29 February 2024

DRAX GROUP PLC (Symbol: DRX)

FULL YEAR RESULTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2023

Strong financial performance and balance sheet with additional returns to shareholders

Twelve months ended 31 December	2023	2022
Key financial performance measures		
Adjusted EBITDA (excl. EGL)(1/2/3) (£ million)	1,214	731
Electricity Generator Levy (EGL)(3) (£ million)	(205)	-
Adjusted EBITDA (incl. EGL)(1/2/3) (£ million)	1,009	731
Net debt(4) (£ million)	1,084	1,206
Net debt to Adjusted EBITDA (incl. EGL)	1.1x	1.6x
Adjusted basic EPS(1) (pence)	119.6	85.1
Dividend per share (pence)	23.1	21.0
Total financial performance measures		
Operating profit (£ million)	908	146
Profit before tax (£ million)	796	78

Will Gardiner, CEO of Drax Group, said: "Drax performed strongly in 2023 and we remained the single largest provider of renewable power by output in the UK. We have created a business which plays an essential role in supporting energy security, providing dispatchable, renewable power for millions of homes and businesses, particularly during periods of peak demand when there is low wind and solar power.

"Policy support for our UK BECCS project continues to progress and we remain in formal discussions with the UK Government to ensure Drax Power Station can play a long-term role in UK energy security, creating thousands of jobs during construction and helping the country reach Net Zero.

"We have made further progress in our ambition to be a world leader in carbon removals and have visibility of high-quality, long-term earnings to 2042 and a strong balance sheet which supports returns to shareholders and investment in growth, both in the UK and internationally."

Financial highlights – strong financial performance and returns to shareholders

- Adj. EBITDA growth driven by system support services, renewable generation, and energy solutions (Customers)
- Strong liquidity and balance sheet – £639 million of cash and committed facilities at 31 December 2023
- New £258 million term-loan facilities with 2027-2029 maturities (February 2024)
- Proposed final dividend of 13.9 pence per share (2022: 12.6 pence per share) – 10% increase
- £150 million share buyback programme concluded(5)

Current business and targets provide strong long-term foundation for balance sheet, dividend and investment

- Flexible generation and energy solutions portfolio – targeting post 2027 recurring Adj. EBITDA of >£250 million
    - Pumped storage, hydro, Open Cycle Gas Turbines (OCGTs) and energy solutions
    - Operating in power, renewable, system support and capacity markets
    - c.£580 million of capacity payments to 2042 – existing and new capacity, including Cruachan refurbishment
- Pellet production – targeting post 2027 recurring Adj. EBITDA >£250 million from own-use and third-party sales
- Biomass generation – 2.6GW of flexible renewable generation
    - Strong forward hedges support firm cash flows (2024-2026) with additional value from uncontracted power
    - Expect long-term value from bridging mechanism and BECCS

Financial outlook

- Full year 2024 expectations for Adj. EBITDA in line with analysts' consensus estimates(6)
- Expect to repay Q4 2025 debt maturities through cash generation and refinancing activities in 2024
- Outlook for 2025 Adj. EBITDA underpinned by a strong hedge book – >90% hedge of power on RO units

Attractive opportunities to invest for long-term growth linked to energy transition and security of supply

- Options for c.£4 billion of growth investment by 2030, with additional investment through 2030s
    - UK BECCS – targeting first unit (4Mt pa) by 2030 in line with UK ambition, with second unit (4Mt pa) to follow – good progress over last 12 months
        - UK Government Biomass Strategy (August 2023) highlights important role for BECCS
        - Planning consent granted for two units (January 2024)
        - Consultation on BECCS bridging mechanism (January – February 2024)
        - MoU with Harbour Energy and bp to assess options for transportation and storage of CO_2 (February 2024)
        - Ongoing formal discussions with UK Government regarding bridging mechanism and BECCS
    - Global BECCS – targeting first project (3Mt pa) by 2030 – site selected in US South, moving to FEED in 2024
    - Targeting 600MW expansion of Cruachan Power Station (pumped storage) by 2030, planning consent granted

- Targeting 8Mt pa of pellet production capacity by 2030, subject to clarity on UK BECCS
- Ambition for the development of over 20Mt pa of carbon removals through 2030s

Capital allocation policy unchanged – continue to assess capital requirements in line with the current policy

Sustainability
- Compliance with TCFD reporting requirements
- Science Based Targets initiative (SBTi) targets approved
- Forum for the Future *BECCS Done Well* report and publication of initial Drax response

National Audit Office (NAO) and Ofgem
- NAO review of UK Government's biomass strategy published (January 2024)
  - Outlines opportunities to develop standards consistent with existing statements from UK Government
  - Highlights UK Government's commitment to biomass and its long-term role in delivering UK targets
- Ofgem – annual assessment of compliance with Renewables Obligation (RO) scheme (May 2023) – "Good" rating
- Ofgem – investigation of annual biomass profiling reporting under RO scheme (ongoing)

Operational and financial review

£ million	**2023**	**2022**
Adj. EBITDA breakdown (incl. EGL)	**1,009**	**731**
Pellet production	*89*	*134*
Pumped storage and hydro	*230*	*171*
Biomass generation	*703*	*525*
Energy solutions (Customers)	*72*	*26*
Corporate, innovation, Global BECCS and other (7/8)	*(85)*	*(125)*

<u>Pellet Production – *production and sales supporting UK generation and sales to third parties*</u>
- Robust performance in a challenging environment
- Progressing development of new Longview pellet plant, and Aliceville expansion complete
  - Investment of c.$300 million adding c.0.6Mt of new capacity
- Pipeline of new third-party sales opportunities
  - 0.5Mt contract to Japan over five years, commenced in 2023
  - Letter of Intent for sale of up to 1Mt of biomass to European utility, for projects incl. Sustainable Aviation Fuel

<u>Generation – *energy security with dispatchable renewable generation and system support services*</u>
- Pumped storage and hydro – strong system support and generation performance
  - Includes forward sale of peak power (Q1 2023), system support services, renewables and capacity payments
- Biomass generation – strong system support and renewable generation performance
  - Period-on-period reduction in output reflects two major planned outages
  - Higher achieved power price and value from system support, but higher biomass costs
- As at 26 February >£2.8 billion of forward power sales between 2024 and 2026 on RO biomass, pumped storage and hydro generation assets – 22.3TWh at an average price of £127.3/MWh(9/10)
  - RO generation – fully hedged in 2024 and >90% hedged in 2025
  - A further 2.6TWh of CfD generation contracted for 2024

Contracted power sales as at 26 February 2024	**2024**	**2025**	**2026**
Net RO, hydro and gas (TWh)(9)	*10.8*	*9.3*	*2.2*
- Average achieved £ per MWh(10)	*149.0*	*111.1*	*89.6*
CfD (TWh)	*2.6*		

<u>Energy Solutions (Customers) – *renewable power sales and energy services*</u>
- Strong Industrial and Commercial (I&C) performance with 7% increase in power sales – 15.8TWh (2022: 14.8TWh), stable margins on contracted sales and lower balancing costs
- Growing value from 100% renewable power products
- Development of energy solutions business including system support services via demand response, and electric vehicle services following acquisition of BMM (August 2023)
- Impairment of Opus Energy of £69 million, following transfer of renewables activities to Drax Energy Solutions (along with £145 million of Goodwill) and the previously announced ending of gas sales

Other financial information

Capital investment

- Capital investment of £519 million (2022: £255 million)
  - £187 million maintenance and other, including two major planned outages on biomass units
  - £332 million growth, including £189 million OCGTs and £76 million pellet plant developments
- 2024 expected capital investment of £410-450 million
- OCGTs – c.900MW – three new-build sites, commissioning in H2 2024
  - Continuing to evaluate options for these projects

Cash and balance sheet

- Cash generated from operations £1,111 million (after £155 million inflow of collateral) (2022: £320 million, after £407 million outflow of collateral)
- Net debt at 31 December 2023 of £1,084 million (31 December 2022: £1,206 million), including cash and cash equivalents of £380 million (31 December 2022: £238 million)
- Good progress on financing activities
  - ESG term loan, extended maturity to 2026 and reduced size to C$200 million (November 2023)
  - £144 million of infrastructure facilities repaid (January 2024)
  - Extension of £300 million revolving credit facility to 2026 (January 2024)
  - New £258 million term-loan facilities with 2027-2029 maturities (February 2024)

Footnotes:

(1) Financial performance measures prefixed with “Adjusted” are stated after adjusting for exceptional items (including impairment of non-current assets, proceeds from legal claims, change in fair value of financial instruments and impact of tax rate changes). Adj. EBITDA and EPS measures exclude earnings from associates and amounts attributable to non-controlling interests.

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

(3) In December 2022, the UK Government confirmed the details of a windfall tax – the Electricity Generator Levy (EGL) – on renewable and low-carbon generators, implemented in 2023 and running to 31 March 2028. The EGL applies to the three biomass units operating under the RO scheme and run-of-river hydro operations. It does not apply to the Contract for Difference (CfD) biomass or pumped storage hydro units. Following review, we have concluded that EGL will be accounted for as a levy within Gross Profit and therefore Adj. EBITDA. For 2023 we have presented Adj. EBITDA including and excluding EGL for ease of comparison.

(4) Net debt is calculated by taking the Group’s borrowings, adjusting for the impact of associated hedging instruments, and subtracting cash and cash equivalents. Net debt excludes the share of borrowings and cash and cash equivalents attributable to non-controlling interests. Borrowings includes external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities, net of any deferred finance costs.

(5) Following completion of the share buyback programme Drax has c.384.7 million shares in issue, with a further c.40.3 million held in treasury.

(6) As of 21 February 2024, analyst consensus for 2024 Adj. EBITDA (incl. EGL) was £968 million, with a range of £882 – 1,097million. The details of this company collected consensus are displayed on the Group’s website. https://www.drax.com/investors/announcements-events-reports/presentations/

(7) In 2023 a review of the mechanism for corporate recharges was performed, leading to a greater proportion being recharged to business units, primarily Generation. The remaining £85 million in 2023 is comprised of £57 million for Global BECCS (2022: £14 million) and £28 million of other corporate and innovation costs, including the development of options for pumped storage expansion (2022: £24 million) and intercompany eliminations. 2022 is not restated in the table, but footnote 8, below includes a restated Adj. EBITDA breakdown for 2022 which includes the cost reallocation on the same basis as 2023.

(8) The table shows Adj. EBITDA breakdown with 2022 restated inclusive of the cost reallocation exercise described in footnote 7.

£ million	**2023**	**2022**
Adj. EBITDA breakdown (incl. EGL)	**1,009**	**731**
Pellet production	89	*125*
Pumped storage and hydro	230	*171*
Biomass generation	703	*453*
Energy supply (Customers)	72	*20*
Corporate, innovation, Global BECCS and other	(85)	*(38)*

(9) Includes 3.5TWh of structured power sales in 2025 and 2026 (forward gas sales as a proxy for forward power), transacted for the purpose of accessing additional liquidity for forward sales from RO units and highly correlated to forward power prices.

(10) Presented net of cost of closing out gas positions at maturity and replacing with forward power sales.

Forward Looking Statements

This announcement may contain certain statements, expectations, statistics, projections and other information that are, or may be, forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans, beliefs, and objectives for the management of future operations of Drax Group plc (“Drax”) and its subsidiaries (the “Group”), are not warranted or guaranteed. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Although Drax believes that the statements, expectations, statistics and projections and other information reflected in such statements are reasonable, they reflect the Company's current view and no assurance can be given that they will prove to be correct. Such events and statements involve risks and uncertainties. Actual results and outcomes may differ materially from those expressed or implied by those forward-looking statements. There are a number of factors, many of which are beyond the control of the Group, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These include, but are not limited to, factors such as: future revenues being lower than expected; increasing competitive pressures in the industry; uncertainty as to future investment and support achieved in enabling the realisation of strategic aims and objectives; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected, including the impact of prevailing economic and political uncertainty, the impact of strikes, the impact of adverse weather conditions or events such as wildfires. We do not intend to publicly update or revise these projections or other forward-looking statements to reflect events or circumstances after the date hereof, and we do not assume any responsibility for doing so.

