27 February 2020

DRAX GROUP PLC (Symbol: DRX)
FULL YEAR RESULTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2019

Strong financial performance, biomass cost reduction and end of coal generation in 2021

Twelve months ended 31 December	2019	2018
Key financial performance measures		
Adjusted EBITDA (£ million)[(1)(2)]	410	250
Net cash from operating activities (£ million)	413	311
Net debt (£ million)[(3)]	841	319
Total dividends (pence per share)	15.9	14.1
Adjusted basic earnings per share (pence)[(1)]	29.9	10.4
Total financial performance measures		
Operating profit (£ million)	62	60
Profit after tax (£ million)	1	20
Basic earnings per share (pence)	0.1	5.0

Financial highlights

- Group Adjusted EBITDA up 64 percent to £410 million (2018: £250 million)
  - Includes £114 million from acquired hydro and gas generation assets (2019 guidance of £90-110 million)
- Strong cash generation and balance sheet
  - Net cash from operating activities up 33 percent to £413 million (2018: £311 million)
  - 1.9x net debt to Adjusted EBITDA adjusted to reflect Capacity Market payments received in January 2020
  - Refinancing of hydro and gas generation assets acquisition facility completed, includes ESG CO_2-linked facility and infrastructure private placement extending to 2029 – interest rates below three percent
- Sustainable and growing dividend up 13 percent to 15.9 pence per share (2018: 14.1 pence per share)
  - Final dividend of 9.5 pence per share (2018: 8.5 pence per share)

Operational highlights

- Reduction in US self-supply pellet cost – $161/tonne[(4)] (2018: $166/tonne[(4)])
- Strong system support performance – 63 percent increase in value from flexibility[(5)] – £129 million (2018: £79 million)
- Integration of acquired hydro and gas generation assets complete
- 47 percent reduction in reported carbon emissions – 2.4Mt[(6)] (2018: 4.5Mt[(6)])

Progress with strategic initiatives – building a long-term future for sustainable biomass

- Clear plan to reduce US costs and expand capacity – $35/t (£13/MWh[(7)]) saving on 1.85Mt by 2022
- Targeting five million tonnes of self-supply at £50/MWh[(7)] by 2027 from expanded sources of sustainable biomass
- BECCS[(8)] – development of technology options – proven and emerging technology options for at-scale carbon negative generation at Drax Power Station
- End of coal operations will support further reduction in CO_2 emissions and lower cost operating model for biomass

Outlook – 2020

- Strong contracted forward power sales of 15.8TWh at £53.9/MWh and high proportion of non-commodity revenues
- Evaluating attractive investment options for growth: biomass cost reduction and capacity expansion

Will Gardiner, CEO of Drax Group said: "Drax has delivered a strong set of full-year results following the successful integration of new hydro and gas generation assets and made good progress with its strategic initiatives to build a long-term future for sustainable biomass and be the leading provider of power system stability. Drax achieved these results while still delivering a 47 percent reduction in its carbon emissions compared with the previous year."

"And today, Drax has also taken a significant step towards its ambition to be carbon negative by 2030 and help the UK achieve its net zero target by ending coal generation ahead of the Government's target. This moves Drax and the UK closer to meeting their climate targets, while continuing to provide the flexible and reliable renewable power that millions of British homes and businesses rely on."

"Drax remains fully committed to the regions where it operates and with the right regulatory and investment framework is well positioned to deliver its plans for Yorkshire and the Humber. Using bioenergy with carbon capture and storage at Drax would anchor a new zero carbon cluster that could help protect thousands of jobs and create new opportunities for clean growth in the north and throughout the UK."

Operational review

<u>Pellet Production – *focus on capacity expansion with good quality pellets at lowest cost*</u>

- Adjusted EBITDA up 52 percent to £32 million (2018: £21 million)
  - Pellet production up four percent to 1.41Mt (2018: 1.35Mt)
  - Cost of production down three percent to $161/tonne[(4)] (2018: $166/tonne[(4)])
  - Weather-affected forestry activities in H1 leading to reduced low-cost input fibre, offset by cost reduction initiatives and stronger output in H2
- Delivering a programme of cost reduction initiatives – targeting $35/t (£13/MWh[(7)]) on 1.85Mt by 2022
  - Projects delivered in 2019 with further benefits in 2020
    - LaSalle Bioenergy – improved rail infrastructure, woodyard decommissioning and sawmill co-location

    - Ongoing saving from 2018 relocation of HQ from Atlanta to Monroe
  - Savings from projects to be delivered in 2020-2022
    - 0.35Mt capacity expansion (LaSalle, Morehouse and Amite), sawmill co-locations and woodyard decommissioning (Morehouse and Amite), increased use of dry shavings, improved logistics and other operational enhancements

Power Generation – *flexible, low carbon and renewable generation*

- Adjusted EBITDA up 76 percent to £408 million (2018: £232 million)
  - £114 million of Adjusted EBITDA from acquired hydro and gas generation assets (guidance of £90-110 million)
  - Strong system support performance – 63 percent increase in value from flexibility[5] to £129 million (2018: £79 million)
  - Good commercial availability across the portfolio – 88 percent (2018: 87 percent)
- £78 million of Capacity Market agreements (2018: £6 million) following re-establishment of the market
- Biomass output (net sales) down three percent to 13.4TWh (2018: 13.8TWh)
  - H1 – ROC[9] generation reprofiled to reflect weather-affected US biomass supplies
  - H2 – record biomass output in November and December 2019 reflecting excellent operational availability
- Coal – Four percent of portfolio generation but with incremental value from buy back of forward power sales
- Gas – Damhead Creek restricted hours ahead of inspection and Shoreham interim inspection brought forward

Customers – *growth in margin per MWh and customer meters*

- Adjusted EBITDA of £17 million (2018: £28 million)
  - 2019 includes £8 million of restructuring costs
  - Growth in gross profit per MWh – focus on customer value over volume (MWh) – £6.7/MWh vs. £6.6/MWh
  - Six percent growth in customer meters to 419,000 (2018: 396,000)
  - Improvement in bad debt charge – £18 million (2018: £31 million)
- Investment in restructuring to drive future earnings growth

Other financial information

- Tax rate benefits from Patent Box claims – corporation tax of 10% on profits arising from investment in innovation
- Capital investment of £172 million
  - Includes 0.35Mt of new low-cost US pellet capacity (£10 million in 2019 and £40 million in 2020)
- Net debt of £841 million, including cash and cash equivalents of £404 million (31 December 2018: £289 million)
  - 1.9x net debt to Adjusted EBITDA adjusted to reflect receipt of Capacity Market payments in January 2020

Notes:

(1) Adjusted Results are stated after adjusting for exceptional items (including acquisition and restructuring costs, asset obsolescence charges and debt restructuring costs), and certain remeasurements.
(2) Earnings before interest, tax, depreciation, amortisation, excluding the impact of exceptional items and certain remeasurements.
(3) Borrowings less cash and cash equivalents.
(4) Cost of production in US biomass self-supply business – raw fibre, plus processing into a wood pellet, delivery to port of Baton Rouge and loading to vessel for shipment to UK – Free on Board (FOB). Cost of ocean freight, UK port and rail cost reflected in UK generation business accounts in addition to price paid to US business for the wood pellet.
(5) Balancing Market, Ancillary Services and advantaged fuels.
(6) Scope 1 & 2 – 2019 includes hydro and gas generation assets.
(7) Assuming a constant rate of $USD1.45/£GBP.
(8) BioEnergy Carbon Capture and Storage.
(9) Renewables Obligation Certificate.

Forward Looking Statements

This announcement may contain certain statements, statistics and projections 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 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 expectations reflected in such statements are reasonable, no assurance can be given that such expectations will prove to be correct and because these statements involve risks and uncertainties, actual results 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 factors include, but are not limited to, factors such as: future revenues being lower than expected; increasing competitive pressures in the industry; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected. We do not intend to publicly update or revise these projections or other forward-looking statements to reflect events or circumstances after the date hereof, and we do not assume any responsibility for doing so.

Results presentation meeting and webcast arrangements

Management will host a presentation for analysts and investors at 9:00am (UK Time), Thursday 27 February 2020, at FTI Consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD.

Would anyone wishing to attend please confirm by e-mailing Rosie.Corbett@fticonsulting.com or calling Rosie Corbett at FTI Consulting on +44 (0) 20 3727 1718
The meeting can also be accessed remotely via a live webcast, as detailed below. After the meeting, the webcast will be made available and access details of this recording are also set out below.

A copy of the presentation is available for download at: https://www.drax.com/investors/results-reports-agm/#investor-relations-presentations

Event Title:	Drax Group plc: Full Year Results
Event Date:	Thursday 27 February 2020
	9:00am (UK time)
Webcast Live Event Link	https://secure.emincote.com/client/drax/drax005
Start Date:	Thursday 27 February 2020
Delete Date:	Thursday 31 December 2020
Archive Link:	https://secure.emincote.com/client/drax/drax005

For further information please contact Rosie.Corbett@fticonsulting.com on +44 (0) 20 3727 1718

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Chair's statement

Introduction

Drax Group's purpose is to enable a zero carbon, lower cost energy future. Since 2012 Drax has reduced its reported carbon emissions by over 85%. In December, we took a step further and announced an ambition to become carbon negative by 2030. With the right support and negative emissions framework from the UK Government, we believe we can realise this ambition.

Through these activities we expect to play a major role in delivering the UK's legally binding objective to become carbon neutral by 2050.

The Group's purpose informs our strategy through which we aim to build a long-term future for sustainable biomass, become the leading provider of system stability in the UK and give customers control of their energy.

In 2019 we continued to make good progress in delivering this strategy. In doing so we are delivering higher quality earnings, reducing commodity exposure and creating opportunities for growth aligned with the UK's carbon neutral agenda.

Biomass has a long-term role to play in the UK and global energy markets as a flexible and sustainable source of renewable energy, as well as a means to deliver negative emissions. Key to securing this long-term role is reducing the cost of biomass. We aim to increase biomass self-supply to five million tonnes by 2027, which we believe will drive significant cost reduction and attractive returns to shareholders. We have made good progress in 2019 and will continue to implement measures to reduce costs and develop expansion opportunities in 2020.

The Group is working with a range of partner organisations to outline a plan for the decarbonisation of the Humber area. This is an industrial area in the northeast of England with one of the highest levels of CO_2 emissions, making it a natural and cost-effective location for the deployment of carbon capture and storage, using Bioenergy with Carbon Capture and Storage (BECCS) at Drax Power Station. Through these initiatives we hope to deliver long-term benefits to a wide range of stakeholders and support the UK's transition to net zero.

This is one example of how our engagement with stakeholders is an enabler to the delivery of our strategy. In our Annual Report, we provide further detail on our stakeholders and how members of the Board, including Non-Executive Directors, have participated in discussions and sought to understand views in order to inform decision making.

Drax Power Station is the UK's largest single source of renewable electricity, providing 11% of the total. During 2019 the Generation business managed a programme of major planned outages. The business also optimised biomass operations to reflect weather-related biomass supply chain constraints. Over the same period coal generation has reduced, reflecting challenging market conditions. Following a comprehensive review of operations and discussions with National Grid, Ofgem and the UK Government, the Board of Drax has determined to end commercial coal generation at Drax Power Station. Drax will shortly commence a consultation process with employees and trade unions with a view to ending coal operations in September 2022. Under these proposals, commercial generation from coal will end in March 2021 but the two coal units will remain available to meet Capacity Market obligations until September 2022.

In December 2018 we completed the acquisition of a portfolio of hydro and gas generation assets from ScottishPower, making Drax the fourth largest electricity generator in the UK and a leading provider of system support services. During 2019 we successfully integrated these assets into our generation portfolio. The assets have performed strongly with returns significantly ahead of the Group's cost of capital.

Following weather-restricted production in the first quarter of 2019, our US Pellet Production business produced at full capacity. Our focus remains on the production of good quality and low-cost biomass. Although pellet quality improved in 2019, it was below the level we expect and we are focused on delivering further improvements during 2020.

In our Customers business, which supplies electricity and gas to business customers, we made progress reducing cost, increased the margin per MWh and installed more smart meters year-on-year. However, in a challenging market, financial performance was below the level we expect and we have more work to do to realise the opportunities we continue to see in this area. During 2019 we consolidated the management team at Haven Power and Opus Energy into a single integrated team. We expect this new structure to improve operational efficiency.

Results and dividend

Adjusted EBITDA in 2019 of £410 million grew by 64% compared to 2018 (£250 million). This reflects high levels of renewable power generation from sustainable biomass, a strong performance from the hydro and gas generation businesses, as well as continued growth in our Pellet Production business.

At the 2019 half year results we confirmed an interim dividend of £25 million (6.4 pence per share). The Board proposes to pay a final dividend in respect of 2019 of £38 million, equivalent to 9.5 pence per share, making the full year 2019 dividend £63 million (15.9 pence per share) (2018: £56 million, 14.1 pence per share). This represents a 13% increase on 2018 and is consistent with our policy to pay a dividend which is sustainable and expected to grow as the strategy delivers stable earnings, strong cash flows and opportunities for growth.

The Group has a clear capital allocation policy which it has applied throughout 2019. In determining the rate of growth in dividends from one year to the next the Board will take account of contracted cash flows, the less predictable cash flows from the Group's commodity based business 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.

Governance and values

Sustainability is at the heart of the Group and its culture. It covers the sustainable sourcing of biomass, which is a core principle of the Group, and also long-term sustainability. This means achieving a positive economic, social and environmental impact and considering long, medium and short-term factors in our stewardship of the business.

We are committed to promoting the UN Global Compact principles on respect for human rights, labour rights, the environment and anti-corruption.

Our aim is to maintain an open and collaborative culture across the Group. Setting the right standards helps to protect the business and the interests of our stakeholders. We remain committed to the highest standards of corporate governance and the Board and its committees play an active role in guiding the Company and leading its strategy.

In 2019 we saw several changes to the Board, including the appointment of Andy Skelton as Chief Financial Officer (CFO). Andy is highly experienced, having previously served as CFO at Fidessa Group plc.

We greatly value the contribution made by our Non-Executive Directors and during a time of growth their role remains especially important. David Lindsell, Tony Thorne and Tim Cobbold each stepped down, and I would like to thank all three for their very significant contributions to the Board and the stewardship of the business.

John Baxter joined the Board in April 2019 and brings a wealth of industry, engineering and safety management expertise.

Our people

Our people – employees and contractors – remain a key asset of the business and we are focused on creating a diverse and inclusive working environment that is both safe and supportive.

We recognise the importance of listening to employees to understand their concerns and act on them. To that end, in 2019, we established an enhanced programme of workforce engagement to improve communication and feedback between the Board, senior management and our workforce. Together with Will Gardiner, our CEO, I participated in meetings with the chairs of our newly established engagement forums.

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

To conclude, in 2019 we delivered strong financial performance and made good progress with our strategic objectives. I look forward to building on these in 2020. Through this strategy we will deliver sustainable long-term value, support the communities in which we operate and realise our purpose of enabling a zero carbon, lower cost energy future.

Philip Cox CBE
Chair

CEO's review

2019 was an important year for Drax Group. Following the acquisition of the hydro and gas generation assets from ScottishPower in December 2018, we are now the UK's fourth largest generator, meeting 5% of its power requirements, and generating 12% of the country's renewable power.

In 2019, we continued to advance our purpose of enabling a zero carbon, lower cost energy future. In December 2019, we announced a world first ambition to become a carbon negative company by 2030, removing more CO_2 from the atmosphere than we put into it. We have made significant progress towards that goal, as the carbon emissions from the Group have reduced by more than 85% since 2012. We now expect to take this a step further with the end of commercial coal generation in 2021 and the formal closure of the coal units in 2022.

The safety and wellbeing of our workforce is paramount to the Group. We continue to invest in the systems, governance and training to keep our workforce and assets safe.

Total Recordable Incident Rate (TRIR), a key scorecard measure of safety, was 0.22. This was the same as in 2018 although behind the challenging scorecard target for 2019. Safety remains our priority and as always there is more we can do in our pursuit of zero incidents.

Alongside a good operational performance, we delivered Adjusted EBITDA of £410 million, an increase of 64% on 2018. We propose to pay a dividend in respect of 2019 of £63 million, an increase of 13% on 2018. By the end of the 2019, net debt was £841million, 1.9x net debt to EBITDA, ahead of target of 2.0x, after adjusting for deferred cash receipt of Capacity Market payments of £72 million, received in January 2020.

Purpose and Strategy

Drax's purpose, to enable a zero carbon, lower cost energy future, sits at the heart of everything we do. We see growing opportunities to create value for shareholders as well as significant benefits for all stakeholders as we deliver that purpose.

