers the smallest groups of assets that generate independent cash flows to be the individual sites that share common infrastructure and control functions. Following the decision to cease commercial coal generation at Drax Power Station, a review of CGUs at that site determined the site to be comprised of two separate CGUs (one for biomass generation assets and one for coal generation assets). Previously, Drax Power Station was considered a single CGU. As described in further detail below and in note 17, following this change the coal CGU was subsequently fully written down in the period. Accordingly, excluding the fully written down coal CGU, the Generation business is comprised of (eight CGUs in total) – Drax Power Station (biomass), Damhead Creek, Rye House, Shoreham, Blackburn, Lanark, Galloway and Cruachan. In addition, the Group considers impairment for the OCGTs as a whole, as these intangible assets have an indefinite useful life.

If an indication of potential impairment exists, the recoverable amount of the asset or CGU in question is assessed with reference to the present value of the future cash flows expected to be derived from the continuing use of the asset or CGU (value in use) or the expected price that would be received to sell the asset to another market participant (fair value less costs to sell). The initial assessment of recoverable amount is normally based on value in use.

The assessment of future cash flows is based on the most recent approved business plan and includes all of the necessary costs expected to be incurred to generate the cash inflows from the CGU's assets in their current state and condition, including an allocation of centrally managed costs. Future cash flows include, where relevant, contracted cash flows arising from the Group's cash flow hedging activities and as a result the carrying amount of each CGU includes the mark-to-market value of those cash flow hedges. Assessments of future cash flows consider relevant environmental and climate factors. In particular, macro-economic, commodity price and third-party cost assumptions reflect considerations in respect of growth in renewable technologies, electrification and the impact of relevant policies on longer-term supply and demand profiles.

The additional value that could be obtained from enhancing the Group's assets is not reflected, nor the potential benefit of any future restructuring or reorganisation that the Group is not yet committed to. In determining value in use, the estimate of future cash flows is discounted to present value using a rate reflecting the specific risks attributable to the CGU in question.

If the recoverable amount is less than the current carrying amount in the financial statements, a provision is made to reduce the carrying amount of the asset or CGU to the estimated recoverable amount. Impairment losses are recognised immediately in the income statement. Goodwill balances and intangible assets with an indefinite useful economic life are assessed for impairment annually.

Assessment of indicators of impairment
In February 2020, the Board determined to end commercial coal generation at Drax Power Station in March 2021, with the two coal units remaining available to meet Capacity Market obligations until September 2022. As a result of this closure decision, which reflected that the dependencies between the coal and biomass generating units are no longer considered to be significant, the Group determined the coal generation assets at Drax Power Station were now a separate CGU. An impairment review was subsequently performed on the coal CGU which resulted in an asset obsolescence charge of £225.9 million, the total net book value of the assets concerned, being recognised due to the recoverable amount of the CGU being significantly lower than its carrying amount. Following this charge, the assets in the coal CGU have been fully written down. See note 17 for further details. During the year, the Board also made the decision not to pursue the option to develop a new CCGT at Drax Power Station. This led to the assets associated with this project becoming obsolete, and therefore an asset obsolescence charge of £13.4 million has been recognised due to the carrying value of these assets being significantly higher than their recoverable amount of £nil, which led to the assets being fully written off. See note 17 for further details. In addition to the £13.4 million obsolescence charge, £1.1 million of associated costs are included within the total £30.0 million exceptional operating and administrative expenses. See note 7 for further details.

A review of the Group's remaining CGUs gave rise to an indicator of impairment for the two CGUs which comprise the Customers business unit, as a result of the impact of Covid-19 on their financial performance during 2020. As goodwill is attributed to both of these CGUs, an impairment review is performed annually anyway. In determining that no indicator of impairment existed in respect of the remaining CGUs, the Group considered changes in market prices for commodities, foreign currency exchange rates, changes in macro-economic conditions, potential impacts of climate change and regulatory requirements since the previous balance sheet date, and the impact of such changes on the Group's long-term planning models and future forecast cash flows. Particular consideration was given to assumptions regarding biomass generation and biomass prices post-2027, when current subsidies for biomass generation are due to expire. Our forecasts indicate that the majority of the carrying amount of the CGU is supported by pre-2027 cash flows. Whilst the Group has a strategic imperative to reduce biomass prices over time, as part of a strategy to secure a long-term future for biomass generation, the long-term models that inform impairment conclusions are subjected to an additional sensitivity to identify the risk that biomass prices do not reduce significantly in the period up to and following the cessation of subsidies. Drax Power Station is viewed as having a useful life until 2039 at least, and an expectation of continuing to be in operation until that time.

Apart from the coal generation CGU and Drax Power Station CCGT specific assets, all impairment reviews conducted in 2020 indicated adequate headroom to conclude that no impairment charges were required. Accordingly, apart from the asset obsolescence charges recognised in relation to the coal generation assets and Drax Power Station CCGT (see note 17), no other amounts have been charged to the income statement in respect of asset impairment in 2020 (2019: No asset obsolescence charge). Further sensitivities are not provided on other assets because there are no reasonably possible sensitivities which would lead to an impairment.

Goodwill impairment reviews
Haven and Opus
The recoverable amounts of the Haven Power and Opus Energy CGUs are measured annually, based on a value in use calculation. This calculation depends on a broad range of assumptions, the most significant of which are customer margins and supply volumes. Estimates regarding these assumptions are based on management's expectations of future growth, wholesale energy and third-party costs and achieved profitability. Inherent in these assumptions are expectations about future energy prices and supply costs. Management has projected cash flows based on the business plan period of 8 years. Cash flows beyond the business plan period are inflated into perpetuity using a growth rate of 1%. This growth rate is based on prudent expectations of market share and/or profitability along with more general macro environmental factors which were obtained from the Group's established planning model along with external macro-economic forecasts. The growth rate does not exceed the relevant long-term average growth rate for the industry. These businesses are principally focused on renewable electricity sales and therefore consideration of climate and environmental impacts are already a key feature of their business models.

The carrying amounts and discount rates applied to each CGU are set out in the table below:

CGU	Carrying Amount (£m)	Discount Rate
Haven	47.5	7.2%
Opus	288.5	7.2%

The expected future cash flows of the CGU were discounted using a discount rate of 7.2%, calculated based on independent analysis commissioned by the Group, adjusted to the specific circumstances and risk factors affecting the Group's Customers business. The Group believes that this rate reflects the prospects for a well-established Customers business reflecting the comparatively long trading record and customer bases these businesses hold. The value in use of the Haven Power CGU, including the goodwill, was significantly in excess of its carrying amount. Reflecting the significant headroom in the analysis, the Group does not believe that any reasonably possible change in the key assumptions would result in a recoverable amount for the Haven Power CGU that was lower than its carrying amount.

The carrying amount of the Opus Energy CGU at 31 December 2020 includes intangible assets of £111.0 million. The discount rate was assessed as being in line with that of Haven Power at 7.2%. The recoverable amount of the Opus Energy CGU was assessed under several scenarios that reflect the Group's future plans for the business. In each case, whilst headroom was materially reduced from prior years due to the impact of Covid-19 on forecasts of near-term future earnings, the recoverable amount remained in excess of its carrying amount assuming a recovery trajectory that returns to profitability.

The Group conducted a sensitivity analysis on the estimates of future cash flows for the Opus Energy CGU and concluded that no reasonable possible change in any of the key assumptions would result in the recoverable amount falling below its carrying amount. It was noted that EBITDA forecasts in the business plan period would need to fall by a further 53% to completely erode available headroom.