Webcast Arrangements

Management will host a webcast presentation for analysts and investors at 9:00am (GMT), Thursday 29 February 2024.

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

A copy of the presentation will be made available from 7:00am (GMT) on Thursday 29 February 2024 for download at: https://www.drax.com/investors/announcements-events-reports/presentations/

Event Title:	Drax Group plc: Full Year Results
Event Date:	Thursday 29 February 2024
Event Time:	9:00am (GMT)
Webcast Live Event Link:	https://secure.emincote.com/client/drax/drax028
Conference call and pre-register Link:	https://secure.emincote.com/client/drax/drax028/vip_connect
Start Date:	Thursday 29 February 2024
Delete Date:	Saturday 1 March 2025
Archive Link:	https://secure.emincote.com/client/drax/drax028

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Chair's statement

Introduction

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

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

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

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

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

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

People and values

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

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

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

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

Results and dividend

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

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

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

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

Summary

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

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

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

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

(1) Adjusted financial performance measures are described in note 4.

Andrea Bertone,

Chair

CEO's Review

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

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

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

The world must act now to address the climate crisis if we are to limit global warming to 1.5ºC above pre-industrial levels. We need more renewable energy, and more flexible energy systems to make the best use of intermittent renewables. Crucially, we also need carbon removal technologies, like BECCS, to remove carbon from the atmosphere.

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

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

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

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

Safety

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

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

Chair

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

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

Summary of 2023

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

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

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

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

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

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

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

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

(1) Adjusted financial performance measures are described in note 4.

Electricity Generator Levy

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

Ofgem and the National Audit Office

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

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

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

Operational performance

Pellet Production

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

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

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

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

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

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

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

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

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

Generation

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

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

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

Biomass

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

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

Drax Power Station has around 300,000 tonnes of onsite biomass storage capacity. Taken together with volumes throughout the supply chain, the Group currently has visibility of around one million tonnes of biomass in inventories. This adds to the resilience and security of the

UK power market over the winter period. Around 30% of the UK's gas storage sites are required to produce the equivalent amount of electricity that the Drax inventory supports.

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

Pumped Storage and Hydro

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

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

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

Coal

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

Customers

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

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

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

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

Strategy

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

A UK leader in dispatchable, renewable generation

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

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

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

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

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

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

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

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

A global leader in carbon removals

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

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

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

US BECCS

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

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

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

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

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

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

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

UK BECCS

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

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

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

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

Bridging mechanism

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

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

Innovation

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

A global leader in sustainable biomass pellets

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

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

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

Sustainability

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

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

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

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

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

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

Outlook

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

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

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

Will Gardiner,
CEO

28 February 2024

Financial Review

Financial highlights

Adjusted EBITDA excluding EGL	Adjusted operating profit	Total operating profit	Cash generated from operations
£1,214m	£782m	£908m	£1,111m
(2022: £731m)	(2022: £469m)	(2022: £146m)	(2022: £320m)
Adjusted basic earnings per share	**Total basic earnings per share**	**Net debt to Adjusted EBITDA excluding EGL**	**Total dividend per share**
119.6 pence	142.8 pence	0.9 times	23.1 pence
(2022: 85.1 pence)	(2022: 21.3 pence)	(2022: 1.6 times)	(2022: 21.0 pence)

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

We calculate Adjusted financial performance measures, which exclude income statement volatility from derivative financial instruments and the impact of exceptional items. This allows management and stakeholders to better compare the performance of the Group between the current and previous year without the effects of this volatility and one off or non-operational items. Alternative performance measures are described more fully in the APMs glossary, with a reconciliation to their statutory equivalents, in note 4. Throughout this document we distinguish between Adjusted measures and Total measures, which are calculated in accordance with International Financial Reporting Standards (IFRS). Tables in this financial review may not add down/across due to rounding.

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

Introduction

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

Cash generated from operations of £1,111 million has risen by 247% (2022: £320 million). Operating cash flows before movements in working capital were around 100% of Adjusted EBITDA including EGL in 2023 and 2022. For more details of movements in working capital please see note 7. Net debt was £1,084 million (31 December 2022: £1,206 million), with a ratio of Net debt: Adjusted EBITDA excluding EGL of 0.9 times (31 December 2022: 1.6 times) – significantly below the Group's long-term target of around 2 times.

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

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

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

Financial performance

Adjusted EBITDA and EGL by segment

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

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

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

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

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

During 2023 a review of the mechanism for corporate recharges was performed, leading to an increase in the amount of Innovation, capital projects and other costs recharged to the reportable segments, with the largest increase seen in Generation. Following this change the remaining Innovation, capital projects and other costs constitute development expenditure on projects which have not yet hit the capitalisation criteria and intra-group eliminations. Global BECCS is an example of such a development cost, with an increase in costs of £43 million in 2023. Further information on the mechanism is included in note 1.

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

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

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

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

Total operating profit

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

The main drivers behind the certain remeasurements credit was an increased value of gas-for-power trades because of falling gas prices and a reduction in carbon prices during the year. Net exceptional costs of £74 million were recognised during 2023 (2022: £25 million). Of this, a £69 million debit related to the impairment of non-current assets related to the Opus Energy business within Customers, the largest proportion being an impairment of customer-related assets of £31 million and goodwill of £15 million. There was also a credit of £14 million related to an agreed settlement with a vendor in relation to a billing system where development was halted in a previous period. Finally, a cost of £18 million was recognised with respect to contingent consideration on the historical CCGT disposal. Further detail on these transactions can be seen in note 4.

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

Profit after tax and Earnings per share

Net finance costs for 2023 were £112 million (2022: £68 million). Changes in interest rates led to an increase in the interest charge of £24 million. This was partially offset by a £9 million increase in interest receivable. Foreign exchange losses in the period were £9 million (2022: £11 million gain). The remaining increase is attributable to levels of utilisation and interest on new facilities.

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

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

Capital expenditure

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

Cash and net debt

Net cash movements

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

Working capital was an inflow of £108 million, details of the movements can be seen in note 7. The key movements being the return of collateral payments (£155 million inflow, 2022: £407 million outflow) associated with the maturity of power contracts sold via exchanges and lower spot prices, and lower receivables (£71 million inflow, 2022: £379 million outflow). Both of these movements were attributable to increased power prices in 2022. These were partially offset by an increase in ROC assets leading to a £104 million cash outflow. At 31 December 2023 the Group had accelerated £298 million of cash flows using standard renewable certificate sales (2022: £331 million). Payables showed an outflow of £31 million as commodity prices stabilised, after a £432 million inflow in 2022.

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

Cash flows associated with capital expenditure on the three OCGT projects are lower than the accounting additions recorded because of the use of deferred letters of credit to extend payment terms. These provide a working capital benefit to the Group through extending terms by a period of less than twelve months, to more closely align the cash outflows on the construction of the assets with the cash inflows from the commencement of their operation. As set out in note 4, these balances are not treated as Net debt. Of the total amount outstanding under deferred letter of credit and similar facilities at 31 December 2023 of £225 million (2022: £215 million) the capital expenditure proportion was £155 million (31 December 2022: £134 million). The impact of this facility reduced the cash outflow in the purchases of property, plant, and equipment and payables lines in the Consolidated cash flow statement.

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

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

Returns to shareholders totalled £236 million, comprising £149 million of share buyback payments (2022: £nil) and £86 million of dividend payments (2022: £79 million).

Net debt and Net debt: Adjusted EBITDA

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

Liquidity

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

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

Net debt and Net debt: Adjusted EBITDA

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

Liquidity

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

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

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

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

Derivatives

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

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

Distributions

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

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

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

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

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

Going concern and viability

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

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

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

Other information

BMM acquisition

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

Pension scheme merger

In January 2023 the merger of the Group's two defined benefit pension schemes was completed, reducing levels of administrative expense and time taken to manage the two schemes.

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted International Accounting Standards and have elected to prepare the

Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), set out in FRS 101 Reduced Disclosure Framework. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

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

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

and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 28 February 2024 and is signed on its behalf by:

Will Gardiner,
CEO

Consolidated financial statements
Consolidated income statement

		Year ended 31 December 2023			Year ended 31 December 2022		
	Notes	**Adjusted results [1] £m**	**Exceptional items and certain remeasurements £m**	**Total results £m**	Adjusted results [1] £m	Exceptional items and certain remeasurements £m	Total results £m
Revenue	2	**7,842.4**	**282.9**	**8,125.3**	8,159.2	(383.9)	7,775.3
Cost of sales		**(5,884.4)**	**(82.7)**	**(5,967.1)**	(6,837.7)	85.7	(6,752.0)
Electricity Generator Levy		**(204.6)**	**–**	**(204.6)**	–	–	–
Gross profit		**1,753.4**	**200.2**	**1,953.6**	1,321.5	(298.2)	1,023.3
Operating and administrative expenses		**(711.7)**	**–**	**(711.7)**	(542.8)	–	(542.8)
Impairment losses on financial assets		**(32.5)**	**–**	**(32.5)**	(48.0)	–	(48.0)
Depreciation		**(195.6)**	**–**	**(195.6)**	(208.0)	–	(208.0)
Amortisation		**(29.4)**	**–**	**(29.4)**	(31.4)	–	(31.4)
Impairment of non-current assets		**(1.7)**	**(69.1)**	**(70.8)**	(16.6)	(24.9)	(41.5)
Other gains/(losses)		**0.7**	**(4.5)**	**(3.8)**	(5.8)	–	(5.8)
Share of (losses)/profits from associates		**(1.6)**	**–**	**(1.6)**	0.5	–	0.5
Operating profit/(loss)		**781.6**	**126.6**	**908.2**	469.4	(323.1)	146.3
Foreign exchange (losses)/gains		**(14.3)**	**4.9**	**(9.4)**	14.8	(3.8)	11.0
Interest payable and similar charges		**(115.2)**	**(0.3)**	**(115.5)**	(83.1)	(0.4)	(83.5)
Interest receivable		**13.1**	**–**	**13.1**	4.3	–	4.3
Profit/(loss) before tax		**665.2**	**131.2**	**796.4**	405.4	(327.3)	78.1
Tax:							
– Before effect of changes in tax rate	3	**(195.2)**	**(37.3)**	**(232.5)**	(64.5)	62.2	(2.3)
– Effect of changes in tax rate	3	**(0.6)**	**(2.4)**	**(3.0)**	(2.9)	9.6	6.7
Total tax (charge)/credit		**(195.8)**	**(39.7)**	**(235.5)**	(67.4)	71.8	4.4
Profit/(loss) for the period		**469.4**	**91.5**	**560.9**	338.0	(255.5)	82.5
Attributable to:							
Owners of the parent company		**470.7**	**91.5**	**562.2**	340.6	(255.5)	85.1
Non-controlling interests		**(1.3)**	**–**	**(1.3)**	(2.6)	–	(2.6)

Earnings per share:		**Pence**	**Pence**	Pence	Pence
For net profit for the period attributable to owners of the parent company					
– Basic	5	**119.6**	**142.8**	85.1	21.3
– Diluted	5	**116.8**	**139.5**	82.2	20.5

(1) Adjusted results are stated after adjusting for exceptional items (including impairment of non-current assets, proceeds from legal claims, change in fair value of financial instruments and impact of tax rate changes), and certain remeasurements. See note 4 for further details.