2019 saw increasing global recognition of the need for urgent action to tackle climate change by reducing greenhouse gas emissions. The UK Government has taken a lead by putting in place legally binding targets to deliver net zero carbon emissions across the UK economy by 2050. This is an ambitious target which can only be delivered with action and investment now.

We are playing a key role in this transformation. The CO_2 emissions at Drax Power Station were less than one million tonnes for the first time, a 97% reduction since 2012, and it is now the UK's largest source of renewable power generation. This was achieved through our continued focus on renewable biomass combined with operational excellence and innovative engineering.

While others target net zero, in December 2019, Drax became the first company in the world to announce an ambition to become carbon negative by 2030 – removing CO_2 from the atmosphere using Bioenergy with Carbon Capture and Storage (BECCS) to safely capture and store CO_2 at scale.

In May 2019 the UK Committee on Climate Change published its pathway for how the UK can deliver net zero carbon emissions by 2050. It highlighted the need for BECCS. Drax is in a leading position to deliver BECCS at scale in the UK and provide as much as a third of the negative emissions the UK will require. We believe we can deliver the engineering solution, but our ambition also requires the right regulatory framework and policy support to underpin an investment decision.

To support that process, in May 2019 we joined with National Grid and Equinor to advocate for a framework to support the development of a carbon cluster in the Humber region, one of the most carbon intensive areas of the UK. This programme is called Zero Carbon Humber.

The Group's purpose informs the three pillars of our strategy (i) to build a long-term future for biomass, (ii) to be the leading provider of power system stability and (iii) to give our customers control of their energy.

In 2019 we continued to make good progress delivering our purpose and strategy. Through addressing UK energy needs, and those of our customers, our strategy is designed to deliver excellent long-term financial performance across the Group. In doing so we are reducing our historic exposure to commodity markets and delivering higher quality earnings, strong cash generation, increased dividends to shareholders and further opportunities for growth.

A good example of this is the successful integration of a generation portfolio of flexible, low carbon and renewable hydro and gas generation assets acquired in December 2018. Our expanded asset base has improved the risk profile of the Group and provided more opportunities to deliver system support services to the UK energy market. Our expected EBITDA from these assets was £90-£110 million and they have delivered £114 million of high-quality earnings, with financial returns significantly ahead of the Group's cost of capital.

As part of our strategy to deliver a long-term future for sustainable biomass, in November 2019, we announced plans to expand our supply chain to self-supply five million tonnes of biomass to our generation business by 2027. In 2019 we self-supplied 1.4 million tonnes. We expect this expansion to be delivered through existing sites, new developments and a wider fuel envelope of sustainable biomass. Through these initiatives we expect to reduce the cost of biomass from around £75/MWh to £50/MWh by 2027, assuming an exchange rate of $1.45/£. This is a level at which we believe renewable electricity from biomass can be economic without the current support mechanisms.

These activities, alongside the development of a biomass trading capability, could enable Drax to develop an unsubsidised biomass generation business by 2027, with the option to service wood pellet demand in Europe, North America and Asia.

Summary of 2019

Overall performance of the Group and its business units is measured as part of our Group Scorecard which covers a combination of financial, environmental, social and governance issues. The Group's score in 2019 was 0.9, with a score of 1.0 being on target.

Adjusted EBITDA, a key financial KPI, of £410 million represents a 64% increase on 2018. This includes £78 million of Capacity Market income in respect of the whole of 2019 and the last two months of 2018.

Despite challenging weather conditions in early 2019, Pellet Production increased output across the full year from 1.35 million tonnes to 1.40 million tonnes. At the same time, the cost of producing and delivering wood pellets to our port facility at Baton Rouge reduced from $166/tonne in 2018 to $161/tonne in 2019, although challenges remain in terms of pellet quality.

In Generation, the integration and performance of the acquired assets was a success. At Drax Power Station we managed lower levels of biomass availability, which restricted generation in early 2019. By optimising biomass generation under the Renewables Obligation (RO) scheme we were able to partially offset the constraint by producing higher levels of biomass generation later in the year, particularly December, in which we reported record monthly renewable generation. The business also completed a programme of major planned outages across the portfolio.

In our Customers business, which supplies electricity and gas to business customers, we have made progress reducing cost, however performance elsewhere has been below our expectation. This in part reflects a challenging market and we have more work to do to deliver the opportunities we continue to see in this area.

During the year we completed the refinancing of the funding used to acquire the hydro and gas generation assets. These new facilities extend the Group's debt maturity profile to 2029, incorporating a £125 million Environmental, Social and Governance (ESG) facility with a mechanism that adjusts the interest margin based on Drax's carbon emissions against an annual benchmark. We believe we are one of the first companies to implement such a feature within its debt, demonstrating our commitment to embedding ESG in financial performance. The Group's cost of debt is now below 4% and below 3% on the new facilities, reflecting a reduced business risk.

Operational review

In the US, our Pellet Production operations reported Adjusted EBITDA of £32 million up 52% (2018: £21 million).

High levels of rainfall in the US Gulf in early 2019 restricted the level of commercial forest extraction and the availability of low-cost fibre for wood pellet production. This in turn had an impact on the shipment of pellets from the port of Baton Rouge. Since then commercial forestry processes, wood pellet production and shipments to the UK have increased. As a result, wood pellet volumes for 2019 were 1.40 million tonnes, up 4% (2018: 1.35 million tonnes).

Pellet quality, as measured by the amount of fines (larger particle-sized dust) in each cargo, is a KPI for the Group. Lower levels of fines result in fuel that is easier and safer to handle at ports and at Drax Power Station. The quality of the pellets we produced was below our target level in 2019 and we are taking steps to address this issue in 2020.

We have remained focused on opportunities across the supply chain to deliver improved operational performance and cost savings as part of our programme to reduce the cost of biomass to £50/MWh by 2027. We have made good progress with increased volumes, operational improvements and greater utilisation of low-cost fibre which have contributed to lower cost wood pellet production.

A co-location agreement with Hunt Forest Products (a sawmill operator) led to the development of a sawmill next to our LaSalle site. The sawmill commenced production in February 2019 providing greater access to low-cost sawmill residues, lower transportation costs and a reduction in the number of stages in the production process.

A new rail spur linking LaSalle to the regional rail network and our port facility at Baton Rouge was commissioned in May 2019. This will increase transportation efficiency, provide economies of scale and reduce both cost and carbon footprint.

We expect to benefit from further economies of scale in rail associated with the commissioning of an enlarged chambering yard at the port of Baton Rouge in 2020, allowing 80-car train sets to operate from our LaSalle and Morehouse sites.

These initiatives and others have contributed to a year-on-year reduction in cost per tonne of 3%, which represents a saving of $5 per tonne compared to 2018.

We expect to deliver further savings by expanding our existing sites (LaSalle, Morehouse and Amite) by 350,000 tonnes over the next two years – an investment of £50 million. This will expand total capacity to 1.85Mt, provide economies of scale and allow greater utilisation of low-cost residues. We believe these projects offer returns significantly ahead of the Group's cost of capital, with payback in advance of 2027.

These larger projects are accompanied by small operational improvements such as greater efficiency in the loading of road haulage, saving 50 cents per tonne. Over time these improvements, when applied across the supply chain, can deliver significant incremental savings.

Taking the savings in 2019 together with the other initiatives we have described, we believe there are opportunities to reduce the cost of biomass by $35 per tonne (£13/MWh) on our existing portfolio by 2022. This represents good progress, but more work and investment will be required to deliver our goal of making biomass power generation economically sustainable without subsidy. We expect to do this by using a greater proportion of lower cost wood residues, expanding our self-supply capacity to five million tonnes and exploring ways to expand our fuel envelope to include a wider range of sustainable low-cost biomass residues.

In Generation, Adjusted EBITDA of £408 million was up 76% (2018: £232 million). This includes £114 million from the hydro and gas generation assets acquired in December 2018. These assets have performed strongly, exceeding our financial expectation in the first year of ownership.

Commercial availability, which measures the time we are available to operate in our markets, was 88% (2018: 89%). This was below our target and principally reflects restricted biomass generation in the first quarter of 2019 and gas unit outages. The engineering challenges associated with such an outage are significant and the completion of the work and recommissioning, which allowed a strong operational performance, is testament to the skill and commitment of our people.

In 2019, we completed two major planned biomass outages, including the first in a series of three high-pressure turbine upgrades which we expect to increase thermal efficiency and reduce the cost of biomass generation.

Notwithstanding these planned outages our biomass units produced 11% of the UK's renewable electricity – enough to power four million homes. This level of renewable generation, combined with the flexibility of our expanding portfolio, allows the Group to support the continued deployment of intermittent renewables and the UK's plans for decarbonisation.

Over the last five years the operational experience with biomass generation has been positive and we are now exploring a wider range of sustainable biomass materials. In time we believe that utilisation of this expanded fuel mix will support a reduction in the cost of biomass generation.

Our hydro assets, which include the Cruachan pumped storage power station as well as Lanark and Galloway hydro schemes, have performed strongly, providing flexible, renewable and low carbon electricity. Cruachan Power Station – the largest of these assets (440MW) – plays an important role in the provision of system support services to the UK energy market. Over 80% of Cruachan's earnings are from non-commodity sources, including Balancing Market activities, Ancillary Services and the Capacity Market.

We operate 2.0GW of Combined Cycle Gas Turbines (CCGT) – Damhead Creek, Shoreham, Rye House and Blackburn. These units produced 2.9TWh, representing around 17% of our total generation. The location of three of the four units in southeast England makes them well placed to provide system support services to the UK energy market.

During the year we completed two planned outages, including turbine repairs and interim inspection work at Shoreham Power Station, providing the option for a future turbine upgrade to take place.

Since the start of 2019 seasonal electricity prices have weakened, reflecting a mild winter and high levels of European gas storage. The market for coal generation has remained challenging and our two coal units continue to focus on short-term power market opportunities during higher demand periods. Coal generation of 0.6TWh represents 4% of the Group's output. Where we sold forward volumes on a limited basis, weaker power prices allowed us to buy back some of those volumes at a lower price, adding margin.

The flexibility and dispatchable nature of our generation portfolio is an important source of value and was a key factor in our acquisition of the hydro and gas generation assets. Given the shift towards wind generation, which will provide the majority of the UK's future electricity requirements, we anticipate a growing need for system support services. In 2019 Value from Flexibility (a scorecard measure of the value from flexible power generation, system support services and attractively priced coal fuels) was £129 million (2018: £79 million), which was ahead of plan, reflecting a 63% increase on 2018.

We believe there is a need for flexible, large-scale dispatchable generation, but this must support the UK's target of net zero carbon emissions by 2050. To that end we continue to develop options for four 299MW Open Cycle Gas Turbines (OCGTs) and 5.4GW of CCGTs between Damhead Creek and Drax Power Station.

We expect the CCGTs to be among the most efficient assets in their class and hence sit high in the UK merit order, in addition to being available for system support services. The OCGTs will perform a system support role and meet peak power demand at short notice.

An appropriate clearing price in a future Capacity Market will be required to underpin investment in new-build gas. We will remain disciplined through this process and at the most recent auction in January 2020 Drax did not accept a Capacity Market agreement for these projects. We remain committed to developing the most cost-effective capital programmes for all of our gas projects, which we believe can make them competitive in future capacity auctions.

Planning approval for the CCGT at Drax Power Station is subject to a judicial review and we will not participate in future Capacity Market auctions until the outcome is known.

Our Customers business, which focuses on B2B supply, has faced a challenging market environment. Taken together with integration costs, Adjusted EBITDA of £17 million is lower than the prior year (2018: £28 million). This includes £8 million of investment in restructuring to integrate the Haven Power and Opus Energy brands under a single operating structure. The creation of a single management team is now complete and will help drive alignment of decision making, effective market segmentation and operational efficiencies.

During the year significant focus was given to cash collection to address historic challenges associated with bad debt at Opus Energy. As a result we have seen further improvements in the management of bad debts during the period, reflected in a reduced charge to the income statement of £18 million (2018: £31 million), whilst maintaining a prudent level of provision.

We have a differentiated market position – selling purely renewable power, helping over 2,000 independent renewable generators access the market and developing products which will meet our customers' needs. We continue to believe this approach will support long-term growth.

Over time, we expect this business, through efficiency and demand-side response, to contribute increasingly to balancing the power system and we are excited about our opportunity to make a difference in this area.

Biomass sustainability

Under well-established UK and European legislation, sustainably sourced biomass is a renewable source of electricity. The rules and the science which underpins this treatment are clear.

We source low-cost sawmill residues and forest residues, which are a by-product of commercial forestry processes, and thinnings from growing forests, which help improve forest stocks and forest health. The CO_2 emissions are absorbed by new forest growth. We use feedstocks that have been shown to have no carbon debt associated with them.

We maintain a rigorous and robust approach to biomass sustainability, ensuring the wood fibre used and pellets produced are fully compliant with the UK's mandatory sustainability standards as well as those of the European Union. Since the introduction of the Renewable Obligation Certificate (ROC) scheme in 2002 Drax has maintained full compliance with UK and European legislation.

However, there are carbon emissions associated with the biomass supply chain. Under UK legislation biomass is the only source of electricity generation required to report its supply chain emissions. The Group's biomass life cycle carbon emissions are 124 $kgCO_2$-eq/MWh of electricity (2018: 131 $kgCO_2$-eq/MWh), less than half the UK Government's 285 $kgCO_2$-eq/MWh of electricity limit for biomass. This equates to an 87% carbon emission saving against coal, inclusive of biomass supply chain emissions, but excluding those of coal, which means the actual saving from biomass is even greater.

Reflecting this and a lower level of coal generation, reported carbon emissions under the European Union Emissions Trading Scheme fell by 50% to 113tCO_2/GWh (2018: 226tCO_2/GWh).

Strengthening our leadership on biomass sustainability, we introduced a new Responsible Sourcing Policy for Biomass and established an Independent Advisory Board, chaired by Sir John Beddington, the UK's former Chief Scientific Adviser. We responded to the Climate Disclosure Programme's (CDP) Climate Change and Forests questionnaires.

Environmental, social and governance

The health, safety and wellbeing of our employees and contractors is vital to the success of the Group and remains our priority. We believe that a safe and sustainable business model is critical to our strategy and long-term performance. In 2019 we implemented a new Group-wide approach to health, safety and wellbeing, as well as the establishment of a new Group-wide workforce engagement forum.

In March 2019 we published our second gender pay report. While the data showed that our businesses were in line with the energy sector overall, it highlighted that we still have work to do.

In June 2019, we published our third statement on the prevention of slavery and human trafficking in compliance with the UK Modern Slavery Act (2015) and we are a signatory to the UN Global Compact (UNGC). We are committed to promoting the UNGC principles on respect for human rights, labour rights, the environment and anti-corruption.

Brexit

Brexit remains a key issue for the UK. To date, the impact on the Group has been limited, with the principal risk being weaker Sterling affecting the cost of biomass, which is generally denominated in US dollars. Through our use of medium-term foreign exchange hedges the Group has protected its position out to 2024 at rates close to those that we saw before the Brexit referendum vote.

Outlook

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

These activities continue to be underpinned by safety, sustainability and operational excellence.

In Pellet Production we remain focused on the production of good quality pellets at the lowest cost, cross-supply chain optimisation and an expanded self-supply capacity to five million tonnes by 2027.

Our Generation proposition is strong: flexible, renewable and low carbon electricity and system support services. We will continue to provide high levels of renewable electricity to the UK and support increased deployment of intermittent renewables necessary to support the UK's transition to a net zero carbon economy.

Flexible dispatchable gas has an important long-term role to play in supporting the transition to a net zero carbon economy. We will optimise our portfolio to meet this demand and develop carbon capture and storage ready projects – options which could include hydrogen fuelling – subject to the right price in future capacity auctions.

Our ambition to become a carbon negative company is underpinned by the development of BECCS. Working in partnership, and with the right support from the UK Government, we could develop BECCS at scale before 2030. By reducing our biomass supply chain cost we will support this objective and deliver further attractive returns to shareholders.

In our Customers business we will remain focused on operational excellence, reducing our cost to serve customers, growing gross profit per MWh and managing bad debt. We will offer attractive propositions and develop our presence in the market for system support through flexible demand management and other value-added services.

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

Will Gardiner
Group CEO

Group financial review

Introduction

The Group has delivered significant growth during 2019, with Adjusted EBITDA increasing by 64% from £250 million to £410 million.

Total operating profit, which includes the effect of remeasurement losses of £133 million (2018: remeasurement gains of £38 million) on derivative contracts, also increased from £60 million in 2018 to £62 million.

Our new portfolio of pumped storage, hydro and gas-fired generation assets (hereafter referred to as the “new generation assets”), acquired on 31 December 2018, delivered Adjusted EBITDA of £114 million. Growth was further supported by an increased contribution from renewable power generation from sustainable biomass at Drax Power Station and our Pellet Production business.

