26 July 2022

DRAX GROUP PLC (Symbol: DRX)

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

Strong performance, supporting security of supply, investment in renewables

Six months ended 30 June	**H1 2022**	**H1 2021**
Key financial performance measures		
Adjusted EBITDA (£ million)[(1)(2)]	225	186
Continuing operations	*225*	*165*
Discontinued operations – gas generation	-	*21*
Net Debt (£ million)[(3)]	1,101	1,029
Adjusted Basic EPS (pence)[(1)]	20.0	14.6
Interim dividend (pence per share)	8.4	7.5
Total financial performance measures from continuing operations		
Operating profit (£ million)	207	84
Profit before tax (£ million)	200	52

Will Gardiner, CEO of Drax Group, said "As the UK's largest generator of renewable power by output, Drax plays a critical role in supporting the country's security of supply. We are accelerating our investment in renewable generation, having recently submitted planning applications for the development of BECCS at Drax Power Station and for the expansion of Cruachan Pumped Storage Power Station.

"As a leading producer of sustainable wood pellets we continue to invest in expanding our pellet production in order to supply the rising global demand for renewable power generated from biomass. We have commissioned new biomass pellet production plants in the US South and expect to take a final investment decision on up to 500,000 tonnes of additional capacity before the end of the year.

"As carbon removals become an increasingly urgent part of the global route to Net Zero, we are also making very encouraging progress towards delivering BECCS in North America and progressing with site selection, government engagement and technology development.

"In the UK and US we have plans to invest £3 billion in renewables that would create thousands of green jobs in communities that need them, underlining our position as a growing, international business at the heart of the green energy transition."

Financial highlights

- Adjusted EBITDA £225 million up 21% (H1 2021: £186 million)
- Strong liquidity and balance sheet – £539 million of cash and committed facilities at 30 June 2022
  - Expect to be significantly below 2 times Net Debt to Adjusted EBITDA by the end of 2022
- Sustainable and growing dividend – expected full year dividend up 11.7% to 21.0 p/share (2021: 18.8 p/share)
  - Interim dividend of 8.4 p/share (H1 2021: 7.5 p/share) – 40% of full year expectation

Progress with strategy in H1 2022

- To be a global leader in sustainable biomass – targeting 8Mt of capacity and 4Mt of sales to 3rd parties by 2030
  - Addition of 0.4Mt of operational pellet production capacity
  - New Tokyo sales office opened July 2022
- To be a global leader in negative emissions
  - BECCS – UK – targeting 8Mt of negative emissions by 2030
    - Planning application submitted and government consultation on GGR business models published with power BECCS business model consultation expected "during the summer"
  - BECCS – North America – targeting 4Mt of negative emissions by 2030
    - Ongoing engagement with policy makers, screening of regions and locations for BECCS
- To be a leader in UK dispatchable, renewable power
  - >99% reduction in scope 1 and 2 emissions from generation since 2012
  - UK's largest generator of renewable power by output – 11% of total
  - Optimisation of biomass generation and logistics to support security of supply at times of higher demand
  - Planning application submitted for 600MW expansion of Cruachan and connection agreement secured

Outlook for 2022

- Expectations for full year Adjusted EBITDA unchanged from 6 July 2022 update which reflected optimisation of biomass generation and logistics to support UK security of supply this winter when demand is high, a strong pumped storage performance and agreement of a winter contingency contract for coal

Future positive – people, nature, climate

- People
  - Diversity and inclusion programme – inclusive management, promoting social mobility via graduates, apprenticeships and work experience programmes
  - Continued commitment to STEM outreach programme
- Nature and climate
  - Science-based sustainability policy fully compliant with current UK and EU law on sustainable sourcing and aligned with UN guidelines for carbon accounting
  - Biomass produced using sawmill and forest residuals, and low-grade roundwood, which often have few alternative markets and would otherwise be landfilled, burned or left to rot, releasing CO_2 and other GHGs
  - Increase in sawmill residues used by Drax to produce pellets – 67% of total fibre (FY 2021: 62%)
  - 100% of woody biomass produced by Drax verified against SBP, SFI, FSC®(4) or PEFC Chain of Custody certification with third-party supplier compliance primarily via SBP certification

Operational review

Pellet Production – *increased production, flexible operations to support UK generation, addition of 0.4Mt of capacity*

- Adjusted EBITDA up 13% to £45 million (H1 2021: £40 million)
  - Pellet production up 54% to 2.0Mt (H1 2021: 1.3Mt) (including Pinnacle since 13 April 2021)
- Addition of c.0.4Mt of new production capacity
  - Commissioning of Demopolis and Leola, expect to reach full production capacity in H2 2022
- Total $/t cost of $146/t(5) – 2% increase on 2021 ($143/t(5))
  - Increase in utility costs in Q2-22 (>20% increase)
  - Fuel surcharge – barge and rail to port (> 10% increase)
  - Commissioning costs at Demopolis and Leola plants
  - Net reduction in other costs, inclusive of optimisation of supply chain to meet reprofiling of Generation
  - No material change in fibre costs
- Areas of focus for further savings – wider range of sustainable biomass fibre, continued focus on operational efficiency and improvement, capacity expansion, innovation and technology
- Continue to target final investment decision on up to 0.5Mt of new capacity in H2 2022

Generation – *increased recognition of value of long-term security of supply from biomass and pumped storage*

- Adjusted EBITDA from continuing operations £205 million up 24% (H1 2021: £165 million)
  - Optimisation of biomass generation and logistics to support security of supply at times of higher demand
    - Summer – lower power demand, lower power generation and sale of reprofiled biomass
    - Winter – maximise biomass deliveries to support increased generation at times of higher demand
    - Four small, planned biomass outages completed in H1, supporting higher planned generation in H2-22
  - Strong portfolio system support performance (balancing mechanism, ancillary services and optimisation)
  - Higher cost of sales – logistics optimisation, biomass and system costs
- Six-month extension of coal at request of UK government – winter contingency contract for security of supply
  - Closure of coal units in March 2023 following expiration of agreement with ESO at end of March 2023
  - Fixed fee and compensation for associated costs, including coal
  - Remain committed to coal closure and development of BECCS, with no change to expected timetable
- As at 21 July 2022, Drax had 25.4TWh of power hedged between 2022 and 2024 on its ROC and hydro generation assets at an average price of £95.9/MWh, with a further 2.3TWh equivalent of gas sales (transacted for the purpose of accessing additional liquidity for forward sales from ROC units and highly correlated to forward power prices) plus additional sales under the CfD mechanism

Contracted power sales 21 July 2022	**2022**	**2023**	**2024**
ROC (TWh)(6)	***11.7***	***8.8***	***4.5***
- Average achieved £ per MWh	*87.2*	*98.3*	*109.5*
Hydro (TWh)	*0.3*	*0.1*	*-*
- Average achieved £ per MWh	*133.1*	*242.0*	*-*
Gas hedges (TWh equivalent)	*(0.1)*	*0.5*	*1.9*
- Pence per therm	*361.0*	*145.8*	*135.0*

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

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

- Adjusted EBITDA of £24 million (H1 2021: £5 million loss) – continued improvement following impact of Covid-19 – principally in the SME business

– Includes benefit of excess contracted power sold back into merchant market

- Continued development of Industrial & Commercial (I&C) portfolio
  - 6.9TWh of power sales – 21% increase compared to H1 2021 (5.7TWh)
  - Focusing on key sectors to increase sales to high-quality counterparties supporting generation route to market
  - Energy services to expand the Group's system support capability and customer sustainability objectives
- SME – increasingly stringent credit control in SME business to reflect higher power price environment

Other financial information

- Total operating profit from continuing operations of £207 million (H1 2021: £84 million), including £130 million mark-to-market gain on derivative contracts and £27 million of exceptional costs
- Total profit after tax from continuing operations of £148 million includes an £8 million non-cash charge from revaluing deferred tax balances following confirmation of UK corporation tax rate increases from 2023 (H1 2021: £6 million loss including a £48 million non-cash charge from revaluing deferred tax balances)
- Capital investment of £60 million (H1 2021: £71 million) – primarily maintenance
  - Full year expectation of £290–£310 million, includes £120 million for Open Cycle Gas Turbine projects, £20 million BECCS FEED and site preparation, and £10 million associated with new pellet capacity, subject to final investment decision (FID)
- Depreciation and amortisation of £121 million (H1: £89 million) reflects inclusion of Pinnacle for a full six months, plant upgrades and accelerated depreciation of certain pellet plant equipment in line with planned capital upgrades
- Group cost of debt below 3.6%
- Cash Generated from Operations £185 million (H1 2021: £138 million)
- Net Debt of £1,101 million (31 December 2021: £1,044 million), including cash and cash equivalents of £288 million (31 December H1 2021: £317 million)
  - Continue to expect Net Debt to Adjusted EBITDA significantly below 2 times by end of 2022, reflecting optimisation of generation and logistics to deliver higher levels of power generation and cash flows in H2 2022

Notes:

(1) Financial performance measures prefixed with "Adjusted" are stated after adjusting for one-off exceptional items that, by their nature, do not reflect the trading performance of the Group (revaluation of deferred tax balances reflecting future increases in UK CT rates, acquisition costs, gain on sale of Combined Cycle Gas Turbine generation assets, restructuring costs, debt restructuring costs and asset obsolescence charges and impairments), and certain remeasurements on derivative contracts. Adjusted EBITDA and EPS measures exclude amounts attributable to non-controlling interests.

(2) Earnings before interest, tax, depreciation, amortisation, gains/losses on disposal of assets and impairment of non-current assets, excluding the impact of exceptional items and certain remeasurements, earnings from associates and earnings attributable to non-controlling interests.

(3) Borrowings less cash and cash equivalents, excluding amounts attributable to non-controlling interests.

(4) FSC License code: FSC-C119787.

(5) Total $/t cost of production in Pellet Production – raw fibre, processing into a wood pellet, delivery to Drax port facilities in US and Canada, loading to vessel for shipment and overheads – Free on Board (FOB). Cost of ocean freight, UK port and rail cost reflected in Generation business accounts in addition to price paid to Pellet Production for the biomass pellet.

(6) Typical estimated annual biomass generation from ROC and CfD units c.14TWh based on estimated biomass availability, incrementally lower in 2023 due to major planned outages on two ROC units, expected to result in lower ROC cap versus 2022.

Forward Looking Statements

This announcement may contain certain statements, expectations, statistics, projections and other information that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans, beliefs and objectives for the management of future operations of Drax Group plc ("Drax") and its subsidiaries (the "Group"), are not warranted or guaranteed. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Although Drax believes that the statements, expectations, statistics and projections and other information reflected in such statements are reasonable, they reflect 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 webcast arrangements

Management will host a webcast presentation for analysts and investors at 9:00am (UK Time), Tuesday 26 July 2022.

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

A copy of the presentation slides will be made available from 7:00am (UK time) on Tuesday 26 July 2022 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: Half Year Results
Event Date:	Tuesday 26 July 2022
	9:00am (UK time)
Webcast Live Event Link:	https://secure.emincote.com/client/drax/drax021
Conference call and pre-register Link:	https://secure.emincote.com/client/drax/drax021/vip_connect
Start Date:	Tuesday 26 July 2022
Delete Date:	Tuesday 25 July 2023
Archive Link:	https://secure.emincote.com/client/drax/drax021

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CEO Business Review

Introduction

The Group's purpose is to enable a zero carbon, lower cost energy future and this drives our commitment to address climate change. Since 2012, the actions the Group has taken have reduced our generation scope 1 and 2 carbon emissions by over 99%. We are the UK's largest source of renewable power by output, a leading source of reliable and flexible generation and our ambition is to become a carbon negative company by 2030.

The world must act now to address the climate crisis and limit global warming to 1.5ºC above pre-industrial levels. We need more renewable energy, more flexible energy systems to make the best use of intermittent wind and solar energy, and crucially, greenhouse gas removal technologies, like Bioenergy with Carbon Capture and Storage (BECCS), to remove carbon from the atmosphere.

Globally there is increased recognition and policy support for sustainable biomass and BECCS. We believe that Drax is a world leader in sustainable biomass and that BECCS can become a world leading, UK-led, exportable solution for large-scale negative emissions. These benefits will only be possible with the right biomass – sustainable biomass. At Drax we are committed to using the right biomass to ensure positive outcomes for the climate, nature and people and we have put in place policies, controls and reviews to support this.

The UK Government has signposted an ambition for at least 5Mt p.a. of negative emissions from BECCS and Direct Air Capture by 2030, 23Mt p.a. by 2035 and up to 81Mt p.a. by 2050. To support this ambition, in July 2022, the government published a consultation on engineered Greenhouse Gas Removals (GGRs). Separately, the government has publicly stated its intent to publish a power BECCS business model consultation during summer 2022 in order to develop the financial model required to support BECCS, recognising its advanced technological readiness and the co-benefits of both power and negative emissions.

Aligned with our strategy, we have outlined £3 billion of planned investment in growth by 2030. This includes the expansion of our North American supply chain, BECCS in the UK and dispatchable non-thermal generation via the expansion of our Cruachan Pumped Storage Power Station in Scotland. We expect this plan to be fully funded from future cashflows and by 2030 we anticipate being significantly below 2 times Net Debt to Adjusted EBITDA, providing additional capacity to support the options we are developing to invest in BECCS in North America.

The Intergovernmental Panel on Climate Change (IPCC), the UK's Climate Change Committee (CCC) and the Coalition for Negative Emissions have all outlined a clear role for BECCS, identifying a requirement of between 2 billion and 7 billion tonnes of negative emissions globally from BECCS per year. Recognising the importance of this opportunity we are also continuing to develop options for BECCS projects outside of the UK.

At the same time as addressing the global challenge of climate change, we must also address the challenge of energy security of supply this winter. At the request of the UK Government, we have entered into an agreement with National Grid pursuant to which our two legacy coal-fired units at Drax Power Station will remain available to provide a "winter contingency" service to the UK power system from October 2022 until the end of March 2023, at which point the units will close. The units will not generate commercially for the duration of the agreement and will only operate if and when instructed to do so by National Grid.

Summary of H1 2022

Safety remains a primary focus and in the first half of 2022 the Total Recordable Incident Rate was 0.41 (H1 2021: 0.14). The increase in part reflects a widening of the scope and improvement in the recording of incidents in our North American operations, which now includes contractors in the Pinnacle operations we acquired in 2021. Over the last 12 months we have begun implementing a rigorous HSE improvement plan in our North American business as we align safety and environmental practices across the Group. We expect investments in training, human resource and capital projects to deliver improved performance.

Adjusted EBITDA of £225 million represents a 21% increase compared to H1 2021 (£186 million). This strong performance reflects increased pellet sales, a strong generation performance across the portfolio and improved profitability in our Customers business. Whilst we have seen some limited inflationary pressures in our cost base, most notably in respect of utilities and bunker fuel, the integrated nature of our biomass supply chain and operations, combined with long-term contracts in place for fibre, pellet procurement and freight continue to provide a good level of protection from any cost increases. Further, with indexation of UK renewable schemes and third-party sales contracts, inflationary pressure in our cost base is largely offset by increased revenues.

Our balance sheet is strong with total cash and committed facilities of £539 million as at 30 June 2022 and Net Debt of £1,101 million. Consistent with our fully funded plans for investment in growth to 2030, we continue to target long-term Net Debt to Adjusted EBITDA of around 2 times, but now expect to be significantly below this level by the end of 2022.

We expect to propose a dividend for the 2022 financial year of £84 million, an 11.7% increase on 2021, consistent with our policy to pay a dividend which is sustainable and expected to grow. As has been our practice since we implemented the policy in 2017, 40% of the expected full year dividend will be paid for the first six months of 2022, £34 million or 8.4 pence per share.

H1 operational performance

Pellet Production

In North America, our Pellet Production business reported Adjusted EBITDA of £45 million, up 13% (H1 2021: £40 million). This primarily reflects higher levels of production and sales from existing assets, and the addition of new capacity following the acquisition of Pinnacle in April 2021.

We produced 2.0Mt of pellets, an increase of 54% (H1 2021: 1.3Mt), which reflects a full six months-worth of production from Pinnacle's 10 pellet plants following the acquisition in April 2021, increased capacity at Morehouse and LaSalle, Louisiana, and incremental commissioning volumes at both Demopolis, Alabama and Leola, Arkansas.

The headline Free On Board (FOB) production cost (the cost of producing biomass pellets and transferring them to a port in North America for onwards transit) across the portfolio was $146/t, an increase of 2% on 2021 (2021: $143/t). In addition to the inflation impact on utilities and bunker fuels described above, this reflects a number of other factors.

During the first half of 2022, the Group completed the commissioning of its 360Kt plant at Demopolis, Alabama and its 40Kt satellite plant in Leola, Arkansas, with lower production volumes during commissioning adding temporarily to the average cost per tonne. Both plants are expected to reach full production capacity in H2 2022.

The Pellet Production business provided flexibility in biomass supply, supporting efforts to optimise biomass generation from summer to winter periods, and support UK security of supply at times of higher demand in the coming winter. As a result, some additional cost was incurred in Pellet Production, but additional value was created for the Group as a whole.

The reprofiling of biomass logistics also enabled accelerated maintenance work at a number of pellet plants in the first half of 2022 and this is expected to support higher output in H2 2022.

Strong demand for forest products in construction and manufacturing markets continues to support good fibre residue availability. Taking account of changes in fibre mix by plant, there was no material change in overall fibre cost. However, as outlined in our April 2022 Trading Update, there has been an incremental increase in transportation costs in North America, as well as higher utilities costs associated with power and gas in Q2.

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

Between 2018 and 2021, average FOB costs for the portfolio have reduced from $166/t to $143/t. Whilst we expect to see continued limited inflationary pressures as mentioned above, we also see opportunities for continued cost reduction in line with our strategy.

Generation

Our portfolio generated 5% of the UK's electricity between April 2021 and April 2022 (the most recent period for which data is available) and 11% of the UK's renewable electricity over the same period, making Drax the largest renewable generator by output.

Adjusted EBITDA of £205 million from continuing operations was an increase of 24% on H1 2021 (£165 million from continuing operations). This reflects strong biomass generation and pumped storage hydro performance, providing high levels of dispatchable renewable and low-carbon electricity and system support services, more than offsetting incrementally higher biomass costs and grid charges.

Against the backdrop of increasing concern around European energy security, in the first half of 2022 we have optimised our biomass generation and logistics (based on the amount of available biomass across the year), buying back summer positions and reprofiling biomass deliveries to move generation from summer to winter periods, providing additional security of supply to the UK at times of expected higher demand. We expect to benefit from incrementally higher power prices in the winter period versus the summer but have incurred additional cost to enable these measures.

The current operating environment increases the importance of appropriate investment to ensure good operational performance and availability. By optimising generation across all four biomass units, we believe we can reduce wear and tear and the risk of forced outage across the portfolio. Additionally, by reprofiling generation from summer to winter periods, we have also been able to deliver planned maintenance outages on all four units, which should support operational availability in the second half of 2022.