Consolidated statement of comprehensive income

		Year ended 31 December	
	Notes	**2023** **£m**	2022 £m
Profit for the period		**560.9**	82.5
Items that will not be subsequently reclassified to profit or loss:			
Remeasurement of defined benefit pension scheme		**(28.8)**	(24.4)
Deferred tax on remeasurement of defined benefit pension scheme	3	**7.2**	6.1
Gains on equity investments		**0.4**	–
Net fair value losses on cost of hedging		**7.5**	(19.0)
Deferred tax on cost of hedging	3	**(1.9)**	2.2
Net fair value (losses)/gains on cash flow hedges		**(80.2)**	205.5
Deferred tax on cash flow hedges	3	**20.1**	(49.5)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations attributable to owners of the parent company		**(10.3)**	42.4
Exchange differences on translation of foreign operations attributable to non-controlling interests		**(0.4)**	3.4
Net fair value gains/(losses) on cash flow hedges		**346.7**	(593.1)
Net gains on cash flow hedges reclassified to profit or loss		**256.1**	432.9
Deferred tax on cash flow hedges	3	**(150.8)**	43.9
Other comprehensive income		**365.6**	50.4
Total comprehensive income for the year		**926.5**	132.9
Attributable to:			
Owners of the parent company		**928.2**	132.1
Non-controlling interests		**(1.7)**	0.8

Consolidated balance sheet

	Notes	As at 31 December 2023 £m	Restated (1) 2022 £m	As at 1 January Restated (1) 2022 £m
Assets				
Non-current assets				
Goodwill		**416.7**	424.2	416.3
Intangible assets		**81.5**	142.3	188.6
Property, plant and equipment		**2,698.8**	2,388.0	2,310.7
Right-of-use assets		**122.2**	138.3	119.8
Investments		**8.9**	6.9	5.5
Retirement benefit surplus		**18.4**	38.5	48.9
Deferred tax assets	3	**52.9**	37.3	28.7
Derivative financial instruments		**293.6**	361.0	190.2
		3,693.0	3,536.5	3,308.7
Current assets				
Inventories		**328.4**	348.1	199.1
Renewable certificate assets		**292.2**	187.8	301.4
Trade and other receivables and contract assets		**976.9**	1,227.0	641.9
Derivative financial instruments		**368.4**	396.9	410.1
Cash and cash equivalents		**379.5**	238.0	317.4
		2,345.4	2,397.8	1,869.9
Liabilities				
Current liabilities				
Trade and other payables and contract liabilities		**(1,539.6)**	(1,527.9)	(1,211.1)
Lease liabilities		**(25.1)**	(22.7)	(15.1)
Current tax liabilities		**(20.6)**	(23.3)	(3.4)
Borrowings		**(264.2)**	(44.3)	(40.6)
Provisions		**(6.6)**	–	–
Derivative financial instruments		**(231.6)**	(590.0)	(484.2)
		(2,087.7)	(2,208.2)	(1,754.4)
Net current assets		**257.7**	189.6	115.5
Non-current liabilities				
Borrowings		**(1,161.1)**	(1,396.6)	(1,320.4)
Lease liabilities		**(110.7)**	(130.4)	(110.8)
Provisions		**(72.2)**	(58.6)	(86.4)
Deferred tax liabilities	3	**(317.1)**	(141.6)	(225.3)
Derivative financial instruments		**(306.6)**	(674.7)	(374.5)
		(1,967.7)	(2,401.9)	(2,117.4)
Net assets		**1,983.0**	1,324.2	1,306.8
Shareholders' equity				
Issued equity		**49.1**	47.9	47.7
Share premium		**441.2**	433.3	432.2
Hedge reserve		**207.4**	(152.0)	(177.4)
Cost of hedging reserve		**18.7**	40.1	78.5
Other reserves		**588.2**	747.7	706.0
Retained profits		**666.4**	193.8	198.3
Total equity attributable to owners of the parent company		**1,971.0**	1,310.8	1,285.3
Non-controlling interests		**12.0**	13.4	21.5

Total shareholders' equity	**1,983.0**	1,324.2	1,306.8

(1) Comparative amounts have been restated to reflect the Group's revised application of the offsetting criteria to physically settled derivative contracts. This has impacted the presentation of derivative assets and liabilities recognised in the Consolidated balance sheet. The valuation of derivatives and the overall net asset position remain unchanged.

The Consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of Directors on 28 February 2024.

Signed on behalf of the Board of Directors:

Andy Skelton,
CFO

Consolidated statement of changes in equity

	Issued equity £m	Share premium £m	Hedge reserve £m	Cost of hedging £m	Other reserves £m	Retained profits £m	Non-controlling interests £m	Total £m
At 1 January 2022	47.7	432.2	(177.4)	78.5	706.0	198.3	21.5	1,306.8
Profit/(loss) for the year	–	–	–	–	–	85.1	(2.6)	82.5
Other comprehensive income/(expense)	–	–	39.7	(16.8)	42.4	(18.3)	3.4	50.4
Total comprehensive income/(expense) for the year	–	–	39.7	(16.8)	42.4	66.8	0.8	132.9
Equity dividends paid (note 6)	–	–	–	–	–	(78.9)	–	(78.9)
Issue of share capital (note 8)	0.2	1.1	–	–	–	–	–	1.3
Contributions from non-controlling interests	–	–	–	–	–	–	1.3	1.3
Acquisition of non-controlling interests without a change in control	–	–	–	–	(0.7)	(9.3)	(10.2)	(20.2)
Total transactions with the owners in their capacity as owner	0.2	1.1	–	–	(0.7)	(88.2)	(8.9)	(96.5)
Movements on cash flow hedges released directly from equity	–	–	(19.1)	–	–	–	–	(19.1)
Deferred tax on cash flow hedges released directly from equity (note 3)	–	–	4.8	–	–	–	–	4.8
Movements on cost of hedging released directly from equity	–	–	–	(28.8)	–	–	–	(28.8)
Deferred tax on cost of hedging released directly from equity (note 3)	–	–	–	7.2	–	–	–	7.2
Movement in equity associated with share-based payments	–	–	–	–	–	9.5	–	9.5
Deferred tax on share-based payments released directly from equity (note 3)	–	–	–	–	–	7.4	–	7.4
At 1 January 2023	**47.9**	**433.3**	**(152.0)**	**40.1**	**747.7**	**193.8**	**13.4**	**1,324.2**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**562.2**	**(1.3)**	**560.9**
Other comprehensive income/(expense)	**–**	**–**	**391.9**	**5.6**	**(10.3)**	**(21.2)**	**(0.4)**	**365.6**
Total comprehensive income/(expense) for the year	**–**	**–**	**391.9**	**5.6**	**(10.3)**	**541.0**	**(1.7)**	**926.5**
Equity dividends paid (note 6)	**–**	**–**	**–**	**–**	**–**	**(86.3)**	**–**	**(86.3)**
Issue of share capital (note 8)	**1.2**	**7.9**	**–**	**–**	**–**	**–**	**–**	**9.1**
Contributions from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**0.3**	**0.3**
Repurchase of own shares	**–**	**–**	**–**	**–**	**(149.2)**	**–**	**–**	**(149.2)**
Total transactions with the owners in their capacity as owner	**1.2**	**7.9**	**–**	**–**	**(149.2)**	**(86.3)**	**0.3**	**(226.1)**
Movements on cash flow hedges released directly from equity	**–**	**–**	**(43.4)**	**–**	**–**	**–**	**–**	**(43.4)**
Deferred tax on cash flow hedges released directly from equity (note 3)	**–**	**–**	**10.9**	**–**	**–**	**–**	**–**	**10.9**
Movements on cost of hedging released directly from equity	**–**	**–**	**–**	**(36.0)**	**–**	**–**	**–**	**(36.0)**
Deferred tax on cost of hedging released directly from equity (note 3)	**–**	**–**	**–**	**9.0**	**–**	**–**	**–**	**9.0**
Movement in equity associated with share-based payments	**–**	**–**	**–**	**–**	**–**	**13.4**	**–**	**13.4**
Tax on share-based payments released directly from equity (note 3)	**–**	**–**	**–**	**–**	**–**	**4.5**	**–**	**4.5**
At 31 December 2023	**49.1**	**441.2**	**207.4**	**18.7**	**588.2**	**666.4**	**12.0**	**1,983.0**

Consolidated cash flow statement

		Year ended 31 December	
	Notes	**2023** **£m**	2022 £m
Cash generated from operations	7	**1,111.0**	320.3
Income taxes paid		**(180.0)**	(38.7)
Interest paid		**(106.1)**	(77.2)
Interest received		**10.7**	3.3
Net cash from operating activities		**835.6**	207.7
Cash flows from investing activities			
Purchases of property, plant and equipment		**(429.8)**	(163.9)
Purchases of intangible assets		**(11.3)**	(10.8)
Proceeds from the sale of property, plant and equipment		**–**	1.6
Acquisition of businesses net of cash acquired		**(9.0)**	(7.6)
Purchases of equity in associates		**(1.7)**	–
Net cash used in investing activities		**(451.8)**	(180.7)
Cash flows from financing activities			
Equity dividends paid	6	**(86.3)**	(78.9)
Contributions from non-controlling interests		**0.3**	1.3
Acquisition of non-controlling interests without a change in control		**–**	(19.6)
Proceeds from issue of share capital		**8.6**	1.2
Repurchase of own shares		**(149.2)**	–
Drawdown of facilities		**140.0**	188.5
Repayment of facilities		**(125.3)**	(186.4)
Payment of principal of lease liabilities		**(25.8)**	(18.0)
Other financing costs paid		**(0.2)**	–
Net cash absorbed by financing activities		**(237.9)**	(111.9)
Net increase/(decrease) in cash and cash equivalents		**145.9**	(84.9)
Cash and cash equivalents at 1 January		**238.0**	317.4
Effect of changes in foreign exchange rates		**(4.4)**	5.5
Cash and cash equivalents at 31 December		**379.5**	238.0

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

1. Segmental reporting

Reportable segments are presented in a manner consistent with internal reporting provided to the chief operating decision maker which is considered to be the Board. The Group is organised into three businesses, with a dedicated management team for each. The Board reviews the performance of each of these businesses separately, and each represents a reportable segment:

- Pellet Production: production and subsequent sale of biomass pellets from the Group's processing facilities in North America;
- Generation: the generation and sale of electricity in the UK; and
- Customers: supply of electricity and gas to non-domestic customers in the UK.

Operating costs that can be reasonably allocated to the activities of a reportable segment are included within the results of that reportable segment. Central corporate and commercial functions provide certain specialist and shared services, including optimisation of the Group's positions. Central corporate function costs that cannot be reasonably allocated to the activities of a reportable segment are included within Innovation, capital projects and other. Innovation, capital projects and other is not a reportable segment as it does not earn revenues, however it is included in the information presented below to enable reconciliation of the segmental amounts presented to the consolidated IFRS results recognised in these Consolidated financial statements.

Given the principal activity of the Group is a generator and seller of electricity, the Consolidated income statement includes all revenue from sales of electricity during the period. Where electricity is purchased rather than generated to fulfil a sale, either due to operational or other requirements, the cost of this purchase is recorded within cost of sales.

When defining gross profit within the Consolidated financial statements, the Group follows the principal trading considerations applied by its Pellet Production, Generation and Customers businesses when making a sale. In respect of the Pellet Production business, this reflects the direct costs of production, being fibre, fuel and drying costs, direct freight and port costs, or third-party pellet purchases. In respect of the Generation business, this reflects the direct costs of the commodities to generate the power, the relevant grid connection costs that arise, and from 2023, EGL arising on applicable renewable and low-carbon generation. In respect of the Customers business, this reflects the direct costs of supply, being the costs of the power or gas supplied, together with costs levied on suppliers such as network costs, broker costs and renewables incentive mechanisms.

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

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

Seasonality of trading

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

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

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

Segment revenues and results

The following is an analysis of the Group's performance by reportable segment and any other information necessary to enable reconciliation to the Group's total IFRS results recognised for the year ended 31 December 2023. Revenue for each segment is split between sales to external parties and inter-segment sales. Inter-segment sales are eliminated in the intra-group eliminations column along with any adjustments required for unrealised profits (primarily inventory purchased by the Generation segment from the Pellet Production segment that is still held as inventory at the reporting date).

Adjusted EBITDA by reportable segment is presented in note 4.