This performance is particularly pleasing when considering the challenges we faced in the first half of the year where both our pellet production operations and biomass generation were impacted by lower levels of biomass supply as a result of historically bad weather conditions in the US Gulf.

Following the reinstatement of the UK Capacity Market in October 2019, the results for the year include £78 million of capacity market income, including £7 million for the period in 2018 after its suspension. The associated cash was subsequently received after the year end and does not form part of our reported net debt at 31 December 2019.

The Group improved its access to capital during 2019. We refinanced the acquisition bridge facility, used to part-fund the acquisition in December 2018 of the new generation assets from ScottishPower, in three stages.

In May, we issued an additional US $200 million of the existing 2025 6.625% loan notes. In July, we entered into two new senior debt facility agreements, a £375 million private placement and a £125 million environmental, social and governance (ESG) facility. The average rate of the two new facilities is below 3%, reducing the Group’s overall cost of debt to below 4%, reflecting a reduced business risk profile.

Driven by strong cash generation in the period, supported by active management of working capital, net debt at 31 December 2019 was £841 million (2018: £319 million), delivering a net debt to Adjusted EBITDA ratio of 1.9x, ahead of our target of 2.0x for the year end after adjusting for the deferred receipt of £72 million cash in respect of Capacity Market payments received in January 2020.

We remain committed to a sustainable and growing dividend. The Board will recommend at the forthcoming Annual General Meeting a final dividend that takes total dividends for the financial year to £63 million, or 15.9 pence per share, an increase of £7 million or 1.8 pence per share when compared to 2018.

Financial Performance

Adjusted EBITDA

Group consolidated Adjusted EBITDA of £410 million includes a contribution of £114 million from our new generation assets, acquired at the end of 2018. This is an excellent result and exceeds our forecast range of £90-£110 million, reflecting strong operational performance across the portfolio, better than expected performance in ancillary and balancing services and excellent progress with the integration of the assets into our existing generation business, which is now complete.

In total, the Generation business contributed Adjusted EBITDA of £408 million (2018: £232 million), an increase of £176 million or 76%. This performance comes despite industry-wide challenges with wood pellet production and associated supply constraints in the first half of the year and includes the contribution of £114 million from our new generation assets, described above.

Following the reinstatement of the Capacity Market in October 2019, we have recognised related income totalling £78 million across the Generation portfolio. Our financial results for 2018 excluded £7 million of capacity market income following its suspension in October 2018, and this amount has now been recognised in 2019.

Total output at Drax Power Station reduced, as we continue our transition away from coal; however, our biomass units delivered output broadly in line with 2018, of 13.4TWh (2018: 13.7 TWh). The small reduction in part reflected an outage over the summer period on Unit 1, which is supported by the Contract for Difference (CfD).

Despite lower CfD generation, overall renewable support under the CfD and ROC regimes remained broadly in line with the prior period, due to higher ROC generation and indexation of support payments.

Overall captured spreads improved following efficiency gains as a result of our programme of investment in the performance of generating units at Drax Power Station and benefits from our trading position and portfolio.

We continue to derive value from flexibility (balancing mechanism, ancillary services and advantaged fuels), which improved from £79 million in the prior year to £129 million in 2019, an increase of 63%. Our new hydro and pumped storage assets performed particularly strongly in this area, a demonstration of the contribution of the acquisition to our strategy to become the leading provider of system stability in the UK.

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

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

From time to time, for example where market conditions or our trading expectations change, action may be needed in accordance with these policies to rebalance our portfolio. This year such activity included restructuring in-the-money foreign currency exchange contracts, to balance short and long periods across the duration of the hedge. During 2019 we also realised value from closing out positions as expectations for coal generation reduced, the benefit of which is included in value from flexibility, above. The financial impact of these activities – which is driven by market prices at the point of execution – is recognised in the cost of sales of our Generation business and therefore is reflected in our Adjusted Gross profit and Adjusted EBITDA.

Our Customers business contributed Adjusted EBITDA of £17 million in 2019, an £11 million reduction when compared to 2018.

The 2019 result for Customers includes £8 million of investment cost in the restructuring of the business, to more closely integrate our two brands and bring them under one management team (In 2018, £3 million of restructuring and integration costs were treated as exceptional and excluded from Adjusted results in the first year post-acquisition of Opus Energy), and a further £7 million for the development of next-generation IT systems (2018: £6 million).

We delivered the new ERP system at Opus Energy during the second half of 2019 but have stopped the implementation of a new billing system and are in ongoing discussions with the supplier. We have incurred approximately £19 million of costs to date, held on the balance sheet, which we believe have value and will be recovered.

Overall volumes sold were down by 9% compared to 2018, which largely reflects a mild 2018/19 winter that led to a challenging first half of the year. As a result, overall gross profit fell from £143 million in 2018 to £134 million in 2019.

During the year, significant attention was focused on improving cash collections, where we have seen a positive performance. As a result of this, in addition to a £6 million benefit in respect of resolution of legacy credit balances, bad debt charges reduced from £31 million in 2018 to £18 million in 2019. The higher charge in the prior year reflected an increased level of provisioning required due to reduced collection performance, plus a £3 million one-off expense in respect of SME business. The closing provision at 31 December 2019 of £41 million is slightly lower than the prior year (2018: £44 million), reflecting the improved performance during the year.

Pellet Production Adjusted EBITDA of £32 million increased 52% from £21 million in 2018.

Production in the year increased slightly to 1,407kt (2018: 1,351kt), reflecting a full year of operations at the LaSalle pellet plant. This would have been higher but for challenging weather conditions in the first quarter, resulting from unseasonably high rainfall and associated high river levels, which materially restricted output at all three of our pellet plants and caused difficulties in loading ships at the port.

We have made good progress with biomass cost reduction projects in the year, with the average cost per gigajoule of our self-supplied pellets falling to US $161/tonne in 2019 compared to US $166/tonne in the prior year.

Key contributions to this saving came from the benefit of a full year of lower operational costs as a result of the headquarters relocation from Atlanta to Monroe during 2018 and the rail spur project at our LaSalle plant, commissioned in early May 2019, saving transport costs across the rest of 2019 with a positive impact on supply chain emissions. Furthermore, the sawmill co-location project at the same plant has delivered further savings.

The total savings from these projects delivered in 2019 was £14 million, which more than offset the weather impact described above.

Central and other costs of £46 million have increased by £18 million in 2019.

This increase includes incremental research and innovation costs associated with key strategic initiatives – including those relating to Bio-Energy Carbon Capture and Storage (BECCs).

As we described at the half year, and in connection with the integration of the acquired generation assets; we incurred one-off costs implementing a new organisational structure that we believe will enable us to execute our strategy more effectively. Costs associated with delivering working capital initiatives have also increased.

Total Operating Profit

Total operating profit of £62 million has increased 3% from £60 million in 2018. This includes the effect of acquisition and restructuring costs and remeasurement gains and losses on derivative contracts that are excluded from Adjusted results.

Acquisition and restructuring related costs of £9 million (2018: £28 million) reflect the first-year costs of integrating the new generation assets into our existing Generation business, following transaction costs associated with the acquisition last year. The integration is now complete, and in line with our policy no further acquisition and restructuring costs in relation to the acquired assets will be excluded from Adjusted EBITDA in 2020.

Net fair value remeasurement losses on derivative contracts included in operating profit were £133 million (2018: gains of £38 million) reflecting movements in the mark-to-market position on our portfolio of commodity and financial derivative contracts, to the extent they do not qualify for hedge accounting.

The losses in 2019 are predominantly the result of the strengthening of sterling in the period and the resulting impact on the value of our extensive portfolio of foreign currency exchange contracts, which provide a rolling five-year hedge against changes in exchange rates for fuel purchases denominated in foreign currencies.

Profit After Tax and Earnings per Share

Adjusted profit after tax of £118 million compares to £42 million for the prior year, resulting in Adjusted earnings per share (EPS) of 30 pence (2018: 10 pence) which represents a 200% increase.

Improvements in Adjusted profit after tax and EPS largely reflect the growth in Adjusted EBITDA described above, although this has been partially offset by higher depreciation charges resulting from the new generation assets, and an increase in interest charges as a result of the new debt issued to part-fund the acquisition, as described in further detail below.

Total profit after tax of £1 million is lower than £20 million for last year, with a corresponding reduction in Total EPS from 5 pence in 2018 to nil pence in 2019.

Total profit after tax reflects exceptional items and certain remeasurements, including the derivative remeasurements and acquisition and restructuring costs described above. In addition, it includes a further £5 million of interest charges relating to the acquisition bridge facility. These costs have been treated as exceptional given the direct link to the acquisition and their one-off nature (2018: £7 million).

The total tax credit of £3 million (2018: £6 million) reflects an effective tax rate that is lower than the standard rate of tax in the UK. This principally reflects the benefit of patent box tax credits in respect of biomass research and development expenditure. Total patent box credits included in the overall tax credit for 2019 are £8 million (2018: £8 million).

Cash taxes paid during the year were £9 million (2018: £1 million).

Capital Expenditure

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

Total capital expenditure of £172 million in 2019 was higher than £114 million in the prior year.

The increase principally reflects additional expenditure in respect of the new generation assets, strategic projects and investments to progress our objective of increasing self-supply of pellets to 5 million tonnes and reduce the cost of pellets.

We have made an initial investment in biomass expansion projects in the Pellet Production business, ahead of full delivery in 2020, in line with our strategy to expand self-supply. We have also continued investment in our gas development projects – our four OCGT sites, a new CCGT at Drax Power Station and the expansion option at Damhead Creek.

Cash and Net Debt

At 31 December 2019, total borrowings were £1,245 million (2018: £608 million) and net debt was £841 million (2018: £319 million).

Following the reinstatement of the Capacity Market in October, we accrued the £78 million of associated income in full; however, the cash payments were not received until after the year end. After adjusting for the receipt of £72 million of cash in January 2020 in respect of Capacity Market payments, covering the standstill period, this reflects a net debt to EBITDA ratio for 2019 of 1.9x (2018: 1.3x), within our target of less than 2x. Without adjusting year end net debt for this payment our closing net debt to EBITDA ratio was 2.1x.

The increase in borrowings and net debt in 2019 reflects the additional debt drawn to part-fund the acquisition of the new generation assets, for which the cash consideration was settled in January 2019.

Taking this into account, and allowing for a full year of EBITDA from the new generation assets in 2018, this represents a significant deleveraging on a like-for-like basis from a net debt to EBITDA ratio of 3.1x.

On 2 January 2019, the Group drew down £550 million from the £725 million acquisition bridge facility to partially fund the acquisition, with the remainder of the consideration funded from the Group's cash resources. At inception, the acquisition bridge facility was due to mature in the second half of 2020.

During 2019, we refinanced the acquisition bridge facility in three stages, including two new long-term debt facilities.

On 16 May 2019, we issued an additional US $200 million of the existing 2025 6.625% US dollar loan notes. The proceeds from the issuance were used to repay £150 million of the drawn down acquisition bridge facility. Reflecting the strong investor appetite, the notes were issued at 101.5% of their face value which, when swapped back into sterling, achieved an interest rate of 4.74%.

On 24 July 2019, we entered into two new senior debt facilities agreements, a £375 million private placement with infrastructure lenders with maturities between 2024 and 2029, and a £125 million ESG facility agreement that matures in 2022. The ESG facility includes a mechanism that adjusts the margin based on carbon emissions against an annual benchmark.

Together these new facilities extend the Group's debt maturity profile beyond 2027 and reduce the Group's overall cost of debt to below 4%.

A full reconciliation of the Group's borrowings in the period is provided in note 13 below.

The Group continued to generate strong cash from operating activities in 2019, with a total inflow of £413 million in 2019 (2018: £311 million). The increase principally reflects improved profitability, the contribution from newly acquired generation assets and a disciplined approach to working capital, partially offset by increased interest payments on the expanded debt portfolio.

In addition to the improvements in operating performance described above, the Group has a strong focus on cash flow discipline. We also use various methods to manage liquidity through the business' cash generation cycle.

The Group has access to a £315 million revolving credit facility, which can be used to manage low points in the cash cycle, which expires in 2021. No cash was drawn under this facility at 31 December 2019 (2018: £nil). We actively optimise our working capital position by managing payables, receivables and inventories to ensure that the working capital committed is closely aligned with operational requirements.

The key working capital benefits in 2019, in terms of cash flow, arise from making sales and purchases of ROC assets and rebasing foreign currency exchange contracts.

Historically, cash from ROCs has typically been realised several months after the ROC was earned at the end of the ROC compliance period; however, the Group is able to limit the overall impact of ROCs on working capital by making separate sales and purchases in the compliance period. For 2019, such transactions generated a net cash inflow of £131 million and supported an overall working capital inflow from ROCs of £54 million. The Group also has access to facilities enabling it to sell ROC trade receivables arising on a non-recourse basis. These facilities were not utilised at 31 December 2019 (2018: £nil).

During 2019 the Group rebased several foreign currency contracts, which resulted in a working capital benefit. The total cash released from related trades still outstanding at the end of the year was £84 million (2018: £3 million) reflected in cash generated from operations. By undertaking a similar exercise on cross-currency swaps, we released a further cash benefit of £22 million (2018: £nil). This has no impact on Adjusted EBITDA, the gains are held on the Group's balance sheet, until the rebased trades expire.

In addition, the Group has access to a £200 million receivables monetisation facility (extended from £150 million in 2018), which accelerates associated cash flows and mitigates exposure to credit risk, and a number of payment facilities to leverage scale and efficiencies in transaction processing. We also facilitate a supply chain financing scheme, which enables certain suppliers to access payment earlier than contractually agreed payment terms and supports the wider working capital efficiency of the Group. The balances outstanding at 31 December 2019 and change in utilisation in respect of each of these facilities is set out in note 14 below.

The overall net cash inflow for the year was £122 million (2018: £66 million), after cash payments for capital expenditure of £171 million (2018: £104 million), dividend payments of £59 million (2018: £53 million), net proceeds from new borrowings of £653 million (2018: net repayment of £5 million) and payments in respect of acquisitions of £692 million (2018: £nil).

Distributions

We have a long-standing capital allocation policy – a commitment to robust financial metrics that underpins our strong credit rating, invest in our core business, pay a sustainable and growing dividend and return surplus capital to shareholders as appropriate.

At the Annual General Meeting on 17 April 2019, shareholders approved payment of a final dividend for the year ended 31 December 2018 of 8.5 pence per share (£34 million). The final dividend was paid on 10 May 2019.

On 23 July 2019, the Board resolved to pay an interim dividend for the six months ended 30 June 2019 of 6.4 pence per share (£25 million), representing 40% of the expected full year dividend. The interim dividend was paid on 11 October 2019.

At the forthcoming Annual General Meeting, on 22 April 2020, the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2019 of 9.5 pence per share (£38 million), payable on or before 15 May 2020. Shares will be marked ex-dividend on 23 April 2020. This brings the total dividend payable for 2019 to £63 million and delivers 13% growth on 2018.

The Group's £50 million share buy-back scheme, which commenced in April 2018, concluded in January 2019. In total, 13.8 million shares were repurchased and are now held in treasury.

Other Information

New Accounting Standards

The impact of adopting IFRS 16 during the financial year – the new accounting standard for leases – is set out in note 17 below. On transition, the Group elected to use the practical expedient available, allowing the standard to only be applied to those contracts identified as leases under the previous standards. As a result, adoption of IFRS 16 has not resulted in any retrospective changes to amounts recognised in the Group's annual consolidated financial statements for the year ended 31 December 2018.

Adoption of IFRS 16 has resulted in a reduction of operating costs in 2019 of £7.4 million, with the costs of leases now reflected as depreciation and interest charges.

Had the standard been applied in 2018, the equivalent reduction in operating costs for the year ended 31 December 2018 would have been £6.3 million.

Restatement of Comparative Financial Information
The Group consolidated financial statements, include comparative information for the year ending 31 December 2018.

The 2018 comparatives have been restated, from those originally published, in respect of the following items:

- Finalisation of the opening values of assets and liabilities acquired in respect of the acquisition of the new generation assets on 31 December 2018. During 2019, we concluded a completion statement process and identified adjustments to fixed asset values totalling £4 million. The net effect of these changes was a £5 million increase in consideration payable and a £3 million reduction in goodwill. See note 16.
- Correction of an historical error identified in respect of translation of fixed assets in our US-based business into the consolidated group financial statements. Application of the correct foreign exchange rates resulted in an increase in fixed asset carrying values at 1 January and 31 December 2018 of £34 million and £56 million respectively, with an equivalent amount recognised in the translation reserve. The correction has no impact on previously reported profit or cash amounts.

Viability statement

In accordance with the UK corporate governance code, the Directors have assessed the prospects of the Group over a period significantly longer than the 12 months required by the going concern provision.