Our hydro operations – Cruachan Pumped Storage Power Station (Cruachan), and the Lanark and Galloway hydro schemes – have performed strongly. These assets provide renewable electricity, system support services and Capacity Market income. Taken together with the Daldowie energy from waste plant, Adjusted EBITDA was £53 million (H1 2021: £34 million). This increase reflects the provision of additional system support activity and good asset availability.

The Group's generation assets have continued to play an important role providing stability to the UK power system and crucially we are not dependent on gas supply to generate. Our portfolio of dispatchable biomass generation, and flexible pumped storage are key to an integrated and reliable energy system with high levels of renewable electricity and system stability. System stability is not purely about the marginal cost of a MWh of power but the provision of the non-generation system services that a well-functioning, reliable power system requires. Our biomass and pumped storage hydro assets are well placed to do this.

In March 2022, we secured Capacity Market agreements for our hydro and pumped storage assets providing revenues of around £15 million in the delivery period October 2025 to September 2026.

In January 2022, our two legacy coal units were called into the Balancing Mechanism by the system operator for limited operations to support security of supply. These short-term measures helped to stabilise the power system during periods of system stress and did not result in any significant increase in the Group's total carbon emissions.

Separately, in March 2022, we signed a development agreement with Engineering, Procurement and Construction (EPC) contractor Mytilineos for the development of three 299MW Open Cycle Gas Turbine (OCGT) developments. Each plant is expected to require investment in the region of £100 million and we expect to invest around £120 million in 2022 in order that we can fulfil our obligations under the Capacity Market agreements. This investment is underpinned by a 15-year Capacity Market agreement for delivery between 2024 and 2039. We are continuing to evaluate options for these projects, including their potential sale.

Customers

Our Customers business has performed well with Adjusted EBITDA of £24 million (H1 2021: £5 million loss). This is a significant improvement on 2021, which was impacted by Covid-19 – principally in the SME business. This includes a benefit from the resale of forward purchased power which was not required by customers, and was sold back into the merchant market above the contracted rate.

Over the past two years we have restructured the Customers business – streamlining operations with the closure of offices in Oxford and Cardiff – and rebranded the Haven Power Industrial & Commercial (I&C) business to Drax Energy Solutions. These changes will support the development of our core I&C supply business, which has performed well with growth in the contracted sales position to high-quality customers.

We see an important role in supporting the decarbonisation of I&C businesses through the supply of renewable energy, asset optimisation, electric vehicle services and carbon offset certificates, which we believe could evolve in the future to the provision of negative emissions.

Alongside restructuring the Customers business, we have continued to evaluate operational and strategic options for the SME part of the business.

Strategy update

Our strategy is designed to realise our purpose of enabling a zero carbon lower cost energy future and our ambition to be a carbon negative company by 2030.

The strategy includes three complementary strategic pillars, closely aligned with global energy policies, which increasingly recognise the unique role that biomass can play in the fight against climate change. These pillars are to be a global leader in sustainable biomass pellets; to be a global leader in negative emissions; and to be a UK leader in dispatchable, renewable power.

The development of these three pillars is underpinned by the Group's continued focus on safety, sustainability and biomass cost reduction.

<u>A global leader in sustainable biomass pellets</u>

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

To support this expected growth in demand for biomass products, Drax is targeting 8Mt of pellet production capacity by 2030, which will require the development of over 3Mt of new biomass pellet production capacity to supplement existing capacity and developments. We are developing a pipeline of organic projects, principally focused on North America, and expect to take a final investment decision on up to 500Kt of new capacity in the second half of the year.

In addition to own-use biomass pellets, Drax currently sells around 2Mt of biomass each year to third parties in Asia, Europe and the UK under long-term index-linked contracts, with total contracted revenues of $4.4 billion. We aim to double annual sales to 4Mt per year by 2030 and to support this process, in July 2022, the Group formally opened its new sales office in Japan, and is continuing to develop a European sales team based in London.

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

<u>A global leader in negative emissions</u>

We plan to transform Drax Power Station, adding BECCS to two biomass generating units to permanently remove 8Mt of CO_2 from the atmosphere each year by 2030. The project is well developed, the technology is proven and an investment decision could be taken in 2024, subject to the right investment framework. This could mean that the first BECCS unit would be operational in 2027 and a second in 2030.

Drax Power Station is in the Humber region, an area with one of the highest absolute level of carbon emissions in the UK, due to the number of industrial sites in the area. This makes the region a natural location for large-scale carbon capture and storage infrastructure for energy and industry.

The UK Government recognises the important role which BECCS has to play in delivering net zero, requiring at least 5Mt of CO_2 per year from BECCS and other engineered GGR by 2030. To support this ambition, in July 2022, the government published a consultation on engineered GGRs. Separately, in order to develop the financial model required to support BECCS – and reflective of its advanced technological readiness and the co-benefits of both power and negative emissions – the government has publicly stated its intent to publish a power BECCS business model consultation during summer 2022.

We expect deliverability to be an important part of the UK Government's selection criteria. Our technology partner Mitsubishi Heavy Industries (MHI) has a proven large scale technical solution which we are adapting for the first two units at Drax Power Station. In June 2022 we submitted a planning application for BECCS and are conducting a Front-End Engineering and Design study which will provide the detailed design information and costings to support the investment decision, and following the end of coal operations we will continue early site preparation works.

Alongside MHI's technology, we are supporting other innovative options for carbon capture. For example, Drax is an equity shareholder in C-Capture Limited, which is developing an organic solvent technology that could be used for BECCS and other applications, which we believe could deliver significant long-term cost savings for future projects.

To capitalise on our belief in the global need for BECCS and the technical expertise gained from our Drax Power Station project, our ambition is to deliver 4Mt of negative CO_2 emissions each year from BECCS outside of the UK by 2030. Accordingly, we are currently developing models and locational preferences for international BECCS developments, with a primary focus on North America.

Recognising this global opportunity for the role of biomass and BECCS, we are also evaluating other vectors for the use of biomass, including other industrial processes.

A UK leader in dispatchable, renewable power

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

Long-term biomass generation and pumped storage hydro can provide these increasingly important services and we are developing an option for new pumped storage – Cruachan II – to provide an additional 600MW of dispatchable long-duration storage to the power system. A planning application was submitted in May 2022. The location, flexibility and range of services it can provide makes Cruachan strategically important to the UK power system. A final investment decision could be taken in 2024 and the development operational by 2030. Any investment decision will depend on the right regulatory framework.

People, Nature and Climate positive

We remain committed to delivering positive people, climate and nature outcomes, which we believe are highly complementary to our business model, in which sustainable biomass and greenhouse gas emissions are a central focus.

Biomass – when sustainably sourced – is a renewable, low-carbon source of energy, and an important part of both UK and international renewable energy policy, in many instances using material which the timber industry cannot utilise. The legal frameworks and scientific principles which underpin this assessment are clear. Carbon emitted in the generation of renewable electricity from biomass is absorbed by and accounted for in the growth of forest stock. This is based on well-established principles set out by the UN Intergovernmental Panel on Climate Change, which reaffirmed its long-standing position on sustainably sourced biomass in 2019. This interpretation is reflected in the European Union's second Renewable Energy Directive (REDII) and Taxonomy rules, which mirror REDII. A third iteration of RED is currently in development and builds on this increased ambition around renewable energy deployment, including the continued evolution of rules around sustainable biomass sourcing and a greater role for BECCS, in addition to proposals to accelerate the decarbonisation of sectors such as heavy industry, heating and aviation.

We continue to identify opportunities to further reduce greenhouse gas emissions at all stages of the supply chain and in July 2022, we signed a memorandum of understanding with Japanese shipping company MOL to develop wind assisted sail technologies for use in shipping biomass.

Within the Group we remain committed to a programme of diversity and inclusion, which includes the delivery of inclusive leadership and management programmes, as well as the promotion of social mobility through our graduate, apprenticeship and work experience programmes.

Outlook – 2022 and beyond

In Pellet Production, we are focused on the continued production of good quality pellets at the lowest cost and the expansion of our production capacity and expect to take a final investment decision on up to 500Kt of new capacity in the second half of the year.

In Generation, through the optimisation of our biomass generation, we expect to deliver higher volumes of dispatchable renewable power, when the UK system needs it most, supporting decarbonisation, security of supply and ultimately helping to reduce cost to the consumer.

In Customers, we are focused on opportunities to develop our I&C business.

Our long-term focus is on progressing our strategy: to be a global leader in sustainable biomass pellets; to be a global leader in negative emissions; and to be a UK leader in dispatchable, renewable generation. Through these strategic objectives, we expect to create opportunities for long-term international growth underpinned by strong cash generation and attractive returns for shareholders, and to deliver value for our other stakeholders.

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

CFO Financial Review

		Six months ended	
		30 June 2022	30 June 2021
Financial performance (£m)	**Total operating profit**	**207**	**84**
	Exceptional costs and certain remeasurements	(103)	(8)
	Adjusted operating profit	**104**	**76**
	Adjusted depreciation, amortisation, losses on disposal of fixed assets and income from associates	121	89
	Adjusted EBITDA from continuing operations	**225**	**165**
	Adjusted EBITDA from discontinued CCGT operations	–	21
	Adjusted EBITDA from continuing and discontinued operations	**225**	**186**
Adjusted EBITDA (£m)	Pellet Production	45	40
	Generation	205	165
	Customers	24	(5)
	Innovation, capital projects and other costs	(49)	(35)
	Discontinued CCGT operations	–	21
	Adjusted EBITDA from continuing and discontinued operations	**225**	**186**
Capital expenditure (£m)	Capital expenditure	60	71
Cash and Net Debt (£m unless otherwise stated)	Cash generated from operations	185	138
	Net Debt	1,101	1,029
	Net Debt to Adjusted EBITDA (times*)	2.5	2.5
	Cash and committed facilities	539	666
Earnings (pence per share)	Adjusted Basic	20.0	14.6
	Total Basic	37.2	6.2
Distributions (pence per share)	Interim dividend	8.4	7.5

*Adjusted EBITDA is calculated on a rolling last 12 months basis.

Following the acquisition of Pinnacle in 2021, the Group acquired investments with non-controlling interests. For the purpose of alternative performance measures (Adjusted EBITDA, Adjusted EPS and Net Debt), the Group excludes amounts directly attributable to non-controlling interests from the values disclosed. The amount of Adjusted EBITDA attributable to the non-controlling interest in the six months ended 30 June 2022 is immaterial.

The sale of Drax Generation Enterprise Ltd (which contained the Group's CCGT portfolio) to VPI Generation Limited completed in January 2021. The income, expenditure and cash flows for the operations disposed of for the previous period and for the full year ended 31 December 2021 have been presented as discontinued operations. Income statement amounts presented in this financial review are for continuing operations only unless otherwise stated. Reconciliations between continuing, discontinued and total amounts for each period are shown in the notes.

Tables in this financial review may not add down/across due to rounding. References to ‘the period’ throughout refer to the six months ended 30 June 2022. References to ‘the comparative period’ throughout refer to the six months ended 30 June 2021.

Introduction

Adjusted EBITDA of £225 million in the period represents a 21% increase on the £186 million achieved in the six months ended 30 June 2021. This strong performance reflects increased pellet sales, a strong performance across our generation portfolio and improved profitability in our Customers business. Results for the first half of 2021 included an estimated £10-15 million adverse impact from Covid-19, which has not recurred in 2022.

Excluding the discontinued gas operations, disposed of in January 2021, Adjusted EBITDA from continuing operations increased 36% compared to the prior period.

Whilst we have seen some inflationary pressures in our biomass cost base, most notably in respect of utilities and bunker fuel, the integrated nature of our biomass supply chain and operations, combined with long-term contracts in place for fibre, pellet procurement and freight continue to provide a good level of protection from any cost increases. Further, with indexation of UK renewable schemes and third-party sales contracts, inflationary pressure in our cost base is offset by revenue growth.

Total operating profit of £207 million compares to £84 million in the comparative period. In addition to the increase in underlying earnings across each of our operating segments, this result includes a net benefit of £103 million relating to exceptional items and certain remeasurements, as described in note 6, which primarily reflects the increasing value of future contracts for the purchase of foreign currency as sterling has weakened during the period.

Our Pellet Production business contributed £45 million of Adjusted EBITDA in the six months to 30 June 2022, a 13% increase on the £40 million for the comparative period. This was driven primarily by a 54% increase in the volume of pellets produced. Our pellet plants produced 2.0Mt of pellets in the first half of this year and shipped 2.4Mt, compared to production and shipment of 1.3Mt in the first half of 2021. Of this volume, 1.0Mt was sold to third parties (H1 2021: 0.4Mt).

The headline Free On Board (FOB) production cost (the cost of producing biomass pellets and transferring them to a port in North America for onwards transit) across the portfolio was $146/t, an increase of 2% on the FY 2021 cost of $143/t primarily reflecting the inflationary impact on utilities and bunker fuel noted above. The increase in production costs is described in more detail below.

The Generation business contributed £205 million of Adjusted EBITDA, a 11% increase on the prior period (H1 2021: £185 million), which included £21 million from the discontinued CCGT operations. Our biomass generation, pumped storage and hydro assets all contributed to this increase, delivering good operational performance, flexible generation and strong system support services.

Against the backdrop of increasing concern around European energy security, during the first half of 2022 we have optimised our biomass generation and logistics (based on the amount of available biomass across the year), buying back summer positions and reprofiling biomass deliveries to move generation from summer to winter periods, providing additional security of supply to the UK at times of expected higher demand. We expect to benefit from incrementally higher power prices in the winter period versus the summer but have incurred additional cost to enable these measures.

Our Customers business delivered Adjusted EBITDA of £24 million, a significant improvement on a £5 million loss in the first half of 2021 which was impacted by Covid-19 – principally in the SME business. Improved profitability also includes a benefit from lower customer demand, with excess power sold back into the wholesale market.

We continue to deliver strong cash generation with Cash generated from operations of £185 million, representing growth of 34% compared to the prior period. While maintaining robust capital discipline, our strong cash generation provides capacity to invest in growth and support the payment of a sustainable and growing dividend, in line with our long-standing capital allocation policy.

We have strong liquidity, with available Cash and committed facilities at the period end of £539 million (31 December 2021: £549 million).

We closed the period with a Net Debt to Adjusted EBITDA ratio of 2.5 times (Adjusted EBITDA calculated on a last 12 months basis) and continue to expect this will be significantly below 2.0 times by the end of 2022.

Consistent with our policy to pay a dividend which is sustainable and expected to grow, the Board has resolved to pay an interim dividend of 8.4 pence per share (£34 million) and expects this to be 40% of a full year dividend of 21.0 pence per share (£84 million), subject to continued good operational performance in the second half of the year. This represents an 11.7% increase on 2021.

Adjusted EBITDA

Continuing and discontinued operations

The results of the CCGT assets, the sale of which completed on 31 January 2021, are presented as discontinued operations in the prior year. The period to 30 June 2022 contained no results in relation to discontinued operations. A reconciliation of the results for the six months ended 30 June 2021 is contained within note 6 to the Condensed consolidated interim financial statements.

Pellet Production

The Pellet Production business contributed £45 million of Adjusted EBITDA in the six months to 30 June 2022, a 13% increase on the £40 million for the comparative period. This was driven primarily by a 54% increase in the volume of pellets produced. Our pellet plants produced 2.0Mt of pellets in the first half of this year and shipped 2.4Mt, compared to production and shipment of 1.3Mt in the first half of 2021. Of this volume, 1.0Mt was sold to third parties (H1 2021: 0.4Mt).

Since the start of the cost reduction programme in 2018 up until the end of 2021, the headline FOB production cost (the cost of producing biomass pellets and transferring them to a port in North America for onwards transit) reduced $23/t (14%) and was $143/t for the full year 2021.

Overall, our costs have been well controlled in the period, however we have seen an increase of 2% in FOB production costs to $146/t in the first half of 2022. This increase primarily reflects the impact of inflation on utility costs (>20% increase) and fuel surcharges (>10% increase). It also reflects higher average production costs during commissioning of the plant at Demopolis in Alabama which we expect to achieve full production capacity in the second half of the year. Excluding these items, we continued to make progress on our cost reduction initiatives with a small reduction across the balance of production costs.

With continued good fibre availability and taking account of changes in fibre mix by plant, there was no material change in overall fibre cost.

During the period the Pellet Production business provided flexibility in biomass supply, to support the reprofiling of biomass generation at Drax Power Station. While this resulted in some additional cost in Pellet Production during the first half of the year, additional value was created for the Group across the full year, demonstrating the value of our integrated business model.

We continue to see opportunities for further cost reduction in line with our strategy and will continue to optimise for value across the group. In addition to increased production volumes from existing plants, during the second half of the year we expect to take final investment decisions on up to 500Kt of additional pellet production capacity, continuing the progress towards our aim to develop 8Mt of production capacity by 2030. Further future savings will be delivered through widening our sustainable fibre envelope, continued operational efficiencies across production and logistics and development of new technologies and innovation.

In addition to the increase in production costs explained above, there are other factors impacting Adjusted EBITDA in the period. We have invested in non-production costs to support future growth opportunities in North America, and achieved margins are also impacted by the mix of where pellets are sourced (internally produced or purchased from third parties) and whether those pellets are sold internally or to third parties.

Generation

The Generation business contributed £205 million of Adjusted EBITDA, a 11% increase on the prior period (H1 2021: £185 million), which included £21 million from the discontinued CCGT operations. Our biomass generation, pumped storage and hydro assets all contributed to this increase, delivering good operational performance, flexible generation and strong system support services. The Adjusted EBITDA increase was partially offset by incremental optimisation and biomass reprofiling costs, and higher system support charges.

During the period, biomass generation totalled 6.1TWh (H1 2021: 7.6TWh). The reduction is attributable to the optimisation of biomass generation and logistics to deliver higher levels of generation during the second half of the year, supporting security of supply when demand is expected to be higher. There are no major outages planned for the second half of the year across the Generation portfolio, with the focus being on maintaining strong operational availability and the delivery of high volumes of dispatchable renewable generation.

To support the delivery of high levels of renewable biomass generation at times of high demand, and mitigate the financial risk associated with a forced outage in the current environment, we expect to run increased baseload volume on all three ROC units, holding the CfD unit to provide resilience in the event of an unplanned outage. The outturn for the full year will therefore depend on operational performance of the ROC units in the second half of the year and the price achieved for any additional CfD generation.

Our pumped storage and hydro assets continue to provide valuable support services to the UK energy system and have performed strongly from an operational perspective during a period of high volatility. They contributed £53 million of Adjusted EBITDA in the period, compared to £34 million in the first half of 2021, an increase of 56%.

The system operator called our two legacy coal units into the Balancing Mechanism for limited operations during January, to support security of supply. These short-term measures helped to stabilise the power system during periods of stress and did not result in any significant increase in the Group's total carbon emissions. The announced extension to the availability of the coal units, as discussed in the Business Review, is expected to deliver income in the final quarter of 2022 and first quarter of 2023.