	Year ended 31 December 2023							
	Pellet Production £m	**Generation £m**	**Customers £m**	**Innovation, capital projects and other £m**	**Intra-group eliminations £m**	**Adjusted results £m**	**Exceptional items and certain remeasurements £m**	**Total results £m**
Revenue								
External sales	**397.8**	**2,486.3**	**4,958.3**	**–**	**–**	**7,842.4**	**282.9**	**8,125.3**
Inter-segment sales	**424.6**	**4,300.7**	**–**	**–**	**(4,725.3)**	**–**	**–**	**–**
Total revenue	**822.4**	**6,787.0**	**4,958.3**	**–**	**(4,725.3)**	**7,842.4**	**282.9**	**8,125.3**
Cost of sales	**(511.8)**	**(5,320.7)**	**(4,763.3)**	**–**	**4,711.4**	**(5,884.4)**	**(82.7)**	**(5,967.1)**
Electricity Generator Levy	**–**	**(204.6)**	**–**	**–**	**–**	**(204.6)**	**–**	**(204.6)**
Gross profit	**310.6**	**1,261.7**	**195.0**	**–**	**(13.9)**	**1,753.4**	**200.2**	**1,953.6**
Operating and administrative expenses	**(221.7)**	**(328.2)**	**(90.7)**	**(78.1)**	**7.0**	**(711.7)**	**–**	**(711.7)**
Impairment losses on financial assets	**–**	**–**	**(32.5)**	**–**	**–**	**(32.5)**	**–**	**(32.5)**
Depreciation and amortisation	**(94.0)**	**(103.0)**	**(22.5)**	**(3.3)**	**(2.2)**	**(225.0)**	**–**	**(225.0)**
Impairment of non-current assets	**(2.8)**	**1.1**	**–**	**–**	**–**	**(1.7)**	**(69.1)**	**(70.8)**
Other gains/(losses)	**0.5**	**0.2**	**–**	**–**	**–**	**0.7**	**(4.5)**	**(3.8)**
Share of (losses)/profits from associates	**(1.7)**	**–**	**–**	**0.1**	**–**	**(1.6)**	**–**	**(1.6)**
Operating profit/(loss)	**(9.1)**	**831.8**	**49.3**	**(81.3)**	**(9.1)**	**781.6**	**126.6**	**908.2**

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

Included within the Innovation, capital projects and other segment historically has been certain corporate costs that are utilised by the wider Group. In the current year, management has undertaken an exercise to recharge these costs to the respective business segments: £10.8 million to Pellet Production, £81.9 million to Generation and £7.5 million to Customers. This updated allocation methodology has not been applied to the comparative amounts presented in the table below.

The following is an analysis of the Group's performance by reportable segment for the year ended 31 December 2022:

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

Capital expenditure by reportable segment

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

	Additions to intangible assets		Additions to property, plant and equipment	
	2023 £m	2022 £m	**2023 £m**	2022 £m
At 31 December				
Pellet Production	**–**	–	**163.0**	66.0
Generation	**1.9**	2.8	**333.4**	171.5
Customers	**2.7**	2.3	**0.2**	0.3
Innovation, capital projects and other	**5.3**	4.3	**12.6**	8.2
Total	**9.9**	9.4	**509.2**	246.0

Total cash outflows in relation to capital expenditure during the year were £441.1 million (2022: £174.7 million). In the current year, the cash outflow in relation to property, plant and equipment is lower than the cost capitalised predominantly as a result of prepaid amounts in the prior year being capitalised in 2023 and an increase in creditors relating to capital expenditure compared to the prior year.

Intra-group trading

Intra-group transactions are carried out at management's best estimate of arm's-length, commercial terms that, where possible, equate to market prices. During 2023, the Pellet Production segment sold biomass pellets and provided associated services with a total value of £424.6 million (2022: £425.4 million) to the Generation segment and the Generation segment sold electricity, gas and renewable energy certificates with a total value of £4,252.0 million (2022: £3,719.3 million) to the Customers segment. During 2023 the Generation segment sold biomass pellets to the Pellet Production segment with a total value of £48.7 million (2022: £nil).

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

Major customers

There was no individual customer, in either the current or previous financial year, that represented 10% or more of total revenue.

Geographical analysis of revenue and non-current assets

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

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

	Revenue (based on location of customer)	
	Year ended 31 December	
	2023 £m	2022 £m
North America (Canada and US)	**8.5**	10.6
Europe (excluding UK)	**60.3**	27.6
Asia	**280.1**	275.4
UK	**7,776.4**	7,461.7
Total	**8,125.3**	7,775.3

	Non-current assets(1) (based on asset's location)	
	As at 31 December	
	2023 £m	2022 £m
Canada	**406.7**	542.6
US	**666.0**	502.6
Asia	**0.3**	–
UK	**2,255.1**	2,054.5
Total	**3,328.1**	3,099.7

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

2. Revenue

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

	Year ended 31 December 2023			Year ended 31 December 2022		
	Adjusted results £m	**Exceptional items and certain remeasurements £m**	**Total results £m**	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m
Revenue from contracts with customers	**7,540.4**	**–**	**7,540.4**	7,882.5	–	7,882.5
Other revenue	**302.0**	**282.9**	**584.9**	276.7	(383.9)	(107.2)
Total revenue	**7,842.4**	**282.9**	**8,125.3**	8,159.2	(383.9)	7,775.3

Accounting policy

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

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

Revenue stream (Segment)	**Nature and timing of performance obligations, including significant payment terms**	**Method of recognising revenue, including any estimation uncertainties**
Pellet sales (Pellet Production)	The Group's Pellet Production business produces biomass pellets which are sold to external customers. Customers generally obtain control of the pellets at the point the pellets are loaded onto the shipping vessel. Where freight is also arranged for the customer, these sales are known as Cost, insurance and freight (CIF) sales. The freight component is considered a separate performance obligation. Invoices are raised in line with contractual terms and are usually payable within 4-10 days.	Revenue is recognised at the point that the pellets are loaded onto the shipping vessel. The amount of revenue recognised is based on the contracted price and volume of the pellets. For CIF sales, revenue for the freight portion is recognised over the period the vessel sails.
Electricity sales (Generation)	The Group's Generation business has contracts for wholesale electricity sales. Performance obligations, being the supply of electricity, are met either via generation or through the procurement of electricity from counterparties. The performance obligations for these contracts are deemed to be a series of distinct goods that are substantially the same and transfer consecutively. Control is deemed to have transferred to the customer at the point that the electricity has been supplied in accordance with the contractual terms. Invoices are typically raised on the fifth banking day following the month of supply, in line with the Grid Trade Master Agreement (GTMA) contractual terms, and are payable on the fifth banking day following the date of invoice.	Revenues from sales contracts fulfilled though generation are measured based upon metered output at rates specified under contract terms. These are recognised under the output method, whereby revenue is recognised based on the value transferred to the customer. Revenue from sales contracts fulfilled through procured electricity is recognised at the point at which this electricity is supplied to the counterparty in accordance with the contractual terms at rates specified under the contract.
Renewable certificate sales (Generation)	Renewables Obligation Certificates (ROCs) and Renewable Energy Guarantees of Origin (REGOs) are sold to counterparties at a point in time. ROCs sold to optimise working capital are invoiced in line with contractual terms and are usually payable within two days. Invoices for ROC sales to third parties are raised when the ROCs are transferred, typically four to five months following the end of the compliance period in which they were generated. Invoices are usually payable within seven days.	External ROC and REGO sales are recognised at the point the relevant certificates are transferred to the counterparty. See below for further details.
CfD income/payment (Generation)	The Group's Generation business is party to a CfD with the Low Carbon Contracts Company (LCCC), a	The Group recognises the income or cost arising from the CfD in the Consolidated income statement as a

	Government-owned entity responsible for delivering elements of the Government's Electricity Market Reform Programme. Under the contract, the Group makes or receives payments in respect of electricity dispatched from a specific biomass-fuelled generating unit. Invoices are raised 7-10 days following the date of supply and are settled within 28 days.	component of revenue at the point the Group meets its performance obligation under the CfD contract. This is considered to be the point at which the relevant generation is delivered and the payment becomes contractually due. See below for further details.
Ancillary services (Generation)	Ancillary services refer to the provision of a range of system support services to National Grid. Most contracts are for the delivery of a specific service either continually or on an ad-hoc basis over a period of time. Invoices are raised and subsequently settled in line with the National Grid company ancillary services settlement calendar, typically monthly.	Revenue is recognised by reference to the stage of completion of the contractual performance obligations, which are calculated by reference to the amount of the contract term that has elapsed. Depending on contract terms, this approach may require judgement in estimating probable future outcomes.
Other income (All segments)	Other income is derived from the sale of goods. The customer obtains control typically at the point of delivery to their premises or upon collection. Invoices are raised in line with contractual terms.	Revenue is recognised at the point the control of the goods is transferred to the customer.
Electricity and gas sales (Customers)	The Group's Customers business sells electricity and gas directly to non-domestic customers. Energy supplied is measured based upon metered consumption and contractual rates. The Customers business also has long-term contracts for the sale of electricity and gas, which are deemed as being satisfied over time in line with the progress of the contracts. Invoices are raised in line with contractual terms. For small and medium-sized enterprise (SME) customers, payment is generally due within 10-14 days. For Industrial and Commercial (I&C) customers, payment is generally due between 28-90 days.	Revenue is recognised on the supply of electricity or gas when a contract exists, supply has taken place, a quantifiable price has been established or can be determined and the amounts receivable are expected to be recovered. Where supply has taken place but has not yet been measured or billed, revenue is estimated based on consumption statistics and selling price estimates and is recognised as accrued income. This estimate is not considered to be a key source of estimation uncertainty because historical experience has demonstrated that these estimates are materially accurate based on the subsequent billings and settlements. Where contracts for the sale of electricity and gas are held, revenue is recognised in line with the progress of the contracts. The revenue recognised for fixed price contracts is based on the input method. Revenue is recognised based on the costs incurred and the estimated margin to be obtained over the life of the contract. For variable price contracts revenue is recognised based on the output method. Revenue is recognised based on the volume supplied and the contracted price. Assumptions are applied consistently but third-party costs can vary, therefore actual outcomes may vary from initial estimates.
EBRS and EBDS income (Customers)	The UK Government introduced the EBDS running from 1 April 2023 to 31 March 2024. Under this scheme, energy supplied to eligible non-domestic customers will have a discount applied to each unit of electricity and gas. Certain customers may be eligible for higher levels of support dependent on the sector in which they operate. The discount provided can then be claimed back from the UK Government by the supplier. The EBDS replaced the EBRS which supported non-domestic customers between 1 October 2022 and 31 March 2023. Under the EBRS, energy supplied to non-domestic customers in this period had a discount applied for the customer under the scheme to cap their energy tariff. The discount provided could then be claimed back from the UK Government by the supplier. Payment is due 10 days post submission of a claim, which typically occurs monthly.	The discounted price of electricity and gas supplied under both the EBRS and EBDS is recognised in revenue as it is supplied. The amount claimed back from the UK Government is recognised within revenue over the same period as the underlying discounted revenue it relates to is recognised. The revenue received from the UK Government is included in the EBRS and EBDS income line in the table below. The Group does not recognise any additional revenue from the scheme than it would have done had it not been introduced.

Renewable certificate sales

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

The Renewables Obligation (RO) scheme places an obligation on electricity suppliers to source an increasing proportion of their electricity from renewable sources. Under the RO scheme, ROCs are issued to generators of renewable electricity which are then sold bilaterally to counterparties, including suppliers, to demonstrate that they have fulfilled their obligations under the RO scheme. ROCs are managed in compliance periods (CPs), running from April to March annually. CP1 commenced in April 2002. At 31 December 2023 the Group is operating in CP22.

To meet its obligations a supplier can either submit ROCs or pay the buy-out price at the end of the CP. The buy-out price rises annually in line with the UK Retail Price Index (RPI). The buy-out price for CP22 is £59.01 (2022: CP21 £52.88). ROCs are typically procured in arm's-length transactions with renewable generators at a market price slightly lower than the buy-out price for that CP. At the end of the CP, the amounts collected from suppliers paying the buy-out price form the recycle fund, which is distributed on a pro-rata basis to the suppliers who presented ROCs during the CP.

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

External sales of ROCs in the table below includes £583.3 million of such sales (2022: £604.5 million), with a similar value reflected in cost of sales.

REGOs are certificates that enable suppliers to prove that energy supplied to their customers came from a renewable source. One REGO is issued to a generator for every MWh of renewable energy they generate. The primary use of REGOs is for the Fuel Mix Disclosure that requires licensed electricity suppliers to disclose to potential and existing customers the mix of fuels used to generate the electricity supplied. REGOs are managed in compliance periods (CPs), running from April to March annually. CP1 commenced in April 2002. At 31 December 2023 the Group is operating in CP22.