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

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

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

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

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

The risks were evaluated, where possible, to assess the potential impact of each on the viability of the Group, should that risk arise in its unmitigated form. The potential inputs were included, where appropriate, as sensitivities to the Plan and considered by the Board as part of the approval process, in January 2020, before the Plan was adopted by the Group.

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

Review of financial forecasts
The Plan considers the Group's financial position, performance, cash flows, credit metrics and other key financial ratios and was most recently updated to reflect current market and external environment conditions in December 2019. It is built by business and segment and includes growth assumptions appropriate to the markets each business serves.

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

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

The Board considers the most material scenario in the assessment period to be a significant deterioration of commodity market prices, leading to a fall in the available price for power and thus a fall in the margins available to the Group from power generation and supply activities. This impact would however be partially mitigated through the earnings stability provided by the CfD, the Group's ability to trade effectively in volatile power markets and reductions to discretionary expenditure.

Based on its review, the Board is satisfied the viability of the Group would be preserved in a range of scenarios, with various mitigating actions available, sufficient to manage the risk, including significant deterioration of commodity market prices.

Availability of adequate funding

The sources of funding available to the Group are set out in note 13 below. The Board expects these sources, along with stable cash flows generated by the Group from its normal operations, to provide adequate levels of funding to support the execution of the Group's Plan.

During the year the Group drew down and subsequently restructured £550 million of its £725 million acquisition bridge facility that was used to partially fund the acquisition of hydro and gas generation assets. In May 2019 an additional $200 million of the existing 2025 6.625% USD loan notes was issued, the proceeds of which were used to repay £150 million of the acquisition bridge facility. In July 2019 the refinancing of the remaining £400 million was concluded in the form of two new facilities with combined proceeds of £500 million, a £375 million UK infrastructure private placement and an environmental, social and governance facility of £125 million. These arrangements both reduced the overall cost of debt and extended the maturity profile to 2029 to further strengthen the balance sheet.

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

Expectations

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

Principal risks and uncertainties

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

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

Group approach to risk management

The risk appetite determined by the Board varies depending on the risk, and guides the principles of the Group's culture, behaviour and the intensity of risk management activities in achieving our business objectives. We consider a range of risk categories including environment, health, safety, strategic, financial, political, regulatory and operational. The Group has a Risk Management Policy, approved by the Board, which defines the Group's approach to risk management. The key elements of the policy are to:

- Identify risks that have the potential to threaten the achievement of our strategic objectives. We then assess the likelihood of the risk occurring and possible impact to the business in the event it should arise. This assessment is based on a risk scoring matrix to ensure we take a consistent approach.
- Assign responsibility and define accountabilities for the identification, assessment and management of risk and provide resources to enable appropriate measures to be taken.
- Put in place appropriate mitigating controls intended to manage identified risks to an acceptable level.
- escalate and report information on the potential risk and the effectiveness of the mitigations and controls to support management decision making.
- Regularly monitor changes within and outside our business, review the Group's principal risks against such changes to ensure our analysis remains accurate and up-to-date and review the effectiveness of mitigation strategies and the application of the risk framework.

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

Risk management governance

The risk management governance structure includes Executive Committee level principal risk owners and risk management committees whose responsibilities include:

- Ensuring that risks are identified, assessed and managed effectively within risk appetites and limits

- Including new and emerging risks
- Demonstrating robust governance of risk management by reviewing and challenging risk management across the Group and driving the completion of actions to manage risks within risk appetites and limits
- Driving an appropriate risk management culture and an environment that promotes and creates balanced risk-taking behaviour and clear accountability

The risk management committees receive reports from business units and risk owners. The Executive Committee receive reports from the risk management committees and principal risk owners and undertake deep dive reviews of the management of principal risks.

In addition, the Audit Committee reviews the suitability and effectiveness of risk management processes and controls on behalf of the Board.

Internal control

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

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

Under authority delegated by the Board, the Audit Committee, implements a programme of internal audits of different aspects of the Group's activities. The programme is developed based on an assessment of the key risks of the Group, the existing assurance and controls in place to manage the risks and the core financial control framework. The programme is reviewed quarterly and refreshed to reflect developments within the Group as well as changes in wider practices, informed by the experience of internal and external personnel.

Internal audits are performed either by the in-house team members of the internal audit function or by external parties where their appointment has first been considered and approved by the Audit Committee. The findings and recommendations from each internal audit are documented in a report for internal distribution and action. A full copy of the report is distributed to the Executive Committee and the Audit Committee. Each report includes management responses to the findings and recommendations and details of the actions that management propose to take.

Based on the reporting from the Executive Committee and the Audit Committee undertaken during 2019 and considered at the meeting of the Board held in finalising the annual report and financial statements, the Board determined that it was not aware of any significant deficiency or material weakness in the system of internal control.

Principal risks and uncertainties

Risks are reported to the Board and disclosed in the Annual Report and Accounts under nine principal risk headings. The Board has assessed the principal risk categories. These are broadly unchanged from 2018 with two exceptions: Transaction risks, which was included in 2018 to reflect the risks associated with the acquisition of thermal and hydro assets. The risk category has been removed as these assets have been integrated successfully into our operations during 2019. A new category entitled Climate Change has been created. This reflects the increasing focus on such risks, given the nature of our sector and operations, and our work to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Current Principal Risk categories

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

Principal Risk Category	Key Mitigations		Changes in factors impacting risk in 2019
Environment, health and safety			
Context The health, safety and wellbeing of all our employees, contractors and visitors is of paramount importance to us. We believe that a safe, compliant and sustainable business model is critical to the delivery of our strategy and crucial for sustained long-term performance. Safety is at the heart of our operational philosophy and we continue to work across the Group to maintain high standards and a culture of safe working. Compliance with environmental legislation and our environmental permits and consents is	• Maintaining robust management systems designed to mitigate risk. • Training staff to a high level of competence, to appreciate and manage environment, health and safety risks. • Continuously reporting events and prompt implementation of corrective actions. • Continuously monitoring processes to identify trends in performance. • Rigorous auditing of compliance against	=	• Good personal safety performance for the year with TRIR and LTIR, continuing in line with industry benchmarks. • Thermal and Hydro asset health and safety management systems integrated. • Introduction of a Group-wide reporting tool for environment, health and safety incidents. • Installation of further fire

essential to ensure the long-term future of the business. Risk and impact • Our operations involve a range of hazards to personnel and the environment, that arise from the processes we perform and the equipment which we use. This includes heavy plant and machinery at our sites in the US and UK. • The biomass that we use to generate electricity is by its nature combustible and the production, preparation and transportation (whether within our sites or in transit between sites) requires careful management to minimise the risk of fire or explosion. For example, in the US we produce pellets using a combination of high temperature and high-pressure plant and in the UK we operate plant which involves very high temperatures and pressures for the generation of electricity at 400KV for transmission onto the National Grid.	standards, policy and procedures. • Engaging with regulators and stakeholders to identify improvements to our systems and operations. • Investigating the underlying reasons for events and implementation of any necessary changes in the management system and culture. • Timely identification of future legislation and appropriate investment to optimise performance. • Effective governance framework including an executive level Safety, Health, Environment and Wellbeing Leadership Executive Committee, to oversee governance, review and challenge the management of safety, health, environment and wellbeing risks across the Group.	suppression devices in our biomass conveying systems.

Principal Risk Category	Key Mitigations		Changes in factors impacting risk in 2019
Political and regulatory			
Context • We remain alert to changes in government policy at UK and EU level. The energy sector is subject to detailed legislation and regulation that is frequently changing as the economic and industrial trends towards decarbonising and decentralising become stronger. In addition, the wider regulatory and compliance environment applicable to businesses is also increasing with growing requirements in transparency and accountability. Risk and impact • Changes to UK policy, regulations or tariffs may increase the costs to operate, reduce operational efficiency and affect our ability to realise our strategy, which may adversely affect our financial and operational performance, results and cash flows. Issues include reform to: legal framework following Brexit; data privacy regulation; network access and charging arrangements; environmental regulation; and consumer service and affordability requirements. • A more complex and challenging regulatory environment increases: the costs to operate, the threat of regulatory investigation, the risk of non-compliance, and penalties/sanctions. Brexit may create uncertainty and additional costs associated with changes in regulatory reporting. • Biomass represented 77% of our generation in 2019 and, longer term, we intend to increase our biomass self-supply to 5m tonnes per annum. The regulatory environment is evolving which could increase costs and mean anticipated returns are significantly lower than expectations. • The future of carbon pricing in the UK is linked to the UK's withdrawal from the EU and the negotiations on the future economic partnership. For the period beyond 2020, the Government has set out its preference to create its own Emissions Trading Scheme (ETS), linked to the EU ETS. This outcome would be preferable, causing minimal disruption to the market, compliance regimes and to the prevailing carbon price. However, there is a risk that this preference changes or that the UK and EU cannot agree a linking negotiation in time. This would result in the UK having to transition its carbon pricing system to a carbon tax system or other interim mechanism. Significant fluctuation in the carbon price, due to liquidity issues for example, could occur.	• Engaging with politicians across the political spectrum and Government officials, to understand and influence perception, and communicate our socioeconomic value in supporting the UK's ambition to achieve net zero by 2050. • Working with stakeholders to maintain Drax as a thought leader on priority policy and regulatory issues. • Engaging with regulators and industry bodies to influence strategic direction of, and ensure compliance with, regulatory requirements. • Working with Energy UK to identify market improvements, enhance competition and develop voluntary codes of practice. • Maintaining regulatory and compliance control frameworks to mitigate the risk of non-compliance covering: risk assessment; policy development; adequate process; training; audit; and continual improvement.	=	• Brexit continues to create uncertainty. Weakened sterling and difficulties in cross border trade could influence fuel costs and/or lead to customers going into financial distress. Delays at ports could affect our supplies of fuel and components though the nature of our dedicated supply chain mitigates this risk. • Many ancillary services require policy, regulatory and market change to ensure generators are suitably compensated for these services. • Ofgem is reviewing the way in which network businesses are remunerated and user access is procured/costs allocated, which will impact the cost base of generators and retailers. • The Government has introduced a price cap for domestic power retailers; we remain vigilant to the risk that this could be extended to some SMEs. • The Smart meter roll out continues and the obligation to install a smart meter for every customer by the end of 2020 (where reasonable steps have been exhausted) remains. • Further failures of small energy suppliers (and resulting cost mutualisation across the industry). • The Government has confirmed that the Carbon Price Support (CPS) is set at approximately the right level, although the longer-term level is dependent on how the UK exits the EU and prevailing commodity prices.

Principal Risk Category	Key Mitigations	Changes in factors impacting risk in 2019

Strategic

Context

The Group's purpose is to enable a zero carbon lower cost energy future, with an ambition to become a carbon negative company by 2030. This is underpinned by the three pillars of the Group's strategy: 1) to build a long-term future for biomass; 2)to be the leading provider of power system stability;, and 3) to give our customers control of their energy – delivering long-term growth opportunities, including investment in new and emerging technologies for alternative fuels, which we believe have the potential to support earnings beyond 2027.

The Group aims to deliver higher quality, diversified and sustainable earnings, whilst also reducing our exposure to volatility in the commodity market and supporting the UK's ambition to achieve net zero by 2050.

Risk and impact

- The vast majority of our business relies on subsidies for generating electricity using renewable sources. In 2019, Drax received subsidies amounting to £790m. Presently, subsidies are expected to continue until 2027. The date or the scale of the subsidies could change which could have a material effect on our performance and business prospects.
- Post-2027 biomass generation is dependent upon the cost of generation relative to market prices. Delivering on our objectives to increase biomass self-supply to 5m tonnes per annum and reduce the cost of generation to £50 per MWh depends on the availability of feasible expansion opportunities and successfully reducing the current cost of biomass. Biomass is accepted by governments as a renewable resource; there is a risk that this opinion could change.
- The energy markets in which we operate are evolving at a rapid pace. New entrants and new technologies compete throughout power generation, system services and B2B energy supply and services markets. Such competitors may develop more cost effective and efficient services than those which Drax is able to supply.
- The technologies and materials that we are evaluating including BECCS and viable, alternative fuels are new and unproven. Any one of the technologies and materials that we evaluate could prove technically or commercially unfeasible or flawed. We may invest in the wrong technologies which are inadequate, the time taken to develop them could be longer than expected or the costs may be higher or levels of expected return lower than we expect (relative to the government support that is required to make the technologies feasible)
- The Capacity Market ensures security of electricity supply by providing a payment for reliable sources of capacity. We bid for contracts to supply electricity in the Capacity Market auctions. Outcomes from the auctions are inherently uncertain. The development of new, flexible OCGT and CCGT are also dependent on winning contracts with acceptable returns.

Key Mitigations

- Develop a diversified generation capacity with a portfolio of biomass, pumped storage, hydro, gas-fired and coal generation assets.
- Development of a plan to expand biomass self-supply capability and reduce the cost of biomass for generation to create an economically sustainable biomass generation business without subsidy by 2027.
- Working on reducing project costs to increase competitiveness in the Capacity Market auction; a disciplined approach to the auction means such projects will only go forward upon obtaining a suitable contract which meets our hurdle rate.
- Implementing a programme of targeted investment to:
  - Incubate new products and energy services to bring to market.
  - Research, develop and pilot new technologies.

In 2019 the Group implemented an evolved approach to capital allocation. This provides rigour and consistency in assessing the technical, financial and strategic justification of new projects across the Group; in particular for investments in new and emerging technologies.

- Development and delivery of plans to implement bio-energy carbon capture and storage (BECCS).

Changes in factors impacting risk in 2019

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- Acquisition of a portfolio of flexible, low carbon hydro and gas generation assets from ScottishPower provides significant diversification of long-term earnings and expansion of our renewable generation model.
- UK Capacity Market payments and auctions reinstated following ruling by the European Court of Justice.
- Development of a plan to expand biomass self-supply capability and reduce the cost of biomass for generation to create an economically sustainable biomass generation business without subsidy by 2027, including in 2019:
  - LaSalle pellet facility now fully operational supporting self-supply target.
  - Turbine upgrade programme commenced at Drax Power Station, improving efficiency and reducing maintenance costs.

Principal Risk Category	Key Mitigations	Changes in factors impacting risk in 2019
Biomass acceptability		
Context Sustainability legislation at EU and UK level and in other countries from which we operate and source biomass, and public understanding of the benefits of the supply chain and technology are evolving. Attitudes to the benefits of biomass as a renewable source may not align with our strategy and investment case, which may impact our plans and mean that actual returns differ from those we expected. **Risk and impact** • Sustainability policy changes on the sourcing and use of biomass in the UK, EU or other countries in which we operate or from which we source biomass could be unworkable and make it difficult for us to comply with policy requirements and claim subsidy in support of economic biomass generation. Changes in policy could increase costs, make it difficult to source biomass, or reduce the current support for the benefits of biomass. • Detractors and some environmental non-governmental organisations (ENGOs) influence policymakers against biomass use resulting in reduced support for the benefits of biomass.	• Increased transparency in how we evidence sustainability. • Working with academics, think tanks and specialist consultants to improve understanding and analysis of the benefits of biomass. • Engaging with key ENGOs to discuss issues of contention. • Forging closer relationships with suppliers on sustainability through the supplier relationship programme. • Maintaining strong processes to ensure compliance with regulation. • Increased engagement across all European Institutions (Commission, Parliament, Council), and relevant UK Government departments. • Developing and maintaining strong relationships with policymakers.	= • BEIS commissioning a major new piece of work looking at our supply chains and counterfactuals. • Implementation of our new forest biomass sourcing commitments. • Legal case against EU has been brought by fern, challenging the carbon neutrality of biomass. • Established an Independent Advisory Board (IAB) of scientists, civil society and leaders in the field of sustainability to provide impartial advice and guidance.