Reflecting our policy of forward hedging power and the optimisation of biomass generation to prioritise winter periods over summer, the average contracted price of the ROC units has increased to £88/MWh for 2022. In practice, we have moved summer generation on our CfD unit to winter generation on the ROC units, supporting the system at times we expect demand to be highest. In some cases, this has involved buying back previously sold CfD generation and reprofiling biomass shipments at additional cost.

Customers

The Customers business contributed £24 million of Adjusted EBITDA, a significant improvement from a loss of £5 million in the comparative period, which included an estimated adverse impact of £10-15 million from Covid-19. We continue to focus on customer acquisition, credit control and cash collection. During the first half of 2022 we also benefited from the resale of forward hedged power which was not required by customers back into the merchant market above the contracted rate.

Total volumes sold of 9.4TWh compares to 9.0TWh in the comparative period, an increase of 4%. The business has also achieved higher prices during the period, reflecting prevailing market conditions.

Bad debt charges for the period totalled £26 million (H1 2021: £8 million), which is stated net of a £3 million benefit in the period (H1 2021: net of a £17 million benefit) in respect of resolution of legacy credit balances. Price increases for uncontracted customers during the period have been significantly higher than for those customers on fixed-price contracts. The overall bad debt provision of £54 million (representing 17% of the gross trade receivables balance) compares to £47 million at 31 December 2021 (representing 20% of gross trade receivables).

Innovation, capital projects and other costs

Innovation, capital projects and other costs of £49 million (H1 2021: £35 million) reflect increased spend on major projects which have not yet reached the stage of capitalisation (Cruachan II, for example), increased IT costs, predominantly driven by the change in SaaS accounting, and additional share-based payment charges because of an increase in the volume of options expected to vest.

Total operating profit

Total operating profit for the period increased to £207 million, from £84 million in the comparative period. This includes a net gain of £130 million from remeasurement gains and losses on derivative contracts (H1 2021: a net gain of £20 million), reflecting favourable movements in the valuation of our foreign exchange portfolio as sterling weakened during the first half of 2022. This has been partially offset by adverse movements in the valuation of commodity contracts which do not qualify for hedge accounting, including gas and oil. For more detail on the nature and valuation of our portfolio of derivative contracts, see note 13 to the Condensed consolidated interim financial statements.

Total operating profit also includes £27 million of exceptional costs in the period (H1 2021: £12 million), as described in note 6, of which £25 million relates to the impairment of certain intangible assets. £6 million of this relates to previously capitalised SaaS costs, following a change in accounting policy on 1 January 2022. For more information on this change in accounting policy, see the 'Basis of preparation' section of the Condensed consolidated interim financial statements.

The remaining £19 million relates to a billing system where the Group has stopped development and where proceedings have been issued against the supplier to recover damages for misrepresentation and breach of contract. The Group no longer expects that any future economic benefit will be recovered as an ongoing intangible asset. In accordance with accounting standards, the previously capitalised balance has therefore been impaired. Following consideration with external professional advisors, the Group continues to believe this previously incurred expenditure will be fully recovered from the supplier, and there has been no change in this position during the period. Accordingly, an associated contingent asset has been disclosed, see note 14.

Adjusted depreciation and amortisation costs of £121 million increased by £32 million compared to the first half of 2021. Of this, £13 million is attributable to the inclusion of Pinnacle for a full six months in 2022, and £2 million to new sites. A large part of the remaining increase reflects planned higher levels of capital expenditure in relation to plant upgrades and capacity expansions and includes some accelerated depreciation for existing equipment that has been, or will be, replaced following capital investments.

Profit after tax and Earnings per share

Net interest charges for the period of £35 million are in line with the comparative period (H1 2021: £34 million). A foreign exchange credit of £28 million (H1 2021: £2 million) has resulted from the weakening of sterling during the first half of the year, and the subsequent revaluation of intercompany loans denominated in foreign currencies. Further details on this are included in note 4.

The effective tax rate applicable to the Group's Adjusted pre-tax profits of 19% (H1 2021: 11%) is in line with the standard rate of corporation tax in the UK and incorporates the effect of higher tax rates in overseas jurisdictions. The increase in effective tax rate from the 2021 full year rate of 12% is attributable to an increase in profit before tax in the Group's UK entities.

For interim periods, the effective tax rate is based on our forecast tax rate for the full year, which continues to benefit from patent box, research and development credits, and the "super-deduction" for qualifying plant and machinery expenditure that was announced in March 2021.

The exceptional deferred tax charge of £8 million in the period relates to the corporation tax rate changes announced by the UK Government in 2021, and the planned increase in headline rate from 19% to 25% in April 2023.

Adjusted profit after tax attributable to the discontinued CCGT operations was £nil during the period (H1 2021: £19 million). The above factors all contributed to an Adjusted Basic earnings per share figure of 20.0 pence (H1 2021: 14.6 pence) and a Total Basic earnings per share figure of 37.2 pence (H1 2021: 6.2 pence).

Capital expenditure

Capital expenditure in the first half of the year totalled £60 million (H1 2021: £71 million). We expect capital expenditure within the Generation business to be weighted towards the second half of the year. Expenditure on the OCGT assets is expected to increase, reaching up to £120 million by the end of 2022. With £10 million of capital expenditure expected in H2 2022 following final investment decision on new pellet plant capacity of up to 0.5Mt, we now expect full year capital expenditure to be in the region of £290-£310 million.

Major sources of spend in the first half of the year included maintenance and pellet plant development and expansions.

Cash and Net Debt

Cash generated from operations

Operating cash flow before movements in working capital and defined benefit pension obligations for the period was £245 million (H1 2021: £141 million), reflecting the increase in Total operating profit. Cash generated from operations, inclusive of movements in working capital, of £185 million compares to £138 million in the prior period.

Total cash absorbed by working capital in the period was £56 million (H1 2021: £4 million released from working capital) as shown in note 11 to the Condensed consolidated interim financial statements.

Inventories increased during the period, resulting in part from the reprofiling of generation into the second half of the year. The facility available to accelerate cash flows associated with trade receivables in the Customers business on a non-recourse basis was extended during the first half of the year and increased in size by £100 million to £300 million. The increased facility was fully utilised during the period, resulting in a cash inflow of £100 million and a corresponding reduction in receivables. The overall increase in payables during the period was driven by the cyclical increase in ROC liabilities, offset by the return of collateral deposits received during the second half of 2021, as the associated trades matured. An increase in renewable certificate assets was driven by generation in the period, partially offset by the monetisation of ROCs using available facilities.

Net cash movements

Capital expenditure cash flows for the period totalled £83 million (H1 2021: £63 million), with full year capital expenditure cash flows expected to be second half weighted, as described above. Cash flows associated with capital expenditure on the OCGT projects are expected to be significantly lower than the accounting additions recorded in the second half of the year, as a result of extended payment arrangements.

Corporation tax payments totalled £9 million (H1 2021: £8 million receipt), reflecting higher UK payments on account during the current period in respect of the expected full year tax charge for 2022.

Net Debt and Net Debt: Adjusted EBITDA

	30 June 2022 **£m**	30 June 2021 £m	31 December 2021 £m
Cash and cash equivalents	**288**	406	317
Current Borrowings	**–**	(32)	(41)
Non-Current Borrowings	**(1,388)**	(1,402)	(1,320)
Net Debt before impact of hedging	**(1,101)**	**(1,029)**	**(1,044)**
Adjusted EBITDA*	**225**	**186**	**398**
Net Debt: Adjusted EBITDA (times)	**2.5**	**2.5**	**2.6**

*Adjusted EBITDA is for the relevant period shown. The Net Debt: Adjusted EBITDA ratio quoted uses a last 12 months figure.

As noted in the prior period, the cash and cash equivalents balance at 30 June 2021 reflected several planned activities. During July 2021, the Group completed the buy-out of a minority interest in Alabama Pellets LLC for cash consideration of US$30 million, and also utilised approximately C$130 million of existing cash reserves in part repayment of borrowings in the wider refinancing of debt facilities acquired as part of the Pinnacle transaction.

Our Net Debt: Adjusted EBITDA ratio remains higher than our long-term target of 2.0 times at 30 June 2022, however, this is expected to reduce to below this target by 31 December 2022.

Liquidity

	30 June 2022 **£m**	30 June 2021 £m	31 December 2021 £m
Cash and cash equivalents	**288**	406	317
RCF available but not utilised	**250**	245	231
Customers trade receivable facility available but not utilised	**–**	15	–
Total cash and committed facilities	**539**	**666**	**549**

Cash and committed facilities at 30 June 2022 of £539 million (31 December 2021: £549 million) provides substantial headroom over our short-term liquidity requirements. In addition to cash on hand, the Group has access to both a C$10 million Revolving Credit Facility (RCF) and a £300 million ESG RCF, to manage low points in the cash cycle. The latter facility expires in 2024, with a one-year extension clause. No cash has been drawn under this RCF for over three years, but £56 million (31 December 2021: £74 million) has been drawn for letters of credit.

During the first half of the year, the Group utilised existing cash reserves to repay its index-linked term loan facility, with a total cash outflow of £41 million. A significant proportion, 65%, of the Group’s remaining debt falls due in a period over three years from the Balance Sheet date. Our liquidity position remains robust, with all three of our ratings agencies evaluating it as strong.

Derivatives

We use derivatives, including cross-currency swaps, to hedge the sterling cost of the interest payments and future principal repayments in respect of our facilities denominated in foreign currencies. A reconciliation of Net Debt incorporating the impact of derivatives, in addition to Net Debt per the IFRS balance sheet, is set out in note 10 to the Condensed consolidated interim financial statements. At 30 June 2022, this resulted in Net Debt adjusted for hedging of £1,116 million (31 December 2021: £1,108 million).

The overall net outflow associated with rebasing activity in the period was £3 million (H1 2021: net outflow of £27 million). This was in relation to rebased cross-currency swaps and foreign currency trades, where the rebasing occurred in 2020 or prior financial years. At 30 June 2022 outstanding cash received from rebased cross-currency swap trades was £45 million (31 December 2021: £48 million).

Distributions

In line with our long-standing capital allocation policy, the Group is committed to paying a growing and sustainable dividend. At the Annual General Meeting on 27 April 2022, shareholders approved payment of a final dividend for the year ended 31 December 2021 of 11.3 pence per share. This dividend was paid on 13 May 2022.

On 25 July, the Board resolved to pay an interim dividend for the six months ended 30 June 2022 of 8.4 pence per share (£34 million), representing 40% of the expected full year dividend. The interim dividend will be paid on 7 October 2022 with a record date of 26 August 2022.

Going concern

As described above, the Group’s financial performance in the first half of 2022 was strong, delivering improved profitability and cash flows, and Net Debt consistent with the same period last year.

Our financing platform is stable, with most of our principal debt repayments due from 2025 onwards and significant liquidity headroom available from both committed and uncommitted facilities.

The Group refreshes its business plan and forecasts throughout the year, including scenario modelling designed to test the resilience of the Group's financial position and performance to a number of reasonably possible downside scenarios. Based on its review of the latest forecast, the Board is satisfied that the Group has sufficient headroom in its cash and committed facilities, combined with available mitigating actions, to be able to meet its liabilities as they fall due for the foreseeable future across a range of scenarios. Consequently, the directors have a reasonable expectation that the Group will continue in existence for the next 12 months and therefore have adopted the going concern basis when preparing the Condensed consolidated interim financial statements.

The contents of the Business and Financial reviews were approved by the Board on 25 July 2022.

Principal risks and uncertainties

The Group's financial and operating performance is subject to various risks and uncertainties. Several of these risks are not directly within the Group’s control, such as the wider economic and political environment. We seek to manage and address the potential impact of the risks faced by the Group in accordance with policies approved by the Board and management, applying the Group’s risk management framework. The Board assesses the risks and uncertainties, considering the changes to those risks over time, the possible measures to mitigate such risks and the approach which might be taken in managing residual risks to the Group.

The Board, as part of its half year processes, considered reports from management reviewing the principal risks and uncertainties and how these might evolve during the second half of 2022. This review took account of the ongoing Russia-Ukraine conflict, the impacts on the energy markets, the cost-of-living crisis, and the agreement reached with National Grid to make our two coal-fired units at Drax Power Station available to operate until the end of March 2023. All of these areas are discussed further below.

As a result of their assessment, and consideration of the below factors, the Board concluded that the financial exposure from an unplanned plant outage had increased. Whilst there has been no change to the integrity of the Group’s plant and machinery, volatility and increases in system prices could result in materially increased costs should an unplanned outage occur. This is discussed further below. The Board is satisfied that the Group’s other principal risks, as reported as part of the 2021 Annual report and accounts, all remain materially unchanged.

Recruitment and retention of staff continues to be a challenge for many sectors in the UK. The Group continues to monitor the availability of candidates against the current and future skill requirements to meet our growth plans and believe that the progress being made is sufficient to meet foreseeable business needs.

Further details of the Group's principal risks and uncertainties can be found on pages 76 - 91 of the 2021 Annual report and accounts, which is available at www.drax.com.

Russia-Ukraine conflict

Russian forces invaded Ukraine in February 2022 which has not only created a humanitarian crisis but has led to extensive economic impacts felt across the globe. Whilst the volume of Russian and Belarusian biomass purchased by the Group has historically been very low, this line of sourcing was ceased with no significant impact on our ability to achieve required future biomass volumes. All efforts have been made to support our partners who operate in Ukraine and contribute to humanitarian efforts, including a donation to the Disasters Emergency Committee Ukraine Humanitarian Appeal.

A committee has been established with the responsibility of undertaking cross-functional analysis, risk identification and mitigation activities to respond to the impact of the conflict on the Group. Due diligence and screening are ongoing to ensure that the Group is not trading with any Russian or Belarusian counterparties.

The conflict is testing global supply chains and reinforces the importance of resilience in the Group’s biomass sourcing processes. Whilst the impact on the Group’s direct supply chain has been minimal due to the very low number of Russian and Belarusian suppliers historically used by the business, there are indications of a secondary impact on the business’ indirect supply chains. This is materialising in the form of upward biomass pricing pressures as suppliers have increased costs to procure fibre due to market shortages and inflationary pressures. The impacts of higher short term biomass prices are mitigated however by our biomass hedging strategy which ensures a large proportion of the long term biomass contracts in place have agreed pricing.

In addition to remaining vigilant to biomass pricing pressure, the ability of our suppliers to fulfil contracted volumes will also remain under review due to the impact of fibre market shortages associated with the Russia–Ukraine conflict.

Geopolitical tensions have in the past been known to result in increased cyber related incidents. Accordingly, the Russia-Ukraine conflict has increased the Group’s risk exposure to attacks on our systems, and those of suppliers on whom the Group relies for integrity of service. Recent cyber-attacks across Europe have included specific targeted attempts on critical infrastructure, including an attack on a major service provider that saw disruption of 5,800 wind turbines in Germany.

The Group’s Security and IT teams have conducted a thorough risk assessment of our externally facing infrastructure and have implemented a robust critical patch regime as a result of this heightened cyber security threat. Whilst the business’ response to the heightened risk has been robust, it is acknowledged that cyber-attacks are continuously increasing in sophistication and complexity, requiring constant assessment and response to address any vulnerabilities on an ongoing basis.

The Russia–Ukraine conflict has also contributed to widespread energy market volatility due to the restriction of Russian gas. The resulting commodity price increases are discussed further below.

Cost of living and energy market conditions

Since late 2021, the UK has been experiencing increasing pressure on the cost of living due to high inflation. In the first half of 2022 the government has announced measures designed to mitigate these pressures, including a £16 billion package of targeted support. However, it is expected that inflation will continue to increase at a faster rate than average incomes during the second half of the year.

We recognise that the inflationary pressures from rising commodity prices, including power, are providing challenges to consumers and in some cases causing hardship. We continue to monitor how wholesale power price increases are feeding through to end consumers in our Customers business. By building on the actions taken during the Covid-19 pandemic, we aim to support our customers during this challenging time by working to provide payment plans or payment holidays where necessary. We remain alert to the possibility that this may have an impact on our customers' ability to pay their bills, resulting in a potential financial impact of bad debt or delayed payments.

What initially appeared to be temporary energy price volatility resulting from short term pressures on supply at the start of 2022, now looks to be a more sustained energy price increase. This is due to a variety of factors including outages at French nuclear power stations and Russian gas constraints, creating the potential for continued elevated power prices across Europe. This exposes the business to an increased financial cost should we incur an unplanned outage on plant, as the business would incur the cost of a significantly heightened market price to buy back the volumes contracted but undelivered. Whilst we do not believe the integrity of the Group's plant and machinery, and therefore the likelihood of an outage, has increased, the financial impact of such an occurrence has increased and could have a material impact on the Group's results. This risk is being managed appropriately through the business' ability to hold back a proportion of capacity as a mitigation. Price increases in the forward market can also present challenges in respect of liquidity and credit, requiring careful management of both ongoing exposures and collateral requirements.

The UK Government has publicly signalled the possibility of energy market reform, however it currently remains unclear the scale of the impact of any such reform, or potential related changes in taxation policy.

Continued operation of coal-fired units beyond September 2022

In July 2022 the Group confirmed that, at the request of the UK Government, it had entered into an agreement with National Grid to make our two coal-fired units at Drax Power Station available to operate until the end of March 2023. The units will provide a "winter contingency" service to the UK power system and will only operate if and when instructed to do so by National Grid. Whilst this means prolonging the UK's dependence on fossil fuels, which is not aligned with the Group's strategy, we recognise that as part of the UK's critical national infrastructure, we play a key role in providing security of supply and take this responsibility seriously.

Some of the Group's facilities and equipment relating to coal-fired generation are classed as ageing assets given Drax Power Station was built approximately fifty years ago. Continued operation of these assets therefore brings operational risks in maintaining the availability of assets to fulfil a request to operate. In seeking to ensure the assets are operationally ready, Drax will require extended supply contracts relating to maintenance, materials and Health and Safety. Delays in renewing and placing such contracts could have an impact on the ability of management to secure operational readiness of the coal-fired assets.

The Group is working with operational colleagues to ensure that sufficient resource is available to safely run six generating units, as opposed to the previously expected four units, during this period. The Group is also cognisant that the extended use of the coal-fired units increases the threat of disruption to the Group's operations and supply chain from protester action.

Before committing to extending the availability of the coal-fired units, a thorough assessment was undertaken to ensure these potential risks could be sufficiently managed to an acceptably low level. In addition, this six-month extension is not expected to impact on the timing of a final investment decision or intended commissioning date for the BECCS project. Site preparation works for BECCS are ongoing and will accelerate following formal closure of the coal units in March 2023.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

a) The condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting";

b) The interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

c) The interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Will Gardiner

Chief Executive Officer

25 July 2022

Condensed consolidated interim financial statements

Introduction

The Condensed consolidated interim financial statements provide information about the financial performance (Condensed consolidated income statement and Condensed consolidated statement of comprehensive income), financial position (Condensed consolidated balance sheet), and cash flows (Condensed consolidated cash flow statement) of Drax Group plc (the Company) together with all of the entities controlled by the Company (collectively, the Group).