The financial benefit of a REGO is recognised in the Consolidated income statement at the point of generation based on the expected value to be obtained in a sale transaction with a third-party supplier. If the Group has already agreed sales contracts covering the REGOs generated in a period, the expected value is recognised at the point of generation based on the contracted price. The expected value of REGOs not covered by agreed sales contracts are recognised at the point of generation based on published third-party market price assessments.

CfD income/payment

The income/payment is calculated by reference to a strike price per MWh. The base year for the strike price was 2012 and it increases each year in line with the UK Consumer Price Index (CPI) and changes in system balancing costs. The strike price at 31 December 2023 was £132.47 per MWh (2022: £126.37).

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

Gas sales

To support the Group's ambition to be carbon negative by 2030, a decision was made in January 2023 to phase out the Group's gas supply contracts in the Customers business. Having already ceased acquiring new gas customers, following internal processes and a regulatory driven 60-day grace period, no renewal contracts have been offered since May 2023. It is anticipated that the portfolio will be fully phased out by 2027.

Further analysis of revenue for the year ended 31 December 2023 is provided in the table below:

	Year ended 31 December 2023		
	External £m	Inter-segment £m	Total £m
Pellet Production			
Pellet sales	**391.3**	**424.6**	**815.9**
Other income	**6.5**	**–**	**6.5**
Total Pellet Production	**397.8**	**424.6**	**822.4**
Generation			
Electricity sales	**1,600.3**	**3,817.2**	**5,417.5**
Renewable certificate sales	**842.6**	**434.8**	**1,277.4**
CfD payment	**(63.0)**	**–**	**(63.0)**
Ancillary services	**55.4**	**–**	**55.4**
Other income	**51.0**	**48.7**	**99.7**
Total Generation	**2,486.3**	**4,300.7**	**6,787.0**
Customers			
Electricity and gas sales	**4,554.4**	**–**	**4,554.4**

EBRS and EBDS income	**365.8**	**–**	**365.8**
Renewable certificate sales	**37.9**	**–**	**37.9**
Other income	**0.2**	**–**	**0.2**
Total Customers	**4,958.3**	**–**	**4,958.3**
Elimination of inter-segment sales	**–**	**(4,725.3)**	**(4,725.3)**
Total consolidated revenue in Adjusted results	**7,842.4**	**–**	**7,842.4**
Certain remeasurements	**282.9**	**–**	**282.9**
Total consolidated revenue in Total results	**8,125.3**	**–**	**8,125.3**

Revenue recognised in Adjusted results of £7,842.4 million differs from revenue recognised in Total results of £8,125.3 million due to certain remeasurements gains of £282.9 million (2022: losses of £383.9 million), comprised of gains and losses on derivative contracts that are used to manage risk exposures associated with the Group's revenue, not designated into hedge accounting relationships under IFRS 9.

Revenue recognised in the period that was included within contract liabilities at the start of the year was £28.5 million (2022: £6.6 million).

Revenue recognised in the period from performance obligations satisfied or partly satisfied in the previous period was £nil (2022: £nil).

The following is an analysis of the Group's revenues for the year ended 31 December 2022:

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

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

3. Current and deferred tax

The tax charge (2022: credit) includes both current and deferred tax. It reflects the estimated tax on the profit before tax for the Group for the year ended 31 December 2023 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the Consolidated income statement, in line with IAS 12.

Accounting policy

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

A provision is made for those matters for which the tax determination is uncertain, but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases is based on specialist third-party tax advice. No uncertain tax provisions have been recognised in the current or prior year.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Current and deferred taxes are credited or charged against profit or loss in the Consolidated income statement, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred taxes are recognised in the Consolidated statement of comprehensive income or directly in the Consolidated statement of changes in equity respectively.

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

In accounting for tax, the Group makes assumptions regarding the treatment of items of income and expenditure for tax purposes. The Group believes that these assumptions are reasonable, based on prior experience and consultation with advisers where deemed necessary. These assumptions are consistent with other assumptions used in these Consolidated financial statements. Full provision is made for deferred tax at the rates of tax prevailing at the reporting date unless future rates have been substantively enacted. Deferred tax assets are recognised where it is considered more likely than not that they will be recovered. The recoverability of the deferred tax asset is considered an estimate as it relies on the future profitability of the Group's businesses. See table below for a breakdown of the net deferred tax asset or liability position for each jurisdiction.

	Year ended 31 December	
	2023	2022
	£m	£m
Total tax (charge)/credit comprises:		
Current tax		
– UK tax	**(186.5)**	(66.0)
– Overseas tax	**(1.6)**	–
– Adjustments in respect of prior periods	**2.0**	1.9
Deferred tax		
– Before impact of tax rate changes	**(46.7)**	61.9
– Adjustments in respect of prior periods	**0.3**	(0.1)
– Effect of changes in tax rate	**(3.0)**	6.7
Total tax (charge)/credit	**(235.5)**	4.4

	Year ended 31 December	
	2023	2022
	£m	£m
Tax (charged)/credited on items recognised in other comprehensive income:		
Deferred tax on remeasurement of defined benefit pension scheme surplus	**7.2**	6.1
Deferred tax on cash flow hedges	**(130.7)**	(5.6)
Deferred tax on cost of hedging	**(1.9)**	2.2
Total tax (charge)/credit	**(125.4)**	2.7

	Year ended 31 December

	2023 £m	2022 £m
Tax credited on items released directly from equity:		
Current tax on share-based payments	**6.9**	–
Deferred tax on cost of hedging	**9.0**	7.2
Deferred tax on cash flow hedges	**10.9**	4.8
Deferred tax on share-based payments	**(2.4)**	7.4
Total tax credit	**24.4**	19.4

UK corporation tax is the main income tax applicable on the Group's taxable profits and is calculated at 23.5% (2022: 19.0%) of the assessable profit or loss for the year. This follows the rate increase to 25.0% from 1 April 2023 that was included within the Finance Bill 2021.

Due to the Group's overseas operations, the US income tax rate of 21.0% (2022: 21.0%) and the Canadian corporate income tax rate of 27.0% (2022: 27.0%) are also relevant to the Group's UK corporation tax charge.

The effective tax rate for the full year, before the impact of changes in tax rates, is higher than the standard corporation tax rate applicable in the UK, principally due to the introduction of the non-deductible Electricity Generator Levy from 1 January 2023. The primary current tax rate benefits arise from research and development credits, UK Patent Box claims and the UK super-deduction introduced in the Finance Act 2021, which allowed for a 130% in-year deduction for tax purposes against the cost of qualifying capital expenditure on plant and machinery incurred between 1 April 2021 and 31 March 2023.

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

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

	Year ended 31 December 2023			Year ended 31 December 2022		
	Adjusted results £m	**Exceptional items and certain remeasurements £m**	**Total results £m**	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m
Profit/(loss) before tax	**665.2**	**131.2**	**796.4**	405.4	(327.3)	78.1
Profit/(loss) before tax multiplied by the rate of corporation tax in the UK of 23.5% (2022: 19.0%)	**156.3**	**30.8**	**187.1**	77.0	(62.2)	14.8
Effects of:						
Adjustments in respect of prior periods	**(2.3)**	**–**	**(2.3)**	(1.8)	–	(1.8)
Expenses not deductible for tax purposes	**5.2**	**6.5**	**11.7**	4.5	–	4.5
Electricity Generator Levy	**48.1**	**–**	**48.1**	–	–	–
Impact of tax rate change	**0.6**	**2.4**	**3.0**	2.9	(9.6)	(6.7)
Share-based payments recognised in equity	**8.1**	**–**	**8.1**	–	–	–
Difference in overseas tax rates	**(0.7)**	**–**	**(0.7)**	(1.3)	–	(1.3)
UK Patent Box benefit	**(17.4)**	**–**	**(17.4)**	(9.6)	–	(9.6)
Tax effect of RDEC	**(0.9)**	**–**	**(0.9)**	(0.8)	–	(0.8)
UK super-deduction	**(1.2)**	**–**	**(1.2)**	(3.5)	–	(3.5)
Total tax charge/(credit)	**195.8**	**39.7**	**235.5**	67.4	(71.8)	(4.4)

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

	Financial instruments £m	Accelerated capital allowances £m	Non-trade losses £m	Intangible assets £m	Trade losses £m	Other liabilities £m	Other assets £m	Total £m
At 1 January 2022	38.8	(292.6)	2.3	(19.9)	60.0	(18.7)	33.5	(196.6)
Credited/(charged) to the income statement	77.3	(24.9)	(1.8)	7.0	15.7	(20.7)	16.0	68.6
Credited to other comprehensive income in respect of actuarial gains	–	–	–	–	–	6.1	–	6.1
Charged to other comprehensive income in respect of cash flow hedges	(5.6)	–	–	–	–	–	–	(5.6)
Credited to other comprehensive income in respect of cost of hedging	2.2	–	–	–	–	–	–	2.2

Credited to equity in respect of cash flow hedges	4.8	–	–	–	–	–	–	4.8
Credited to equity in respect of cost of hedging	7.2	–	–	–	–	–	–	7.2
Credited to equity in respect of share-based payments	–	–	–	–	–	–	7.4	7.4
Impact of acquisition	–	(0.8)	–	–	–	–	–	(0.8)
Effect of changes in foreign exchange rates	–	(3.0)	–	–	4.4	–	1.0	2.4
At 1 January 2023	**124.7**	**(321.3)**	**0.5**	**(12.9)**	**80.1**	**(33.3)**	**57.9**	**(104.3)**
(Charged)/credited to the income statement	**(51.2)**	**9.0**	**(0.5)**	**12.3**	**(21.0)**	**(0.6)**	**2.6**	**(49.4)**
Credited to other comprehensive income in respect of actuarial gains	**–**	**–**	**–**	**–**	**–**	**7.2**	**–**	**7.2**
Charged to other comprehensive income in respect of cash flow hedges	**(130.7)**	**–**	**–**	**–**	**–**	**–**	**–**	**(130.7)**
Charged to other comprehensive income in respect of cost of hedging	**(1.9)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1.9)**
Credited to equity in respect of cash flow hedges	**10.9**	**–**	**–**	**–**	**–**	**–**	**–**	**10.9**
Credited to equity in respect of cost of hedging	**9.0**	**–**	**–**	**–**	**–**	**–**	**–**	**9.0**
Charged to equity in respect of share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**(2.4)**	**(2.4)**
Impact of acquisition	**–**	**–**	**–**	**(1.3)**	**–**	**–**	**–**	**(1.3)**
Effect of changes in foreign exchange rates	**–**	**1.8**	**–**	**–**	**(2.5)**	**(0.1)**	**(0.5)**	**(1.3)**
At 31 December 2023	**(39.2)**	**(310.5)**	**–**	**(1.9)**	**56.6**	**(26.8)**	**57.6**	**(264.2)**
Deferred tax balances (after offset) for financial reporting purposes:								
Net Canadian deferred tax asset at 31 December 2023	**–**	**(18.8)**	**–**	**0.4**	**16.8**	**(0.2)**	**28.2**	**26.4**
Net US deferred tax asset at 31 December 2023	**–**	**(21.9)**	**–**	**–**	**39.8**	**–**	**8.6**	**26.5**
Net UK deferred tax liability at 31 December 2023	**(39.2)**	**(269.8)**	**–**	**(2.3)**	**–**	**(26.6)**	**20.8**	**(317.1)**
Net Canadian deferred tax asset at 31 December 2022	–	(49.6)	–	0.2	27.1	(1.0)	32.7	9.4
Net US deferred tax asset at 31 December 2022	–	(30.6)	–	–	53.0	–	5.5	27.9
Net UK deferred tax liability at 31 December 2022	124.7	(241.1)	0.5	(13.1)	–	(32.3)	19.7	(141.6)

Deferred tax assets and liabilities are offset where the Group has both a legally enforceable right to offset the recognised amounts and the intention to settle on a net basis, otherwise they are shown separately in the Consolidated balance sheet. Within the above trade losses deferred tax asset of £56.6 million (2022: £80.1 million) there is £39.8 million (2022: £53.0 million) in relation to losses in the US Pellet Production business. The remaining £16.8 million relates to losses of the Canadian Pellet Production business (2022: £27.1 million).