Lanark, Galloway and Cruachan

The Group tests the goodwill associated with the Lanark, Galloway and Cruachan CGUs annually. The recoverable amount of each CGU was calculated based on a value in use calculation using the Group's established planning model. The model depends on a broad range of assumptions, the most significant of which are power prices, operating model, sources of stability income and the discount rate applied. Estimates regarding these assumptions are based on management's expectations of future wholesale energy prices, operational factors and capital investment. Management has projected cash flows based on the business plan period of 14 years. Cash flows beyond the business plan period are inflated into perpetuity using a growth rate of 2%. This growth rate is based on macro environmental factors which were obtained from publicly available forecasts and does not exceed the relevant long-term average growth rate for the industry. The carrying amounts and discount rates applied to each CGU are set out in the table below:

CGU	Carrying Amount (£m)	Discount Rate
Lanark	59.6	6.5%
Galloway	194.5	6.5%
Cruachan	312.1	6.5%

The discount rates were calculated based on independent analysis commissioned by the Group, adjusted to the specific circumstances and risk factors affecting the Group's Generation business.

The value in use for the Cruachan CGU in the table above, including allocated goodwill, was significantly in excess of its carrying amount. No reasonably possible change in the key assumptions would result in a recoverable amount that was lower than its carrying amount.

The nature of the run-of-river assets and the application of fair value accounting on acquisition in 2018 results in a limited level of headroom for the Lanark and Galloway CGUs of £4 million and £13 million respectively. The value in use calculations for Lanark and Galloway are sensitive to the discount rate applied. An increase in the discount rate of 0.5% for Lanark and 0.4% for Galloway would result in a recoverable amount that was lower than the carrying amount for each CGU. Having conducted a sensitivity analysis of all key assumptions, no other reasonably possible changes that would result in the elimination of all headroom were identified. It is not expected that there would be any reasonably possible change in key assumptions that would result in a material impairment loss in the next 12 months.

Development assets impairment review

The development assets arose on the acquisition of four OCGT projects in December 2016 and reflect the value of planning and consents. Until operations commence, the assets are considered to have an indefinite life and thus are not amortised and are subject to impairment testing at each balance sheet date. We believe there is a need for flexible, dispatchable generation, but this must support the UK's target of net zero carbon emissions by 2050.

At 31 December 2020, the recoverable amount of the development assets was established using a value in use calculation derived from the Group's established planning model. The assessment incorporated key assumptions related to likely Capacity Market clearing prices, construction costs, and the ongoing revenues to be derived from the projects once constructed. The Group's primary focus is on flexible and renewable generation; however the Group continues to see an important role for gas in the provision of system support and we believe the OCGT projects are an attractive means though which these services could be provided. Accordingly, the Group remains committed to the development of options for the OCGT projects and expects to recover the carrying amount in full.

The analysis assumes a Capacity Market clearing price that is higher than recently observed clearing prices but is supported by independent forecasts of future prices.

The expected future cash flows were discounted using a rate of 7%, which includes an assessment of the level of construction and execution risk inherent in the existing assets and quality of revenue if constructed. The analysis indicated a recoverable amount in excess of the current carrying amount of the development assets, with headroom in excess of £50 million. The analysis is sensitive to the key assumptions described above and the discount rate applied. Set out below are the individual changes in these assumptions that would result in a recoverable amount that is less than the carrying amount. Whilst all of these changes would not be expected to arise in the next 12 months, a combination of smaller changes across these assumptions could be reasonably possible to erode headroom to £nil.

- Increasing the discount rate by approximately 1.8%
- A reduction in the Capacity Market clearing price forecast of 34%
- An increase in the total construction cost of 21%
- A reduction in system stability revenue streams of 54%

If any of these circumstances were to materialise, individually or in aggregate and without mitigation, the Group may not proceed with the projects and the assets currently recognised on the balance sheet may be impaired. In particular, the analysis depends upon achieving an acceptable clearing price in future Capacity Market auctions.

5 Net finance costs

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

Refinancing activity in 2020
Changes in the Group's financing structure during 2020 are described in note 14.

As described in note 7, £8.6 million (2019: £5.2 million) of costs associated with the restructuring of the Group's financing structure during the year have been excluded from Adjusted Results and are presented as an exceptional item.

	Years ended 31 December	
	2020 £m	2019(1) £m
Interest payable and similar charges:		
Interest payable on borrowings	**(57.1)**	(49.8)
Interest on lease liabilities	**(1.0)**	(1.0)
Unwinding of discount on provisions	**(0.4)**	(3.8)
Amortisation of deferred finance costs – excluding amounts identified below	**(5.9)**	(4.2)
Other financing charges	**(3.3)**	(2.4)
Total interest payable and similar charges included in adjusted results	**(67.7)**	(61.2)
Interest receivable:		
Interest income on bank deposits	**0.3**	1.3
Net finance credit in respect of defined benefit scheme	**0.2**	0.7
Total interest receivable included in adjusted results	**0.5**	2.0
Foreign exchange losses included in adjusted results	**(2.2)**	(1.6)
Total recurring net finance costs included in adjusted results	**(69.4)**	(60.8)
Exceptional costs of debt restructure:		
Fees to exit existing facilities (note 7)	**(3.8)**	–
Acceleration of deferred costs in relation to previous facilities (note 7)	**(4.8)**	(5.2)
Total exceptional costs of debt restructure	**(8.6)**	(5.2)
Certain remeasurements on financing derivatives	**(0.6)**	2.0
Total net finance costs	**(78.6)**	(64.0)

Note:
(1) 2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the sale of the CCGT assets. See note 18.

Foreign exchange gains and losses in net finance costs arise on the retranslation of non-derivative balances denominated in foreign currencies to prevailing rates at the balance sheet date.

6 Current and deferred taxation

The tax charge includes both current and deferred tax. Current tax is the estimated amount of tax payable on this year's taxable profits (which are adjusted for items upon which the Group is not required to pay tax or, in some cases, for items which are not allowable for tax purposes) and adjusted for estimates for previous years. Deferred tax is an accounting adjustment which reflects where more or less tax is expected to arise in the future due to differences between the accounting and tax rules. This is reflected in differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profits. The tax credit reflects the estimated effective tax on the loss before tax for the Group for the year ended 31 December 2020 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the income statement.

Accounting policy

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

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

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

In accounting for taxation, the Group makes assumptions regarding the treatment of items of income and expenditure for tax purposes. The Group believes that these assumptions are reasonable, based on prior experience and consultation with advisers. Full provision is made for deferred taxation at the rates of tax prevailing at the period end 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. Where such assets relate to losses incurred by a business unit, particularly one with a history of losses, the Group seeks evidence other than its own internal forecasts to support recognition of the related deferred tax asset.

	Years ended 31 December	
	2020 £m	2019[(1)] £m
Total tax credit comprises:		
Current tax		
– Current year	**11.2**	29.0
– Adjustments in respect of prior periods	**(12.3)**	10.0
Deferred tax		
– Before impact of tax rate changes	**(62.4)**	(39.3)
– Adjustments in respect of prior periods	**5.3**	(7.3)
– Effect of changes in tax rate	**18.1**	1.7
Total tax credit	**(40.1)**	(5.9)

	Years ended 31 December	
	2020 £m	2019[(1)] £m
Tax (credited)/charged on items recognised in other comprehensive income:		
Deferred tax on actuarial gains/(losses) on defined benefit pension scheme	**0.3**	(4.3)
Deferred tax on cash flow hedges	**(17.4)**	(5.1)
Deferred tax on cost of hedging	**11.7**	9.7
	(5.4)	0.3

	Years ended 31 December	
	2020 £m	2019[(1)] £m
Tax credited on items released directly from equity:		
Deferred tax on cost of hedging	**0.4**	0.7
Deferred tax on cash flow hedges	**(25.3)**	(17.1)
	(24.9)	(16.4)

UK corporation tax is the main rate of tax for the Group and is calculated at 19% (2019: 19%) of the assessable profit or loss for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Certain deferred tax liabilities were valued at 17% in the prior period, being the UK corporation tax rate that had been substantively enacted at the balance sheet date. On 17 March 2020 the UK Government substantively enacted a main UK corporation tax rate of 19%, giving rise to a charge of £18.1 million (2019: £1.7 million) due to the effect of changes in the tax rate.