The notes to the financial statements provide additional information on certain items in the Condensed consolidated income statement, Condensed consolidated statement of comprehensive income, Condensed consolidated balance sheet and Condensed consolidated cash flow statement. In general, the additional information in the notes to the financial statements is required by International Financial Reporting Standards (IFRS), other regulations or has been included to facilitate increased understanding of the condensed primary statements.

Basis of preparation

The Condensed consolidated interim financial statements have been prepared using accounting policies consistent with IFRS as adopted by the UK and in accordance with IAS 34 'Interim Financial Reporting'. The information provided in respect of the year ended 31 December 2021 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006 but is derived from those accounts. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not draw attention to any matters by way of emphasis and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

The Condensed consolidated interim financial statements have been prepared on the going concern basis and on the historical cost basis, except for certain assets and liabilities that have been 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).

See the CFO Financial Review for further details on the application of the going concern basis.

Condensed consolidated income statement amounts referred to herein are for continuing operations unless otherwise stated. The discontinued operations relate to the results of the Combined Cycle Gas Turbine (CCGT) generation portfolio sold to VPI Generation Limited on 31 January 2021 (see pages 235 – 237 of the Group's 2021 Annual report and accounts for further details).

Reconciliations of Adjusted EBITDA between continuing, discontinued, and combined amounts for each period are shown in note 6.

The Condensed consolidated interim financial statements were approved by the Board on 25 July 2022.

Change in accounting policy

In 2021, the IFRS Interpretations Committee (IFRS IC) finalised its agenda decision regarding how to account for costs of configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement that conveys to the customer the right to receive access to the supplier's application software over the contract term.

The agenda decision concluded that the right to receive access does not provide the customer with a software asset and therefore the access to the software is a service that the customer receives over the contract term. The agenda decision also concluded that often the configuration and customisation costs do not result in an intangible asset of the customer. Therefore, these costs should be recognised as an expense over the period to which they relate.

In limited circumstances, certain configuration and customisation activities may result in a separate asset controlled by the customer. If this is the case the asset should be assessed as to whether it is separately identifiable and if it meets the recognition criteria of IAS 38 'Intangible Assets'.

Any changes resulting from this agenda decision are a change in accounting policy. Assessing the impact of the agenda decision on the Group required detailed analysis of the historical amounts capitalised. The Group has now concluded its analysis on the impact of this agenda decision and has subsequently applied a new accounting policy for SaaS costs, consistent with the agenda decision, from 1 January 2022.

SaaS costs capitalised by the Group at 31 December 2021 and impacted by this change in accounting policy had a net book value of £5.7 million. As the impact of this change in accounting policy is immaterial, and the new policy has been applied prospectively from 1 January 2022, no restatement of prior periods has been necessary. The net book value of all SaaS costs capitalised at 1 January 2022 have been written off in the current period as an exceptional cost (see note 6). SaaS costs incurred from 1 January 2022 have been recognised in Operating and administrative expenses.

Adoption of new and amended accounting standards

The accounting policies adopted in the preparation of the Condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's 2021 Annual report and accounts, except for the change in accounting policy for SaaS costs (see Change in accounting policy section above for further details) and the adoption of new standards, interpretations and amendments effective as of 1 January 2022. The adoption of new standards, interpretations and amendments in the current year has not had a material impact. The Group has not early-adopted any other standard, interpretation or amendment that has been issued but is not yet effective at 30 June 2022.

A full listing of new standards, amendments, and pronouncements under IFRS applicable to these Condensed consolidated interim financial statements is presented in note 15.

Judgements and estimates

The preparation of financial statements requires judgement to be applied in forming the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may subsequently differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected. Judgements are also reviewed on an ongoing basis to ensure they remain appropriate. These reviews have concluded that the significant judgements and key sources of estimation uncertainty applicable to the preparation of the Condensed consolidated interim financial statements are the same as those described on pages 180-181 of the Group's 2021 Annual report and accounts. In each case, judgements have been applied consistently and estimates made using a consistent methodology, with inputs and assumptions updated to reflect the Group's latest forecasts and prevailing market conditions at the balance sheet date as appropriate.

Comparative information

The Group provides comparative financial information in these Condensed consolidated interim financial statements for both the six months ended 30 June 2021 and the year ended 31 December 2021. Where included within text, income statement comparatives refer to the six months ended 30 June 2021 and balance sheet comparatives are as at 31 December 2021, unless otherwise stated.

On 31 January 2021, the Group completed the sale of its CCGT generation portfolio to VPI Generation Limited. The Group also acquired Pinnacle Renewable Energy Inc. (Pinnacle) on 13 April 2021. As such the Condensed consolidated interim financial statements for the six months ended 30 June 2021 include one month of results of the CCGT assets, the profit on disposal of the CCGT assets, and two and a half months of results for Pinnacle. Whereas the six months ended 30 June 2022 include no results for the CCGT assets, or profit on disposal of the CCGT assets and includes a full six months of results for Pinnacle. As such, the six months ended 30 June 2022 and 2021 may not be directly comparable. See pages 229 – 231 and 235 – 237 of the Group's 2021 Annual report and accounts for further details on the acquisition and results of Pinnacle, and the disposal and results of the CCGT assets, in 2021.

Pinnacle acquisition

The Group acquired Pinnacle on 13 April 2021. The Group had a one-year measurement period from this date to finalise the acquisition accounting. There were no changes during the period to the acquisition date fair values of the identifiable assets acquired, liabilities assumed or the non-controlling interests, that were recognised in the Group's 2021 Annual report and accounts. See pages 229 – 231 of the Group's 2021 Annual report and accounts for further details on the acquisition fair values recognised.

Alternative Performance Measures (APMs)

The Group uses APMs throughout the Interim Report that are not defined within IFRS but provide additional information about financial performance and position that is used by the Board to evaluate the Group's performance. These measures have been defined internally and may therefore not be comparable to similar APMs presented by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself a measure defined by IFRS. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

Defined below are the key APMs used by the Board to assess performance. See the APMs glossary table at the end of this report for full details of all APMs used, the APM's closest IFRS equivalent, the reason why the APM is used by the Group and a definition of how the APM is calculated.

Adjusted Results

The Group's financial performance for the period, measured in accordance with IFRS, is shown in the Total Results column on the face of the Condensed consolidated income statement. Exceptional items and certain remeasurements, including the tax thereon, are deducted from the Total Results in arriving at the Adjusted Results for the period. The Group's Adjusted Results are consistent with the way executive management and the Board assess the performance of the Group. Adjusted Results are intended to reflect the underlying trading performance of the Group's businesses and are presented to assist users of the financial statements in evaluating the Group's trading performance and performance against strategic objectives.

Adjusted basic earnings per share

Adjusted basic earnings per share is Adjusted profit from continuing and discontinued operations attributable to the owners of the Parent Company divided by the weighted average number of shares outstanding. This is the same denominator used when calculating basic earnings/(loss) per share. This metric is used in discussions with the investor community and is one of the performance conditions under the Long-Term Incentive Plan (LTIP).

Adjusted EBITDA

Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, gains and losses on disposal of assets and impairment of non-current assets, excluding the impact of exceptional items and certain remeasurements (defined below). Adjusted EBITDA is the primary measure used by executive management and the Board to assess the financial performance of the Group as it provides a more comparable assessment of the Group's trading performance period-on-period. It is also a key metric used by the investor community to assess the performance of our operations and a key measure in the Group's balanced scorecard.

Following the acquisition of Pinnacle on 13 April 2021, the Group acquired investments in associates and investments with non-controlling interests. Adjusted EBITDA excludes any earnings from associates and amounts directly attributable to non-controlling interests.

Exceptional items and certain remeasurements

Exceptional items are those transactions that, by their nature, do not reflect the trading performance of the Group in the period. For a transaction to be considered exceptional, management considers the nature of the transaction, the frequency of similar events, any related precedent and the commercial context. Presentation of a transaction as exceptional is approved by the Audit Committee in accordance with an agreed policy.

Certain remeasurements comprise fair value gains and losses on derivative contracts to the extent those contracts do not qualify for hedge accounting, or hedge accounting is not effective, which under IFRS are recorded in revenue, cost of sales, interest payable and similar charges, or foreign exchange gains/(losses). Management believes adjusting for fair value gains and losses recognised on derivative contracts provides readers of the accounts with useful information as this removes the volatility caused by movements in market prices over the life of the derivative. The Group regards all of its forward contracting activity to represent economic hedges and therefore the contracted price at delivery or maturity is relevant to the Group and its performance, rather than how the contracted price compares to the current market price, as the Group is not seeking to make trading profits through market price movements.

The impact of excluding these fair value remeasurements is to reflect commodity sales and purchases at contracted prices (the price paid or received in respect of delivery of the commodity in question), taking into account the impact of associated financial trading (such as forward foreign currency purchases), in Adjusted Results. The result of this adjustment shows the impact in revenue, cost of sales, interest payable and similar charges, and foreign exchange gains/(losses) at the time the transaction takes place.

Further information on exceptional items and certain remeasurements in the current and comparative periods is included in note 6 to the Condensed consolidated interim financial statements.

Net Debt

The Group defines Net Debt as total borrowings less cash and cash equivalents. Total borrowings includes external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities (RCF) (see note 9) but excludes other financial liabilities such as lease liabilities calculated in accordance with IFRS 16 'Leases', pension obligations and trade and other payables.

As noted above, the Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of Net Debt. This reflects the nature of the contracts included in this balance which are predominantly entered into for operating purposes rather than as a way to finance the purchase of assets. The exclusion of lease liabilities from the calculation of Net Debt is also consistent with the Group's covenant reporting requirements. Further information on Net Debt can be seen in note 10.

Following the acquisition of Pinnacle on 13 April 2021, the Group acquired investments with non-controlling interests. Net Debt, as defined by the Group, excludes the proportion of Net Debt that is attributable to non-controlling interests.

Some of the Group's debt is denominated in foreign currencies and the Group has entered into hedging arrangements in relation to this debt. Therefore, the Group also discloses Net Debt after the impact of relevant currency hedging derivatives. This adjusts the borrowings figure included in the Net Debt calculation to take into account the effect of financial instruments entered into to hedge movements in foreign exchange rates in relation to debt principal repayments. The Directors believe that this measure provides useful information about the economic substance of the Group's Net Debt position.

Net Debt is a key measure of the Group's liquidity, its ability to manage current obligations. It is also used as a basis by debt rating agencies, the investor community and in the calculation of the Group's financial covenant requirements.

Net Debt to Adjusted EBITDA ratio

This is the ratio of Net Debt to Adjusted EBITDA from continuing and discontinued operations for the rolling 12-month period, expressed as a multiple. The Group has a long-term target for Net Debt to Adjusted EBITDA of around 2.0 times.

Condensed consolidated income statement

		Six months ended 30 June 2022 (Unaudited)			Six months ended 30 June 2021 (Unaudited)		
	Notes	**Adjusted Results[(1)] £m**	**Exceptional items and certain remeasure-ments £m**	**Total Results £m**	Adjusted Results[(1)] £m	Exceptional items and certain remeasure-ments £m	Total Results £m
Revenue	3	**3,621.5**	**(64.4)**	**3,557.1**	2,177.6	(3.5)	2,174.1
Cost of sales		**(3,134.7)**	**194.0**	**(2,940.7)**	(1,807.0)	23.4	(1,783.6)
Gross profit		**486.8**	**129.6**	**616.4**	370.6	19.9	390.5
Operating and administrative expenses[(2)]		**(235.7)**	**(1.6)**	**(237.3)**	(197.6)	(11.9)	(209.5)
Impairment losses on financial assets		**(26.4)**	**–**	**(26.4)**	(8.0)	–	(8.0)
Depreciation		**(105.4)**	**–**	**(105.4)**	(72.3)	–	(72.3)
Amortisation		**(15.2)**	**–**	**(15.2)**	(16.6)	–	(16.6)
Impairment of non-current assets		**–**	**(24.9)**	**(24.9)**	–	–	–
Losses on disposal of assets		**(1.0)**	**–**	**(1.0)**	–	–	–
Income from associates		**0.8**	**–**	**0.8**	0.1	–	0.1
Operating profit		**103.9**	**103.1**	**207.0**	76.2	8.0	84.2
Foreign exchange gains/(losses)	4	**28.4**	**–**	**28.4**	1.9	(0.2)	1.7
Interest payable and similar charges	4	**(36.4)**	**(0.2)**	**(36.6)**	(34.5)	–	(34.5)
Interest receivable	4	**1.1**	**–**	**1.1**	0.4	–	0.4
Profit before tax		**97.0**	**102.9**	**199.9**	44.0	7.8	51.8
Tax:							
Before impact of changes in tax rates		**(18.0)**	**(26.2)**	**(44.2)**	(4.9)	(5.5)	(10.4)
Effect of changes in tax rates		**–**	**(7.8)**	**(7.8)**	–	(47.7)	(47.7)
Total tax charge	5	**(18.0)**	**(34.0)**	**(52.0)**	(4.9)	(53.2)	(58.1)
Net profit/(loss) from continuing operations[(3)]		**79.0**	**68.9**	**147.9**	39.1	(45.4)	(6.3)
Net profit from discontinued operations		**–**	**–**	**–**	18.7	12.0	30.7
Profit/(loss) for the period		**79.0**	**68.9**	**147.9**	57.8	(33.4)	24.4
Attributable to:							
Owners of the Parent Company		**80.0**	**68.9**	**148.9**	58.0	(33.4)	24.6
Non-controlling interests		**(1.0)**	**–**	**(1.0)**	(0.2)	–	(0.2)
Earnings/(loss) per share		**Pence**		**Pence**	Pence		Pence
For net result for the period from continuing operations							

attributable to the owners of the Parent Company					
– Basic	7	**20.0**	**37.2**	9.9	(1.5)
– Diluted	7	**19.3**	**35.9**	9.6	(1.5)

For net result for the period attributable to the owners of the Parent Company					
– Basic	7	**20.0**	**37.2**	14.6	6.2
– Diluted	7	**19.3**	**35.9**	14.2	6.0

A comparative income statement for the year ended 31 December 2021 is reproduced in note 16.

(1) Adjusted Results are stated after adjusting for exceptional items (including integration and restructuring costs, impairment of non-current assets and certain remeasurements). See note 6 for further details.

(2) The 30 June 2021 Operating and administrative costs have been re-presented to include £11.9 million of acquisition and restructuring costs.

(3) Profit from continuing operations of £147.9 million (2021: £(6.3) million loss) is inclusive of £(1.0) million (2021: £(0.2) million) attributable to non-controlling interests.

Condensed consolidated statement of comprehensive income

	Six months ended 30 June	
	2022 (Unaudited) £m	2021 (Unaudited) £m
Profit for the period	**147.9**	24.4
Items that will not subsequently be reclassified to profit or loss:		
Remeasurement gains/(losses) on defined benefit pension schemes	**25.7**	(0.4)
Deferred tax on remeasurement of defined benefit pension schemes	**(6.3)**	(0.6)
Net fair value (losses)/gains on cost of hedging	**(31.8)**	4.8
Deferred tax on cost of hedging	**5.9**	(4.8)
Net fair value gains/(losses) on cash flow hedges	**183.1**	(4.1)
Deferred tax on cash flow hedges	**(43.2)**	4.7
Items that may subsequently be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**51.1**	(0.8)
Net fair value losses on cash flow hedges	**(420.9)**	(29.9)
Net gains on cash flow hedges reclassified to the Condensed consolidated income statement	**6.8**	36.4
Deferred tax on cash flow hedges	**103.3**	(2.0)
Other comprehensive (expense)/income for the period	**(126.3)**	3.3
Total comprehensive income for the period attributable to equity holders	**21.6**	27.7
Attributable to:		
Owners of the Parent Company	**19.8**	28.7
Non-controlling interests	**1.8**	(1.0)

Condensed consolidated balance sheet

		As at 30 June		As at 31 December
	Notes	**2022 (Unaudited) £m**	2021 (Unaudited) £m	2021 (Audited) £m
Assets				
Non-current assets				
Goodwill		**431.6**	412.6	416.3
Intangible assets		**156.7**	208.2	188.6
Property, plant and equipment		**2,327.0**	2,228.8	2,310.7
Right-of-use assets		**124.3**	122.6	119.8

Investments		**7.5**	6.1	5.5
Retirement benefit surplus		**78.5**	14.6	48.9
Deferred tax assets		**28.0**	71.6	28.7
Derivative financial instruments	13	**439.2**	125.9	357.5
		3,592.8	3,190.4	3,476.0
Current assets				
Inventories		**281.7**	203.8	199.1
Renewable certificate assets		**357.0**	407.1	301.4
Trade and other receivables and contract-related assets		**673.5**	391.8	641.9
Derivative financial instruments	13	**1,458.8**	401.7	888.6
Current tax assets		–	5.9	–
Cash and cash equivalents		**288.4**	405.7	317.4
		3,059.4	1,816.0	2,348.4
Liabilities				
Current liabilities				
Trade and other payables and contract-related liabilities		**(1,326.8)**	(1,027.8)	(1,211.1)
Lease liabilities		**(17.2)**	(11.9)	(15.1)
Current tax liabilities		**(1.5)**	–	(3.4)
Borrowings	9	**–**	(31.9)	(40.6)
Derivative financial instruments	13	**(1,706.1)**	(491.7)	(962.7)
		(3,051.6)	(1,563.3)	(2,232.9)
Net current assets		**7.8**	252.7	115.5
Non-current liabilities				
Borrowings	9	**(1,388.4)**	(1,401.9)	(1,320.4)
Lease liabilities		**(116.2)**	(111.9)	(110.8)
Derivative financial instruments	13	**(523.8)**	(168.1)	(541.8)
Provisions		**(74.3)**	(84.5)	(86.4)
Deferred tax liabilities		**(202.0)**	(303.5)	(225.3)
		(2,304.7)	(2,069.9)	(2,284.7)
Net assets		**1,295.9**	1,373.2	1,306.8
Shareholders' equity				
Issued equity		**47.9**	47.5	47.7
Share premium		**433.1**	431.3	432.2
Hedge reserve		**(336.2)**	(65.1)	(177.4)
Cost of hedging reserve		**42.5**	81.6	78.5
Other reserves		**754.3**	697.3	706.0
Retained profits		**329.5**	138.1	198.3
Total equity attributable to owners of the Parent Company		**1,271.1**	1,330.7	1,285.3
Non-controlling interests		**24.8**	42.5	21.5
Total shareholders' equity		**1,295.9**	1,373.2	1,306.8

Condensed consolidated statement of changes in equity

	Issued equity £m	Share premium £m	Hedge reserve £m	Cost of hedging reserve £m	Other reserves[1] £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2021	**47.5**	**430.0**	**(76.0)**	**87.2**	**697.3**	**153.4**	**–**	**1,339.4**
Profit/(loss) for the year	–	–	–	–	–	79.7	(0.5)	79.2
Other comprehensive (expense)/income	–	–	(127.1)	9.6	8.7	28.9	(2.6)	(82.5)