On 31 August 2023 the Group acquired BMM Energy Solutions Limited, a UK-based electric vehicle charge point installer. A deferred tax liability of £1.3 million has been recognised on customer relationships included within this acquisition, as noted above in the ‘impact of acquisition’ line. This liability will unwind as the intangible asset is amortised.

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

As at 31 December 2023 the Group held £78.8 million (2022: £79.2 million) of UK capital losses available for offset against future chargeable gains. These losses are unrecognised for deferred tax purposes as the Group does not currently expect UK taxable gains to arise that would be eligible to offset against these losses.

The Group is within scope of the Organisation for Economic Co-operation and Development's (OECD's) Global Anti-Base Erosion Rules, which provide for an internationally co-ordinated system of taxation to ensure that large multinational groups pay a minimum level of corporate income tax in countries in which they operate, referred to as Pillar Two. The legislation implementing the rules in the UK was substantively enacted on 20 June 2023 and will apply to the Group from the financial year ending 31 December 2024 onwards. The Group has applied the temporary exemption under IAS 12 in relation to the accounting for deferred taxes arising from the implementation of the Pillar Two rules, so that the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two. Based on an initial review of 2023 and the medium term forecasts up to and including the year ending 31 December 2026, the Group would fall within the Transitional Country by Country Reporting Safe Harbour, such that the expected top up tax payable over this period under the Pillar Two rules is expected to be £nil.

The Group continues to monitor developments in the UK and outside of the UK and will undertake a detailed review in 2024 to ensure ongoing compliance with its administrative obligations under these rules.

4. Alternative performance measures

The alternative performance measures (APMs) glossary to these Consolidated financial statements provides details of all APMs used, each APM's closest IFRS equivalent, the reason why the APM is used by the Group and a definition of how each APM is calculated.

The Group presents Adjusted results in the Consolidated income statement. Management believes that this approach is useful as it provides a clear and consistent view of underlying trading performance. Exceptional items and certain remeasurements are excluded from Adjusted results and are presented in a separate column in the Consolidated income statement. The Group believes that this presentation provides useful information about the financial performance of the business and is consistent with the way the Board and Executive management assess the performance of the business.

The Group has a policy and framework for the determination of transactions to present as exceptional. Exceptional items are excluded from Adjusted results as they are transactions that are deemed to be one-off or unlikely to reoccur in future years due to their nature, size, the expected frequency of similar events or the commercial context. By excluding these amounts this provides users of the Consolidated financial statements with a more representative view of the results of the Group and enables comparisons with other reporting periods as it excludes amounts from activities or transactions that are not likely to reoccur. All transactions presented as exceptional are approved by the Audit Committee.

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

- Impairment charges related to the Opus Energy CGU (2023, Customers).
- Proceeds from a legal settlement relating to a supplier's failure to perform under their contract (2023, Customers).
- Change in the fair value of contingent consideration (2023, Generation).
- Impact of the UK tax rate change on deferred tax balances (2023, Generation and Customers; 2022, Generation and Customers). See note 3 for further information.
- Impairment charges incurred on the application of the Group's new accounting policy for Software as a Service (SaaS) costs, consistent with the IFRIC agenda decision (2022, All segments), and on costs associated with the Customers billing system (2022, Customers).

Certain remeasurements comprise gains or losses on derivative contracts to the extent that those contracts do not qualify for hedge accounting, or hedge accounting is not effective, and those gains or losses are either i) unrealised and relate to derivative contracts with a maturity in future periods, or ii) are realised in relation to the maturity of derivative contracts in the current period. Gains and losses on derivative contracts prior to maturity generally reflect the difference between the contracted price and the current market price, which management does not believe provides meaningful information as the Group is not entering contracts with the intention of creating value from changes in market prices. The Group is entering forward contracts as economic hedges to secure prices and rates, and lock in value for its future expected pellet production, generation or energy supply activities. The effect of excluding certain remeasurements from Adjusted results is that commodity sales and purchases are recognised in the period they are intended to hedge at their contracted prices i.e. at the all-in-hedged amount paid or received in respect of the delivery of the commodity in question. It also results in the total impact of financial contracts being recognised in the period they are intended to hedge. Management believes this better reflects the performance of the business as it more accurately represents the intention for entering derivative contracts.

2022 saw high prices and volatility in financial and commodity markets. As prices increased this resulted in significant movements in the remeasurement gains and losses on certain derivative financial instruments which do not qualify for hedge accounting, or where hedge accounting is ineffective, as shown in the table below, principally relating to gas, certain foreign currency contracts, inflation and oil. In the current year prices have reduced compared to the 2022 highs, and therefore certain gains and losses recognised in the prior year have reversed.

	Year ended 31 December	
	2023	2022
	£m	£m
Exceptional items:		
Impairment of non-current assets	**(69.1)**	(24.9)
Net credit from legal claim	**13.7**	–
Change in fair value of contingent consideration	**(18.2)**	–
Exceptional items included within operating profit and profit before tax	**(73.6)**	(24.9)
Tax on exceptional items	**10.8**	4.7
Impact of tax rate change	**0.7**	(9.8)
Exceptional items after tax	**(62.1)**	(30.0)
Certain remeasurements:		
Net fair value remeasurements on derivative contracts included in revenue	**70.7**	(441.4)
Net remeasurements realised on maturity of derivative contracts included in revenue	**228.6**	107.7
Net hedge ineffectiveness reclassified to profit or loss included in revenue	**(16.4)**	(50.2)

Net fair value remeasurements on derivative contracts included in cost of sales	**(127.0)**	32.6
Net remeasurements realised on maturity of derivative contracts included in cost of sales	**44.3**	53.1
Certain remeasurements included within operating profit	**200.2**	(298.2)
Net remeasurements on maturity of derivative contracts included in interest payable and similar charges	**(0.3)**	(0.4)
Net fair value remeasurements on derivative contracts included in foreign exchange gains/(losses)	**4.9**	(3.8)
Certain remeasurements included in profit before tax	**204.8**	(302.4)
Tax on certain remeasurements	**(48.1)**	57.5
Impact of tax rate change	**(3.1)**	19.4
Certain remeasurements after tax	**153.6**	(225.5)

Reconciliation of profit after tax:		
Adjusted profit after tax	**469.4**	338.0
Exceptional items after tax	**(62.1)**	(30.0)
Certain remeasurements after tax	**153.6**	(225.5)
Total profit after tax	**560.9**	82.5

For each item designated as exceptional or as a certain remeasurement, the table below summarises the impact of the item on Adjusted and Total profit after tax, Basic EPS and net cash flow from operating activities.

	Year ended 31 December 2023							
	Revenue £m	**Gross profit £m**	**Operating profit £m**	**Profit before tax £m**	**Tax (charge)/credit £m**	**Profit/(loss) for the period £m**	**Basic earnings/(loss) per share Pence**	**Net cash from operating activities £m**
Total results IFRS measure	**8,125.3**	**1,953.6**	**908.2**	**796.4**	**(235.5)**	**560.9**	**142.8**	**835.6**
Certain remeasurements:								
Net fair value remeasurement on derivative contracts	**(282.9)**	**(200.2)**	**(200.2)**	**(204.8)**	**48.1**	**(156.7)**	**(39.7)**	**–**
Impact of tax rate change	**–**	**–**	**–**	**–**	**3.1**	**3.1**	**0.8**	**–**
Exceptional items:								
Impairment of non-current assets	–	–	**69.1**	**69.1**	**(13.5)**	**55.6**	**14.1**	**–**
Proceeds from legal claim	–	–	**(13.7)**	**(13.7)**	**2.7**	**(11.0)**	**(2.8)**	**(9.3)**
Change in fair value of contingent consideration	–	–	**18.2**	**18.2**	**–**	**18.2**	**4.6**	**–**
Impact of tax rate change	**–**	**–**	**–**	**–**	**(0.7)**	**(0.7)**	**(0.2)**	**–**
Total	**(282.9)**	**(200.2)**	**(126.6)**	**(131.2)**	**39.7**	**(91.5)**	**(23.2)**	**(9.3)**
Adjusted results totals	**7,842.4**	**1,753.4**	**781.6**	**665.2**	**(195.8)**	**469.4**	**119.6**	**826.3**

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

A cost of £204.6 million has been recognised in relation to EGL for the year. The cost has been recognised within the Electricity Generator Levy line in the Consolidated income statement. The liability for EGL has been recognised within Trade and other payables and contract liabilities within the Consolidated balance sheet.

Both Adjusted EBITDA including EGL and Adjusted EBITDA excluding EGL are presented below. Management believes that providing both measures provides useful information, as it enables readers to compare, on a consistent basis, the current period Adjusted EBITDA to prior periods in which the EGL was not applicable, and also to see the impact of EGL, which is relevant for comparison in future periods.

	Year ended 31 December 2023		
	Attributable to		
	Owners of the parent company £m	Non-controlling interests £m	Total £m
Adjusted operating profit	**782.9**	**(1.3)**	**781.6**
Depreciation and amortisation	**223.7**	**1.3**	**225.0**
Other gains	**(0.7)**	**–**	**(0.7)**
Share of losses from associates	**1.6**	**–**	**1.6**
Impairment losses on non-current assets	**1.7**	**–**	**1.7**
Adjusted EBITDA including Electricity Generator Levy	**1,009.2**	**–**	**1,009.2**
Electricity Generator Levy	**204.6**	**–**	**204.6**
Adjusted EBITDA excluding Electricity Generator Levy	**1,213.8**	**–**	**1,213.8**

	Year ended 31 December 2022		
	Attributable to		
	Owners of the parent company £m	Non-controlling interests £m	Total £m
Adjusted operating profit	472.0	(2.6)	469.4
Depreciation and amortisation	237.2	2.2	239.4
Other losses	5.7	0.1	5.8
Share of profits from associates	(0.5)	–	(0.5)
Impairment losses on non-current assets	16.6	–	16.6
Adjusted EBITDA	731.0	(0.3)	730.7

	Year ended 31 December	
	2023 £m	2022 £m
Segment Adjusted EBITDA excluding Electricity Generator Levy:		
Pellet Production	**88.9**	133.7
Generation	**1,138.1**	695.5
Customers	**71.8**	25.8
Innovation, capital projects and other	**(78.1)**	(113.6)
Intra-group eliminations	**(6.9)**	(10.4)
Total Adjusted EBITDA excluding Electricity Generator Levy	**1,213.8**	731.0
Electricity Generator Levy[(1)]	**(204.6)**	–
Total Adjusted EBITDA including Electricity Generator Levy	**1,009.2**	731.0

(1) The Electricity Generator Levy relates wholly to the Generation segment, therefore Adjusted EBITDA including Electricity Generator Levy for the Generation segment is £933.5 million.

Net debt

Net debt is calculated by taking the Group’s borrowings, adjusting for the impact of associated hedging instruments, and subtracting cash and cash equivalents. Net debt excludes the share of borrowings and cash and cash equivalents attributable to non-controlling interests.

Borrowings includes external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities (RCFs), net of any deferred finance costs. Borrowings does not include other financial liabilities such as pension obligations, trade and other payables, lease liabilities calculated in accordance with IFRS 16 and working capital facilities (such as credit cards and deferred letters of credit) linked directly to specific payables that provide short extension of payment terms of less than 12 months (see note 7). The Group does not include balances related to supply chain financing in Net debt as there are no changes to the Group’s payment terms under this arrangement, nor would there be if the arrangement was to cease. Net debt includes the impact of any cash collateral receipts from counterparties or cash collateral posted to counterparties.

The Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of Net debt. This reflects the nature of the contracts included in this balance which are predominantly entered into for operating purposes rather than as a way to finance the purchase of an asset. The exclusion of lease liabilities from the calculation of Net debt is also consistent with the Group’s covenant reporting requirements.

The Group has entered into cross-currency interest rate swaps, fixing the sterling value of the principal repayments and interest in respect of the Group’s US dollar (USD) and euro (EUR) denominated debt. The Group has also entered a fixed rate foreign exchange forward to fix the sterling value of the principal repayment of the Canadian (CAD) denominated debt. For the purpose of calculating Net debt, USD, EUR and CAD balances are translated at the hedged rate, rather than the rate prevailing at the reporting date, which impacts the carrying amount of the Group's borrowings. See the APMs glossary for further details on the calculation of Net debt.