Note:
(1) 2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the sale of the CCGT assets. See note 18.

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

	Year ended 31 December 2020			Year ended 31 December 2019[1]		
	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	**119.3**	**(354.0)**	**(234.7)**	117.8	(133.4)	(15.6)
Profit/(loss) before tax multiplied by the rate of corporation tax in the UK of 19% (2019: 19%)	**22.6**	**(67.3)**	**(44.7)**	22.4	(25.2)	(2.8)
Effects of:						
Adjustments in respect of prior periods	**(7.0)**	**–**	**(7.0)**	2.7	–	2.7
Expenses not deductible for tax purposes	**2.5**	**–**	**2.5**	0.6	0.1	0.7
Effect of changes in tax rate	**13.8**	**4.3**	**18.1**	1.7	–	1.7
Difference in overseas tax rates	**0.1**	**–**	**0.1**	(0.2)	–	(0.2)
Patent box benefit	**(8.0)**	**–**	**(8.0)**	(8.0)	–	(8.0)
Tax effect of RDEC credit	**(1.1)**	**–**	**(1.1)**	–	–	–
Total tax charge/(credit)	**22.9**	**(63.0)**	**(40.1)**	19.2	(25.1)	(5.9)

As a result of tax relief arising from the UK Patent Box regime (see below), partially offset by US federal tax rates of 21%, in the medium term the Group anticipates that the underlying effective tax rate will be marginally lower than the main rate of corporation tax in the UK.

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

Note:
(1) 2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the sale of the CCGT assets. See note 18.

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

Deferred tax (liabilities)/assets

	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 2019	(63.8)	(202.9)	2.0	(26.1)	22.2	(33.2)	17.7	(284.1)
Credited/(charged) to the income statement	25.3	8.3	(0.3)	6.0	5.6	5.7	(5.9)	44.7
Credited to other comprehensive income in respect of actuarial gains	–	–	–	–	–	–	4.3	4.3
Credited to other comprehensive income in respect of cash flow hedges	5.1	–	–	–	–	–	–	5.1
Charged to other comprehensive income in respect of cost of hedging	(9.7)	–	–	–	–	–	–	(9.7)
Credited to equity in respect of cash flow hedges	17.1	–	–	–	–	–	–	17.1
Charged to equity in respect of cost of hedging	(0.7)	–	–	–	–	–	–	(0.7)
Effect of changes in foreign exchange rates	–	–	–	–	(0.3)	–	–	(0.3)
At 1 January 2020	**(26.7)**	**(194.6)**	**1.7**	**(20.1)**	**27.5**	**(27.5)**	**16.1**	**(223.6)**
Credited to the income statement	**9.1**	**13.0**	**0.6**	**4.4**	**6.7**	**4.2**	**1.0**	**39.0**
Charged to other comprehensive income in respect of actuarial gains	**–**	**–**	**–**	**–**	**–**	**–**	**(0.3)**	**(0.3)**
Credited to other comprehensive income in respect of cash flow hedges	**17.4**	**–**	**–**	**–**	**–**	**–**	**–**	**17.4**
Charged to other comprehensive income in respect of cost of hedging	**(11.7)**	**–**	**–**	**–**	**–**	**–**	**–**	**(11.7)**
Credited to equity in respect of cash flow hedges	**25.3**	**–**	**–**	**–**	**–**	**–**	**–**	**25.3**
Charged to equity in respect of cost of hedging	**(0.4)**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.4)**
Effect of changes in foreign exchange rates	**–**	**–**	**–**	**–**	**(0.7)**	**–**	**(0.3)**	**(1.0)**
Transferred to liabilities held for sale	**–**	**(1.4)**	**–**	**–**	**–**	**–**	**–**	**(1.4)**
At 31 December 2020	**13.0**	**(183.0)**	**2.3**	**(15.7)**	**33.5**	**(23.3)**	**16.5**	**(156.7)**
Deferred tax balances (after offset) for financial reporting purposes:								
Net deferred tax asset	**13.0**	**–**	**2.3**	**–**	**33.5**	**–**	**16.5**	**65.3**
Net deferred tax liability	**–**	**(183.0)**	**–**	**(15.7)**	**–**	**(23.3)**	**–**	**(222.0)**

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

Within the above deferred tax balances is a net deferred tax asset of £33.5 million (2019: £27.8 million) in relation to start-up losses and other temporary differences in the US-based Pellet Production business. Based on its business plan and reflecting continuing improvement in operational performance, the Group anticipates that it will generate sufficient profits in the medium term against which to utilise this asset.

7 Certain remeasurements and exceptional items

The Group presents Adjusted Results in the Consolidated income statement. The Directors believe that this approach is useful and provides a clear and consistent view of trading performance. Certain remeasurements and exceptional items are excluded from Adjusted Results and presented in a separate column. The Group believes that this presentation provides useful information about the financial performance of the business and is consistent with the way executive management and the Board assess the performance of the business.

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

- Asset obsolescence charges, which related to coal-specific assets associated with the decision to cease commercial coal generation in 2021 and the decision not to pursue the option of creating a CCGT at Drax Power Station. (2020)
- Operating expenditure which was incurred as a direct result of the decision to cease commercial coal generation. (2020)
- Restructuring and integration costs associated with the acquisition and on-boarding of Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited) into the Group. (2019)
- Costs incurred as a result of restructuring the Group's debt in 2020 and 2019, including facility break costs and the acceleration of the amortisation of deferred finance costs associated with the redeemed facilities. Interest costs in 2019 that related to the acquisition bridge facility were classified as exceptional, as they relate directly to the acquisition described above.

- Costs and credits arising as a result of major transactions, namely deal costs and costs to close out outstanding trades on the disposal of the CCGTs and the proposed acquisition of Pinnacle Renewable Energy Inc.

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

	Years ended 31 December	
	2020 £m	2019[1] £m
Exceptional items:		
Inventory provision as a result of coal closure	**(4.8)**	–
Acquisition and restructuring costs	**(1.0)**	(9.0)
Operating expenditure	**(30.0)**	–
Asset obsolescence charges	**(239.3)**	–
Exceptional items included within Operating Profit	**(275.1)**	(9.0)
Cost of debt restructure (note 5)	**(8.6)**	(5.2)
Exceptional items included in Profit Before Tax	**(283.7)**	(14.2)
Taxation on Exceptional items	**48.6**	2.6
Exceptional items after taxation	**(235.1)**	(11.6)
Remeasurements:		
Net fair value remeasurements on derivative contracts included in revenue	**8.7**	(11.4)
Net remeasurements realised on maturity of derivative contracts included in revenue	**1.0**	21.9
Net fair value remeasurements on derivative contracts included in cost of sales	**(46.6)**	(76.4)
Net remeasurements realised on maturity of derivative contracts included in cost of sales	**(28.2)**	(55.3)
Net remeasurements reclassified to profit or loss on discontinued hedges included in cost of sales	**(4.6)**	–
Net fair value remeasurements on derivative contracts included in Foreign exchange gains	**(0.6)**	2.0
Remeasurements included in Profit Before Tax	**(70.3)**	(119.2)
Taxation on certain remeasurements	**14.4**	22.5
Remeasurements after taxation	**(55.9)**	(96.7)
Reconciliation:		
Adjusted results	**96.4**	98.6
Exceptional items after tax	**(235.1)**	(11.6)
Remeasurements after tax	**(55.9)**	(96.7)
Loss after tax	**(194.6)**	(9.7)

Asset obsolescence charges in the table above is comprised of:

	2020 £m
Property, plant and equipment asset obsolescence charges due to coal closure	**225.1**
Intangible asset obsolescence charges due to coal closure	**0.8**
Asset obsolescence charges due to decision not to develop CCGT at Drax Power Station	**13.4**
Total asset obsolescence charges	**239.3**

Note:
(1) 2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the sale of the CCGT assets. See note 18.