Total comprehensive (expense)/income for the year	**–**	**–**	**(127.1)**	**9.6**	**8.7**	**108.6**	**(3.1)**	**(3.3)**
Equity dividends paid	–	–	–	–	–	(70.9)	–	(70.9)
Issue of share capital	0.2	2.2	–	–	–	–	–	2.4
Acquisition of subsidiary with non-controlling interests	–	–	–	–	–	–	39.6	39.6
Investment from non-controlling interests	–	–	–	–	–	–	6.5	6.5
Transactions with non-controlling interests	–	–	–	–	–	(0.2)	(21.5)	(21.7)
Total transactions with the owners in their capacity as owner	**0.2**	**2.2**	**–**	**–**	**–**	**(71.1)**	**24.6**	**(44.1)**
Movements on cash flow hedges released directly from equity	–	–	33.2	–	–	–	–	33.2
Deferred tax on cash flow hedges released directly from equity	–	–	(7.5)	–	–	–	–	(7.5)
Movement on cost of hedging released directly from equity	–	–	–	(23.7)	–	–	–	(23.7)
Deferred tax on cost of hedging released directly from equity	–	–	–	5.4	–	–	–	5.4
Movement in equity associated with share-based payments	–	–	–	–	–	7.4	–	7.4
At 31 December 2021	**47.7**	**432.2**	**(177.4)**	**78.5**	**706.0**	**198.3**	**21.5**	**1,306.8**

At 1 January 2021	**47.5**	**430.0**	**(76.0)**	**87.2**	**697.3**	**153.4**	**–**	**1,339.4**
Profit/(loss) for the period	–	–	–	–	–	24.6	(0.2)	24.4
Other comprehensive income/(expense)	–	–	5.1	–	–	(1.0)	(0.8)	3.3
Total comprehensive income/(expense) for the period	**–**	**–**	**5.1**	**–**	**–**	**23.6**	**(1.0)**	**27.7**
Equity dividends paid	–	–	–	–	–	(41.0)	–	(41.0)
Issue of share capital	–	1.3	–	–	–	–	–	1.3
Acquisitions	–	–	–	–	–	–	40.1	40.1
Investment from non-controlling interests	–	–	–	–	–	–	3.4	3.4
Total transactions with owners in their capacity as owner	**–**	**1.3**	**–**	**–**	**–**	**(41.0)**	**43.5**	**3.8**
Movements on cash flow hedges released directly from equity	–	–	7.4	–	–	–	–	7.4
Deferred tax on cash flow hedges released directly from equity	–	–	(1.6)	–	–	–	–	(1.6)
Movement on cost of hedging released directly from equity	–	–	–	(7.2)	–	–	–	(7.2)
Deferred tax on cost of hedging released directly from equity	–	–	–	1.6	–	–	–	1.6
Movement in equity associated with share-based payments	–	–	–	–	–	2.1	–	2.1

At 30 June 2021	**47.5**	**431.3**	**(65.1)**	**81.6**	**697.3**	**138.1**	**42.5**	**1,373.2**

At 1 January 2022	**47.7**	**432.2**	**(177.4)**	**78.5**	**706.0**	**198.3**	**21.5**	**1,306.8**
Profit/(loss) for the period	**–**	**–**	**–**	**–**	**–**	**148.9**	**(1.0)**	**147.9**
Other comprehensive (expense)/income	**–**	**–**	**(170.9)**	**(25.9)**	**48.3**	**19.4**	**2.8**	**(126.3)**
Total comprehensive (expense)/income for the period	**–**	**–**	**(170.9)**	**(25.9)**	**48.3**	**168.3**	**1.8**	**21.6**
Equity dividends paid	**–**	**–**	**–**	**–**	**–**	**(45.2)**	**–**	**(45.2)**
Issue of share capital	**0.2**	**0.9**	**–**	**–**	**–**	**–**	**–**	**1.1**
Investment from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**1.5**	**1.5**
Total transactions with owners in their capacity as owner	**0.2**	**0.9**	**–**	**–**	**–**	**(45.2)**	**1.5**	**(42.6)**
Movements on cash flow hedges released directly from equity	**–**	**–**	**15.9**	**–**	**–**	**–**	**–**	**15.9**
Deferred tax on cash flow hedges released directly from equity	**–**	**–**	**(3.8)**	**–**	**–**	**–**	**–**	**(3.8)**
Movement on cost of hedging released directly from equity	**–**	**–**	**–**	**(13.3)**	**–**	**–**	**–**	**(13.3)**
Deferred tax on cost of hedging released directly from equity	**–**	**–**	**–**	**3.2**	**–**	**–**	**–**	**3.2**
Movement in equity associated with share-based payments	**–**	**–**	**–**	**–**	**–**	**4.5**	**–**	**4.5**
Deferred tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**3.6**	**–**	**3.6**
At 30 June 2022	**47.9**	**433.1**	**(336.2)**	**42.5**	**754.3**	**329.5**	**24.8**	**1,295.9**

(1) Other comprehensive income in respect of other reserves relates wholly to movements in the translation reserve.

Condensed consolidated cash flow statement

		Six months ended 30 June		Year ended 31 December
		2022	2021	2021
		(Unaudited)	(Unaudited)	(Audited)
	Notes	**£m**	£m	£m
Cash generated from operations	11	**185.4**	137.8	354.5
Income taxes (paid)/refunded		**(9.0)**	8.0	12.4
Interest paid		**(33.0)**	(30.9)	(60.5)
Interest received		**0.6**	0.2	0.1
Net cash from operating activities, made up of:		**144.0**	115.1	306.5
Net cash from continuing operating activities		**144.0**	133.3	322.9
Net cash from discontinued operating activities		**–**	(18.2)	(16.4)
Cash flows from investing activities				
Purchases of property, plant and equipment		**(78.4)**	(60.3)	(191.0)
Purchases of intangible assets		**(4.4)**	(3.0)	(18.7)
Acquisition of subsidiaries net of cash acquired		**–**	(203.5)	(203.5)
Proceeds on disposal of assets		**–**	0.1	0.7

Proceeds on disposal of subsidiary net of cash disposed and costs of disposal		**–**	185.5	183.7
Net cash from investing activities, made up of[1]:		**(82.8)**	(81.2)	(228.8)
Net cash from continuing investing activities		**(82.8)**	(266.7)	(412.5)
Net cash from discontinued investing activities		**–**	185.5	183.7
Cash flows from financing activities				
Equity dividends paid	8	**(45.2)**	(41.0)	(70.9)
Acquisition of additional shares from non-controlling interests		**–**	–	(21.5)
Proceeds from issue of share capital		**0.9**	1.3	2.4
Investment from non-controlling interests		**1.5**	3.4	6.5
Repayment of other borrowings	9	**(41.4)**	(5.8)	(256.3)
New borrowings drawn down	9	**–**	130.4	302.6
Principal repayment of lease liabilities		**(8.5)**	(6.1)	(13.2)
Net cash generated from financing activities, made up of:		**(92.7)**	82.2	(50.4)
Net cash from continuing financing activities		**(92.7)**	82.2	(50.4)
Net cash from discontinued financing activities		**–**	–	–
Net (decrease)/increase in cash and cash equivalents		**(31.5)**	116.1	27.3
Cash and cash equivalents at beginning of the period		**317.4**	289.8	289.8
Effect of changes in foreign exchange rates		**2.5**	(0.2)	0.3
Cash and cash equivalents at end of the period		**288.4**	405.7	317.4

(1) The split of net cash from investing activities for the six months ended 30 June 2021 has been re-presented to show the £185.5 million received on disposal of the CCGT assets within net cash from discontinued investing activities, previously presented within net cash from continuing investing activities.

Notes to the Condensed consolidated interim financial statements

1. General information

These notes provide additional information about the disclosures within the Condensed consolidated interim financial statements. Further information can be found in the Group's 2021 Annual report and accounts on pages 188–275.

Drax Group plc (the Company) is incorporated in England and Wales under the Companies Act. The Company and its subsidiaries (collectively, the Group) principally operate in the electricity market within the UK, and the sustainable compressed wood pellet market globally. The address of the Company's registered office and principal establishment is Drax Power Station, Selby, North Yorkshire, YO8 8PH, United Kingdom.

2. 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 services. The Board reviews the performance of each of these businesses separately, and each represents a reportable segment:

Pellet Production: production of sustainable compressed wood pellets at our processing facilities in North America and their subsequent sale;

Generation: power generation activities in the UK; and

Customers: supply of electricity and gas to business customers in the UK.

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 Innovation, capital projects and other costs.

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

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

Seasonality of trading

The primary activities of the Group are affected by seasonality. Demand in the UK for electricity and gas is typically higher in the winter period (October to March) when temperatures are lower, and thus drives higher prices and dispatch. Conversely, demand is typically lower in the summer months (April to September), when prices are lower.

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

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

Segment revenues and results

The following is an analysis of the Group's performance by reportable segment for the six months ended 30 June 2022. The financial information in the tables below is comprised solely of results from continuing operations. There were no amounts attributable to discontinued operations in the six months ended 30 June 2022. Total profit before tax from discontinued operations in the six months ended 30 June 2021 was £32.7 million and was £25.8 million for the year ended 31 December 2021. These amounts were attributable entirely to the Generation segment. A reconciliation of Adjusted EBITDA from continuing and discontinued operations by reportable segment is contained within note 6.

	Six months ended 30 June 2022 (Unaudited)							
	Pellet Production £m	**Generation £m**	**Customers £m**	**Innovation, capital projects and other £m**	**Intra-group eliminations £m**	**Adjusted Results £m**	**Exceptional items and certain remeasure-ments £m**	**Total Results £m**
Revenue								
External sales	**157.9**	**1,795.1**	**1,668.5**	**–**	**–**	**3,621.5**	**(64.4)**	**3,557.1**
Inter-segment sales	**199.6**	**1,337.4**	**–**	**–**	**(1,537.0)**	**–**	**–**	**–**
Total revenue	**357.5**	**3,132.5**	**1,668.5**	**–**	**(1,537.0)**	**3,621.5**	**(64.4)**	**3,557.1**
Cost of sales	**(241.8)**	**(2,846.7)**	**(1,578.1)**	**–**	**1,531.9**	**(3,134.7)**	**194.0**	**(2,940.7)**
Segment gross profit	**115.7**	**285.8**	**90.4**	**–**	**(5.1)**	**486.8**	**129.6**	**616.4**
Operating and administrative expenses	**(70.6)**	**(81.1)**	**(40.2)**	**(43.8)**	**–**	**(235.7)**	**(1.6)**	**(237.3)**
Impairment losses on financial assets	**–**	**–**	**(26.4)**	**–**	**–**	**(26.4)**	**–**	**(26.4)**
Depreciation and amortisation	**(59.4)**	**(47.1)**	**(12.4)**	**(1.7)**	**–**	**(120.6)**	**–**	**(120.6)**
Impairment of non-current assets	**–**	**–**	**–**	**–**	**–**	**–**	**(24.9)**	**(24.9)**
Losses on disposal of assets	**(0.3)**	**(0.7)**	**–**	**–**	**–**	**(1.0)**	**–**	**(1.0)**
Income from associates	**0.8**	**–**	**–**	**–**	**–**	**0.8**	**–**	**0.8**

Operating (loss)/profit	**(13.8)**	**156.9**	**11.4**	**(45.5)**	**(5.1)**	**103.9**	**103.1**	**207.0**
Foreign exchange (losses)/gains	**(1.5)**	**1.0**	**(0.2)**	**29.1**	**–**	**28.4**	**–**	**28.4**
Net interest and similar charges	**(12.1)**	**(1.8)**	**(1.9)**	**(19.5)**	**–**	**(35.3)**	**(0.2)**	**(35.5)**
(Loss)/profit before tax	**(27.4)**	**156.1**	**9.3**	**(35.9)**	**(5.1)**	**97.0**	**102.9**	**199.9**

	Six months ended 30 June 2021 (Unaudited)[1]							
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasure-ments £m	Total Results £m
Revenue								
External sales	41.3	1,058.8	1,077.5	–	–	2,177.6	(3.5)	2,174.1
Inter-segment sales	143.9	660.1	–	–	(804.0)	–	–	–
Total revenue	185.2	1,718.9	1,077.5	–	(804.0)	2,177.6	(3.5)	2,174.1
Cost of sales	(107.3)	(1,466.3)	(1,033.5)	–	800.1	(1,807.0)	23.4	(1,783.6)
Segment gross profit	77.9	252.6	44.0	–	(3.9)	370.6	19.9	390.5
Operating and administrative expenses	(38.0)	(88.1)	(40.7)	(30.8)	–	(197.6)	(11.9)	(209.5)
Impairment losses on financial assets	–	–	(8.0)	–	–	(8.0)	–	(8.0)
Depreciation and amortisation	(23.0)	(49.4)	(15.2)	(1.3)	–	(88.9)	–	(88.9)
Gains/(losses) on disposal of assets	0.3	(0.2)	(0.1)	–	–	–	–	–
Income from associates	0.1	–	–	–	–	0.1	–	0.1
Operating profit/(loss)	17.3	114.9	(20.0)	(32.1)	(3.9)	76.2	8.0	84.2
Foreign exchange gains/(losses)	0.8	2.7	–	(1.6)	–	1.9	(0.2)	1.7
Net interest and similar charges	(8.5)	(2.0)	(2.9)	(20.7)	–	(34.1)	–	(34.1)
Profit/(loss) before tax	9.6	115.6	(22.9)	(54.4)	(3.9)	44.0	7.8	51.8

(1) The segmental results for the six months ended 30 June 2021 have been re-presented to reflect the presentation adopted in the 2021 Group Annual report and accounts.

	Year ended 31 December 2021 (Audited)							
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital	Intra-group eliminations £m		Exceptional items and certain	Total Results £m

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

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 2021 Annual report and accounts except for the change in accounting policy for SaaS costs (see Change in accounting policies section for further details).

Capital expenditure by segment

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

	30 June 2022 Unaudited		30 June 2021 Unaudited		31 December 2021 Audited	
	Capital additions to intangible assets £m	**Capital additions to property, plant and equipment £m**	Capital additions to intangible assets £m	Capital additions to property, plant and equipment £m	Capital additions to intangible assets £m	Capital additions to property, plant and equipment £m
Pellet Production	**–**	**28.8**	–	39.4	8.2	108.6
Generation	**0.8**	**26.3**	1.1	21.7	3.4	103.2
Customers	**1.8**	**–**	4.6	0.1	8.9	0.1
Innovation, capital projects and other	**1.3**	**1.2**	–	4.5	1.8	3.6
Total	**3.9**	**56.3**	5.7	65.7	22.3	215.5

Geographical analysis of revenue and non-current assets

	Revenue from continuing operations (based on location of customer) £m			Non-current assets(1) (based on asset's location) £m		
	30 June 2022 Unaudited £m	30 June 2021 Unaudited £m	31 December 2021 Audited £m	**30 June 2022 Unaudited £m**	30 June 2021 Unaudited £m	31 December 2021 Audited £m
North America	**5.6**	2.1	11.5	**1,059.1**	933.4	987.4
Europe	**18.0**	6.7	39.1	**–**	–	–
Asia	**94.6**	29.6	93.0	**–**	–	–
UK	**3,438.9**	2,135.7	4,944.4	**1,988.0**	2,044.9	2,053.5
Total	**3,557.1**	2,174.1	5,088.0	**3,047.1**	2,978.3	3,040.9

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

3. Revenue

Revenue represents amounts receivable for goods or services provided to the customer in the normal course of business, net of trade discounts, VAT and other sales-related taxes, and excluding transactions between Group companies.

During the period, the Group made sales (and related purchases) of Renewable Obligation Certificates (ROCs) to help optimise the Group's working capital position. External sales of Renewable certificates below include £276.3 million of such sales (six months ended 30 June 2021: £140.0 million), with a similar value reflected in cost of sales.

As described in further detail on page 254 of the Group's 2021 Annual report and accounts, certain electricity sales in the Generation segment are typically made under forward-dated contracts with customers. Between inception and maturity these contracts meet the definition of a derivative financial instrument and are measured at fair value on the Group's balance sheet (see note 13). Fair value gains and losses on power sales contracts that have not matured are typically recognised in the hedge reserve. At maturity, revenue is recognised in the Group's Adjusted Results at the price agreed in the contract, reflecting the amount received for the delivery of power.

For further details on the revenue streams listed below see pages 191 and 192 of the Group's 2021 Annual report and accounts.

The sources of revenue were as follows:

	Six months ended 30 June 2022 (Unaudited)		
	External £m	**Intra-group £m**	**Total £m**
Pellet Production			
Pellet sales	**153.1**	**199.5**	**352.6**
Other income	**4.8**	**0.1**	**4.9**
Total	**157.9**	**199.6**	**357.5**
Generation			
Electricity sales	**1,363.6**	**1,312.6**	**2,676.2**
Renewable certificate sales	**370.7**	**24.8**	**395.5**
CfD payment	**(8.3)**	**–**	**(8.3)**
Ancillary services	**32.6**	**–**	**32.6**
Other income	**36.5**	**–**	**36.5**
Total	**1,795.1**	**1,337.4**	**3,132.5**
Customers			
Electricity and gas sales	**1,668.5**	**–**	**1,668.5**
Total	**1,668.5**	**–**	**1,668.5**
Elimination of intra-group sales	**–**	**(1,537.0)**	**(1,537.0)**
Total adjusted consolidated revenue	**3,621.5**	**–**	**3,621.5**

Certain remeasurements	**(64.4)**	**–**	**(64.4)**
Total consolidated revenue	**3,557.1**	**–**	**3,557.1**

	Six months ended 30 June 2021 (Unaudited)		
	External £m	Intra-group £m	Total £m
Pellet Production			
Pellet sales	39.2	143.8	183.0
Other income	2.1	0.1	2.2
Total	41.3	143.9	185.2
Generation			
Electricity sales	643.2	660.0	1,303.2
Renewable certificate sales	190.6	0.1	190.7
CfD income	188.3	–	188.3
Ancillary services	21.3	–	21.3
Other income	15.4	–	15.4
Total	1,058.8	660.1	1,718.9
Customers			
Electricity and gas sales	1,077.1	–	1,077.1
Other income	0.4	–	0.4
Total	1,077.5	–	1,077.5
Elimination of intra-group sales	–	(804.0)	(804.0)
Total adjusted consolidated revenue	2,177.6	–	2,177.6
Certain remeasurements	(3.5)	–	(3.5)
Total consolidated revenue	2,174.1	–	2,174.1

	Year ended 31 December 2021 (Audited)		
	External £m	Intra-group £m	Total £m
Pellet Production			
Pellet sales	157.4	286.5	443.9
Other income	5.7	0.2	5.9
Total	163.1	286.7	449.8
Generation			
Electricity sales	1,790.2	1,688.5	3,478.7
Renewable certificate sales	538.6	342.6	881.2
CfD income	234.9	–	234.9
Ancillary services	50.6	–	50.6
Other income	36.9	–	36.9
Total	2,651.2	2,031.1	4,682.3
Customers			
Electricity and gas sales	2,358.9	–	2,358.9
Other income	0.7	–	0.7
Total	2,359.6	–	2,359.6
Elimination of intra-group sales	–	(2,317.8)	(2,317.8)
Total adjusted consolidated revenue	5,173.9	–	5,173.9
Certain remeasurements	(85.9)	–	(85.9)
Total consolidated revenue	5,088.0	–	5,088.0

4. 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 discount on provisions for reinstatement of the Group's sites at the end of their useful lives, interest charged on the Group's defined benefit pension scheme obligations and lease liabilities. These expenses are offset by interest income on the Group's defined benefit pension scheme plan assets and interest income that the Group generates through use of short-term cash surpluses.