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

At 31 December 2023, net cash postings of £78.6 million had been made to counterparties (2022: £234.0 million) to support commodity hedging activity. Cash collateral payments of £98.9 million (2022: £234.0 million) are recognised in other receivables and £20.3 million (2022: £nil) of cash collateral receipts are recognised in other payables. The decrease in cash collateral payments is due to the settlement of trades from the prior year as well as a reduction in commodity prices seen in the power, gas and carbon markets. See note 7 for details on collateral requirements the Group has met through its available non-cash credit facilities.

The Group's definition of Net debt includes the impact of cash collateral. In the table below, Net debt excluding collateral is also presented and reconciled to Net debt.

	As at 31 December	
	2023	2022
	£m	£m
Borrowings	**(1,425.3)**	(1,440.9)
Cash and cash equivalents	**379.5**	238.0
Net cash and borrowings	**(1,045.8)**	(1,202.9)
NCI's share of cash and cash equivalents in non-wholly owned subsidiaries	**(0.3)**	(0.7)
Impact of hedging instruments	**(37.8)**	(2.4)
Net debt	**(1,083.9)**	(1,206.0)
Net cash collateral posted	**78.6**	234.0
Net debt excluding collateral	**(1,005.3)**	(972.0)

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

	Year ended 31 December	
	2023	2022
	£m	£m
Net debt at 1 January	**(1,206.0)**	(1,108.0)
Increase/(decrease) in owners of the parent company's share of cash and cash equivalents	**146.3**	(85.6)
Increase in borrowings	**(19.8)**	(8.6)
Effect of changes in foreign exchange rates	**31.0**	(65.8)
Movement in the impact of hedging instruments	**(35.4)**	62.0
Net debt at 31 December	**(1,083.9)**	(1,206.0)

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

	As at 31 December	
	2023	2022
Adjusted EBITDA including EGL (£m)	**1,009.2**	731.0
Adjusted EBITDA excluding EGL (£m)	**1,213.8**	731.0
Net debt (£m)	**(1,083.9)**	(1,206.0)
Net debt excluding collateral (£m)	**(1,005.3)**	(972.0)
Net debt to Adjusted EBITDA including EGL ratio	**1.1**	1.6
Net debt to Adjusted EBITDA excluding EGL ratio	**0.9**	1.6

Cash and committed facilities

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

	As at 31 December	
	2023	2022
	£m	£m
Cash and cash equivalents	**379.5**	238.0
RCF available but not utilised (1)	**259.9**	260.1
Liquidity facility available but not utilised (2)	**–**	200.0
Total cash and committed facilities	**639.4**	698.1

(1) The Group's available balance on the RCF facility (includes £300 million and C$10 million RCF) is reduced by letters of credit drawn under the RCF. At 31 December 2023, £46.1 million letters of credit were drawn (2022: £46.0 million).

(2) In December 2022, the Group secured a new £200 million committed liquidity facility with banks within its lending group. This facility provided an additional source of liquidity to the Group's existing undrawn RCFs, until December 2023. This facility was undrawn at 31 December 2022 and as at 31 December 2023 has matured.

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

5. Earnings per share

Earnings per share (EPS) represents the amount of earnings (post-tax profit or losses) attributable to the weighted average number of ordinary shares outstanding in the year. Basic EPS is calculated by dividing the Group's earnings attributable to owners of the parent company (profit or loss after tax, excluding amounts attributable to non-controlling interests) by the weighted average number of ordinary shares that were outstanding during the year. Diluted EPS demonstrates the impact of all outstanding share options that would vest on their future maturity dates if the conditions at the end of the reporting period were the same as those at the end of the vesting period (such as those to be issued under employee share schemes), and the options were exercised and treated as ordinary shares as at the reporting date. Repurchased shares of 40.3 million (2022: 13.8 million) held in the treasury shares reserve are not included in the weighted average calculation of shares. See note 8 for further details on the treasury shares reserve. For the purpose of calculating diluted EPS, the weighted average calculation of shares excludes any share options that would have an anti-dilutive impact.

	Year ended 31 December	
	2023	2022
Number of shares (millions):		
Weighted average number of ordinary shares for the purposes of calculating Basic earnings per share	**393.8**	400.4
Effect of dilutive potential ordinary shares under share plans	**9.3**	14.0
Weighted average number of ordinary shares for the purposes of calculating Diluted earnings per share	**403.1**	414.4

	Year ended 31 December			
	2023		2022	
	Adjusted results	**Total results**	Adjusted results	Total results
Earnings per share attributable to owners of the parent company				
Earnings – profit after tax (£m)	**470.7**	**562.2**	340.6	85.1
Earnings per share – Basic (pence)	**119.6**	**142.8**	85.1	21.3
Earnings per share – Diluted (pence)	**116.8**	**139.5**	82.2	20.5

6. Dividends

	Year ended 31 December		
	Pence per share	**2023 £m**	2022 £m
Amounts recognised as distributions to equity holders in the year (based on the number of shares outstanding at the record date):			
Interim dividend for the year ended 31 December 2023 paid on 3 October 2023	9.2	**35.7**	–
Final dividend for the year ended 31 December 2022 paid on 19 May 2023	12.6	**50.6**	–
Interim dividend for the year ended 31 December 2022 paid on 7 October 2022	8.4	**–**	33.7
Final dividend for the year ended 31 December 2021 paid on 13 May 2022	11.3	**–**	45.2
Total distributions		**86.3**	78.9

At the forthcoming Annual General Meeting, the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2023 of 13.9 pence per share (equivalent to approximately £53.5 million) payable on 17 May 2024. The final dividend has not been included as a liability as at 31 December 2023. This would bring total dividends payable in respect of the 2023 financial year to approximately £89.2 million.

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

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

7. Notes to the Consolidated cash flow statement

Accounting policy

In accordance with IAS 7 the Group has elected to classify cash flows from interest paid and interest received as cash flows from operations, dividends paid as cash flows from financing activities, and dividends received as cash flows from investing activities.

The interest repayment on lease liabilities is included within interest paid, and the lease principal repayment is presented within cash flows from financing activities.

Cash generated from operations

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

	Year ended 31 December	
	2023	2022
	£m	£m
Profit for the year	**560.9**	82.5
Adjustments for:		
Interest payable and similar charges	**115.2**	83.1
Interest receivable	**(13.1)**	(4.3)
Tax charge/(credit)	**235.5**	(4.4)
Research and development tax credits	**(2.0)**	(5.5)
Share of losses/(profits) from associates	**1.6**	(0.5)
Depreciation of property, plant and equipment	**168.7**	187.7
Amortisation of intangible assets	**29.4**	31.4
Depreciation of right-of-use assets	**26.9**	20.3
Impairment of non-current assets	**70.8**	41.5
Losses on disposal of fixed assets	**2.6**	5.5
Other losses	**18.2**	0.3
Certain remeasurements of derivative contracts(1)	**(222.0)**	288.7
Non-cash charge for share-based payments	**13.9**	9.6
Effect of changes in foreign exchange rates	**6.2**	(2.2)
Operating cash flows before movement in working capital	**1,012.8**	733.7
Changes in working capital:		
Decrease/(increase) in inventories	**20.6**	(133.4)
Decrease/(increase) in receivables	**71.4**	(379.0)
(Decrease)/increase in payables	**(30.8)**	431.8
Net movement in collateral	**155.4**	(406.8)
Decrease in provisions	**(4.4)**	(29.1)
(Increase)/decrease in renewable certificate assets	**(104.4)**	113.7
Total cash released from/(absorbed by) working capital	**107.8**	(402.8)
Net movement in defined benefit pension obligations	**(9.6)**	(10.6)
Cash generated from operations	**1,111.0**	320.3

(1) Certain remeasurements of derivative contracts includes the effect of non-cash unrealised gains and losses recognised in the Consolidated income statement and their subsequent cash realisation. It also includes the cash and non-cash impact of deferring and recycling gains and losses on derivative contracts designated into hedge relationships under IFRS 9, where the gain or loss is held in the hedge reserve and then released to the Consolidated income statement in the period the hedged transaction occurs. At 31 December 2023 the Group had accelerated £nil of cash flows through the use of rebasing (2022: £43.1 million).

The Group has generated cash from operations of £1,111.0 million during the year (2022: £320.3 million). This resulted from a cash inflow from operating activities before working capital of £1,012.8 million (2022: £733.7 million) and a net working capital cash inflow of £107.8 million (2022: cash outflow of £402.8 million). This was offset by a £9.6 million (2022: £10.6 million) cash outflow in respect of pension obligations. The most significant factors making up these cash movements are explained in further detail below.

The £222.0 million outflow due to the adjustment for certain remeasurements of derivative contracts in the current year (2022: £288.7 million inflow) mainly relates to a net cash outflow due to realised losses on maturing trades. The adjustment for realised losses was in part offset by unrealised losses recognised within the Consolidated income statement.

Prices in power and commodity markets have reduced in 2023 compared to 2022, but remain elevated compared to historical norms. Cash collateral is sometimes paid or received in relation to the Group's commodity and treasury trading activities. When derivative positions are out of the money for the Group, collateral may be required to be paid to the counterparty. When derivative positions are in the money, collateral may be received from counterparties. These positions reverse when mark-to-market positions reduce, or contracts are settled, and the collateral is returned.

The Group actively manages its liquidity requirements. This includes managing collateral associated with the hedging of power and other commodities, as well as other contractual arrangements. Under certain arrangements the Group is able to use non-cash collateral, such as letters of credit and surety bonds, that may otherwise have required cash collateral.

The Group has had a net cash inflow of £155.4 million from collateral during the year, as trades have matured and mark-to-market positions have reduced (2022: £406.8 million outflow). As at 31 December 2023, the Group held £20.3 million in cash collateral receipts (2022: £nil) recognised in payables, and had posted £98.9 million (2022: £234.0 million) of cash collateral payments recognised in receivables. The Group had also utilised £14.5 million (2022: £54.5 million) of letters of credit and £70.0 million (2022: £165.0 million) of surety bonds to cover commodity trading collateral requirements. Letters of credit and surety bonds utilised at the reporting date have reduced the requirement for cash collateral payments, which has increased the amount by which receivables have decreased.

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

The table below sets out the key arrangements utilised by the Group to manage elements of its working capital:

	As at 31 December 2023 £m	As at 31 December 2022 £m	Inflow/ (outflow) £m
Receivables monetisation	**400.0**	400.0	**–**
ROC monetisation sales	**298.4**	331.2	**(32.8)**
Supply chain finance	**(48.6)**	(53.9)	**(5.3)**
Deferred letters of credit	**(224.7)**	(181.2)	**43.5**
Credit cards	**(0.4)**	(33.3)	**(32.9)**

None of the balances in the table above are included within the Group's definition of Net debt or borrowings (see note 4 for further details on Net debt). The receivables monetisation facility is non-recourse in nature and therefore there is no future liability associated with these amounts. Through standard ROC sales and ROC purchase arrangements the Group is able to manage the working capital cycle of inflows and outflows of these assets. The supply chain finance, deferred letters of credit and credit card facilities are linked directly to specific payables that provide a short extension of payment terms of less than 12 months. The impact of these facilities on the cash flows of the Group is explained further below.

The overall cash inflow of £71.4 million (2022: outflow of £379.0 million) due to lower receivables in the current year, is primarily a result of a reduction in energy prices compared to the prior year.

The Customers business has access to a receivables monetisation facility which enables it to accelerate cash flows associated with amounts receivable from energy supply customers on a non-recourse basis. The Group refinanced this facility during the prior year, to increase the size of the facility to £400.0 million from £200.0 million for the period to March 2025, and then reducing to £300.0 million until the facility matures in January 2027. Utilisation of the facility was £400.0 million at 31 December 2023 (2022: £400.0 million). As the facility was fully utilised at 31 December 2023 and 31 December 2022 there has been no cash flow impact in the period (2022: £200.0 million cash inflow, as the facility was increased in size from £200.0 million to £400.0 million).