8 Earnings per share

Earnings per share (EPS) represents the amount of earnings (post-tax profits) attributable to each ordinary share in issue. Basic EPS is calculated by dividing the Group's earnings (profit after tax in accordance with IFRS) by the weighted average number of ordinary shares that were in issue during the year. Diluted EPS demonstrates the impact if all outstanding share options that would vest on their future maturity dates if the conditions at the end of the reporting period were the same as those at the end of the contingency period (such as those to be issued under employee share schemes) were exercised and treated as ordinary shares as at the balance sheet date.

	Years ended 31 December	
	2020	2019
Earnings attributable to equity holders of the Company (£m), made up of:	**(157.9)**	0.5
Net result from continuing operations	**(194.6)**	(9.7)
Net result from discontinued operations	**36.7**	10.2
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**396.8**	395.5
Effect of dilutive potential ordinary shares under share plans	**8.2**	1.9
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	**405.0**	397.4

Repurchased shares (see note 16) are not included in the weighted average calculation of shares. For the purpose of calculating diluted earnings per share, the weighted average calculation of shares excludes any share options that would have an anti-dilutive impact.

	Years ended 31 December	
	2020	2019
Total earnings per share		
(Loss)/earnings per share – basic (pence)	**(39.8)**	0.1
(Loss)/earnings per share – diluted (pence)	**(39.8)**	0.1

Application of the same calculation to Adjusted profit after tax of £117.6 million results in Adjusted basic EPS of 29.6 pence and Adjusted diluted EPS of 29.0 pence (2019: Adjusted profit after tax of £118.1 million, Adjusted basic EPS of 29.9 pence and Adjusted diluted EPS of 29.7 pence).

	Years ended 31 December	
	2020	2019
Earnings per share from continuing operations		
Loss per share – basic (pence)	**(49.0)**	(2.5)
Loss per share – diluted (pence)	**(49.0)**	(2.5)

Application of the same calculation to Adjusted profit after tax from continuing operations of £96.4 million results in Adjusted basic EPS of 24.3 pence and Adjusted diluted EPS of 23.8 pence (2019: Adjusted profit after tax from continuing operations of £98.6 million, Adjusted basic EPS of 24.9 pence and Adjusted diluted EPS of 24.8 pence).

	Years ended 31 December	
	2020	2019
Earnings per share from discontinued operations		
Earnings per share – basic (pence)	**9.2**	2.6
Earnings per share – diluted (pence)	**9.1**	2.6

Application of the same calculation to Adjusted profit after tax from discontinued operations of £21.2 million results in Adjusted basic EPS of 5.3 pence and Adjusted diluted EPS of 5.2 pence (2019: Adjusted profit after tax from discontinued operations of £19.5 million, Adjusted basic EPS of 4.9 pence and Adjusted diluted EPS of 4.9 pence).

9 Dividends

	Years ended 31 December	
	2020 £m	2019 £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 2020 of 6.8 pence per share paid on 2 October 2020 (2019: 6.4 pence per share paid on 11 October 2019)	**27.0**	25.4
Final dividend for the year ended 31 December 2019 of 9.5 pence per share paid on 15 May 2020 (2018: 8.5 pence per share paid on 10 May 2019)	**37.7**	33.5
	64.7	58.9

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 2020 of 10.3 pence per share (equivalent to approximately £41 million) payable on or before 14 May 2021. The final dividend has not been included as a liability as at 31 December 2020. This would bring total dividends payable in respect of the 2020 financial year to £68 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.

10 Retained profits

Retained profits are a component of equity reserves. The overall balance reflects the total profits the Group has generated over its lifetime, reduced by the amount of that profit distributed to shareholders. The table below sets out the movements in retained profits during the year:

	Years ended 31 December	
	2020 £m	2019 £m
At 1 January	**369.7**	442.7
(Loss)/profit for the year	**(157.9)**	0.5
Remeasurement gains/(actuarial losses) on defined benefit pension scheme	**1.4**	(21.5)
Deferred tax on actuarial gains/(losses) on defined benefit pension scheme (note 6)	**(0.3)**	4.3
Equity dividends paid (note 9)	**(64.7)**	(58.9)
Loss on equity investment	**–**	(0.1)
Net movements in equity associated with share-based payments	**5.2**	2.7
At 31 December	**153.4**	369.7

Distributable profits

The capacity of the Group to make dividend payments is primarily determined by the availability of retained distributable profits and cash resources.

The Parent Company has distributable reserves of £191.5 million. Sufficient reserves are available across the Group as a whole to make future distributions in accordance with the Group's dividend policy for the foreseeable future.

The majority of the Group's distributable reserves are held in holding and operating subsidiaries. Management actively monitors the level of distributable reserves in each company in the Group, ensuring adequate reserves are available for upcoming dividend payments and that the Parent Company has access to these reserves.

The immediate cash resources of the Group of £289.8 million are set out in note 13 and the recent history of cash generation within note 15. The majority of these cash resources are held centrally within the Group by Drax Corporate Limited for treasury management purposes and are available for funding the working capital and other requirements of the Group.

The Group's financing facilities (see note 14) place certain conditions on the amount of dividend payments to be made in any given year. The Group expects to be able to make dividend payments, in line with its policy, within these conditions for the foreseeable future.

11 Trade and other receivables

Trade receivables represent amounts owed by customers for goods or services provided but that have not yet been paid for. Accrued income represents income earned in the period but not yet invoiced, largely in respect of power delivered that will be invoiced the following month.

Accounting policy

Trade and other receivables are initially measured at transaction price and subsequently measured at amortised cost.

The Group has access to receivables monetisation facilities under which trade receivables can be sold to a third party on a non-recourse basis. Receivables sold under such facilities are accounted for at fair value through other comprehensive income (FVTOCI) in accordance with IFRS 9 due to the objective of the business model being achieved by both collecting contractual cashflows and the selling of the financial assets. All receivables that fall under this business model are sold under these facilities. These receivables are derecognised at the point of sale which is shortly after the initial recognition of the receivable balance. As a result, no fair value gains or losses have been recognised. Fees are recognised in the income statement as incurred.

	Years ended 31 December	
	2020 £m	2019 £m
Amounts falling due within one year:		
Trade receivables	**158.0**	134.4
Accrued income	**211.7**	352.6
Prepayments	**92.5**	67.3
Other receivables	**63.1**	54.5
	525.3	608.8

Trade receivables and accrued income principally represent sales of energy to counterparties within both the Generation and Customers businesses. At 31 December 2020, the Group had amounts receivable from two significant counterparties representing 12% of total trade receivables and accrued income (2019: two significant counterparties representing 18% of total trade receivables and accrued income).

Of total trade receivables and accrued income at 31 December 2020 £257.4 million (2019: £275.0 million) relates to the Customers business.

Contract assets relate to amounts for goods or services provided under customer contracts, where the entitlement to consideration is contingent on something other than the passage of time. The Group has recognised a contract asset for any services provided where payment is not yet due. The balances are included within accrued income. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer, usually in the following financial period. The reconciliation from opening to closing contract assets is as follows:

	Years ended 31 December	
	2020 £m	2019 £m
At 1 January	**6.7**	4.3
Additions as a result of changes in the measure of progress of balances brought forward	**1.9**	6.7
Additions as a result of new contracts	**0.1**	–
Contract assets transferred to trade receivables	**(6.7)**	(4.3)
Transfers to assets held for sale	**(0.2)**	–
At 31 December	**1.8**	6.7

Impairment of financial assets

Accounting policy

The Group applies the impairment model in IFRS 9 to provide for expected credit losses on the Group's financial assets including trade receivables, accrued income, contract assets and other financial assets. The provision for impairment of trade receivables (including accrued income) and contract assets is measured at an amount equal to the lifetime expected credit loss. Contract assets relate to amounts for goods or services provided under customer contracts and therefore have substantially the same risk characteristics as the trade receivables for the same types of contracts.