	Six months ended 30 June		Year ended 31 December
	2022 (Unaudited) £m	2021 (Unaudited) £m	2021 (Audited) £m
Interest payable and similar charges:			
Interest payable on borrowings	**(29.5)**	(29.5)	(59.2)
Interest on lease liabilities	**(3.2)**	(1.8)	(4.9)
Unwinding of discount on provisions	**(0.4)**	(0.3)	(0.6)
Amortisation of deferred finance costs (note 9)	**(3.3)**	(2.9)	(5.7)
Other financing charges	**–**	–	(0.5)
Total interest payable and similar charges included in Adjusted Results	**(36.4)**	(34.5)	(70.9)
Interest receivable:			
Interest income on bank deposits	**0.6**	0.2	0.1
Net finance credit in respect of defined benefit pension scheme	**0.5**	0.2	0.3
Total interest receivable included in Adjusted Results	**1.1**	0.4	0.4
Foreign exchange gains included in Adjusted Results	**28.4**	1.9	0.9
Total net interest charge included in Adjusted Results	**(6.9)**	(32.2)	(69.6)
Certain remeasurements on financing derivatives	**(0.2)**	(0.2)	(5.4)
Total net finance costs	**(7.1)**	(32.4)	(75.0)

The Group has a number of intercompany loans denominated in the functional currency of certain foreign subsidiaries, that are owed to a sterling functional currency entity. Due to the weakening of sterling during the six months ended 30 June 2022, this has resulted in a foreign exchange gain of £28.5 million (six months ended 30 June 2021: £1.5 million loss) on the retranslation of intercompany loans in the income statement of the sterling functional currency entity. The foreign exchange loss (six months ended 30 June 2021: gain) on translating the foreign subsidiaries' intercompany loans into the Group's sterling presentational currency is recognised within the translation reserve. As such on consolidation, a foreign exchange gain (six months ended 30 June 2021: loss) arises in the Condensed consolidated income statement and is part of the foreign exchange gains included in Adjusted Results amount in the table above.

5. Taxation

The tax charge for the period includes both current and deferred tax. The tax charge is based upon the expected tax rate for the full year, which is applied to taxable profits for the period, together with any charge or credit in respect of prior years and the tax effect of any exceptional items and certain remeasurements (see note 6).

Current tax, including UK corporation tax, Canadian corporate income tax, and US corporate tax, is calculated as the income taxes payable on taxable profits, or recoverable in respect of tax losses, for the period. Deferred tax is calculated as the income taxes payable or recoverable in future accounting periods in respect of temporary differences which may be taxable or allowed as deductible. Temporary differences themselves represent the difference between the carrying amount of an asset or liability in the financial statements and the relevant tax base thereon.

	Six months ended 30 June		Year ended 31 December
	2022 (Unaudited) £m	2021 (Unaudited) £m	2021 (Audited) £m
Tax charge on continuing operations comprises:			
Current tax			
- Current period charge	**10.2**	0.2	7.7
- Adjustments in respect of prior periods	**–**	(2.8)	1.4
Deferred tax			
- Before impact of tax rate changes	**33.7**	12.9	7.3
- Adjustments in respect of prior periods	**0.3**	0.1	1.0
- Effect of changes in tax rate	**7.8**	47.7	49.0

	Six months ended 30 June		Year ended 31 December
	2022 (Unaudited) £m	2021 (Unaudited) £m	2021 (Audited) £m
Tax charge	**52.0**	58.1	66.4

The expected tax rate for the full year, before the impact of changes in tax rates, is the same as the standard corporation tax rate applicable in the UK of 19%, reflecting that the majority of the anticipated full year profit is UK-based. The expected full year rate is higher than the prior year rate of 12% due to the increase in taxable profits, whilst continuing to include the benefit of deductions for patent box and the 'super deduction' for qualifying plant and machinery expenditure.

On 24 May 2021, the Finance Bill 2021, which contains legislation to increase the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023, concluded its third reading in the House of Commons and was thereby substantially enacted for IFRS purposes on that date. The Group has remeasured the relevant deferred tax assets and liabilities to reflect this change where these are expected to be realised or settled on or after 1 April 2023. The impact of this rate increase for the six months ended 30 June 2022 is a £7.8 million deferred tax charge through the Condensed consolidated income statement (six months ended 30 June 2021: £47.7 million).

6. Alternative performance measures (APMs)

The APMs Glossary table to these Condensed consolidated interim financial statements provides details on all APMs used, the APM's closest IFRS equivalent, the reason why each APM is used by the Group and a definition of how the APM is calculated.

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

The Group has a policy and framework for the determination of transactions as exceptional. All transactions presented as exceptional are also approved by the Audit Committee. See the Audit Committee Report on pages 118-129 of the Group's 2021 Annual report and accounts for further details. In these Condensed consolidated interim financial statements, the following transactions have been designated as exceptional items and presented separately:

- Impairment charges incurred on the application of a new accounting policy for SaaS costs, consistent with the IFRS IC agenda decision, and on costs associated with the Customers' billing system. See the Financial Review for further details (2022, All segments).
- Costs associated with the acquisition (2021) and integration (2022 and 2021) of Pinnacle (Pellet Production).
- Costs relating to the restructuring of the Customers business (2022 and 2021, Customers).
- Operating expenditure which was incurred as a direct result of the decision to cease commercial coal generation (2021, Generation).
- Impact of UK tax rate change on deferred tax balances (2022 and 2021, Generation and Customers).

Certain remeasurements comprise gains and losses on derivative contracts to the extent that those contracts do not qualify for hedge accounting, or hedge accounting is not effective, and those gains or losses are either i) unrealised and relate to the delivery of commodity contracts in future periods, or ii) are realised in relation to the delivery of commodity contracts in the current period. The effect of excluding certain remeasurements from 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 more clearly present the trading performance of the Group in Adjusted Results.

Volatility in financial and commodity markets has continued in 2022, in part due to the conflict in Ukraine. This has resulted in significant movements in the remeasurement gains and losses on certain derivative financial instruments which do not qualify for hedge accounting, as shown in the table below, principally relating to gas, certain foreign currency contracts, inflation and oil. Further detail on the Group's derivative financial instruments is provided in notes 12 and 13.

	Six months ended 30 June		Year ended 31 December
	2022 (Unaudited) £m	2021 (Unaudited) £m	2021 (Audited) £m
Exceptional Items:			
Inventory provision as a result of coal closure	**–**	–	(0.3)
Acquisition costs	**–**	(7.7)	(7.9)
Restructuring costs	**(0.5)**	(2.2)	(5.2)
Integration costs	**(1.1)**	(2.0)	(4.1)
Impairment of non-current assets	**(24.9)**	–	–
Coal closure costs	**–**	–	(4.8)
Exceptional items included in operating profit	**(26.5)**	(11.9)	(22.3)
Tax on exceptional items	**5.2**	(2.1)	2.5
Impact of tax rate change	**(7.8)**	(47.7)	(48.6)
Exceptional items after taxation	**(29.1)**	(61.7)	(68.4)
Certain remeasurements:			
Net certain remeasurements included in revenue	**(64.4)**	(3.5)	(85.9)
Net certain remeasurements included in cost of sales	**194.0**	23.4	134.6
Certain remeasurements included in operating profit	**129.6**	19.9	48.7
Net certain remeasurements included in interest payable and similar charges	**(0.2)**	–	(0.3)
Net certain remeasurements included in foreign exchange losses	**–**	(0.2)	(5.1)
Certain remeasurements included in profit before tax	**129.4**	19.7	43.3
Taxation on certain remeasurements	**(31.4)**	(3.4)	(8.2)
Certain remeasurements after tax	**98.0**	16.3	35.1
Reconciliation:			
Adjusted profit after tax from continuing operations	**79.0**	39.1	88.4
Exceptional items after tax	**(29.1)**	(61.7)	(68.4)
Certain remeasurements after tax	**98.0**	16.3	35.1
Total profit/(loss) after tax from continuing operations	**147.9**	(6.3)	55.1

	Six months ended 30 June					
	2022 (Unaudited)			2021 (Unaudited)		
	Adjusted EBITDA £m	**Adjusted profit after tax £m**	**Total profit after tax £m**	Adjusted EBITDA £m	Adjusted profit after tax £m	Total (loss)/ profit after tax £m
Continuing operations	**224.9**	**79.0**	**147.9**	165.0	39.1	(6.3)
Discontinued operations	**–**	**–**	**–**	20.7	18.7	30.7
Total	**224.9**	**79.0**	**147.9**	185.7	57.8	24.4

	Year ended 31 December 2021 (Audited)		
	Adjusted EBITDA £m	Adjusted profit after tax £m	Total profit after tax £m
Continuing operations	377.9	88.4	55.1
Discontinued operations	20.3	16.7	24.1
Total	398.2	105.1	79.2

For each item designated as exceptional or as a certain remeasurement, the tables below summarise the impact of the item on the Adjusted Results, basic EPS and cash flows. All exceptional items and certain remeasurement amounts relate to continuing operations.

	Six months ended 30 June 2022 (Unaudited)							
	Revenue £m	**Gross profit £m**	**Operating profit £m**	**Profit before tax £m**	**Tax charge £m**	**Profit for the period £m**	**Basic earnings per share Pence**	**Cash flow from operating activities £m**
Total Results IFRS measure	**3,557.1**	**616.4**	**207.0**	**199.9**	**(52.0)**	**147.9**	**37.2**	**144.0**
Certain remeasurements:								
Net fair value remeasurement on derivative contracts	**64.4**	**(129.6)**	**(129.6)**	**(129.4)**	**31.4**	**(98.0)**	**(24.5)**	**–**
Exceptional items:								
Impairment of non-current assets	**–**	**–**	**24.9**	**24.9**	**(5.0)**	**19.9**	**5.0**	**–**
Restructuring costs	**–**	**–**	**0.5**	**0.5**	**(0.1)**	**0.4**	**0.1**	**0.4**
Integration costs	**–**	**–**	**1.1**	**1.1**	**(0.1)**	**1.0**	**0.2**	**1.0**
Impact of tax rate change	**–**	**–**	**–**	**–**	**7.8**	**7.8**	**2.0**	**–**
Total	**64.4**	**(129.6)**	**(103.1)**	**(102.9)**	**34.0**	**(68.9)**	**(17.2)**	**1.4**
Adjusted totals	**3,621.5**	**486.8**	**103.9**	**97.0**	**(18.0)**	**79.0**	**20.0**	**145.4**

	Six months ended 30 June 2021 (Unaudited)							
	Revenue £m	Gross profit £m	Operating profit £m	Profit before tax £m	Tax charge £m	(Loss)/ profit for the period £m	Basic (loss)/ earnings per share Pence	Cash flow from operating activities £m
Total Results IFRS measure	2,174.1	390.5	84.2	51.8	(58.1)	(6.3)	(1.5)	115.1
Certain remeasurements:								
Net fair value remeasurement on derivative contracts	3.5	(19.9)	(19.9)	(19.7)	3.4	(16.3)	(4.1)	–
Exceptional items:								
Acquisition costs	–	–	7.7	7.7	1.2	8.9	2.2	8.9
Restructuring costs	–	–	2.2	2.2	0.5	2.7	0.7	0.7
Integration costs	–	–	2.0	2.0	0.4	2.4	0.6	2.4
Impact of tax rate change	–	–	–	–	47.7	47.7	12.0	–
Total	3.5	(19.9)	(8.0)	(7.8)	53.2	45.4	11.4	12.0
Adjusted totals	2,177.6	370.6	76.2	44.0	(4.9)	39.1	9.9	127.1

	Year ended 31 December 2021 (Audited)							
	Revenue £m	Gross profit £m	Operating profit £m	Profit before tax £m	Tax charge £m	Profit for the period £m	Basic earnings per share Pence	Cash flow from operating activities £m
Total Results IFRS measure	5,088.0	891.2	196.5	121.5	(66.4)	55.1	13.9	306.5
Certain remeasurements:								
Net fair value remeasurement on derivative contracts	85.9	(48.7)	(48.7)	(43.3)	8.2	(35.1)	(8.8)	–
Exceptional items:								

Inventory provision as a result of coal closure	–	0.3	0.3	0.3	(0.1)	0.2	0.1	–
Acquisition costs	–	–	7.9	7.9	–	7.9	1.8	7.9
Restructuring costs	–	–	5.2	5.2	(0.8)	4.4	1.1	4.4
Integration costs	–	–	4.1	4.1	(0.8)	3.3	0.8	3.3
Operating expenditure as a result of coal closure	–	–	4.8	4.8	(0.8)	4.0	1.2	–
Impact of tax rate change	–	–	–	–	48.6	48.6	12.2	–
Total	85.9	(48.4)	(26.4)	(21.0)	54.3	33.3	8.4	15.6
Adjusted totals	5,173.9	842.8	170.1	100.5	(12.1)	88.4	22.3	322.1

	Six months ended 30 June 2022 (Unaudited)		
	Attributable to		
	Owners of the Parent Company £m	**Non-controlling interests £m**	**Total £m**
Adjusted operating profit/(loss)	**104.9**	**(1.0)**	**103.9**
Depreciation and amortisation	**119.8**	**0.8**	**120.6**
Loss on disposal of assets	**1.0**	**–**	**1.0**
Income from associates	**(0.8)**	**–**	**(0.8)**
Adjusted EBITDA from continuing operations	**224.9**	**(0.2)**	**224.7**
Adjusted EBITDA from discontinued operations	**–**	**–**	**–**
Adjusted EBITDA from continuing and discontinued operations	**224.9**	**(0.2)**	**224.7**

	Six months ended 30 June 2021 (Unaudited)		
	Attributable to		
	Owners of the Parent Company £m	Non-controlling interests £m	Total £m
Adjusted operating profit/(loss)	76.6	(0.4)	76.2
Depreciation and amortisation	88.5	0.4	88.9
Income from associates	(0.1)	–	(0.1)
Adjusted EBITDA from continuing operations	165.0	–	165.0
Adjusted EBITDA from discontinued operations	20.7	–	20.7
Adjusted EBITDA from continuing and discontinued operations	185.7	–	185.7

	Year ended 31 December 2021 (Audited)		
	Attributable to		
	Owners of the Parent Company £m	Non-controlling interests £m	Total £m
Adjusted operating profit/(loss)	170.6	(0.5)	170.1
Depreciation and amortisation	198.3	0.6	198.9
Loss on disposal of assets	9.3	0.1	9.4
Income from associates	(0.3)	–	(0.3)
Adjusted EBITDA from continuing operations	377.9	0.2	378.1
Adjusted EBITDA from discontinued operations	20.3	–	20.3
Adjusted EBITDA from continuing and discontinued operations	398.2	0.2	398.4

	Six months ended 30 June 2022 (Unaudited)					
	Pellet Production £m	**Generation £m**	**Customers £m**	**Innovation, capital projects and other £m**	**Intra-group eliminations £m**	**Adjusted Results £m**
Segment Adjusted EBITDA:						
Continuing operations	**45.3**	**204.7**	**23.8**	**(43.8)**	**(5.1)**	**224.9**
Discontinued operations	**–**	**–**	**–**	**–**	**–**	**–**
Total	**45.3**	**204.7**	**23.8**	**(43.8)**	**(5.1)**	**224.9**

	Six months ended 30 June 2021 (Unaudited)					
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	Adjusted Results £m
Segment Adjusted EBITDA:						
Continuing operations	39.9	164.5	(4.7)	(30.8)	(3.9)	165.0
Discontinued operations	–	20.7	–	–	–	20.7
Total	39.9	185.2	(4.7)	(30.8)	(3.9)	185.7

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

Cash and committed facilities

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

	Six months ended 30 June		Year ended 31 December
	2022 (Unaudited) £m	2021 (Unaudited) £m	2021 (Audited) £m
Cash and cash equivalents	**288.4**	405.7	317.4
Revolving credit facility available but not utilised(1)	**250.1**	245.1	231.4
2020 Private placement facility available but not utilised	**–**	15.3	–
Total cash and committed facilities	**538.5**	666.1	548.8

(1) The Group's available balance on the RCF facility (includes £300 million and C$10 million RCF, see note 9) is reduced by letters of credit drawn under the RCF. As at 30 June 2022 £56.3 million letters of credit were drawn (as at 31 December 2021: £74.4 million).

Adjusted EPS and Net Debt are other key APMs used by the Group. See notes 7 and 10 respectively for further details on these APMs. Further commentary on Total cash and committed facilities is contained within the CFO financial review.

7. Earnings per share

Earnings per share (EPS) represents the amount of earnings (post-tax profits) attributable to each ordinary share or dilutive potential ordinary share that the Group has in issue. Basic EPS is calculated by dividing the Group's earnings attributable to the owners of the Parent Company (profit after tax in accordance with IFRS) by the weighted average number of ordinary shares in issue during the period. Diluted EPS demonstrates the impact upon Basic EPS if all outstanding share options, that are expected to vest on their future maturity dates, were exercised and treated as ordinary shares as at the balance sheet date.

Shares purchased under the Group's share buy-back programme are not included in the weighted average calculation of shares. For the purpose of calculating Diluted EPS, the weighted average calculation of shares excludes any share options that would have an anti-dilutive impact.

	Six months ended 30 June		Year ended 31 December
	2022 (Unaudited)	2021 (Unaudited)	2021 (Audited)
Number of shares:			
Weighted average number of ordinary shares for the purposes of Basic earnings per share (millions)	**400.0**	397.9	398.4
Effect of dilutive potential ordinary shares under share plans (millions)	**14.8**	9.4	14.2
Weighted average number of ordinary shares for the purposes of Diluted earnings per share (millions)	**414.8**	407.3	412.6
Total earnings per share			
Earnings per share – Basic (Pence)	**37.2**	6.2	20.0
Earnings per share – Diluted (Pence)	**35.9**	6.0	19.3

The tables below detail the earnings attributable to owners of the Parent Company:

Six months ended 30 June 2022 (Unaudited)

	Earnings per share			**Earnings per share from continuing operations**			**Earnings per share from discontinued operations**		
	Profit after tax[(1)] £m	**Basic (Pence)**	**Diluted (Pence)**	**Profit after tax[(1)] £m**	**Basic (Pence)**	**Diluted (Pence)**	**Profit after tax £m**	**Basic (Pence)**	**Diluted (Pence)**
Total Results	**148.9**	**37.2**	**35.9**	**148.9**	**37.2**	**35.9**	**–**	**–**	**–**
Adjusted Results	**80.0**	**20.0**	**19.3**	**80.0**	**20.0**	**19.3**	**–**	**–**	**–**

(1) Excludes £(1.0) million attributable to non-controlling interests.