Principal Risk Category	Key Mitigations	Changes in factors impacting risk in 2019
Plant operations		
Context The reliability of our operating plants is central to our ability to create value for the Group. Some of our plants are old, for example, Drax Power Station was built approximately fifty years ago and our hydro plants nearly one hundred years ago. The plants are highly complex and require careful management to operate, with many running flexibly to respond to the demands of the electricity system. For Drax Power Station specifically, the plant was originally constructed to generate electricity from coal, and we have converted four of the six units to use biomass, rather than the fuel for which they were originally designed. **Risk and impact** • As plant ages, the operational reliability and integrity could reduce. Single or multi point failures of plant across our portfolio, and incidents arising from the handling and combustion of biomass, could result in forced outages in our generation or pellet production plants. • Successful generation using biomass requires stringent quality to be maintained throughout the supply chain, which continues to evolve and mature. Our suppliers may experience operational or financial difficulties which impair their ability to sustain continued compliance or result in inadequate standards being met. Poor quality could result in additional costs (as we may be required to source material from other suppliers) or inadequate volume of materials, leading to loss of generation which could adversely affect financial performance and results.	• Implementing a comprehensive plant investment and maintenance programme, that is risk-based and reflects the challenges of operating complex equipment, some of which is old, supported by engineering excellence. • Ensuring plant is designed to prevent and control major hazards. • Maintaining robust management systems, designed to mitigate risk. • Maintaining the stringent safety procedures in place for handling biomass and dust management. • Managing the plant as a portfolio to ensure losses are minimised. • Undertaking significant research and development on the production of wood pellets, as well as the handling and burning of biomass. • Full testing of all biomass supplies prior to acceptance, and the use of contractual rights to reject out of specification cargoes. • Sampling and analysis through the supply chain, to increase understanding of causes of fuel quality issues. • Maintaining adequate insurance in place to cover losses from plant failure where possible.	= • Completion of largest ever maintenance outage on Unit 2 at Drax Power Station and installation of a new high-pressure turbine unit. • Hydro and thermal assets provide greater flexibility to the portfolio in the event of a plant failure. • Major gas turbine outage and steam turbine overhaul completed at Shoreham. • LaSalle rail spur and co-located sawmill are fully operational. • Baton Rouge rail chambering yard commissioned.

Principal Risk Category	Key Mitigations		Changes in factors impacting risk in 2019
Trading and commodity			
Context Sales of power and Renewable Obligation Certificates (ROCs) represented £2,099m of our revenue in 2019 in our Generation business and our Customers business made sales of £2,226m of electricity and gas. The margins derived from our Power Generation and Customers businesses are influenced by the liquidity of the commodity markets and our ability to secure desired prices in a volatile market. Non-commodity costs are also volatile and inherently difficult to hedge. The value delivered from ROCs in 2019 was £528m. The value which we derive from ROCs may be lower than prior years, or our forecast, if demand increases for generation from alternative renewable sources at the expense of demand for generation from our own assets. **Risk and impact** • Liquidity and volatility in trading conditions and unexpected changes in commodity prices could result in lower margins and a reduction in cash flow in our Generation business. • The Generation business may fail to secure future system support services contracts which are a source of revenue diversity for the Group. • Delivery of commercial value from the flexibility of our portfolio and leveraging a complicated supply chain with uncertain running regimes requires effective execution of our trading strategy and opportunities to trade being available in a liquid market. • The value of ROCs generated may be lower than forecast if the recycle value outturns are below our projections due to higher than anticipated renewable generation. • Some new entrants to the electricity supply market have failed. Further supplier failures could lead to more supplier mutualisation processes (whereby their costs and commitments are shared among other suppliers) being invoked, notably for ROCs resulting in increased costs. • Falling power prices, rising coal/carbon prices or changes to regulation could mean that we do not use all our stocks of coal.	• Ensuring high levels of forward power sales for 2020/21 and the Contract for Difference (CfD) for one biomass generation unit could reduce our exposure to volatility. • Additional value is provided through the increased flexibility and optimisation capabilities provided by the Thermal and Hydro assets. • Hedging energy supply commodity price exposures when fixed price sales are executed with third parties. • Operating three biomass units under a single ROC cap for Drax Power Station provides increased opportunities for greater flexibility of generation. • Purchasing wood pellets under long-term contracts with fixed pricing. • Hedging fluctuations in ROC generation from wind farms through weather derivatives. • Significant hedging of forward foreign exchange. • The burn profile of the coal units has been adjusted to optimise coal stocks.	=	• Sterling exchange rates against the Euro and US Dollar remain weak. • Power prices are lower with low market liquidity and increased volatility in short-term prices. • Generation running regimes optimised with managed positions and scenario planning. • The Thermal plants have brought a natural hedge to falling gas prices. • Prices for wood pellets decreased. • Biomass production shortages and supply constraints caused primarily by adverse weather in the US in early 2019.

Principal Risk Category	Key Mitigations		Changes in factors impacting risk in 2019
Information systems and security			
Context Our IT systems and data are essential to supporting the delivery of the day-to-day business operations of the Group and make sure our financial, legal, regulatory and compliance obligations are met. Our systems must also evolve in order to contribute to the delivery of our strategy. The systems need to be fit for purpose and the confidentiality, availability and integrity of the systems and data needs to be ensured. **Risk and impact** • Absence of key IT systems transformation affecting our ability to deliver our strategy. • Reduced performance or reduced availability of IT systems, data and facilities affecting our operations adversely. For example interrupting supply of electricity or impeding the accurate recording of electricity supplied to and used by our customers. • Security compromise of our systems and data including personal data; causing operational and financial impact and regulatory non-compliance.	• Maintaining business continuity, disaster recovery and crisis management plans. • Maintaining cyber security measures, including a protect, detect, respond and recover strategy. • Implementing a Group IT Strategy and identifying key projects to deliver Group-wide services, improving security, resilience and performance. The new IT Board, a sub-committee of the Executive Committee, will provide oversight and governance.	=	• The enforcement of key compliance regulations such as the NIS Directive have increased the potential regulatory and financial impact. • Thermal and Hydro asset systems have been integrated where applicable. • The IT Operating model has been redesigned and is being embedded to better support strategic objectives of the Group and improve efficiency of technology processes. • Programme of ongoing improvement to security, monitoring of key IT controls and IT and Security Risk management.

Principal Risk Category | Key Mitigations | Changes in factors impacting risk in 2019

People

Context

We need to ensure we have the right people in place with the leadership, management, specialist skills and engagement to help the Group to compete, innovate and grow.

Risk and impact

- Our performance and the delivery of our strategy is dependent upon having high-quality, suitably experienced leaders and engaged and talented colleagues at all levels of the organisation.
- Whilst we continue to invest in our people, including supporting them in the development of their capabilities, we may be unable to recruit and retain people with the necessary skills and experience which could in turn affect our ability to execute our strategy. Examples include our ability to recruit people supporting work on new technologies such as BECCS and alternative fuels.
- The Group is undertaking significant change associated with implementing our strategy and improving operational effectiveness. Examples include acquisition of hydro and gas generation assets, proposed expansion through investment in our US operations and ongoing changes to our operations where we generate electricity as we transition away from fossil fuels.

Key Mitigations

- Conducting a comprehensive and systematic assessment of our talent bench strength and succession plan.
- Maintaining consistent Group-wide performance management, potential assessment and career development frameworks.
- Workforce engagement forums provide a formal way for colleagues and management to communicate, gain feedback and exchange information and views on any business related issue
- Conducting regular colleague surveys to monitor engagement levels and alignment of people with Group values.
- Investing in development for all.
- Ensuring regular colleague communications.
- Maintaining reward packages that aid recruitment and retention.

Changes in factors impacting risk in 2019

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- We reviewed our HR strategy, including “Creating a great place to work”, and reshaped our priorities putting together a comprehensive two-year HR plan centred around:
  - valuing people and focusing on talent;
  - raising business performance and building capability through our people;
  - developing and building a sustainably high performing organisation; and
  - supporting the delivery of Drax plans, purpose and operational excellence as part of BAU.
- Introduction of new workforce engagement forums
- Making the organisational and people changes to align with Fit for the Future thinking, driving consistency, efficiencies, improvements in decision making and reduction in cost.

Principal Risk Category | Key Mitigations | Changes in factors impacting risk in 2019

Climate Change

Context

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

Risk and impact

- Physical impacts of climate change to our operations, for example increased incidence of extreme weather events. In early 2019 production at our US pellet production business was restricted following weather-related events in the southern states of the US.
- Climate change policy, innovation and technology do not develop as expected impacting delivery of net zero ambition and our strategy.
- Reduced investor confidence, increased activity by protestors and challenges with staff recruitment and retention.

Key Mitigations

- Working with Energy UK on a framework to better manage the physical impacts of climate change on thermal generating facilities.
- Funding work at Strathclyde University to understand the potential changes in long-term weather patterns at Cruachan Dam. Results show that current predicted extremes are manageable.
- Physical impacts of climate change on new installations are covered under planning laws.
- Business strategy robust to future climate policy.
- Investor confidence increased and reputational impacts mitigated by establishment of a net zero ambition, demonstrating a business strategy consistent with UK government climate change policy.
- Strong innovation team tracking technology advances.

Changes in factors impacting risk in 2019

This risk was not included in the previous annual report

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 Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation 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 26 February 2020 and is signed on its behalf by:

Will Gardiner
Group CEO

Financial statements

Basis of Preparation and General Information
The consolidated financial information for Drax Group plc (the Company) and its subsidiaries (together, the Group) set out in this preliminary announcement has been derived from the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the financial statements).

This preliminary announcement does not constitute the full financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements were approved by the Board of directors on 26 February 2020. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered in due course.

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

The financial statements have been prepared in accordance with IFRS as adopted by the European Union and therefore the consolidated financial statements comply with Article 4 of the EU IFRS Regulations and the Companies Act 2006.

The financial statements have been prepared on a going concern basis and on the historical cost basis, except for certain financial assets and liabilities that have been measured at fair value.

The principal accounting policies adopted in the preparation of the financial statements are set out in the 2018 Annual report and accounts, except for new standards applicable from 1 January 2019 which are described in note 17 of this preliminary announcement. These policies have been applied consistently to both years presented, except where newly applicable standards do not require retrospective restatement, or the impact of doing so is not material, as described in note 17.

The financial information provided in respect of 2018 has been restated for the following two matters:

• The balance sheet for 2018 has been restated to reflect updated values for assets and liabilities acquired in relation to the acquisition of Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited – see note 16) following conclusion of the completion statement process and finalisation of acquisition fair values during 2019. The new portfolio of pumped storage, hydro and gas-fired generation assets are hereafter referred to as “the new generation assets.”

• The balance sheet for 2018 has also been restated to correct a historical error in the application of foreign exchange rates to the translation of fixed asset balances in the Group’s overseas subsidiaries. Correction of this error resulted in a £55.5 million increase in fixed asset carrying values and the balance of the translation reserve at 31 December 2018, with no impact on the Consolidated income statement or the Consolidated cash flow statement. See note 17 for further details. As this adjustment impacts the opening balance sheet for 2018, a restated balance sheet for 2017 has also been provided, as required by IAS 1.

Post Balance Sheet Event

On 26 February 2020, following a comprehensive review of operations and discussions with National Grid, Ofgem and the UK Government, the Board determined to end commercial coal generation at Drax Power Station in 2021 – ahead of the UK’s 2025 deadline.

The Group will shortly commence a consultation process with employees and trade unions with a view to ending coal operations in September 2022. Under these proposals, commercial generation from coal will end in March 2021 but the two coal units will remain available to meet Capacity Market obligations until September 2022.

The Group currently anticipates incurring one-off closure costs of between £25 and £35 million in the period until closure and initially expect to provide in full for these costs during 2020, where appropriate.

In assessing the financial impact, we will also consider the useful lives, residual values and potential impairment of certain assets at Drax Power Station. The timing for completing this impairment review is uncertain as these assets remain an integral part of the site and a detailed closure plan needs to be finalised.

The carrying amount of affected assets was approximately £240 million at 31 December 2019, comprising coal-specific assets with useful lives up to 2025 and other assets with useful lives up to 2039. In addition, the Group held coal inventory at 31 December 2019 with a carrying amount of £103 million, which the Group expects to recover in full over the period to closure. A further update on these items will be provided in the Group’s interim financial statements for the first half of 2020.

The Group expects to treat all closure costs and any asset obsolescence charges as exceptional items in the Group’s financial statements. As a result. the Group’s expectations for 2020 EBITDA are materially unchanged.

As part of the proposed coal closure programme the Group is implementing a broader review of operations at Drax Power Station. This review aims to support a safe, efficient and lower cost operating model which, alongside a reduction in biomass cost, positions Drax for long-term biomass generation following the end of the current renewable support mechanisms in March 2027.

While previously being an integral part of the Drax Power Station site and offering flexibility to the Group’s trading and operational performance, the long-term economics of coal generation remain challenging and in 2019 represented only three percent of the Group’s electricity production. In January 2020, Drax did not take a Capacity Market agreement for the period beyond September 2022 given the low clearing price.

Consolidated income statement

	Notes	Year ended 31 December 2019 Adjusted Results[1] £m	Exceptional items and certain remeasure-ments £m	Total Results £m	Year ended 31 December 2018 Adjusted Results[1] £m	Exceptional items and certain remeasure-ments £m	Total Results £m
Revenue	2	**4,702.9**	**10.5**	**4,713.4**	4,237.3	(8.3)	4,229.0
Cost of sales		**(3,835.8)**	**(143.3)**	**(3,979.1)**	(3,636.3)	46.7	(3,589.6)
Gross profit		**867.1**	**(132.8)**	**734.3**	601.0	38.4	639.4
Operating and administrative expenses	3	**(439.3)**	–	**(439.3)**	(320.0)	–	(320.0)
Impairment losses on financial assets		**(18.0)**	–	**(18.0)**	(31.4)	–	(31.4)
Adjusted EBITDA[2]		**409.8**			249.6		
Depreciation		**(165.9)**	–	**(165.9)**	(129.2)	–	(129.2)
Amortisation		**(42.0)**	–	**(42.0)**	(44.6)	–	(44.6)
Asset obsolescence charges	7	–	–	–	–	(26.8)	(26.8)
Losses on disposals		**(1.2)**	–	**(1.2)**	(3.9)	–	(3.9)
Other gains/(losses)		**3.1**	–	**3.1**	4.1	–	4.1
Acquisition and restructuring costs[3]	7	–	**(9.0)**	**(9.0)**	–	(27.7)	(27.7)
Operating profit/(loss)		**203.8**	**(141.8)**	**62.0**	76.0	(16.1)	59.9
Foreign exchange (losses)/gains	5	**(1.6)**	**2.0**	**0.4**	0.3	–	0.3
Interest payable and similar charges[4]	5	**(61.3)**	**(5.2)**	**(66.5)**	(40.4)	(7.2)	(47.6)
Interest receivable	5	**1.3**	–	**1.3**	1.2	–	1.2
Profit/(loss) before tax		**142.2**	**(145.0)**	**(2.8)**	37.1	(23.3)	13.8
Tax:							
– Before effect of changes in tax rate	6	**(22.3)**	**27.4**	**5.1**	0.2	1.6	1.8
– Prior year patent box credit	6	–	–	–	4.8	–	4.8
– Effect of changes in tax rate	6	**(1.8)**	–	**(1.8)**	(0.2)	–	(0.2)
Total tax (charge)/credit		**(24.1)**	**27.4**	**3.3**	4.8	1.6	6.4
Profit/(loss) for the year attributable to equity holders		**118.1**	**(117.6)**	**0.5**	41.9	(21.7)	20.2

Earnings/(loss) per share		Pence	Pence	Pence	Pence
– Basic	8	**29.9**	**0.1**	10.4	5.0
– Diluted	8	**29.7**	**0.1**	10.3	4.9

All results relate to continuing operations.

Notes:

(1) Adjusted Results are stated after adjusting for exceptional items (including acquisition and restructuring costs, asset obsolescence charges and debt restructuring costs), and certain remeasurements. See note 7 for further details.

(2) Adjusted EBITDA is defined as: earnings before interest, tax, depreciation, amortisation, excluding the impact of exceptional items and certain remeasurements.

(3) Acquisition and restructuring costs include costs associated with the acquisition and on-boarding (2018) and integration (2019) of Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited).

(4) Interest payable and other similar charges includes the cost of debt restructure which comprises one-off costs associated with the refinancing of the Group's debt.

Consolidated statement of comprehensive income

	Notes	Years ended 31 December 2019 £m	2018 £m (restated)*
Profit for the year		**0.5**	20.2
Items that will not be subsequently reclassified to profit or loss:			
Actuarial (losses)/gains on defined benefit pension scheme		**(21.5)**	15.9
Deferred tax on actuarial gains on defined benefit pension scheme	6	**4.3**	(3.0)
(Loss)/gain on equity investments		**(0.1)**	0.2
Net fair value gains on cost of hedging		**56.3**	24.8
Deferred tax on cost of hedging	6	**(9.7)**	(4.7)
Net fair value (losses)/gains on cash flow hedges		**(112.8)**	164.3
Deferred tax on cash flow hedges	6	**25.0**	(31.2)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations	15	**(11.2)**	24.9
Net fair value gains on cash flow hedges		**91.1**	21.4
Deferred tax on cash flow hedges	6	**(19.9)**	(4.2)
Other comprehensive income/(expense)		**1.5**	208.4
Total comprehensive income for the year attributable to equity holders		**2.0**	228.6

* Results for 2018 have been restated to reflect a historical correction of exchange differences arising on translation of foreign operations.