For other financial assets, the Group recognises a lifetime expected credit loss provision when there has been a significant increase in credit risk since initial recognition. If the credit risk of the financial instrument has not increased significantly since initial recognition, the Group recognises a 12-month expected credit loss provision.

The greatest concentration of credit risk exists in the Customers business. The risk in this business is more prevalent within the SME customer base due to the wide range of customer characteristics within the portfolio. The loss provisioning for these customers is complex and requires a provisioning tool that is more dynamic than the provision matrix method. The provision matrix method is used for the Group's larger consumers within the Customers business and customers within the Generation and Pellet Production businesses.

The Group considers default to be when a customer is in breach of its terms.

The Group writes off a financial asset when there is no realistic prospect of recovery and all attempts to recover the balance have been exhausted. An indication that all credit control activities have been exhausted is where the debt is greater than 365 days old or where there are insolvency issues relating to the customer.

Key sources of estimation uncertainty

As a result of Covid-19, the Group has significantly increased its expectation of potential customer business failure rates and the resulting expected credit losses within the Customers business. Whilst the position adopted reflects the Group's current best estimate of possible outcomes, actual rates of bad debt will depend upon the severity and depth of Covid-19.

Combined probability method

During 2019, the Group implemented a new machine learning algorithm to calculate expected credit losses for its SME customer base. The algorithm predicts the future performance of a debt on an individual account basis using a broad range of indicators that are specific to the customer. The algorithm assesses the likelihood of the debt becoming more than 365 days past due and the likelihood of the customer subsequently defaulting on this debt. The algorithm combines historical default experience and economic conditions that may impact the probability of future defaults.

A binary method was adopted in 2019. This method provided in full for debt where the debt was more likely than not (i.e. more than 50% probability) to become both aged over 365 days and then subsequently default. The Group considered that the overall provision applied from this method and other overlay assumptions was adequate to reflect the risk of default across the whole portfolio.

Since initial implementation in 2019, the algorithm has continued to learn and develop, improving the accuracy of the provisioning estimations. The model no longer adopts a binary approach to the provisioning but instead calculates a specific probability of default for each customer which is then applied to the corresponding debt. The model is now trained on 2020 data and so incorporates experience of the Covid-19 impacted periods. A judgement overlay has also been included to capture Management's estimation of residual risk relating to Covid-19 not yet fully reflected within the data that the model has been trained on.

The Group defines low credit risk as customers that have a probability of less than 25% of defaulting.

Provision matrix method

Larger customers within the Group are grouped according to the age of the debt based on the number of days past due. The provision rates are based on historical collection rates and an expectation of future cash collection. The rate of default increases once the balance is 30 days past due and subsequently in 30-day increments.

The movement in the overall allowance for expected credit losses is laid out in the following table:

	2020			2019		
	Combined probability method £m	**Provision matrix method £m**	**Total £m**	Combined probability method £m	Provision matrix method £m	Total £m
At 1 January	**37.8**	**2.9**	**40.7**	39.5	4.5	44.0
Amounts written off	**(29.5)**	**(2.7)**	**(32.2)**	(23.7)	(3.7)	(27.4)
Additional amounts provided against	**43.1**	**4.8**	**47.9**	22.0	2.1	24.1
At 31 December	**51.4**	**5.0**	**56.4**	37.8	2.9	40.7
Gross trade receivables	**172.1**	**42.3**	**214.4**	157.7	17.4	175.1
Average ECL %	**30%**	**12%**	**26%**	24%	17%	23%

The provision above relates to trade receivables in the Customers business. The risk of default within the Generation and Pellet Production businesses is considered to be extremely low and the calculated provision is negligible. This is supported by strong historic collection rates and timely receipts. The expected credit loss provision calculated for other financial assets of the Group was negligible. In terms of sensitivity, the year end provision represents 28% of the gross Customers trade receivables balance. If the coverage were to increase/(decrease) by 1%, the provision value would increase/(decrease) by £2.0 million.

The net charge to the income statement in the current year for impairment losses on financial assets was £43.1 million (2019: £18.0 million). This is the net of the additional amounts provided against in relation to trade receivables of £47.9 million (2019: £24.1 million) less a £4.8 million benefit in the period in respect of resolution of legacy credit balances (2019: £6.1 million benefit).

The value of provisions calculated using the combined probability model is set out below. This shows the trade receivables balances for SME consumers within the Customers business grouped by the combined probability assigned by the model.

The following table shows the comparative risk profile of amounts due based on the combined probability model at 31 December.

	2020		2019	
Probability of default range %	**Estimated gross carrying amount at default £m**	**Lifetime expected credit losses £m**	Estimated gross carrying amount at default £m	Lifetime expected credit losses £m
80–100	**36.8**	**29.7**	22.7	19.3
50–79	**16.5**	**8.9**	17.2	14.6
26–49	**18.7**	**5.6**	14.0	3.7
0–25	**100.1**	**1.7**	103.8	–
Total	**172.1**	**45.9**	157.7	37.6
Provision for specific debt		–		0.2
Other adjustments		**5.5**		–
Closing provision		**51.4**		37.8

The other adjustments of £5.5 million reflects the judgement overlay discussed above to capture Management's estimation of residual risk relating to Covid-19 on future cash collection performance (2019: £nil).

The value of provisions calculated using the Group's provision matrix method is set out below. This shows the risk profile in 30-day increments of the trade receivables, accrued income and contracts assets of the Group's larger consumers within the Customers business and customers within the Generation and Pellet Production businesses at 31 December 2020.

	Accrued income (including contract assets) Balances not yet due	Trade receivables days past due						
		Balances not yet due	Between 0-30 days	Between 31-60 days	Between 61-90 days	Over 90 days	Trade receivables Total	Total
Group								
Expected credit loss rate – %	**2%**	**3%**	**15%**	**3%**	**37%**	**68%**	**12%**	**3%**
Estimated total gross carrying amount at default – £m	**215.2**	**22.9**	**2.5**	**11.3**	**0.6**	**5.0**	**42.3**	**257.5**
Lifetime expected credit losses – £m	**3.5**	**0.7**	**0.4**	**0.3**	**0.2**	**3.4**	**5.0**	**8.5**

The expected credit loss rate is a weighted average for the portfolio of larger trade receivables associated with the Customers business.

Contract assets, included within accrued income, and the majority of the trade receivables balances not yet due are held in the Generation business where the risk of default is considered to be extremely low and immaterial to provide for. This is supported by strong historic collection rates and timely receipts.

The provision for expected credit losses is implicit in the calculation of accrued income and as a result, the additional amounts provided against relating to accrued income of £3.5 million (2019: £5.8 million) are recognised as a reduction of revenue in the income statement.

The following table shows the comparative risk profile of amounts due from other customers based on the Group's provision matrix at 31 December 2019.

	Accrued income (including contract assets) Balances not yet due	Trade receivables days past due						
		Balances not yet due	Between 0-30 days	Between 31-60 days	Between 61-90 days	Over 90 days	Trade receivables Total	Total
Group								
Expected credit loss rate – %	2%	3%	9%	5%	13%	82%	17%	2%
Estimated total gross carrying amount at default – £m	358.4	7.1	2.9	3.8	1.2	2.4	17.4	375.8
Lifetime expected credit losses – £m	5.8	0.4	0.2	0.2	0.2	1.9	2.9	8.7

12 Reconciliation of net debt

Net debt is calculated by taking the Group's borrowings (note 14) and subtracting cash and cash equivalents (note 13). The table below reconciles net debt in terms of changes in these balances across the year.

	Years ended 31 December	
	2020 £m	2019 £m
Net debt at 1 January	**(841.1)**	(319.1)
(Decrease)/increase in cash and cash equivalents	**(114.2)**	121.9
Decrease/(increase) in borrowings	**165.3**	(645.3)
Effect of changes in foreign exchange rates	**14.1**	1.4
Net debt at 31 December	**(775.9)**	(841.1)

Borrowings include listed bonds, bank debt and revolving credit facilities (RCFs), net of any deferred finance costs. Borrowings do not include other financial liabilities such as IFRS 16 lease liabilities, pension obligations and trade and other payables.

The Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of net debt. This reflects the nature of the contracts included in this balance which, prior to the application of IFRS 16, were predominantly not held on the balance sheet and instead disclosed as operating commitments.

A reconciliation of the change in borrowings during the year is set out in the table in note 14.

The Group has entered into cross-currency interest rate swaps, fixing the sterling value of the principal repayments in respect of the Group's US dollar (USD) and Euro (EUR) denominated debt see note 14. If USD and EUR balances were translated at the hedged rate, rather than the rate prevailing at the balance sheet date, the carrying amount of the Group's borrowings would be impacted. The table below reconciles net debt excluding the impact of hedging instruments, as disclosed in the table above, to net debt including the impact of hedging instruments through translating the borrowings at the hedged rates.

Years ended 31 December

	2020 £m	2019 £m
Net debt excluding the impact of hedging instruments at 31 December	**(775.9)**	(841.1)
Impact of hedging instruments	**(43.2)**	(3.9)
Net debt including the impact of hedging instruments at 31 December	**(819.1)**	(845.0)

13 Cash and cash equivalents

Cash and cash equivalents include cash held in current and other deposit accounts that is accessible on demand. It is the Group's policy to invest available cash on hand in short-term, low-risk bank accounts or deposit accounts.

	As at 31 December	
	2020 £m	2019 £m
Cash and cash equivalents	**289.8**	404.1

14 Borrowings

Accounting policy

The Group measures all debt instruments (whether financial assets or financial liabilities) initially at fair value, which equates to the principal value of the consideration paid or received. Subsequent to initial measurement, debt instruments are measured at amortised cost using the effective interest method. Transaction costs (any such costs incremental and directly attributable to the issue of the financial instrument) are included in the calculation of the effective interest rate and are amortised over the life of the instrument.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Loan commitment fees payable to the lender, which entitle the Group to draw down at any time over a fixed period, but the repayment date is fixed regardless of when the loan is drawn down, are recognised on a systematic basis over the period the Group is able to draw down. Loan commitment fees payable to the lender, which entitle the Group to draw down at any time over a fixed period, but the loan has the same fixed term regardless of when the loan is drawn down, are deferred until draw down and recognised over the life of the instrument as part of the effective interest rate, if draw down is probable. If draw down is not probable they are recognised on a systematic basis over the period the Group is able to draw down.

Fees that are paid for the availability of a facility, such that the amount and timing of draw down can vary at the Group's discretion (such as an RCF facility) are recognised on a systematic basis over the life of the facility.

Debt instruments denominated in foreign currencies are revalued using period end exchange rates, with any exchange gains and losses arising recognised as a component of net interest charges in the period they arise. Where hedging instruments are used to fix cash flows associated with debt instruments, the debt instrument and the hedging instrument are measured and presented separately on the balance sheet.

Reconciliation of borrowings
The tables below show the movement in borrowings during the current and previous year:

	Year ended 31 December 2020		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	**1,267.5**	**(22.3)**	**1,245.2**
Cash movements:			
Extension of ESG facility	**–**	**(0.8)**	**(0.8)**
2025 €250 million loan notes draw down	**225.5**	**(3.4)**	**222.1**
Repayment of ESG facility	**(125.0)**	**–**	**(125.0)**
UK infrastructure private placement draw down	**81.4**	**(3.8)**	**77.6**
Repayment of 2022 fixed loan notes	**(350.0)**	**–**	**(350.0)**
Non-cash movements:			
Acceleration of deferred finance costs in relation to previous facilities (note 5)	**–**	**4.8**	**4.8**
Indexation of linked loan	**0.5**	**–**	**0.5**
Amortisation of deferred finance costs (note 5)	**–**	**5.9**	**5.9**
Amortisation of USD loan note premium	**(0.4)**	**–**	**(0.4)**
Effect of foreign exchange rates	**(14.2)**	**–**	**(14.2)**
Borrowings at 31 December	**1,085.3**	**(19.6)**	**1,065.7**

On 10 June 2020, the Group extended the final maturity on the £125.0 million ESG facility to 2025.

On 18 August 2020, the Group agreed a new infrastructure term loan facilities agreement providing committed facilities with a range of maturities between 2024 and 2030 further extending the Group's debt maturity profile. The initial agreement included sterling denominated commitments of £45.0 million and EUR denominated commitments totalling €126.5 million. The agreement also included an option for the Group to increase the facilities by up to a further £75.0 million of commitments, if agreed between the Group and its lenders. On 18 November 2020, a further £53.0 million with a 2028 maturity was agreed under this option. These commitments have effective interest rates of 3.7%, which is inside the Group's current average cost of debt.

On 13 November 2020, the €31.5 million facility was drawn down, followed by £53.0 million on 2 December 2020. The remaining committed facilities were drawn on 18 February 2021.

On 4 November 2020, the Group issued €250.0 million of euro denominated senior secured notes, with a 2025 maturity date. The notes were issued at 100% of their nominal value and have a fixed interest rate of 2.625% which the Group has swapped back to achieve an effective sterling equivalent rate of 3.240%.

The Group has entered into a number of interest rate swaps and cross-currency interest rate swaps to fix the variable and non-sterling interest payments on the new infrastructure term loan facilities and euro notes. In addition to fixing the sterling value of these interest payments over a three to six year period, the sterling repayment of the euro principals have been fixed for between two and five years.

On 19 November 2020, the Group used the proceeds of the euro denominated notes issue, along with existing cash reserves, to redeem the Group's £350.0 million 2022 sterling notes as well as the £125.0 million ESG facility. The £350.0 million 2022 fixed loan notes were redeemed at a price equal to 101.063% of the principal amount. The early redemption premium of 1.063% has been recognised as an exceptional item.

On 18 November 2020, the Group also refinanced its existing RCF which had a maturity date of 2021. The new ESG RCF facility has a value of £300.0 million and matures in 2025, with an option to extend by one year, with lender agreement. The facility is able to be fully drawn in cash. The facility includes an embedded ESG component which adjusts the margin based on the Group's carbon intensity which is measured against an annual benchmark.

The Group's financing structure also includes US $500.0 million loan notes and a £375.0 million UK infrastructure private placement which was committed and drawn in 2019.

The US senior secured notes have a fixed interest rate of 6.625% equating to an effective sterling interest rate of 4.9%. Cross-currency interest rate swaps have been used to fix the sterling value of interest payments over a five-year period. This instrument also fixed the sterling repayment of the principal in 2023.

The £375.0 million LIBOR-linked UK infrastructure private placement agreed in 2019 has maturities extending out to between 2024 and 2029. The Group has entered into interest rate swaps to fix the effective interest rates inside the Group's current cost of debt.

	Year ended 31 December 2019		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	622.9	(14.8)	608.1
Cash movements:			
2025 US $200 million loan notes draw down	152.8	(3.4)	149.4
£550 million acquisition bridge facility draw down	550.0	(1.4)	548.6
UK infrastructure private placement draw down	375.0	(10.0)	365.0
ESG facility draw down	125.0	(2.1)	122.9
Repayment of £550 million acquisition bridge facility	(550.0)	–	(550.0)
Non-cash movements:			
Acceleration of deferred finance costs in relation to previous facilities	–	5.2	5.2
Indexation of linked loan	0.8	–	0.8
Amortisation of deferred finance costs	–	4.2	4.2
Amortisation of USD loan note premium	(0.3)	–	(0.3)
Effect of foreign exchange rates	(8.2)	–	(8.2)
Reclassification of finance leases	(0.5)	–	(0.5)
Borrowings at 31 December	1,267.5	(22.3)	1,245.2

Amounts drawn against each facility in the Group's financing structure in the current and previous year is shown in the tables below. All borrowings are due after more than one year.