Six months ended 30 June 2021 (Unaudited)

	Earnings per share			(Loss)/Earnings per share from continuing operations			Earnings per share from discontinued operations		
	Profit after tax[(1)] £m	Basic (Pence)	Diluted (Pence)	(Loss)/profit after tax[(1)] £m	Basic (Pence)	Diluted (Pence)	Profit after tax £m	Basic (Pence)	Diluted (Pence)
Total Results	24.6	6.2	6.0	(6.1)	(1.5)	(1.5)	30.7	7.7	7.5
Adjusted Results	58.0	14.6	14.2	39.3	9.9	9.6	18.7	4.7	4.6

(1) Excludes £(0.2) million attributable to non-controlling interests.

Year ended 31 December 2021 (Audited)

	Earnings per share			Earnings per share from continuing operations			Earnings per share from discontinued operations		
	Profit after tax[(1)] £m	Basic (Pence)	Diluted (Pence)	Profit after tax[(1)] £m	Basic (Pence)	Diluted (Pence)	Profit after tax £m	Basic (Pence)	Diluted (Pence)
Total Results	79.7	20.0	19.3	55.6	13.9	13.5	24.1	6.1	5.8
Adjusted Results	105.6	26.5	25.6	88.9	22.3	21.5	16.7	4.2	4.1

(1) Excludes £(0.5) million attributable to non-controlling interests.

8. Dividends

		Six months ended 30 June		Year ended 31 December
	Pence per share	**2022 (Unaudited) £m**	2021 (Unaudited) £m	2021 (Audited) £m
Amounts recognised as distributions to equity holders in the period (based on the number of shares in issue at the record date):				
Final dividend for the year ended 31 December 2021 paid 13 May 2022	11.3	**45.2**	–	–
Interim dividend for the year ended 31 December 2021 paid 8 October 2021	7.5	**–**	–	29.9
Final dividend for the year ended 31 December 2020 paid 14 May 2021	10.3	**–**	41.0	41.0
		45.2	41.0	70.9

On 25 July 2022, the Board resolved to pay an interim dividend of 8.4 pence per share (£34 million), representing 40% of the expected full year dividend in line with our dividend policy. The interim dividend will be paid on 7 October 2022 and the record date for entitlement to the dividend will be on 26 August 2022.

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 (Drax Group plc) has distributable reserves at 30 June 2022 of £338.8 million. Sufficient reserves are available across the Group 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 £288.4 million are comprised of cash and cash equivalents that are accessible on demand. The recent history of operating cash generation is set out in note 11. Most 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 9) place customary 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.

9. Borrowings

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

	As at 30 June		Year ended 31 December
	2022 (Unaudited) £m	2021 (Unaudited) £m	2021 (Audited) £m
2.625% loan notes 2025 €250m(1)	**212.8**	211.4	207.2
6.625% loan notes 2025 $500m(2)	**408.8**	359.3	367.0
Index-linked loan £35m(3)	**–**	39.2	40.6
UK infrastructure private placement facilities (2019) (4)	**371.4**	368.8	370.0
UK infrastructure private placement facilities (2020) (5)	**204.3**	203.2	201.2
CAD term facility C$300m(6)	**191.1**	–	175.0
Pinnacle senior debt facilities(7)	**–**	251.9	–

Total borrowings	**1,388.4**	1,433.8	1,361.0
Split between:			
Current liabilities	**–**	31.9	40.6
Non-current liabilities	**1,388.4**	1,401.9	1,320.4

(1) Cross-currency interest rate swaps have been used to fix the sterling value of interest payments. This instrument also fixed the sterling repayment of the principal. This equates to an effective sterling interest rate of 3.2%.

(2) Cross-currency interest rate swaps have been used to fix the sterling value of interest payments. This instrument also fixed the sterling repayment of the principal. This equates to an effective sterling interest rate of 4.9%.

(3) The index-linked term loan facility matured in March 2022. On maturity the principal amount of £35.0 million plus £6.4 million of indexation was repaid wholly from cash reserves.

(4) £375.0 million of facilities with a range of maturities extending out to between 2024 and 2029. Interest rate swaps have been used to fix floating rates. This equates to an effective weighted average sterling interest rate of 3.3%.

(5) £98.0 million and €126.5 million of facilities with a range of maturities extending out to between 2024 and 2030. Interest rate swaps have been used to fix sterling floating rates on sterling facilities. Cross-currency interest rate swaps have been used to fix the sterling value of interest payments on euro facilities. This instrument also fixed the sterling repayment of the principal. This equates to an effective weighted average sterling interest rate of 2.5%.

(6) This facility matures in 2024 with the option to extend by two years, subject to lender approval, and has a customary margin grid reference over the Canadian dollar offered rate (CDOR). No interest rate or cross-currency interest rate swaps are in place to hedge the facility, so the Group is exposed to movements in both floating interest rates and movements in the Canadian dollar.

(7) Pinnacle senior debt facilities relate to borrowings acquired as part of the acquisition of Pinnacle. As at 30 June 2021, this included three debt facilities, being a revolver loan (C$20.0 million), term loan (C$266.0 million) and delayed draw (C$147.4 million). On 13 July 2021, the Group completed the refinancing of all three Canadian dollar facilities acquired from Pinnacle with the C$300.0m term facility described above.

The Group has a committed £300.0 million revolving credit facility (RCF) and a C$10.0 million RCF. These had no cash drawings as at 30 June 2022 or 31 December 2021. The Group has access to certain non-recourse trade receivable finance facilities and payment facilities, as described in note 11, which are utilised to accelerate working capital cash inflows and defer cash outflows.

In March 2022, the Group's index-linked term loan facility matured. On maturity the principal amount of £35.0 million plus £6.4 million of indexation was repaid. The loan was repaid wholly through the Group's cash reserves.

The Group has complied with the financial covenants of its borrowing facilities during the current period and prior year. The Group has significant headroom and expects to continue to comply with these financial covenants in future periods under all reasonably possible downside scenarios.

The weighted average interest rate payable at the balance sheet date on the Group's borrowings was 3.56% (as at 31 December 2021: 3.49%).

Analysis of borrowings

Changes in borrowings during the current and prior periods were as follows:

	As at 30 June 2022 (Unaudited)		
	Borrowings before deferred finance costs £m	**Deferred finance costs £m**	**Net borrowings £m**
Borrowings as at 1 January 2022	**1,376.2**	**(15.2)**	**1,361.0**
Cash movements:			
Repayment of Index-linked loan	**(41.4)**	–	**(41.4)**
Non-cash movements:			
Indexation of linked loan	**0.8**	–	**0.8**
Amortisation of deferred finance costs (note 4)	–	**3.3**	**3.3**
Amortisation of USD loan note premium	**(0.2)**	–	**(0.2)**
Effect of foreign exchange rates	**64.9**	–	**64.9**
Borrowings as at 30 June 2022	**1,400.3**	**(11.9)**	**1,388.4**

As at 30 June 2021 (Unaudited)

	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings as at 1 January 2021	1,085.3	(19.6)	1,065.7
Cash movements:			
Drawdown of 2020 infrastructure private placement facilities	130.8	(0.4)	130.4
Net repayment of Revolver loan	(2.0)	–	(2.0)
Repayment of other facilities	(3.8)	–	(3.8)
Non-cash movements:			
Borrowings acquired on acquisition of Pinnacle	256.3	(1.4)	254.9
Indexation of linked loan	0.8	–	0.8
Amortisation of deferred finance costs (note 4)	–	2.9	2.9
Amortisation of USD loan note premium	(0.2)	–	(0.2)
Effect of foreign exchange rates	(14.9)	–	(14.9)
Borrowings as at 30 June 2021	1,452.3	(18.5)	1,433.8

	As at 31 December 2021 (Audited)		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings as at 1 January 2021	1,085.3	(19.6)	1,065.7
Cash movements:			
Drawdown of 2020 infrastructure private placement facilities	130.8	(0.5)	130.3
Repayment of debt acquired from Pinnacle	(253.1)	–	(253.1)
Drawdown of C$300m term facility	173.1	(0.8)	172.3
Other cash movements	(3.2)	–	(3.2)
Non-cash movements:			
Borrowings acquired on acquisition of Pinnacle	256.3	–	256.3
Indexation of linked loan	2.2	–	2.2
Amortisation of deferred finance costs (note 4)	–	5.7	5.7
Amortisation of USD loan note premium	(0.3)	–	(0.3)
Effect of foreign exchange rates	(14.9)	–	(14.9)
Borrowings as at 31 December 2021	1,376.2	(15.2)	1,361.0

10. Reconciliation of Net Debt

Net Debt is calculated by taking the Group's borrowings (note 9) and subtracting cash and cash equivalents. Net Debt excludes the share of borrowings and cash and cash equivalents attributable to non-controlling interests. See the APMs glossary and the APMs section within the Basis of preparation for further details on the calculation of Net Debt.

	As at 30 June		As at 31 December
	2022 (Unaudited) £m	2021 (Unaudited) £m	2021 (Audited) £m
Borrowings	**(1,388.4)**	(1,433.8)	(1,361.0)
Cash and cash equivalents	**288.4**	405.7	317.4
Net cash and borrowings	**(1,100.0)**	(1,028.1)	(1,043.6)
Non-controlling interests share of cash and cash equivalents in non-wholly owned subsidiaries	**(0.8)**	(0.8)	–
Net Debt	**(1,100.8)**	(1,028.9)	(1,043.6)

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

	Six months ended 30 June		Year ended 31 December
	2022 (Unaudited) £m	2021 (Unaudited) £m	2021 (Audited) £m
Net cash and borrowings at beginning of period	**(1,043.6)**	(775.9)	(775.9)
(Decrease)/increase in cash and cash equivalents	**(29.0)**	115.9	27.6
Increase in net borrowings	**(27.4)**	(368.1)	(295.3)
Net cash and borrowings at end of period	**(1,100.0)**	(1,028.1)	(1,043.6)
Remove:			
Non-controlling interests share of cash and cash equivalents in non-wholly owned subsidiaries	**(0.8)**	(0.8)	–
Net Debt	**(1,100.8)**	(1,028.9)	(1,043.6)

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

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 13). 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.

	As at 30 June		As at 31 December
	2022 (Unaudited) £m	2021 (Unaudited) £m	2021 (Audited) £m
Net Debt excluding the impact of hedging instruments	**(1,100.8)**	(1,028.9)	(1,043.6)
Impact of hedging instruments	**(15.5)**	(64.7)	(64.4)
Net Debt including the impact of hedging instruments	**(1,116.3)**	(1,093.6)	(1,108.0)

11. Cash generated from operations

The table below reconciles the Group's profit/(loss) for the period to the amount of cash generated from the Group's operations (i.e. producing and selling sustainable biomass pellets, sourcing, generating and selling electricity and gas) by adjusting for any non-cash items.

	Six months ended 30 June		Year ended 31 December
	2022 (Unaudited) £m	2021 (Unaudited) £m	2021 (Audited) £m
Profit/(loss) for the period – continuing operations	**147.9**	(6.3)	55.1
Profit for the period – discontinued operations	**–**	30.7	24.1
Adjustments for:			
Interest payable and similar charges	**36.6**	34.5	70.9
Interest receivable	**(1.1)**	(0.4)	(0.3)
Tax charge	**52.0**	60.1	68.1
Research & Development Expenditure Credit	**(3.1)**	(2.5)	(7.5)
Income from associates	**(0.8)**	(0.1)	(0.3)
Depreciation of property, plant and equipment	**95.6**	66.3	149.8
Amortisation of intangible assets	**15.2**	16.3	34.4
Depreciation of right-of-use assets	**9.8**	6.3	15.2

Impairment of non-current assets	**24.9**	–	–
Losses on disposal of assets	**1.0**	–	9.4
Gain on disposal of subsidiaries	**–**	(16.2)	(16.2)
Certain remeasurements of derivative contracts[1]	**(136.8)**	(51.5)	(74.6)
Non-cash charge for share-based payments	**4.5**	2.1	7.4
Effect of foreign exchange rates	**(0.9)**	1.3	1.3
Operating cash flows before movement in working capital	**244.8**	140.6	336.8
Changes in working capital:			
(Increase)/decrease in inventories	**(75.2)**	32.8	37.4
(Increase)/decrease in receivables	**(28.0)**	190.6	(58.0)
Increase in payables	**102.8**	47.8	209.7
Increase in renewable certificate assets	**(55.6)**	(267.5)	(161.8)
Total cash (absorbed by)/released from working capital	**(56.0)**	3.7	27.3
Net defined benefit pension obligations	**(3.4)**	(6.5)	(9.6)
Cash generated from operations	**185.4**	137.8	354.5

(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, as well as rebasing impact.

The Group has a strong focus on cash flow discipline and managing liquidity. This is driven by underlying performance and supporting actions taken to manage working capital. Actions taken in the first half of the year are largely consistent with those taken during 2021 as described on page 225 of the Group's 2021 Annual report and accounts. The key differences in the first half of 2022 are described below.

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

Cash from ROCs is typically realised several months after the ROC is earned; however, through standard ROC sales and ROC purchase arrangements the Group is able to accelerate cash flows over a proportion of these assets. The net impact of these ROC purchases and ROC sales on operating cash flows for the six months ended 30 June 2022 was a £146.4 million inflow (six months ended 30 June 2021: £34.1 million outflow). This is reflected as a decrease (six months ended 30 June 2021: increase) in renewable certificate assets and is a component of the overall net increase (six months ended 30 June 2021: increase) in renewable certificate 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. Utilisation of these facilities generated a net cash flow in the six months ended 30 June 2022 of £nil (six months ended 30 June 2021: £48.3 million inflow).

The Customers business has access to a facility which enables it to accelerate cash flows associated with trade receivables on a non-recourse basis. The Group has refinanced this facility during the six months ended 30 June 2022, extending the maturity to January 2027 and increasing the size of the facility to £300.0 million from £200.0 million. This facility generated a net cash inflow of £100.0 million in the six months ended 30 June 2022 (six months ended 30 June 2021: net cash inflow of £14.7 million), reflected as part of the overall movement in receivables. Utilisation of the facility was £300.0 million at 30 June 2022 (as at 31 December 2021: £200.0 million).

The Group actively manages its liquidity requirements, including collateral associated with the hedging of power and other commodities. As trading positions with counterparties have matured during the period, associated cash collateral held by the Group at 31 December 2021 has been returned, and at 30 June 2022 the Group had a net receipt of collateral from counterparties of £46.5 million (as at 31 December 2021: £172.8 million). This has resulted in a cash outflow of £126.3 million in the period (six months ended 30 June 2021: £35.2 million inflow) reflected primarily as a decrease (six months ended 30 June 2021: increase) in payables in the table above.

12. Financial risk management

The Group's activities expose it to a variety of financial risks, including commodity price risk, interest rate risk, liquidity risk, inflation risk, counterparty risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of commodity and financial markets and seeks to manage potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is overseen by risk management committees which identify, evaluate and hedge financial risks in close coordination with the Group's trading and treasury functions under policies approved by the Board.

Volatility in financial and commodity markets has continued in 2022, in part due to the conflict in Ukraine. This volatility has impacted economies and markets around the world, including the UK energy market, which has in part contributed to rising inflation. The geopolitical environment and concerns over the macro-economic outlook have also contributed to a weakening in sterling during 2022. See the Principal risks and uncertainties section for further details on both the Russia-Ukraine conflict and energy market conditions. As a result of these factors, the valuation of the Group's derivative financial instruments, in particular power, gas, foreign currency contracts, inflation and oil, remain at elevated levels compared to previous periods.

The Customers business has seen an increase in the potential for default within deemed supply customers during the period. Deemed supply is where electricity or gas is supplied to a site or customer that is yet to enter into a contract and, as a result, they are charged on a standard variable tariff based on merchant power and gas prices. Given the increases in these standard variable prices during the period, the recoverability of these balances has become more challenging. The Group has updated its expected credit loss provision to reflect this change, which has resulted in an immaterial increase in the overall provision. As at 30 June 2022, the total expected credit loss provision was £53.8 million (as at 31 December 2021: £46.6 million).

See pages 253 – 269 of the Group's 2021 Annual report and accounts for further details on the Group's financial risk management.

13. Fair value financial instruments

The Group makes extensive use of derivative financial instruments for the purpose of managing its exposure to the financial risks set out in note 12.

Where possible, the Group has taken advantage of the own-use exemption which allows qualifying contracts to be excluded from fair value mark-to-market accounting. This applies to certain contracts for non-financial commodities entered into and held for the Group's own purchase, sale or usage requirements. Other contracts are accounted for as derivatives in accordance with IFRS 9 and are recorded in the balance sheet at fair value.

Changes in the fair value of derivative financial instruments are reflected through the hedge reserve to the extent that the relevant contracts are designated as effective hedges in accordance with IFRS 9, or in the Condensed consolidated income statement where the hedge accounting requirements are not met. To ensure these derivatives are reflected at their contracted price in the period they relate to, these changes in fair value are not reflected within Adjusted Results in the Condensed consolidated income statement.

For financial reporting purposes, the Group has classified derivative financial instruments into five categories:

- Commodity contracts – forward contracts for the sale or purchase of a physical commodity which is expected to be settled through physical delivery of the commodity.
- Financial contracts – oil and weather-related contracts, as well as contracts for commodities that are not expected to be settled through physical delivery of the commodity.
- Foreign currency exchange contracts – currency related contracts including forwards, vanilla options and structured option products.
- Interest rate and cross-currency contracts – contracts which swap one interest rate for another in a single currency, including floating-to-fixed interest rate swaps, contracts which swap interest and principal cash flows in one currency for another currency, including fixed-to-fixed and floating-to-fixed cross-currency interest rate swaps, and swaptions.
  Inflation rate swaps – swap contracts, such as floating-to-fixed, which are linked to an inflation index such as RPI or CPI, and inflation swaptions.

The table below details the carrying amounts recognised for the Group's derivative financial instruments:

	As at 30 June		As at 31 December
	2022 (Unaudited) £m	2021 (Unaudited) £m	2021 (Audited) £m
Derivative assets			
Commodity contracts	**1,159.4**	412.2	998.8
Financial contracts	**395.8**	40.2	143.9
Foreign currency exchange contracts	**308.2**	69.2	97.5
Interest rate and cross-currency swaps	**34.6**	1.3	4.6
Inflation rate swaps	**–**	4.7	1.3

Total derivative assets	**1,898.0**	527.6	1,246.1
Split between:			
Non-current assets	**439.2**	125.9	357.5
Current assets	**1,458.8**	401.7	888.6
Derivative liabilities			
Commodity contracts	**(1,475.3)**	(373.7)	(1,087.9)
Financial contracts	**(403.8)**	(30.5)	(90.2)
Foreign exchange contracts	**(106.8)**	(176.8)	(137.7)
Interest rate and cross-currency swaps	**(12.8)**	(68.9)	(48.4)
Inflation rate swaps	**(231.2)**	(9.9)	(140.3)
Total derivative liabilities	**(2,229.9)**	(659.8)	(1,504.5)
Split between:			
Non-current liabilities	**(523.8)**	(168.1)	(541.8)
Current liabilities	**(1,706.1)**	(491.7)	(962.7)

IFRS 13 requires categorisation of the Group's financial instruments in accordance with the following hierarchy in order to explain the basis on which their fair values have been determined:

- Level 1 – Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Fair value measurements are those derived from inputs, other than quoted prices, included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Categorisation within this fair value measurement hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset or liability.