Consolidated balance sheet

	Notes	As at 31 December 2019 £m	Restated[1] 2018 £m	Restated[2] 2017 £m
Assets				
Non-current assets				
Goodwill		**248.2**	248.2	169.9
Intangible assets		**206.9**	228.8	232.0
Property, plant and equipment		**2,327.4**	2,347.6	1,699.7
Right-of-use assets		**31.4**	–	–
Other fixed asset investments		**3.0**	2.4	1.3
Retirement benefit surplus		**7.0**	21.6	–
Deferred tax assets	6	**45.3**	31.8	22.7
Derivative financial instruments		**152.3**	295.2	190.7
		3,021.5	3,175.6	2,316.3
Current assets				
Inventories		**292.0**	222.5	272.1
ROC assets		**162.7**	216.7	145.5
Trade and other receivables and contract-related assets		**608.8**	474.2	417.5
Derivative financial instruments		**193.7**	215.4	175.5
Current tax assets		**–**	–	6.2
Cash and cash equivalents	12	**404.1**	289.0	222.3
		1,661.3	1,417.8	1,239.1
Liabilities				
Current liabilities				
Trade and other payables and contract-related liabilities		**(1,039.2)**	(940.6)	(732.4)
Lease liabilities		**(6.3)**	–	–
Amounts payable in respect of acquisitions	16	**–**	(691.7)	(4.1)
Current tax liabilities	6	**(37.8)**	(8.4)	–
Borrowings	13	**–**	(0.1)	(18.6)

	Notes	2019 £m	Restated[1] 2018 £m	Restated[2] 2017 £m
		As at 31 December		
Derivative financial instruments		**(216.5)**	(89.4)	(109.6)
		(1,299.8)	(1,730.2)	(864.7)
Net current assets/(liabilities)		**361.5**	(312.4)	374.4
Non-current liabilities				
Borrowings	13	**(1,245.2)**	(608.0)	(571.1)
Lease liabilities		**(26.2)**	–	–
Derivative financial instruments		**(72.9)**	(62.0)	(94.2)
Provisions		**(54.2)**	(50.8)	(36.3)
Deferred tax liabilities	6	**(268.9)**	(315.9)	(230.0)
Retirement benefit obligations		**–**	–	(1.2)
		(1,667.4)	(1,036.7)	(932.8)
Net assets		**1,715.6**	1,826.5	1,757.9
Shareholders' equity				
Issued equity	15	**47.4**	47.0	47.0
Share premium	15	**429.6**	424.7	424.3
Treasury shares	15	**(50.4)**	(47.1)	–
Hedge reserve		**121.5**	199.9	126.1
Cost of hedging reserve		**40.8**	(8.9)	(40.7)
Other reserves	15	**757.0**	768.2	743.3
Retained profits	10	**369.7**	442.7	457.9
Total shareholders' equity		**1,715.6**	1,826.5	1,757.9

(1) Results for 2018 have been restated to reflect the finalisation of the measurement period adjustments in relation to the new generation assets in 2018 and a historical correction of exchange differences arising on translation of foreign operations.

(2) The adjustment to reflect the historical correction of exchange differences arising on translation of foreign operations impacts the opening balance sheet for 2018. As such a restated balance sheet reflecting the impact of this adjustment at 31 December 2017 has been presented, as required by IAS 1.

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 26 February 2020.

Signed on behalf of the Board of directors:

Andy Skelton
Chief Financial Officer

Consolidated statement of changes in equity

	Issued equity £m	Share premium £m	Treasury shares £m	Hedge reserve £m	Cost of hedging £m	Other Reserves (restated)[1] £m	Retained profits £m	Total £m
At 1 January 2018 – as reported	47.0	424.3	–	126.1	(40.7)	705.5	457.9	1,720.1
Restatement[1]	–	–	–	–	–	37.8	–	37.8
At 1 January 2018 – restated	47.0	424.3	–	126.1	(40.7)	743.3	457.9	1,757.9
Profit for the year	–	–	–	–	–	–	20.2	20.2
Other comprehensive income	–	–	–	150.3	20.1	24.9	13.1	208.4
Total comprehensive income for the year	**–**	**–**	**–**	**150.3**	**20.1**	**24.9**	**33.3**	**228.6**
Equity dividends paid (note 9)	–	–	–	–	–	–	(52.5)	(52.5)
Issue of share capital (note 15)	–	0.4	–	–	–	–	–	0.4
Total transactions with owners	**–**	**0.4**	**–**	**–**	**–**	**–**	**(52.5)**	**(52.1)**
Movements on cash flow hedges released directly from equity	–	–	–	(94.2)	–	–	–	(94.2)
Deferred tax on cash flow hedges released directly from equity	–	–	–	17.7	–	–	–	17.7
Movements on cost of hedging released directly from equity	–	–	–	–	14.5	–	–	14.5
Deferred tax on cost of hedging released directly from equity	–	–	–	–	(2.8)	–	–	(2.8)
Repurchase of shares (note 15)[2]	–	–	(47.1)	–	–	–	–	(47.1)
Movement in equity associated with share-based payments	–	–	–	–	–	–	4.0	4.0
At 31 December 2018 restated	**47.0**	**424.7**	**(47.1)**	**199.9**	**(8.9)**	**768.2**	**442.7**	**1,826.5**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**0.5**	**0.5**
Other comprehensive (expense)/income	**–**	**–**	**–**	**(16.6)**	**46.6**	**(11.2)**	**(17.3)**	**1.5**
Total comprehensive (expense)/income for the year	**–**	**–**	**–**	**(16.6)**	**46.6**	**(11.2)**	**(16.8)**	**2.0**
Equity dividends paid (note 9)	**–**	**–**	**–**	**–**	**–**	**–**	**(58.9)**	**(58.9)**
Issue of share capital (note 15)	**0.4**	**4.9**	**–**	**–**	**–**	**–**	**–**	**5.3**
Total transactions with owners	**0.4**	**4.9**	**–**	**–**	**–**	**–**	**(58.9)**	**(53.6)**
Movements on cash flow hedges released directly from equity	**–**	**–**	**–**	**(78.9)**	**–**	**–**	**–**	**(78.9)**
Deferred tax on cash flow hedges released directly from equity	**–**	**–**	**–**	**17.1**	**–**	**–**	**–**	**17.1**
Movements on cost of hedging released directly from equity	**–**	**–**	**–**	**–**	**3.8**	**–**	**–**	**3.8**
Deferred tax on cost of hedging released directly from equity	**–**	**–**		**–**	**(0.7)**	**–**	**–**	**(0.7)**
Repurchase of shares (note 15)[2]	**–**	**–**	**(3.3)**	**–**	**–**	**–**	**–**	**(3.3)**
Movement in equity associated with share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**2.7**	**2.7**
At 31 December 2019	**47.4**	**429.6**	**(50.4)**	**121.5**	**40.8**	**757.0**	**369.7**	**1,715.6**

(1) Other reserves for 2018 have been restated to reflect a historical correction of exchange differences arising on translation of foreign operations.

(2) Repurchase of shares reflects the cost of acquiring ordinary shares as part of the share buy-back programme announced on 20 April 2018. At 31 December 2019 these shares have not been cancelled and are recognised as treasury shares.

Consolidated cash flow statement

	Notes	Years ended 31 December 2019 £m	2018 £m
Cash generated from operations	14	**471.2**	336.4
Income taxes paid		**(9.6)**	(1.0)
Other gains/(losses)		**–**	0.4
Interest paid		**(50.3)**	(25.9)
Interest received		**2.1**	1.2
Net cash from operating activities		**413.4**	311.1
Cash flows from investing activities			
Purchases of property, plant and equipment		**(142.3)**	(103.8)
Purchases of software assets		**(29.1)**	(28.8)
Other investments		**–**	(0.9)
Acquisition of subsidiaries		**(691.7)**	–
Net cash used in investing activities		**(863.1)**	(133.5)
Cash flows from financing activities			
Equity dividends paid	9	**(58.9)**	(52.5)
Proceeds from issue of share capital		**5.3**	0.4
Purchase of own shares		**(3.3)**	(47.1)
Repayment of borrowings		**(550.0)**	(218.5)
New borrowings drawn down		**1,202.8**	213.3
Repayment of lease liabilities		**(7.4)**	–
Other financing costs paid		**(16.9)**	(7.6)
Net cash generated from/(absorbed by) financing activities		**571.6**	(112.0)
Net increase/(decrease) in cash and cash equivalents		**121.9**	65.6
Cash and cash equivalents at 1 January		**289.0**	222.3
Effect of changes in foreign exchange rates		**(6.8)**	1.1
Cash and cash equivalents at 31 December	12	**404.1**	289.0

The consideration of £686.9 million due in respect of the Acquired Generation Business was settled on 2 January 2019. During the first half of 2019, the completion statement process in respect of the acquisition has been concluded and the Group made a further payment in accordance with the terms of the acquisition of £4.8 million which was settled on 14 May 2019.

There were no material non-cash transactions in either the current or previous year.

The Group recorded a net loss of £117.6 million (2018: net loss £21.7 million) arising on exceptional items and certain remeasurements in the Consolidated income statement in 2019. Acquisition and restructuring costs of £9.0 million (2018: £27.7 million) are included in cash generated from operations (see note 14) and cash paid in respect of debt restructuring of £5.2 million (2018: £2.0 million) in cash used in financing activities. All other exceptional items and remeasurements are non-cash and adjusted in the reconciliation shown in note 14.

1 Segmental reporting

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

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

The B2B Energy Supply segment disclosed in 2018 has been renamed Customers, to align more closely with the Group's strategy. Generation includes the financial results of the new generation assets acquired on 31 December 2018 from ScottishPower. Information reported to the Board for the purposes of assessing performance and making investment decisions is based on these three segments. The measure of profit or loss for each reportable segment presented to the Board on a regular basis is Adjusted EBITDA.

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

Segment revenues and results

The following is an analysis of the Group's performance by reportable operating segment for the year ended 31 December 2019. The Board monitors the Adjusted Results for the Group by reportable operating segment as presented in the tables below:

	Year ended 31 December 2019						
	Generation £m	Customers £m	Pellet Production £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue							
External sales	2,433.8	2,269.1	–	–	4,702.9	10.5	4,713.4
Inter-segment sales	1,512.7	–	229.4	(1,742.1)	–	–	–
Total revenue	3,946.5	2,269.1	229.4	(1,742.1)	4,702.9	10.5	4,713.4
Segment gross profit	649.5	134.1	84.1	(0.6)	867.1	(132.8)	734.3
Segment Adjusted EBITDA	407.5	17.4	31.5	(0.6)	455.8		
Central costs					(46.0)		
Consolidated Adjusted EBITDA					409.8		
Acquisition and restructuring costs					–	(9.0)	(9.0)
Depreciation and amortisation					(207.9)	–	(207.9)
Losses on disposals					(1.2)	–	(1.2)
Other gains					3.1	–	3.1
Operating profit					**203.8**	**(141.8)**	**62.0**
Net finance costs					(60.0)	(5.2)	(65.2)
Foreign exchange (losses)/gains					(1.6)	2.0	0.4
Profit/(loss) before tax					**142.2**	**(145.0)**	**(2.8)**

The following is an analysis of the Group's performance by reportable operating segment for the year ended 31 December 2018:

	Year ended 31 December 2018						
	Generation £m	Customers £m	Pellet Production £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue							
External sales	1,994.9	2,242.4	–	–	4,237.3	(8.3)	4,229.0
Inter-segment sales	1,336.7	–	213.7	(1,550.4)	–	–	–
Total revenue	3,331.6	2,242.4	213.7	(1,550.4)	4,237.3	(8.3)	4,229.0
Segment gross profit	396.0	143.4	65.1	(3.5)	601.0	38.4	639.4
Segment Adjusted EBITDA	232.4	28.2	20.8	(3.5)	277.9		
Central costs					(28.3)		
Consolidated Adjusted EBITDA					249.6		
Acquisition and restructuring costs					–	(27.7)	(27.7)
Depreciation and amortisation					(173.8)	(26.8)	(200.6)
Losses on disposals					(3.9)	–	(3.9)
Other gains					4.1	–	4.1
Operating profit/(loss)					76.0	(16.1)	59.9
Net finance costs					(39.2)	(7.2)	(46.4)
Foreign exchange gains					0.3	–	0.3
Profit/(loss) before tax					37.1	(23.3)	13.8

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

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

	Additions to intangible assets 2019 £m	**Additions to property, plant and equipment 2019 £m**	Additions to intangible assets 2018 £m	Additions to property, plant and equipment 2018 £m
Generation	0.8	129.9	–	86.5
Customers	18.9	0.6	28.3	2.2
Pellet Production	0.3	17.9	0.3	20.2
Corporate unallocated	0.8	2.9	0.3	4.7
Total	20.8	151.3	28.9	113.6

Additional assets with a fair value of £689.8 million were acquired on 31 December 2018 as part of the business combination described in note 16.

Total cash outflows in relation to capital expenditure during the year were £171.4 million (2018: £132.6 million). See the Group Financial Review, above, for further details about the key capital investments in the year.

Intra-group trading
Intra-group transactions are carried out at management's best estimate of arm's-length, commercial terms that, where possible, equate to market prices at the time of the transaction. During 2019, the Pellet Production segment sold wood pellets with a total value of £229.4 million (2018: £213.7 million) to the Generation segment and the Generation segment sold electricity, gas and ROCs with a total value of £1,512.7 million (2018: £1,336.7 million) to the Customers segment.

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

Major customers
Total consolidated revenue for the year ended 31 December 2019 includes £575.7 million from one individual customer (2018: £555.8 million from one individual customer) that represented 10% or more of total revenue for the year. These revenues arose in the Generation segment.

2 Revenue

Accounting policy

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

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

Three biomass-fuelled generating units at Drax Power Station and certain generators across the Hydro-electric plants earn Renewable Obligation Certificates (ROCs) under the UK Government's Renewables Obligation (RO) regime. The financial benefit of a ROC is recognised in the income statement at the point the relevant renewable biomass fuel is burnt and power dispatched as a reduction in the cost of the biomass fuel. For Hydro assets this is at the point that the renewable energy is generated. A corresponding asset is recognised on the balance sheet. The performance obligation is satisfied at a point in time when the legal title to the ROC is transferred to the third party. This is when revenue from the sale is recognised.

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

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

Revenue for contracts satisfied over time is recognised in line with the progress of those contracts. The measurement of progress is based on cost inputs for fixed price Customers contracts, and volume supplied for other contracts. Assumptions are applied consistently but third party costs can be variable, therefore actual outcomes may vary from initial estimates.

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

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

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

CfD payments

The Group is party to a CfD with the Low Carbon Contracts Company (LCCC), a Government-owned entity responsible for delivering elements of the Government's Electricity Market Reform Programme. Under the contract, the Group makes or receives payments in respect of electricity dispatched from a specific biomass-fuelled generating unit. The payment is calculated by reference to a strike price of £100 per MWh. The base year for the strike price was 2012 and it increases each year in line with the UK Consumer Price Index and changes in system balancing costs. The strike price at 31 December 2019 was £113.65 per MWh.

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

ROC sales

The generation and sale of ROCs is a key driver of the Group's financial performance. The RO scheme places an obligation on electricity suppliers to source an increasing proportion of their electricity from renewable sources. Under the RO, ROCs are certificates issued to generators of renewable electricity which are then sold to bilateral counterparties, including suppliers, to demonstrate that they have fulfilled their obligations under the RO. ROCs are managed in compliance periods (CPs), running from April to March annually, CP1 commenced in April 2002. At 31 December 2019 the Group is operating in CP18.

To meet its obligations a supplier can either submit ROCs or pay the "buy-out" price at the end of the CP. The buy-out price was set at £30 per ROC in CP1 and rises with the UK Retail Price Index. The buy-out price in CP18 is £48.78. ROCs are typically procured in arm's-length transactions with renewable generators at a market price slightly lower than the buy-out price for that CP. At the end of the CP, the amounts collected from suppliers paying the buy-out price form the "recycle fund", which is distributed on a pro-rata basis to suppliers who presented ROCs in a compliance period.

The financial benefit of a ROC recognised in the income statement at the point of generation is thus comprised of two parts: the expected value to be obtained in a sale transaction with a third party supplier relating to the buy-out price and the expected value of the recycle fund benefit to be received at the end of the CP. During the year, the Group made sales (and related purchases) of ROCs to help optimise its working capital position. External sales of ROCs in the table below includes £575.7 million of such sales (2018: £555.8 million), with a similar value reflected in cost of sales.