	As at 31 December 2020		
	Borrowings before deferred finance costs £m	**Deferred finance costs £m**	**Net borrowings £m**
2025 €250 million loan notes	**223.4**	**(3.3)**	**220.1**
2025 US $500 million loan notes	**367.4**	**(5.0)**	**362.4**
Index-linked loan	**38.4**	**–**	**38.4**
UK infrastructure private placement facilities (2019)	**375.0**	**(7.5)**	**367.5**
UK infrastructure private placement facilities (2020)	**81.1**	**(3.8)**	**77.3**
Total borrowings	**1,085.3**	**(19.6)**	**1,065.7**

The Group's committed £300 million ESG RCF had no cash drawings as at 31 December 2020. The Group also has further committed undrawn amounts under the new infrastructure term loan facilities agreement described above totalling £45.0 million and €95.0 million. On 18 February 2021, these facilities were drawn down in full. The Group has no other committed facilities, although it has access to certain non-recourse trade receivable finance facilities and payment facilities, as described in note 15, which are utilised to accelerate working capital cash inflows and defer cash outflows.

	As at 31 December 2019		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
2022 fixed loan notes	350.0	(5.3)	344.7
2025 US $300 million loan notes	379.6	(5.9)	373.7
Index-linked loan	37.9	–	37.9
UK infrastructure private placement facilities (2019)	375.0	(9.3)	365.7
ESG facility	125.0	(1.8)	123.2
Total borrowings	1,267.5	(22.3)	1,245.2

The Group's financing structure, including the index-linked loan, the USD and EUR loan notes, the ESG RCF, private placement and infrastructure term loan facilities are secured against the assets of a number of the Group's subsidiaries including property, plant and equipment, with the exception of the Group's US land and buildings.

In addition, the Group had a secured commodity trading line, which allowed it to transact prescribed volumes of commodity trades without the requirement to post collateral and FX trading lines with certain banks. Counterparties to these arrangements are entitled to share in the security as described above. During the year the Group opted to close the secured commodity trading line and as such no further trades are able to utilise the line. The final trades utilising this line are due to mature by the end of March 2021 and as at 31 December 2020 were valued at £0.8 million (2019: £32.7 million).

15 Notes to the consolidated cash flow statement

Cash generated from operations

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

	Years ended 31 December	
	2020 £m	2019 £m
(Loss)/profit for the year	**(157.9)**	0.5
Adjustments for:		
Interest payable and similar charges	**74.0**	66.5
Interest receivable	**(0.6)**	(1.3)
Effect of foreign exchange rates	**(1.0)**	–
Tax credit	**(31.7)**	(3.3)
Depreciation and amortisation	**190.4**	207.9
Asset obsolescence charge	**239.4**	–
Losses on disposal	**6.0**	1.2
Certain remeasurements of derivative contracts	**31.4**	254.0
Defined benefit pension scheme current service cost	**8.4**	7.1
Defined benefit pension scheme past service cost	**7.4**	–
Non-cash charge for share-based payments	**5.2**	2.7
Provision movements recognised in the income statement	**20.4**	–
Other non-cash gains	**–**	(0.5)
Operating cash flows before movement in working capital	**391.4**	534.8
Changes in working capital:		
Decrease/(increase) in inventories	**87.1**	(67.8)
Decrease/(increase) in receivables	**25.1**	(142.6)
(Decrease)/increase in payables	**(98.4)**	101.6
Decrease in carbon assets	**–**	4.3
Decrease in ROC assets	**23.1**	54.0
Total cash released from working capital	**36.9**	(50.5)
Defined benefit pension scheme contributions	**(14.9)**	(13.1)
Cash generated from operations	**413.4**	471.2

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

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

Cash from ROCs is typically realised several months after the ROC is earned; however, through standard ROC sales and ROC purchase arrangements the Group are able to accelerate cash flows over a proportion of these assets. The net impact of ROC purchases and ROC sales on operating cash flows was a £74.0 million outflow (2019: £131.2 million inflow), due to fewer ROCs being sold at the end of 2020 compared to the end of the previous year. This is reflected as an increase (2019: decrease) in ROC assets and is a component of the overall net decrease (2019: decrease) in ROC assets shown in the table above. The Group also has access to facilities enabling it to sell ROC trade receivables on a non-recourse basis. These facilities were utilised during the year but no amounts remained outstanding at 31 December 2020 (2019: £nil).

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

From time to time, where market conditions change, the Group can rebase foreign currency contracts (including cross-currency interest rate swaps). In 2020, this generated a working capital outflow due to less cash being released from rebased trades at the end of 2020 than in the prior year. This is reflected as an adjustment to derivative remeasurements in the table above. The total cash benefit released from related trades that remained outstanding at 31 December 2020 was £80.1 million (2019: £106.8 million). This cash benefit includes £24.4 million (2019: £84.3 million) released from foreign currency contracts and £55.7 million (2019: £22.5 million) from cross-currency interest rate swaps.

The Customers business has access to a facility which enables it to accelerate cash flows associated with trade receivables on a non-recourse basis, which generated a net cash inflow of £7.8 million in the year ended 31 December 2020, reflected as a reduction in receivables in the table above (2019: net cash inflow of £12.8 million reflected as a reduction in receivables in the table above). The facility terms were amended in the prior year, increasing the facility size to £200.0 million from £150.0 million. Utilisation of the facility was £170.0 million at 31 December 2020 (2019: £162.2 million).

The Group has sought to normalise payments across its supplier base resulting in certain suppliers extending payment terms and some reducing terms. Suppliers are able to access a supply chain finance facility provided by a bank, for which funds can be accelerated in advance of the normal payment terms. The facility does not affect the Group's working capital, as payment terms remain unaltered with the Group. At 31 December 2020, the Group had trade payables of £43.7 million (2019: £33.1 million) related to reverse factoring. The Group also has access to a number of payment facilities to leverage scale and efficiencies in transaction processing, whilst providing a working capital benefit for the Group due to a short extension of payment terms within a normal working capital cycle. The amount outstanding under these facilities at 31 December 2020 was £63.6 million (2019: £90.6 million).

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

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

	As at 31 December 2019		
	Borrowings £m	Lease liabilities £m	Total £m
Balance at 1 January	607.6	0.5	608.1
Cash flows from financing activities	635.9	(7.4)	628.5
Impact of foreign exchange rates	(8.2)	(0.4)	(8.6)
Other movements	9.9	39.8	49.7
Balance at 31 December	1,245.2	32.5	1,277.7

Other movements principally relate to the amortisation of deferred finance costs and discounting of lease liabilities. In 2019 other movements also includes the initial recognition of lease liabilities on transition to IFRS 16.

16 Equity and reserves

The Group's ordinary share capital reflects the total number of shares in issue, which are publicly traded on the London Stock Exchange.

Accounting policy
Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	As at 31 December	
	2020 £m	2019 £m
Authorised:		
865,238,823 ordinary shares of 11 16⁄29 pence each (2019: 865,238,823)	**100.0**	100.0
Issued and fully paid:		
2020: 410,848,934 ordinary shares of 11 16⁄29 pence each (2019: 410,475,731)	**47.5**	47.4

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Years ended 31 December	
	2020 (number)	2019 (number)
At 1 January	**410,475,731**	407,193,168
Issued under employee share schemes	**373,203**	3,282,563
At 31 December	**410,848,934**	410,475,731

The Company has only one class of shares, which are ordinary shares of 11 16⁄29 pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends.

Shares issued under employee share schemes
Throughout January to December 2020, a total of 373,203 shares were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan, Performance Share Plan and Bonus Matching Plan (deferred shares).

Share buy-back programme
In 2018 the Group announced the commencement of a £50.0 million share buy-back programme. On 21 January 2019, the buy-back programme concluded. In total, the Group purchased 13.8 million shares for total consideration of £50.4 million, including transaction costs. These shares are held in a separate Treasury Share reserve awaiting reissue or cancellation and have no voting rights attached to them.

Share premium
The share premium account reflects amounts received in respect of issued share capital that exceeds the nominal value of the shares issued. Movements in the share premium reserve reflect amounts received on the issue of shares under employee share schemes.