Payables have largely remained consistent year on year, with a cash outflow of £30.8 million (2022: £431.8 million inflow). Certain of the Group's suppliers are able to access a supply chain finance facility provided by a bank, for which funds can be accelerated in advance of normal payment terms. At 31 December 2023, the Group had trade payables of £48.6 million (2022: £53.9 million) related to this reverse factoring. The facility does not directly impact the Group's working capital, as payment terms remain unaltered with the Group and would remain the same should the facility fall away.

The Group also has access to other payment facilities which enable it to leverage scale and efficiencies in transaction processing, whilst providing a working capital benefit due to a short extension of payment terms of less than 12 months. The amount outstanding under these facilities at 31 December 2023 was £225.1 million (2022: £214.5 million), of which £224.7 million (2022: £181.2 million) related to deferred letters of credit and £0.4 million (2022: £33.3 million) related to credit cards. Of the total deferred letters of credit, £155.1 million (2022: £133.8 million) were utilised for capital expenditure and £69.6 million (2022: £47.4 million) were utilised for trade payables. Utilisation of these payment facilities impacted the purchases of property, plant and equipment line in the Consolidated cash flow statement and the movement in payables line above.

The movement in renewable certificate assets during the year includes a combination of generation, utilisation, purchases and sales. The £104.4 million cash outflow (2022: £113.7 million inflow) is predominantly due to an increase in the value of renewable certificates generated and still held by the Group compared to the prior year, and a reduced level of ROC monetisation sales. Cash from renewable certificates, and in particular ROCs, is typically realised several months after they are earned; however, through standard ROC sales and ROC purchase arrangements the Group is able to manage the working capital cycle of inflows and outflows of these assets. At 31 December 2023 the Group had cash inflows of £298.4 million from using these standard renewable certificate sales (2022: £331.2 million).

Changes in liabilities arising from financing cash flows

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

	Borrowings £m	Lease liabilities £m	Hedging instruments £m	Total £m
At 1 January 2023	**1,440.9**	**153.1**	**(2.2)**	**1,591.8**
Cash flows from financing activities	**14.5**	**(25.8)**	**–**	**(11.3)**
Effect of changes in foreign exchange rates	**(35.5)**	**(6.6)**	**29.8**	**(12.3)**
Other movements	**5.3**	**15.1**	**–**	**20.4**
Other movements from operating activities	**–**	**–**	**4.9**	**4.9**
At 31 December 2023	**1,425.2**	**135.8**	**32.5**	**1,593.5**

	Borrowings £m	Lease liabilities £m	Hedging instruments £m	Total £m
At 1 January 2022	1,361.0	125.9	62.5	1,549.4
Cash flows from financing activities	2.1	(18.0)	–	(15.9)
Effect of changes in foreign exchange rates	71.3	11.5	(56.2)	26.6
Other movements	6.5	33.7	–	40.2
Other movements from operating activities	–	–	(8.5)	(8.5)
At 31 December 2022	1,440.9	153.1	(2.2)	1,591.8

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

Hedging instruments includes cross-currency interest rate swaps that are hedging both principal and interest payments on borrowings. Interest payments are classified as operating cash flows in the Consolidated cash flow statement, as such movements relating to interest payments are recognised within the Other movements from operating activities line above.

8. Equity and reserves

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

Accounting policy

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

Issued equity

	As at 31 December	
	2023 £m	2022 £m
Issued and fully paid:		
424,923,406 ordinary shares of 11 16⁄29 pence each (2022: 414,872,491)	**49.1**	47.9

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

	Year ended 31 December	
	2023 (number)	2022 (number)
At 1 January	**414,872,491**	413,068,027
Issued under employee share schemes	**10,050,915**	1,804,464
At 31 December	**424,923,406**	414,872,491

The Company has only one class of shares, which are ordinary shares of 11 16⁄29 pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends. Throughout the year, shares were issued in satisfaction of options vesting in accordance with the rules of the Group's employee share schemes.

Share buyback programme

On 26 April 2023, the Group announced the commencement of a £150 million share buyback programme. The buyback programme was concluded on 15 September 2023. The shares purchased by the Group have not been cancelled and so continue to be included in the issued shares in the above table.

Alternative performance measures (APMs) glossary table

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

APM	Closest IFRS equivalent measure	Purpose	Definition
Adjusted results	Total results	The Group's Adjusted results are consistent with the way the Board and Executive management assess the performance of the Group. Adjusted results are intended to reflect the underlying trading performance of the Group's businesses and are presented to assist users of the Consolidated financial statements in evaluating the Group's trading performance and performance against strategic objectives on a consistent basis. Adjusted results excludes exceptional items and certain remeasurements. Exceptional items are those transactions that, by their nature, do not reflect the trading performance of the Group in the period. Certain remeasurements comprise fair value gains and losses that do not qualify for hedge accounting (or hedge accounting is not effective). The Group regards all of its forward contracting activity to represent economic hedges and therefore by excluding the volatility caused by recognising fair value gains and losses prior to maturity of the contracts, the Group can reflect these contracts at the contracted prices on maturity, reflecting the intended purpose of entering these contracts and the Group's underlying performance. Adjusted results are the metrics used in the calculation of Adjusted basic EPS and Adjusted diluted EPS.	Total results measured in accordance with IFRS excluding the impact of exceptional items and certain remeasurements. Exceptional items and certain remeasurements are defined in note 4.
Adjusted EBITDA including EGL and Adjusted EBITDA excluding EGL	Operating profit[(1)]	Adjusted EBITDA including EGL is the primary measure used by the Board and Executive management to assess the financial performance of the Group as it provides a more comparable assessment of the Group's year-on-year trading performance. It is also a key metric used by the investor community to assess the performance of the Group's operations. The Group presents Adjusted EBITDA excluding EGL to enable readers to compare, on a consistent basis, the Adjusted EBITDA in prior periods in which EGL was not applicable.	Earnings before interest, tax, depreciation, amortisation, other gains and losses and impairment of non-current assets, excluding the impact of exceptional items and certain remeasurements (defined in note 4). Adjusted EBITDA including EGL includes the cost of EGL and excludes any earnings from associates or attributable to non-controlling interests. Adjusted EBITDA excluding EGL is consistent with the definition of Adjusted EBITDA including EGL, apart from it does not include the cost of EGL.
Adjusted basic EPS	Basic EPS	Adjusted basic EPS represents the amount of Adjusted earnings (Adjusted post-tax earnings) attributable to each ordinary share.	Adjusted basic EPS is calculated by dividing the Group's Adjusted earnings attributable to owners of the parent company (Adjusted profit after tax) by the weighted average number of shares outstanding during the period.
Adjusted diluted EPS	Diluted EPS	Adjusted diluted EPS demonstrates the impact upon the Adjusted basic EPS if all outstanding share options, that are expected to vest on their future maturity dates and where the shares are considered to be dilutive, were exercised and treated as ordinary shares as at the reporting date.	Adjusted diluted EPS is calculated by dividing the Group's Adjusted earnings attributable to owners of the parent company (Adjusted profit after tax) by the weighted average number of shares outstanding during the period and dilutive potential ordinary shares outstanding under share plans.
Borrowings	n/a[(2)]	Borrowings provide information relating to the Group's use of debt. It is a key measure of	Borrowings include drawn debt facilities including bonds, term loans, revolving credit

		leverage and provides information on the sources of liquidity for the Group.	facilities (RCFs) (to the extent drawn in cash) and other drawn debt facilities available for general use. Borrowings do not include other financial liabilities such as lease liabilities calculated in accordance with IFRS 16, pension obligations and trade and other payables. Borrowings do not include working capital facilities that are linked to specific payables and give an extension in payment terms of less than 12 months such as supply chain finance, deferred letters of credit, credit cards and factoring facilities.
Net debt	Borrowings less cash and cash equivalents	Net debt is a key measure of the Group's liquidity and its ability to manage current obligations. Net debt is used as a basis by debt rating agencies to assess credit risk, and in the calculation of the Group's financial covenant requirements. The impact of hedging instruments included within Net debt shows the economic substance of the Net debt position, in terms of actual expected future cash flows to settle that debt.	Borrowings (as defined above) including the impact of hedging instruments less cash and cash equivalents. Net debt excludes the proportion of cash and borrowings in non-wholly owned entities that would be attributable to the non-controlling interests. Net debt includes the impact of foreign currency hedging instruments, meaning that any borrowings that have associated hedging instruments in place are adjusted to reflect those borrowings at the hedged rate. Net debt includes the impact of any cash collateral receipts from counterparties or cash collateral posted to counterparties.
Net debt to Adjusted EBITDA including EGL ratio and Net debt to Adjusted EBITDA excluding EGL ratio	Borrowings less cash and cash equivalents divided by operating profit(1)	The Net debt to Adjusted EBITDA including EGL ratio is a debt ratio that gives an indication of how many years it would take the Group to pay back its debt if Net debt and Adjusted EBITDA including EGL are held constant. The Group has a long-term target for Net debt to Adjusted EBITDA including EGL of around 2.0 times. The Group presents a Net debt to Adjusted EBITDA excluding EGL ratio to enable readers to compare, on a consistent basis, the Net debt ratio in prior periods in which EGL was not applicable.	Net debt divided by Adjusted EBITDA including/excluding EGL. Expressed as a multiple.
Cash and committed facilities	Cash and cash equivalents	This is a key measure of the Group's available liquidity and the Group's ability to manage its current obligations. It shows the value of cash available to the Group in a short period of time.	Total cash and cash equivalents plus the value of the Group's committed but undrawn facilities (including the Group's RCFs, loan facilities and the Customers non-recourse trade receivables monetisation facility).
Capital expenditure	Property, plant and equipment (PPE) additions and intangible asset additions	Used to show the Group's total spend on PPE and intangible assets in a year.	PPE additions plus intangible asset additions.

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

(2) Borrowings are presented in the Group's Consolidated balance sheet; they are a commonly used balance sheet line item heading however borrowings are not defined by IFRS, therefore the Group's borrowings may not be comparable to borrowings presented by other companies.

Glossary

Ancillary services

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

Availability

Average percentage of time the units were available for generation.

BECCS

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

Black start

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

Biogenic carbon cycle

Biogenic refers to something that is produced by, or originates from, a living organism. The biogenic carbon cycle is the natural process of plants and animals releasing CO_2 into the atmosphere through respiration and decomposition, and plants absorbing CO_2 via photosynthesis.

Biomass

Organic material of non-fossil origin, including organic waste, that can be converted into bioenergy through combustion. The Group uses sawmill and other wood industry residues and forest residuals (which includes low grade roundwood, thinnings, branches and tops) in the form of compressed wood pellets, to generate electricity at Drax Power station or sell the pellets to third-parties.

Capacity Market

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

Carbon capture and storage (CCS)

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

CCC

The UK's Climate Change Committee.

Contracts for Difference (CfD)

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

Combined Cycle Gas Turbines (CCGT)

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

Department for Energy Security and Net Zero (DESNZ)

The UK Government Department provides dedicated leadership focused on delivering security of energy supply, ensuring properly functioning markets, greater energy efficiency and seizing the opportunities of net zero to lead the world in new green industries.

Dispatchable power

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

EBRS

The UK Government's Energy Bill Relief Scheme.

ESG

Environmental, Social and Governance.

First Nations

Any of the groups of indigenous peoples in Canada.

Forced outage/Unplanned outage

Any reduction in plant availability, excluding planned outages.

FSC®

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

Frequency response

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

GHG

Greenhouse Gas.

Grid charges

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

IAB

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

IFRS

International Financial Reporting Standards.

Lost Time Incident Rate (LTIR)

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

NGO

Non-governmental organisation.

Near Miss and Hazard Identification Rate (NMHIR)

The total number of near miss and hazard identification reports logged per 100,000 hours worked. Total includes both employees and contractors.

Open Cycle Gas Turbine (OCGT)

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

Planned outage

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

PEFC

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

Pulp wood

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

Rebasing

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

Reserve

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

Response

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

ROC

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

Sawlog

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

SBP

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

Summer

The calendar months April to September.

Sustainable biomass

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

System operator

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

TCFD

Task Force on Climate-related Financial Disclosures.

Thinning

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

Total recordable incident rate (TRIR)

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

Total results

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

UK ETS

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

Winter

The calendar months October to March.