Further analysis of revenue for the year ended 31 December 2019 is provided in the table below:

	Year ended 31 December 2019		
	External £m	**Intra-group £m**	**Total £m**
Power Generation			
Electricity sales	1,364.9	1,115.0	2,479.9
ROC sales	733.7	368.1	1,101.8
CfD income	261.7	–	261.7
Ancillary services	49.9	1.8	51.7
Other income	23.6	27.8	51.4
Customers			
Electricity and gas sales	2,226.1	–	2,226.1
Other income	43.0	–	43.0
Pellet Production			
Pellet sales	–	229.4	229.4
Elimination of intra-group sales	–	(1,742.1)	(1,742.1)
Total adjusted consolidated revenue	4,702.9	–	4,702.9
Certain remeasurements	10.5	–	10.5
Total consolidated revenue	4,713.4	–	4,713.4

Included within electricity sales above is £78.1 million of capacity market income relating to the period from October 2018-December 2019.

Certain remeasurements of £10.5 million (2018: £(8.3) million) are comprised of gains and losses on derivative contracts that are used to manage risk exposures associated with the Group's revenue, not designated into hedge accounting relationships under IFRS 9.

Revenue recognised in the year that was included within contract liabilities at the start of the year was £6.6 million.

The following is an analysis of the Group's revenues for the year ended 31 December 2018:

	Year ended 31 December 2018		
	External £m	Intra-group £m	Total £m
Power Generation			
Electricity sales	983.4	1,020.4	2,003.8
ROC and LEC sales	664.5	316.3	980.8
CfD income	321.5	–	321.5
Ancillary services	18.8	–	18.8
Other income	6.7	–	6.7
Customers			
Electricity and gas sales	2,195.9	–	2,195.9
Other income	46.5	–	46.5
Pellet Production			
Pellet sales	–	213.7	213.7
Elimination of intra-group sales	–	(1,550.4)	(1,550.4)
Total adjusted consolidated revenue	4,237.3	–	4,237.3
Certain remeasurements	(8.3)	–	(8.3)
Total consolidated revenue	4,229.0	–	4,229.0

3 Operating expenses

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

	Years ended 31 December	
	2019 £m	2018 £m
The following expenditure has been charged in arriving at operating profit:		
Staff costs	**184.4**	145.7
Repairs and maintenance expenditure on property, plant and equipment	**106.3**	45.7
Expense for short-term and low value leases	**0.7**	–
Other operating and administrative expenses	**147.9**	128.6
Total operating and administrative expenses	**439.3**	320.0

Operating lease costs in 2018 of £3.3 million in respect of land and buildings and £1.6 million in respect of other operating leases were included in other operating and administrative expenses. Following the adoption of IFRS 16 from 1 January 2019 (see note 17), operating leases that meet the definition of right-of-use assets are capitalised and recognised on the balance sheet with a corresponding lease liability. The Group has taken the exemption available under short-term and low value leases. Leases that have a term of less than 12 months or the underlying asset is less than £3,500 are expensed to the income statement on a systematic basis over the term of the lease. The amounts expensed in relation to short-term and low value leases in 2019 was £0.7 million.

Auditor's remuneration

	Years ended 31 December	
	2019 **£000**	2018 £000
Audit fees:		
Fees payable for the audit of the Group's consolidated financial statements	**863.9**	905.1
Fees payable for the audit of the Company's subsidiaries	**36.0**	32.4
	899.9	937.5
Other fees:		
Review of the Group's half-year condensed consolidated financial statements	**96.2**	91.0
Other services	**2.0**	2.0
Total audit-related fees	**998.1**	1,030.5
Other assurance services	**180.0**	1,335.0
Other non-audit fees	**–**	139.0
Total non-audit fees	**180.0**	1,474.0
Total auditor's remuneration	**1,178.1**	2,504.5

The Group fee relates to the audit of all the subsidiaries to a statutory materiality. In addition, certain head office companies are not required for the Group audit opinion, the allocation of which is included in the fees payable for the audit of the Company's subsidiaries disclosed above.

Other assurance services provided by Deloitte LLP in 2019 consist of agreed upon procedures and other assurance services provided in connection with the bond issuance in May 2019 (2018: assurance and agreed-upon procedures performed in connection with the bond issuance in April 2018, and reporting accountant and related services for the Class I circular issued for the acquisition of the new generation assets from ScottishPower).

Other non-audit fees in 2018 comprised a review of IT resilience and Disaster Recovery processes.

Non-audit services are approved by the Audit Committee in accordance with the policy set out on the Group's website (www.drax.com/policies).

4 Review of fixed assets for impairment

Accounting policy

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

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

In respect of the Generation business, the Group considers the smallest groups of assets that generate independent cash flows to be the individual sites that share common infrastructure and control functions.

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

Where value in use is calculated, the assessment of future cash flows is based on the most recent approved business plan and includes all of the necessary costs expected to be incurred to generate the cash inflows from the CGU's assets in their current state and condition, including an allocation of centrally managed costs. Central costs are only allocated where they are necessary for and directly attributable to the CGU's activities. Future cash flows include, where relevant, contracted cash flows arising from the Group's cash flow hedging activities and as a result the carrying amount of each CGU includes the mark-to-market value of those cash flow hedges.

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

If the recoverable amount is less than the current carrying amount in the financial statements, a provision is made to reduce the carrying amount of the asset or CGU to the estimated recoverable amount. Impairment losses are recognised immediately in the income statement.

Goodwill balances and intangible assets with an indefinite useful economic life are assessed for impairment annually.

Assessment of indicators of impairment

A review of the Group's CGUs did not give rise to any indicators of impairment. Accordingly no detailed impairment calculation has been completed for CGUs where no goodwill is allocated (Drax Power, Drax Biomass and the four CCGTs within Generation). The review considered the impact on previously calculated headroom of movements in market prices for commodities and changes in foreign exchange rates.

During 2019, the Group finalised its assessment of CGUs, and the allocation of goodwill to those CGUs, in respect of the new generation assets acquired from ScottishPower on 31 December 2018.

All impairment reviews conducted in 2019 indicated adequate headroom to conclude that no impairment charges were required. Accordingly, no amounts have been charged to the income statement in respect of asset impairment in 2019. (2018: £26.8 million asset obsolescence charge in respect of coal-specific assets no longer required following the conversion of a generating unit to run on biomass at Drax Power Station).

Goodwill impairment review
The recoverable amount of the Haven Power and Opus Energy CGUs is measured annually, based on a value-in-use calculation using the Group's established planning model. This model depends on a broad range of assumptions, the most significant of which are customer margins and supply volumes. Inherent in these assumptions are expectations about future energy prices and supply costs. Cash flows beyond the business plan period are inflated into perpetuity using a growth rate of 1%.

The carrying amount of the Haven Power CGU at 31 December 2019 was £49.9 million. The expected future cash flows of the CGU were discounted using a discount rate of 7.5% (calculated based on independent analysis commissioned by the Group, adjusted to the specific circumstances and risk factors affecting the Group's Customers business). The Group believes that this rate reflects the prospects for a well-established Customers business. The value in use of the Haven Power CGU, including the goodwill, was significantly in excess of its carrying amount.

The carrying amount of the Opus Energy CGU at 31 December 2019 was £319.5 million, including intangible assets of £162 million. Following further integration of Opus Energy into the Group's existing Customers business during 2019, the discount rate was assessed as being in line with that of Haven Power at 7.5%. The value in use of the Opus Energy CGU, including the goodwill and intangible assets, was significantly in excess of its carrying amount.

The Group has conducted a sensitivity analysis of the estimates of future cash flows of the Haven Power and Opus Energy CGUs. This analysis indicates that any reasonably possible change in the key assumptions, which are customer margins, supply volumes and discount rate, would not cause an impairment loss in respect of goodwill.

Goodwill associated with recently acquired generation assets
The Group tested the goodwill associated with the Lanark, Galloway and Cruachan CGUs for the first time at 31 December 2019. The recoverable amount of each CGU was calculated based on a value-in-use calculation using the Group's established planning model. The model depends on a broad range of assumptions, the most significant of which are power prices, operating model, sources of stability income and the discount rate applied. Cash flows beyond the business plan period are inflated into perpetuity using a growth rate of 2%.

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

CGU	Carrying Amount	Discount Rate
Lanark	56.4	6.6%
Galloway	198.1	6.6%
Cruachan	319.9	6.6%

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

The value in use of each of the CGUs in the table above, including allocated goodwill, was significantly in excess of its carrying amount.

The Group has conducted a sensitivity analysis of the estimates of future cash flows of the Lanark, Galloway and Cruachan CGUs. For the Cruachan CGU, this analysis indicates that any reasonably possible change in the key assumptions would not cause an impairment loss in respect of goodwill. For the Lanark and Galloway CGUs, a sustained reduction in long-term power prices in excess of 5% or an increase discount rate of 1%, when compared to the assumptions applied in the value in use analysis at 31 December 2019, would result in a recoverable amount for those CGUs equivalent to their carrying amounts. These sensitivities are considered reasonably possible to arise in isolation but do not consider the impact of mitigating actions or compensating changes in other assumptions.

Development assets impairment review
The development assets arose on the acquisition of four OCGT projects in December 2016 and reflect the value of planning and consents. Until operations commence, the assets are considered to have an indefinite life and thus are not amortised and are subject to impairment testing at each balance sheet date.

At 31 December 2019, the recoverable amount of the development assets was established using a value-in-use calculation derived from the Group's established planning model. The assessment reflected the Government's announcement that the Capacity Market will be reinstated and incorporated key assumptions related to likely Capacity Market clearing prices, construction costs, and the ongoing revenues to be derived from the projects once constructed.

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

The expected future cash flows were discounted using a rate of 7%, which includes an assessment of the level of construction and execution risk inherent in the existing assets and quality of revenue if constructed. The analysis indicated a recoverable amount in excess of the current carrying amount of the development assets.

The analysis is sensitive to the key assumptions described above and the discount rate applied. Set out below are the changes in these assumptions that would result in a recoverable amount that is less than the carrying amount:

- Increasing the discount rate by approximately 1.2%
- A reduction in the Capacity Market clearing price achieved of 17%
- An increase in the total construction cost of 12%
- A reduction in system stability revenue streams of 21%

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

5 Net finance costs

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

On 2 January 2019, the Group drew down £550 million from the £725 million acquisition bridge facility to partially fund the acquisition of the new generation assets, with the remainder of the consideration funded from the Group's cash resources.

Deferred financing costs in relation to the acquisition bridge facility of £5.2 million were written off to the income statement. Financing costs of £15.5 million in relation to the new facilities have been deferred and are being amortised over the term of the facilities. (2018: incremental costs of £3.8 million in relation to new borrowings were deferred and are being amortised at the effective interest rate, and £5.2 million in relation to floating rate notes and an early repayment charge of £2.0 million were written off).

As described in note 7, the £5.2 million of costs associated with the acquisition bridge facility have been excluded from the Adjusted Results and are presented as exceptional items in arriving at Total Results. Further information about the Group's financing structure can be found in note 13.

	Years ended 31 December	
	2019 £m	2018 £m
Interest payable and similar charges:		
Interest payable on borrowings	**(49.8)**	(36.3)
Interest on lease liabilities	**(1.2)**	–
Unwinding of discount on provisions	**(4.5)**	(0.9)
Amortisation of deferred finance costs	**(4.2)**	(3.1)
Net finance credit in respect of defined benefit scheme	**0.8**	0.1
Other financing charges	**(2.4)**	(0.2)
Total interest payable and similar charges included in adjusted results	**(61.3)**	(40.4)
Interest receivable:		
Interest income on bank deposits	**1.3**	1.2
Total interest receivable included in adjusted results	**1.3**	1.2
Foreign exchange (losses)/gains included in adjusted results	**(1.6)**	0.3
Total recurring net interest charge included in adjusted results	**(61.6)**	(38.9)
Exceptional costs of debt restructure:		
Fees to exit existing facilities	**–**	(2.0)
Acceleration of deferred costs in relation to previous facilities	**(5.2)**	(5.2)
Total exceptional costs of debt restructure	**(5.2)**	(7.2)
Certain remeasurements on financing derivatives	**2.0**	–
Total net interest charge	**(64.8)**	(46.1)

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

6 Current and deferred taxation

The tax charge includes both current and deferred tax. Current tax is the estimated amount of tax payable on this year's taxable profits (which are adjusted for items upon which the Group is not required to pay tax or, in some cases, for items which are not allowable for tax purposes and therefore on which additional tax is required) and adjusted for estimates for previous years. Deferred tax is an accounting adjustment which reflects where more or less tax is expected to arise in the future due to differences between the accounting and tax rules. This is reflected in differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profits. The tax credit reflects the estimated effective tax rate on the loss before tax for the Group for the year ended 31 December 2019 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the income statement.

Accounting policy

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

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

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

The Group has adopted the research and development expenditure credit regime (RDEC). Under this regime, research and development tax credits are accounted for as development grants, and are recorded in operating profit within the income statement, with the corresponding receivable being offset against corporation tax payable.

Significant estimation uncertainty

In accounting for taxation the Group makes assumptions regarding the treatment of items of income and expenditure for tax purposes. The Group believes that these assumptions are reasonable, based on prior experience and consultation with advisers. Full provision is made for deferred taxation at the rates of tax prevailing at the period end date unless future rates have been substantively enacted. Deferred tax assets are recognised where it is considered more likely than not that they will be recovered. Where such assets relate to losses incurred by a business unit, particularly one with a history of losses, the Group seeks evidence other than its own internal forecasts to support recognition of the related deferred tax asset.

	Years ended 31 December	
	2019 £m	2018 £m
Total tax credit comprises:		
Current tax		
– Current year	**31.0**	17.0
– Adjustments in respect of prior periods	**10.4**	(5.2)
Deferred tax		
– Before impact of tax rate changes	**(39.0)**	(18.4)
– Adjustments in respect of prior periods	**(7.5)**	–
– Effect of changes in tax rate	**1.8**	0.2
Total tax credit	**(3.3)**	(6.4)

	Years ended 31 December	
	2019 £m	2018 £m
Tax charged/(credited) on items recognised in other comprehensive income:		
Deferred tax on actuarial (losses)/gains on defined benefit pension scheme	**(4.3)**	3.0
Deferred tax on cash flow hedges	**(5.1)**	35.4
Deferred tax on cost of hedging	**9.7**	4.7
	0.3	43.1

	Years ended 31 December	
	2019 £m	2018 £m
Tax (credited)/charged on items released directly from equity:		
Deferred tax on cost of hedging	**0.7**	2.8
Deferred tax on cash flow hedges	**(17.1)**	(17.7)
	(16.4)	(14.9)

UK corporation tax is the main rate of tax for the Group and is calculated at 19.00% (2018: 19.00%) of the assessable profit or loss for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on jurisdictional tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

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

	Year ended 31 December 2019			Year ended 31 December 2018		
	Adjusted Results £m	**Exceptional items and certain remeasurements £m**	**Total Results £m**	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results (Restated) £m
Profit/(loss) before tax	**142.2**	**(145.0)**	**(2.8)**	37.1	(23.3)	13.8
Profit/(loss) before tax multiplied by the rate of corporation tax in the UK of 19.00% (2018: 19.00%)	**27.0**	**(27.5)**	**(0.5)**	7.0	(4.4)	2.6
Effects of:						
Adjustments in respect of prior periods	**2.9**	–	**2.9**	(5.7)	–	(5.7)
Expenses not deductible for tax purposes	**0.6**	**0.1**	**0.7**	1.1	3.5	4.6
Effect of changes in tax rate	**1.8**	–	**1.8**	0.2	–	0.2
Difference in overseas tax rates	**(0.2)**	–	**(0.2)**	(0.3)	–	(0.3)
Patent box benefit	**(8.0)**	–	**(8.0)**	(8.1)	–	(8.1)
Other	–	–	–	1.0	(0.7)	0.3
Total tax charge/(credit)	**24.1**	**(27.4)**	**(3.3)**	(4.8)	(1.6)	(6.4)

As a result of the reduction in the US federal tax rates to 21% from 2018, and tax relief now arising to the Group from the UK Patent Box regime (see below), in the medium term, the Group anticipates that the underlying effective tax rate will be marginally lower than the main rate of corporation tax in the UK.