	Share premium	
	2020 £m	2019 £m
At 1 January	**429.6**	424.7
Issue of share capital	**0.4**	4.9
At 31 December	**430.0**	429.6

Other reserves
Other equity reserves reflect the impact of certain historical transactions, which are described under the table below:

	Capital redemption reserve £m	Translation reserve £m	Merger reserve £m	Total other reserves £m
At 1 January 2019	1.5	55.9	710.8	768.2
Exchange differences on translation of foreign operations	–	(11.2)	–	(11.2)
At 31 December 2019	**1.5**	**44.7**	**710.8**	**757.0**
Exchange differences on translation of foreign operations	–	(9.3)	–	(9.3)
At 31 December 2020	**1.5**	**35.4**	**710.8**	**747.7**

The capital redemption reserve arose when the Group completed a share buy-back programme in 2007.

Exchange differences relating to the translation of the net assets of the Group's US-based subsidiaries from their functional currency (USD) into sterling for presentation in these Consolidated financial statements are recognised in the translation reserve.

The share premium and the merger reserve arose on the financial restructuring of the Group which took place in 2005.

Movements in the hedge reserve and the cost of hedging reserve reflect the change in fair value of derivative financial instruments designated into hedge accounting relationships in accordance with IFRS 9.

17 Coal closure

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

Asset obsolescence charges

Drax Power Station's biomass generation assets and coal generation assets had previously been assessed as being part of the same CGU, due to the interdependencies between these assets. Following a reduction in the significance of the interdependencies between these assets over time, as of 26 February 2020 they have been assessed as being two separate CGUs. Following the coal generation assets becoming a separate CGU and the decision to cease commercial coal generation in March 2021, an impairment review was undertaken.

The recoverable amount of the coal generation assets was determined based on a value in use calculation. This calculation uses cash flow projections based on the Group's established planning model approved by the Board covering the period through to coal closure in September 2022.

The calculation concluded that the recoverable amount of the coal CGU was significantly lower than the carrying amount of the coal generation assets in the Group's balance sheet. Accordingly, in the year ended 31 December 2020, an asset obsolescence charge of £225.9 million has been recognised to write the coal generation assets down to their recoverable amount of £nil. Sensitivity analysis indicated that any reasonable possible changes in the key assumptions, which are the allocation of operating costs and discount rate, would not result in a materially different outcome. The discount rate used in the calculation was 8%.

The asset obsolescence charge and the associated deferred tax impact have been treated as exceptional items and excluded from the Group's Adjusted Results.

Provisions

As a result of the coal closure decision, one-off costs of closure, comprising termination benefits, required safety works, and costs of disposal for associated assets will be incurred. The coal closure programme is expected to result in a reduction of 206 roles from April 2021. Communication and consultations have been taking place since the coal closure decision regarding the reduction in roles. These discussions and communications are sufficiently progressed that as at 31 December 2020 a restructuring provision of £9.6 million has been recognised for these expected costs. The majority of this provision is expected to be utilised in 2021.

Total cost	**Cost £m**
Site engineering work	11.0
Redundancy	9.6
Total restructuring provisions	**20.6**
Pensions	7.4
Inventory write offs	4.8
Other costs	0.9
Total coal closure costs	**33.7**

The other costs of £0.9 million in the table above were expensed in the year.

18 Assets held for sale and discontinued operations

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

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

Accounting policy

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

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

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

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

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

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

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

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

Assets held for sale
On 15 December 2020, the Group announced it had reached agreement for the sale of Drax Generation Enterprise Limited (DGEL), which held the Group's CCGT power stations, to VPI Generation Limited for headline cash consideration of up to £193 million, subject to customary adjustments. This included £29 million of contingent consideration associated with the option to develop a new CCGT at Damhead Creek. Accordingly, these assets are a disposal group and have been recognised as held for sale at 31 December 2020. The sale subsequently completed on 31 January 2021. The results of these operations previously formed part of the Generation segment for segmental reporting. The assets were disposed of as the assets did not form part of the Group's core flexible and renewable generation strategy.

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

	Notes	As at 31 December 2020 £m
Property, plant and equipment		195.4
Right-of-use assets		5.3
Trade and other receivables		58.3
Inventories		0.9
Deferred tax asset	6	1.4
Total assets		**261.3**
Lease liabilities		(5.6)
Provisions		(13.8)
Trade and other payables		(63.1)
Total liabilities		**(82.5)**
Net assets held for sale		**178.8**

Discontinued operations

The income and expenses of the CCGT portfolio have been classified as discontinued operations. The prior period comparatives have been re-presented:

	Year ended 31 December 2020			Year ended 31 December 2019		
	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	**205.8**	**(25.3)**	**180.5**	245.8	–	245.8
Cost of sales	**(127.3)**	**47.7**	**(79.6)**	(177.1)	(11.6)	(188.7)
Gross profit	**78.5**	**22.4**	**100.9**	68.7	(11.6)	57.1
Operating expenses	**(32.6)**	**(3.3)**	**(35.9)**	(30.2)	–	(30.2)
Adjusted EBITDA	**45.9**			38.5		
Depreciation and amortisation	**(19.2)**	**–**	**(19.2)**	(15.5)	–	(15.5)
Other gains and losses	**–**	**–**	**–**	2.2	–	2.2
Operating profit/(loss)	**26.7**	**19.1**	**45.8**	25.2	(11.6)	13.6
Net finance costs	**(0.7)**	**–**	**(0.7)**	(0.8)	–	(0.8)
Profit before tax on discontinued operations	**26.0**	**19.1**	**45.1**	24.4	(11.6)	12.8
Total tax (charge)/credit	**(4.8)**	**(3.6)**	**(8.4)**	(4.9)	2.3	(2.6)
Profit after tax from discontinued operations and total profit from discontinued operations	**21.2**	**15.5**	**36.7**	19.5	(9.3)	10.2

Earnings per share	**Pence**	**Pence**	**Pence**	**Pence**
on profit for the period from discontinued operations attributable to owners of the parent				
– Basic	**5.3**	**9.2**	4.9	2.6
– Diluted	**5.2**	**9.1**	4.9	2.6

	Year ended 31 December 2020			Year ended 31 December 2019		
	Adjusted EBITDA £m	Adjusted profit after tax £m	Total profit after tax £m	Adjusted EBITDA £m	Adjusted profit after tax £m	Total profit after tax £m
Continuing operations	**366.1**	**96.4**	**(194.6)**	371.3	98.6	(9.7)
Discontinued operations	**45.9**	**21.2**	**36.7**	38.5	19.5	10.2
Total	**412.0**	**117.6**	**(157.9)**	409.8	118.1	0.5

Glossary

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

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

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

Availability
Average percentage of time the units were available for generation.

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

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

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

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

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

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

CCC
The UK’s Climate Change Committee.

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

Combined Cycle Gas Turbines (CCGT)
A form of highly efficient energy generation technology that combines a gas-fired turbine with a steam turbine.

ESG
Environmental, Social and Governance.

EU ETS
The EU Emissions Trading System is a mechanism introduced across the EU to reduce emissions of CO_2; the scheme is capable of being extended to cover all greenhouse gas emissions.

Forced outage
Any reduction in plant availability, excluding planned outages.

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

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

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

IFRSs
International Financial Reporting Standards.

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

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

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

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

NGO
Non-governmental organisation

Open Cycle Gas Turbine (OCGT)
A free-standing gas turbine, using compressed air, to generate electricity.

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

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.

RIDDORS
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

ROCs
A Renewable Obligation Certificate (“ROC”) is a certificate issued to an accredited generator for electricity generated from eligible renewable sources. The Renewable Obligation (RO) is currently the main support scheme for renewable electricity projects in the UK.

Summer
The calendar months April to September.

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

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

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

Value from flexibility
A measure of the value from flexible power generation, support services provided to the power network and attractively priced coal fuels.

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.