The table below details the carrying amounts of fair value financial instruments including their levels in the fair value hierarchy:

	As at 30 June		As at 31 December
	2022 (Unaudited) £m	2021 (Unaudited) £m	2021 (Audited) £m
Assets			
<u>Level 2</u>			
Derivative financial instruments (as above)	**1,898.0**	527.6	1,246.1
<u>Level 3</u>			
Equity investment	**1.5**	1.5	1.5
Contingent consideration	**27.7**	27.7	27.7
Total assets	**1,927.2**	556.8	1,275.3
Liabilities			
<u>Level 2</u>			
Derivative financial instruments (as above)	**(2,229.9)**	(659.8)	(1,504.5)
Total liabilities	**(2,229.9)**	(659.8)	(1,504.5)

There have been no transfers during the period between Level 1, 2 or 3 category inputs.

The change in fair value of derivative financial instruments in the period has been driven by movements in underlying commodity prices and financial markets. The Group has a large portfolio of forward power sales and gas purchases, the valuations of which are impacted by changes in market prices. The Group also has a large portfolio of forward currency contracts which fix the sterling cost of future fuel purchases denominated in foreign currencies. The Group has entered into a number of inflation swap contracts in order to hedge annual price increases in certain of its generation activities, such as its CfD revenue and Capacity Market revenue, both linked to UK CPI.

Fair value measurement

- Commodity contracts – the fair value of open commodity contracts that do not qualify for the own-use exemption is calculated by reference to forward market prices at the balance sheet date.
- Financial contracts – the fair value of financial contracts is calculated by reference to forward market prices at the balance sheet date.
- Foreign currency exchange contracts – the fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the balance sheet date.
- Interest rate and cross-currency contracts – the fair value of interest rate swaps is calculated by reference to forward market curves at the balance sheet date for the relevant interest index. The fair value of cross-currency interest rate swaps is calculated using the relevant forward currency exchange market rates for fixed-to-fixed swaps and by using the relevant forward currency exchange market rates and interest indices for floating-to-fixed swaps.
- Inflation rate contracts – The fair value of inflation rate swaps is calculated by reference to forward market curves at the balance sheet date for the relevant inflation index.

Given the maturity profile of all these contracts, liquid forward market price curves are available for the duration of the contracts.

The fair values of all derivative financial instruments are discounted to reflect the credit risk inherent within the instrument and the time value of money.

The fair value of commodity contracts, financial contracts, foreign currency exchange contracts, interest rate and cross-currency contracts, and UK RPI inflation swaps are largely determined by comparison between forward market prices and the contract price; therefore, these contracts are categorised as Level 2.

Level 3 fair values

The fair value of the UK CPI inflation swaps comprises an RPI and CPI component. Whilst the RPI component is based on observable market rates, the CPI component is based on unobservable rates and therefore deemed to be Level 3 in the fair value hierarchy. However, this component is not material to the overall valuation and therefore the instruments as a whole are determined to be Level 2 in line with IFRS 13.

The valuation technique used for non-listed equity investments comprises unobservable inputs and are therefore classified as Level 3. However, given the valuations as a whole for Level 3 equity investments are immaterial, it is not deemed necessary to include all Level 3 disclosures.

The consideration receivable by the Group for the sale of the CCGT portfolio in 2021 includes £29.0 million that is contingent on certain triggers in respect of the option to develop the Damhead Creek land disposed of as part of the sale of these assets. The fair value measurement for the contingent consideration has been categorised as Level 3 based on the inputs to the valuation techniques used.

	Valuation approach	Significant unobservable inputs and range of inputs (probability weighted)	Relationship between significant unobservable input and fair value measurement
Contingent consideration	The fair value of the contingent consideration is determined using a discounted cash flow model. The valuation approach is based on a calculation of the probability of the option to develop the Damhead Creek land being exercised. This probability is calculated using a range of forecasts for future Capacity Market auctions and the assumption that the option to develop the land would be exercised if the Capacity Market price were to clear above a certain level, providing sufficient certainty around the economics of the development.	Forecasted future Capacity Market clearing prices: £4.80/kW – £75.00/kW (£24.70/kW) Required internal rate of return for the Damhead Creek development to proceed: 15.0% (15.0%)	The fair value measurement would increase/(decrease) with: – higher/(lower) forecasted Capacity Market clearing prices causing a higher/(lower) probability of the option over the Damhead Creek land being exercised. – a reduction/(increase) in the internal rate of return required for the Damhead Creek development to proceed causing a higher/(lower) probability of the option over the Damhead Creek land being exercised.

There have been no movements in the Level 3 fair value instruments in the six months ended 30 June 2022.

Sensitivities are disclosed below for reasonably possible changes to the unobservable inputs that would have a significant impact on the fair value measurement:

		Increase/(decrease) in profit before tax £m
30 June 2022		
Forecasted future Capacity Market clearing prices	- Increase 75%	**1.8**
	- Decrease 75%	**(12.3)**
Required internal rate of return for the Damhead Creek development to proceed	- Increase 4%	**(3.7)**
	- Decrease 4%	**2.2**

14. Contingencies

The following matters reflect potential future flows of cash, arising from existing events, that are dependent on a future event that is outside the control of the Group. The amount and timing of any payment or receipt is uncertain and, in some circumstances, cannot be measured reliably.

Guarantees

In addition to the amounts drawn down as borrowings (see note 9), certain members of the Group guarantee the obligations of a number of banks in respect of letters of credit issued by those banks to counterparties of the Group. As at 30 June 2022, the Group's contingent liability in respect of letters of credit issued under the RCF amounted to £56.3 million (as at 31 December 2021: £74.4 million). The probability of future cash flows as a result of these guarantees is considered remote.

The Group also guarantees obligations in the form of surety bonds with a number of insurers. As at 30 June 2022 the Group's contingent liability in relation to these guarantees was £145.0 million (as at 31 December 2021: £142.1 million). The probability of future cash flows as a result of these guarantees is considered remote.

Collateral is sometimes required to be provided in relation to the Group's commodity and treasury trading activities. When derivative positions are out of the money for the Group, collateral may be required to be provided to the counterparty. These positions reverse when contracts are settled, and the collateral is returned. The Group typically aims to cover collateral positions with a combination of letters of credit, surety bonds and cash.

The letters of credit and surety bond amounts above include amounts utilised to cover commodity trading collateral requirements of £17.5 million (as at 31 December 2021: £42.5 million) and £108.0 million (as at 31 December 2021: £107.1 million) respectively.

Contingent liabilities

HSE legal action
In the prior year the Group received notice of legal action from the Health and Safety Executive (HSE) in relation to wood dust at Drax Power Station regarding operations prior to 2017. No amount has been provided in respect of this legal action as, following consultation with external professional advisers, the Group believes it is in a strong position to be able to defend this claim.

Contingent assets

Billing system
Drax Energy Solutions Limited has lodged a claim against a supplier for damages caused by the supplier's misrepresentation and failure to perform under a contract for delivery of a new billing system. The directors have considered the potential legal outcomes of the claim with external professional advisors and believe that a favourable outcome is probable. However, a contingent asset has been disclosed rather than a receivable recognised at 30 June 2022, as receipt of the amount is dependent on the outcome of the claim.

15. Adoption of new and amended accounting standards

The following amendments became effective for the first time in 2022:

- Annual Improvements 2018-2020 Cycle – effective from 1 January 2022.
- IAS 37 – Onerous Contracts: Cost of Fulfilling a Contract – effective from 1 January 2022.
- IAS 16 (amended) – Property, Plant and Equipment: Proceeds before Intended Use – effective from 1 January 2022.
- IFRS 3 – Reference to the Conceptual Framework – effective from 1 January 2022.

The adoption of these amendments in the current period has not had a material impact.

At the date of approval of this report, the following new or amended standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and some of which were pending endorsement by the UK Endorsement Board (UKEB) – marked by *):

- IFRS 10 (amended) – Consolidated Financial Statements and IAS 28 (amended) – Investments in Associates and Joint Ventures (2011) – effective date deferred indefinitely.
- IFRS 17 – Insurance contracts – effective from 1 January 2023.
- IAS 1 (amended) – Classification of Liabilities as Current and Non-current – effective date deferred until not earlier than 1 January 2024*.
- IAS 1 (amended) – Disclosure of Accounting Policies – effective from 1 January 2023*.
- IAS 8 (amended) – Definition of Accounting Estimates – effective from 1 January 2023*.
- IAS 12 (amended) – Income Taxes – Assets and Liabilities arising from a Single Transaction – effective from 1 January 2023*.

Adoption of new or amended standards and relevant interpretations in future periods is not expected to have a material impact on the financial statements of the Group.

16. Reproduction of comparative financial information

Consolidated income statement for the year ended 31 December 2021

For information, the full Consolidated income statement and Consolidated statement of comprehensive income for the year ended 31 December 2021 is reproduced below.

Consolidated income statement	Year ended 31 December 2021 (Audited)		
	Adjusted Results[1] £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue	5,173.9	(85.9)	5,088.0
Cost of sales	(4,331.1)	134.3	(4,196.8)
Gross profit	**842.8**	**48.4**	**891.2**
Operating and administrative expenses	(448.4)	(21.5)	(469.9)
Impairment losses on financial assets	(16.3)	–	(16.3)
Depreciation	(164.5)	(0.5)	(165.0)
Amortisation	(34.4)	–	(34.4)
Losses on disposal of fixed assets	(9.4)	–	(9.4)
Income from associates	0.3	–	0.3
Operating profit	**170.1**	**26.4**	**196.5**
Foreign exchange gains/(losses)	0.9	(5.1)	(4.2)
Interest payable and similar charges	(70.9)	(0.3)	(71.2)
Interest receivable	0.4	–	0.4
Profit before tax	**100.5**	**21.0**	**121.5**
Tax			
- Before impact of changes in tax rate	(11.7)	(5.7)	(17.4)
- Effect of changes in tax rate	(0.4)	(48.6)	(49.0)
Total tax charge	(12.1)	(54.3)	(66.4)
Net result from continuing operations[2]	**88.4**	**(33.3)**	**55.1**
Net result from discontinued operations	**16.7**	**7.4**	**24.1**
Profit/(loss) for the period	**105.1**	**(25.9)**	**79.2**
Attributable to:			
Owners of the Parent Company	105.6	(25.9)	79.7
Non-controlling interests	(0.5)	–	(0.5)
Earnings per share	Pence		Pence
For net result for the period from continuing operations attributable to the owners of the Parent Company			

– Basic	22.3	13.9
– Diluted	21.5	13.5

For net result for the period attributable to the owners of the Parent Company		
– Basic	26.5	20.0
– Diluted	25.6	19.3

(1) Adjusted Results are stated after adjusting for exceptional items (including acquisition costs, restructuring costs and debt restructuring costs), and certain remeasurements, see Note 6 for further detail.

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

Consolidated statement of comprehensive income

	Year ended 31 December 2021 (Audited) £m
Profit for the period	**79.2**
Items that will not be reclassified subsequently to profit or loss:	
Remeasurement gains on defined benefit pension scheme	30.7
Deferred tax on remeasurement of defined benefit pension scheme	(7.2)
Deferred tax on share-based payments	5.4
Net fair value gains on cost of hedging	17.3
Deferred tax on cost of hedging	(7.7)
Net fair value gains on cash flow hedges	1.1
Deferred tax on cash flow hedges	3.6
Items that may be subsequently reclassified to profit or loss:	
Exchange differences on translation of foreign operations	6.1
Net fair value losses on cash flow hedges	(182.0)
Net gains on cash flow hedges reclassified to the income statement	12.6
Deferred tax on cash flow hedges	37.6
Other comprehensive expense for the period	**(82.5)**
Total comprehensive expense for the period	**(3.3)**

Attributable to:	
Owners of the Parent Company	(0.2)
Non-controlling interests	(3.1)

17. Post balance sheet events

Coal unit availability extension
In response to increased pressure on European gas markets and associated concerns about electricity security of supply in the UK this winter, the UK Government has asked owners of legacy coal-fired generation assets, including Drax, to work together with National Grid to temporarily extend the life of these assets to March 2023.

Under the terms of the agreement, Drax will be paid a fee for the service and compensated for costs incurred, including coal costs, in connection with the operation of the coal units in accordance with the agreement.

INDEPENDENT REVIEW REPORT TO DRAX GROUP PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 17.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (ISRE) (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed above, the annual financial statements of the group will be prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE (UK), however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the group a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, UK
25 July 2022

Alternative performance measures (APMs) glossary table

The measures described below are used throughout the Half Year Report and are measures that are not defined within IFRS but provide additional information about financial performance and position that is used by the Board to evaluate the performance of the Group. These measures have been defined internally and may therefore not be comparable to APMs presented by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself a measure defined under IFRS. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

APM	Closest IFRS equivalent measure	Purpose	Definition
Adjusted Results	Total Results	The Group's Adjusted Results are consistent with the way executive management and the Board assess the performance of the Group. Adjusted Results are intended to reflect the underlying trading performance of the Group's businesses and are presented to assist users of the financial statements in evaluating the Group's trading performance and performance against strategic objectives on a consistent basis. Adjusted Results excludes exceptional items and certain remeasurements. Exceptional items are those transactions that, by their nature, do not reflect the trading performance of the Group in the period. Certain remeasurements comprise fair value gains and losses that do not qualify for hedge accounting. The Group regards all of its forward contracting activity to represent economic hedges and therefore by excluding the volatility caused by recognising fair value gains and losses prior to maturity of the contracts, the Group can reflect these contracts at the contracted prices on maturity, reflecting the intended purpose of entering these contracts and the Group's underlying performance. Adjusted Results are the metrics used in the calculation of Adjusted Basic and Adjusted Diluted earnings per share.	Total Results measured in accordance with IFRS excluding the impact of exceptional items and certain remeasurements (defined in note 6).
Adjusted EBITDA	Operating profit*	Adjusted EBITDA is the primary measure used by executive management and the Board to assess the financial performance of the Group as it provides a more comparable assessment of the Group's year-on-year trading performance. It is also a key metric used by the investor community to assess performance of the Group's operations.	Earnings before interest, tax, depreciation, amortisation, gains/losses on disposal of assets and impairment of non-current assets, excluding the impact of exceptional items and certain remeasurements (defined in note 6). Adjusted EBITDA excludes any earnings from associates and Adjusted EBITDA attributable to non-controlling interests. Adjusted EBITDA is stated from both continuing operations and discontinued operations.
Adjusted Basic EPS	Basic EPS	Adjusted Basic EPS represents the amount of Adjusted earnings (Adjusted post-tax profits) attributable to each ordinary share.	Adjusted Basic EPS is calculated by dividing the Group's Adjusted earnings attributable to the owners of the Parent Company (Adjusted profit after tax) by the weighted average number of ordinary shares in issue during the period.
Adjusted Diluted EPS	Diluted EPS	Adjusted Diluted EPS demonstrates the impact upon the Adjusted Basic EPS if all outstanding share options, that are expected to vest on their future maturity dates, were	Adjusted Diluted EPS is calculated by dividing the Group's Adjusted earnings attributable to the owners of the Parent Company (Adjusted profit after tax) by the weighted average

		exercised and treated as ordinary shares as at the balance sheet date.	number of ordinary shares in issue during the period and dilutive potential ordinary shares under share plans.
Net Debt	Borrowings less cash and cash equivalents	Net Debt is a key measure of the Group's liquidity and its ability to manage current obligations. Net Debt is used as a basis by debt rating agencies and in the calculation of the Group's financial covenant requirements.	Total borrowings less cash and cash equivalents. Total borrowings include external financial debt, such as loan notes, term loans and amounts drawn in cash under RCFs but excludes other financial liabilities such as lease liabilities calculated in accordance with IFRS 16, pension obligations and trade and other payables. Net Debt excludes the proportion of cash and borrowings in non-wholly owned entities that would be attributable to the non-controlling interests.
Net Debt including the impact of hedging instruments	Borrowings less cash and cash equivalents	Net Debt including the impact of hedging instruments shows the economic substance of the Net Debt position, in terms of actual expected future cash flows to settle that debt.	Net Debt adjusted for the impact of hedging instruments. Any borrowings that have hedging instruments in place are adjusted to reflect those borrowings at the hedged rate.
Cash and committed facilities	Cash and cash equivalents	This is a key measure of the Group's available liquidity and the Group's ability to manage its current obligations. It shows the value of cash available to the Group in a short period of time.	Total cash and cash equivalents plus the value of the Group's committed but undrawn facilities (including the Group's RCFs, loan facilities and the Customers trade receivable factoring facility).
Debt service	Finance costs	This is a measure showing the cost of the Group's external borrowings (bonds and bank loans).	Interest payable and similar charges less any charges unrelated to external borrowings.
Net Debt to Adjusted EBITDA ratio	Borrowings less cash and cash equivalents divided by operating profit	The Net Debt to Adjusted EBITDA ratio is a debt ratio that gives an indication of how many years it would take the Group to pay back its debt if Net Debt and EBITDA are held constant. The Group has a long-term target for Net Debt to Adjusted EBITDA ratio of around 2.0 times.	Net Debt excluding the impact of hedging instruments divided by Adjusted EBITDA for the last 12 months. Expressed as a ratio to 1.
Cost of production	Cost of sales	A key metric showing the cost of produced biomass. Also, a key metric in monitoring the Group's strategy to reduce biomass costs.	Cost of sales attributable to biomass production plus an allocation of indirect costs divided by tonnes of biomass produced. Expressed as a cost per tonne produced.
Capital expenditure	Plant, Property and Equipment (PPE) additions and Intangible asset additions	Used to show the Group's total spend on PPE and intangible assets in a year.	PPE additions plus Intangible asset additions excluding any additions to decommissioning assets.

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

Glossary

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

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

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

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

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

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

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

Carbon capture and storage (CCS)
The process of trapping or collecting carbon emissions from a large-scale source and then permanently storing them.

CCC
The UK's Climate Change Committee.

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

Combined Cycle Gas Turbine (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.

GGR
Greenhouse gas removal.

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.

I&C
Industrial & Commercial.

IFRS
International Financial Reporting Standards.

IFRS IC
International Financial Reporting Standards Interpretations Committee.

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

NGO
Non-governmental organisation.

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

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

RCF
Revolving credit facility.

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

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

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

RIDDOR
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

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

SaaS
Software as a Service.

SME
Small and Medium Enterprises.

Summer
The calendar months April to September.

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

TCFD
Task Force on Climate-related Financial Disclosures.

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

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

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

Voltage control/reactive power
Maintenance of voltage within specified limits in order to "push" power around the system to maintain safety and stability.

Winter
The calendar months October to March.

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