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

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

Deferred tax (liabilities)/assets

	Financial instruments (restated) £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 2018	(31.2)	(161.0)	–	(33.2)	26.9	(18.5)	9.7	(207.3)
Effect of acquisition	–	(48.4)	–	–	–	(20.0)	–	(68.4)
(Charged)/credited to the income statement	(7.4)	6.5	2.0	7.1	(6.1)	5.3	11.0	18.4
Charged to other comprehensive income in respect of actuarial gains	–	–	–	–	–	–	(3.0)	(3.0)
Charged to other comprehensive income in respect of cash flow hedges	(35.4)	–	–	–	–	–	–	(35.4)
Charged to other comprehensive income in respect to cost of hedging	(4.7)	–	–	–	–	–	–	(4.7)
Credited to equity in respect of cash flow hedges	17.7	–	–	–	–	–	–	17.7
Charged to equity in respect of cost of hedging	(2.8)	–	–	–	–	–	–	(2.8)
Effect of changes in foreign exchange rates	–	–	–	–	1.4	–	–	1.4
At 1 January 2019	**(63.8)**	**(202.9)**	**2.0**	**(26.1)**	**22.2**	**(33.2)**	**17.7**	**(284.2)**
(Charged)/credited to the income statement	**25.3**	**8.3**	**(0.3)**	**6.0**	**5.6**	**5.7**	**(5.9)**	**44.7**
Charged to other comprehensive income in respect of actuarial gains	**–**	**–**	**–**	**–**	**–**	**–**	**4.3**	**4.3**
Credited to other comprehensive income in respect of cash flow hedges	**5.1**	**–**	**–**	**–**	**–**	**–**	**–**	**5.1**
Charged to other comprehensive income in respect of cost of hedging	**(9.7)**	**–**	**–**	**–**	**–**	**–**	**–**	**(9.7)**
Credited to equity in respect of cash flow hedges	**17.1**	**–**	**–**	**–**	**–**	**–**	**–**	**17.1**
Charged to equity in respect of cost of hedging	**(0.7)**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.7)**
Effect of changes in foreign exchange rates	**–**	**–**	**–**	**–**	**(0.3)**	**–**	**–**	**–**
At 31 December 2019	**(26.7)**	**(194.6)**	**1.7**	**(20.1)**	**27.5**	**(27.5)**	**16.1**	**(223.7)**

	Financial instruments (restated) £m	Accelerated capital allowances £m	Non-trade losses £m	Intangible assets £m	Trade losses £m	Other liabilities £m	Other assets £m	Total £m
Deferred tax balances (after offset) for financial reporting purposes:								
Net deferred tax asset	**–**	**–**	**1.7**	**–**	**27.5**	**–**	**16.1**	**45.3**
Net deferred tax liability	**(26.7)**	**(194.6)**	**–**	**(20.1)**	**–**	**(27.5)**	**–**	**(268.9)**

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

Within the above deferred tax balances is a net deferred tax asset of £27.5 million (2018: £22.2 million) in relation to start-up losses and other temporary differences in the US-based Pellet Production business. Based on its business plan and reflecting continuing improvement in operational performance, the Group anticipates that it will generate sufficient profits in future periods against which to utilise this asset.

7 Certain remeasurements and exceptional items

The Group reflects its underlying financial results in the Adjusted Results column of the Consolidated income statement. In order to provide a clear and consistent view of trading performance, certain remeasurements and exceptional items are presented in a separate column. The Group believes that this presentation provides useful information about the financial performance of the business and is consistent with the way executive management and the Board assess the performance of the business.

The Group has a framework for the determination of transactions as exceptional. Transactions presented as exceptional are approved by the Audit Committee.

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

- Acquisition and restructuring costs associated with the acquisition and on-boarding of Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited) (2019 and 2018) into the Group, along with costs associated with the restructuring of the Pellet Production and Customers businesses (2018).
- Asset obsolescence charges, which in 2018 related to coal-specific assets associated with the conversion of the fourth unit at Drax Power Station to run on biomass fuel.
- Costs incurred as a result of restructuring the Group’s debt in 2019 and 2018, including facility break costs and the acceleration of the amortisation of deferred finance costs associated with the redeemed facilities. Interest costs that relate to the acquisition bridge facility have been classified as exceptional, as they relate directly to the acquisition described above.
- Certain remeasurements comprise gains or losses on derivative contracts to the extent that those contracts do not qualify for hedge accounting, or hedge accounting is not effective, and those gains or losses are either i) unrealised and relate to the delivery of commodity contracts in future periods, or ii) are realised in relation to the delivery of commodity contracts in the current period. The effect of excluding certain remeasurements from the Adjusted Results is to reflect commodity sales and purchases at contracted prices – i.e. at the all-in-hedged amount paid or received in respect of the delivery of the commodity in question, to better present the trading performance of the Group in Adjusted Results.

	Years ended 31 December	
	2019 £m	2018 £m
Exceptional items:		
Acquisition and restructuring costs	**(9.0)**	(27.7)
Asset obsolescence charges	**–**	(26.8)
Exceptional items included within Operating Profit	**(9.0)**	(54.5)
Cost of debt restructure	**(5.2)**	(7.2)
Exceptional items included in Profit Before Tax	**(14.2)**	(61.7)
Taxation on Exceptional items	**2.6**	9.0
Exceptional items after taxation	**(11.6)**	(52.7)
Remeasurements:		
Net remeasurements included in Gross Profit	**(132.8)**	38.4
Net remeasurements included in Foreign exchange gains	**2.0**	–
Taxation on certain remeasurements	**24.8**	(7.4)
Remeasurements after taxation	**(106.0)**	31.0
Reconciliation:		
Adjusted results	**118.1**	41.9
Exceptional items after tax	**(11.6)**	(52.7)
Remeasurements after tax	**(106.0)**	31.0
Profit/(loss) after tax	**0.5**	20.2

8 Earnings per share

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

	Years ended 31 December	
	2019	2018
Earnings attributable to equity holders of the Company (£m)	**0.5**	20.2
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**395.5**	402.4
Effect of dilutive potential ordinary shares under share plans	**1.9**	4.5
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	**397.4**	406.9
Earnings/(loss) per share – basic (pence)	**0.1**	5.0
Earnings/(loss) per share – diluted (pence)	**0.1**	4.9

Repurchased shares are not included in the weighted average calculation of shares. Application of the same calculation to Adjusted profit after tax of £118.1 million results in Adjusted basic EPS of 29.9 pence and Adjusted diluted EPS of 29.7 pence (2018: Adjusted profit after tax of £41.9 million, Adjusted basic EPS of 10.4 pence and Adjusted diluted EPS of 10.3 pence).

9 Dividends

	Years ended 31 December	
	2019 £m	2018 £m
Amounts recognised as distributions to equity holders in the year (based on the number of shares in issue at the record date):		
Interim dividend for the year ended 31 December 2019 of 6.4 pence per share paid on 11 October 2019 (2018: 5.6 pence per share paid on 12 October 2018)	**25.4**	22.4
Final dividend for the year ended 31 December 2018 of 8.5 pence per share paid on 10 May 2019 (2017: 7.4 pence per share paid on 11 May 2018)	**33.5**	30.1
	58.9	52.5

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 2019 of 9.5 pence per share (equivalent to approximately £38 million) payable on or before 15 May 2020. The final dividend has not been included as a liability as at 31 December 2019. This would bring total dividends payable in respect of the 2019 financial year to £63 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 based businesses.

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

10 Retained profits

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

	Years ended 31 December	
	2019 £m	2018 £m
At 1 January	**442.7**	457.9
Profit for the year	**0.5**	20.2
Actuarial (losses)/gains on defined benefit pension scheme	**(21.5)**	15.9
Deferred tax on actuarial gains on defined benefit pension scheme (note 6)	**4.3**	(3.0)
Equity dividends paid (note 9)	**(58.9)**	(52.5)
(Loss)/gain on equity investment	**(0.1)**	0.2
Net movements in equity associated with share-based payments	**2.7**	4.0
At 31 December	**369.7**	442.7

Distributable profits

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

The Parent Company's distributable reserves are £188.2 million. Sufficient reserves are available across the Group as a whole to make future distributions in accordance with the Group's dividend policy for the foreseeable future.

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

The immediate cash resources of the Group of £404.1 million are set out in note 12 and the recent history of cash generation within note 14. The majority of these cash resources are held centrally within the Group by Drax Corporate Limited for treasury management purposes and are available for funding the working capital and other requirements of the Group.

The Group's financing facilities (see note 13) place certain conditions on the amount of dividend payments to be made in any given year. The Group expects to be able to make dividend payments, in line with its policy, within these conditions for the foreseeable future.

11 Reconciliation of net debt

Net debt is calculated by taking the Group's borrowings (note 13) and subtracting cash and cash equivalents (note 12). The table below reconciles net debt in terms of changes in these balances across the year.

	Years ended 31 December	
	2019 £m	2018 £m
Net debt at 1 January	**(319.1)**	(367.4)
Increase/(decrease) in cash and cash equivalents	**121.9**	65.6
(Increase)/decrease in borrowings	**(645.3)**	4.2
Effect of changes in foreign exchange rates	**1.4**	(21.5)
Net debt at 31 December	**(841.1)**	(319.1)

Borrowings include listed bonds, bank debt and revolving credit facilities, net of any deferred finance costs. Borrowings do not include other financial liabilities such as IFRS 16 lease liabilities, pension obligations and trade and other payables. Whilst the definition of net debt is unchanged from previous periods, following the adoption of IFRS 16 as of 1 January 2019, finance leases no longer form part of borrowings and have been subsumed into the larger lease liability calculated in accordance with IFRS 16. The carrying amount of finance lease liabilities at 31 December 2018 was £0.5 million.

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 were predominantly classified as operating leases under the old lease standard (IAS 17 and IFRIC 4). These leases were therefore previously not held on the balance sheet, but were disclosed as operating commitments in the Group's 2018 Annual Report and Accounts. At 31 December 2019, these liabilities had a carrying amount of £32.5 million.

A reconciliation of the increase in borrowings during the year is set out in note 13.

The Group has entered into cross-currency interest rate swaps, fixing the sterling value of the principal repayments in respect of the Group's US dollar denominated debt (see note 13). If US dollar balances are translated at the hedged rate, rather than the rate prevailing at the balance sheet date, the carrying amount of the Group's borrowings would be reduced by £12.2 million (2018: reduced by £22.0 million). The corresponding value of the hedging instrument is recognised at its fair value as a derivative financial instrument.

12 Cash and cash equivalents

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

	As at 31 December	
	2019 **£m**	2018 £m
Cash and cash equivalents	**404.1**	289.0

13 Borrowings

Accounting policy

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Where this is the case, the fee is deferred until the draw-down occurs.

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

Reconciliation of borrowings

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

	Year ended 31 December 2019		
	Borrowings before deferred finance costs £m	**Deferred finance costs £m**	**Net borrowings £m**
Borrowings at 1 January	**622.9**	**(14.8)**	**608.1**
Cash movements:			
2025 $200 million USD loan notes draw down	**152.8**	**(3.4)**	**149.4**
£550 million acquisition bridge facility draw down	**550.0**	**(1.4)**	**548.6**
UK infrastructure private placement draw down	**375.0**	**(10.0)**	**365.0**
ESG facility draw down	**125.0**	**(2.1)**	**122.9**
Repayment of £550 million acquisition bridge facility	**(550.0)**	**–**	**(550.0)**
Non-cash movements:			
Acceleration of deferred costs in relation to previous facilities (note 5)	**–**	**5.2**	**5.2**
Indexation of linked loan	**0.8**	**–**	**0.8**
Amortisation of deferred finance costs (note 5)	**–**	**4.2**	**4.2**
Amortisation of USD loan note premium	**(0.3)**	**–**	**(0.3)**
Effect of foreign exchange rates	**(8.2)**	**–**	**(8.2)**
Reclassification of finance leases	**(0.5)**	**–**	**(0.5)**
Borrowings at 31 December	**1,267.5**	**(22.3)**	**1,245.2**

On 2 January 2019, the Group drew down £550 million from the £725 million acquisition bridge facility to partially fund the acquisition of the new generation assets, with the remainder of the consideration funded from the Group's cash resources. The acquisition bridge facility was fully refinanced in the year, ahead of its scheduled maturity in the second half of 2020, as described below.

On 16 May 2019, the Group issued an additional US $200 million of the existing 2025 6.625% USD loan notes. The proceeds from the issuance were used to repay £150 million of the drawn down acquisition bridge facility. The notes were issued at 101.5% of their nominal value which, when swapped back into sterling, achieved an interest rate of 4.74%.

On 24 July 2019, the Group successfully concluded the refinancing of the remaining £400 million drawn acquisition bridge facility. Two new facilities totalling £500 million were agreed with effective rates substantially inside Drax's current cost of debt; a £375 million UK infrastructure private placement with maturities extending out to between 2024–2029 and a £125 million environment, social & governance or "ESG" facility. A proportion of the interest rate on the £125 million ESG facility is variable, based on the Group's total carbon dioxide emissions per GWh of electricity generation.

The Group's financing structure also includes £350 million 4.25% fixed rate loan notes, US $300 million loan notes with a fixed interest rate of 6.625%, which was swapped back to sterling upon issuance at an effective interest rate of 5%, and a £350 million facility comprised of Revolving Credit Facility (RCF) with a value of £315 million and an index-linked term loan of £35 million. The RCF matures in April 2021, with an option to extend by one year.

Following the adoption of IFRS 16, finance leases have been reclassified to lease liabilities. Prior years have not been restated.

The Group has cross-currency interest rate swaps in place to hedge the sterling cash flows associated with the USD loan notes. In addition to fixing the sterling value of interest payments over a five year period, this instrument fixes the sterling repayment of the principal at £367.5 million in 2023, the impact of which would reduce borrowings by £12.2 million.

	Year ended 31 December 2018		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	605.2	(15.5)	589.7
Cash movements:			
2025 US $300 million loan notes drawn down	213.3	(3.8)	209.5
Repayment of floating rate loan notes on 1 May 2018	(200.0)	–	(200.0)
Repayment of US $25 million revolving facility	(19.1)	–	(19.1)
Deferred costs in relation to acquisition bridge facility	–	(3.8)	(3.8)
Non-cash movements:			
Indexation of linked loan	1.2	–	1.2
Amortisation of deferred finance costs (note 5)	–	3.1	3.1
Repayment of floating rate loan notes on 1 May 2018	–	5.2	5.2
Effect of foreign exchange rates	22.6	–	22.6
Changes in finance lease liabilities	(0.3)	–	(0.3)
Borrowings at 31 December	622.9	(14.8)	608.1

Amounts drawn against each facility in the Group's financing structure in the current and previous year is shown in the tables below:

	As at 31 December 2019		
	Borrowings before deferred finance costs £m	**Deferred finance costs £m**	**Net borrowings £m**
2022 fixed loan notes	**350.0**	**(5.3)**	**344.7**
2025 US $500 million loan notes	**379.6**	**(5.9)**	**373.7**
Index-linked loan	**37.9**	**–**	**37.9**
UK infrastructure private placement	**375.0**	**(9.3)**	**365.7**
ESG facility	**125.0**	**(1.8)**	**123.2**
Total borrowings	**1,267.5**	**(22.3)**	**1,245.2**
Split between:			
Current borrowings	**–**	**–**	**–**
Non-current borrowings	**1,267.5**	**(22.3)**	**1,245.2**

The Group has a committed £315 million revolving credit facility available but had no cash drawings at 31 December 2019. The Group has no other committed facilities, although it has access to certain non-recourse trade receivable finance facilities and payment facilities, as described in note 14, which are utilised to accelerate working capital cash inflows and defer cash outflows.

	As at 31 December 2018		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
2022 fixed loan notes	350.0	(7.6)	342.4
2025 US $300 million loan notes	235.3	(3.4)	231.9
Index-linked loan	37.1	–	37.1
Acquisition bridge facility	–	(3.8)	(3.8)
Finance lease liabilities	0.5	–	0.5
Total borrowings	622.9	(14.8)	608.1
Split between:			
Current borrowings	0.1	–	0.1
Non-current borrowings	622.8	(14.8)	608.0

The Group's financing structure, including the index linked loan, the loan notes, the RCF, private placement and ESG facility are secured against the assets of a number of the Group's subsidiaries including property, plant and equipment, with the exception of the US subsidiaries' assets.

In addition, the Group has a secured commodity trading line, which allows it to transact prescribed volumes of commodity trades without the requirement to post collateral and FX trading lines with certain banks. Counterparties to these arrangements are entitled to share in the security as described above. As at 31 December 2019, this value was £32.7 million (2018: £11.9 million).

14 Notes to the consolidated cash flow statement

Cash generated from operations

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

	Years ended 31 December	
	2019 £m	2018 £m
Profit/(loss) for the year	**0.5**	20.2
Adjustments for:		
Interest payable and similar charges	**66.5**	47.3
Interest receivable	**(1.3)**	(1.2)
Tax credit	**(3.3)**	(6.4)
Depreciation and amortisation	**207.9**	173.8
Asset obsolescence charge	**–**	26.8
Losses on disposal	**1.2**	3.9
Certain remeasurements of derivative contracts	**254.0**	(43.3)
Defined benefit pension scheme current service cost	**7.1**	6.8
Non-cash charge for share-based payments	**2.7**	4.0
Other non-cash (gains)/losses	**(0.5)**	4.3
Operating cash flows before movement in working capital	**534.8**	236.2
Changes in working capital:		
(Increase)/decrease in inventories	**(67.8)**	52.5
Increase in receivables	**(142.6)**	(15.4)
Increase in payables	**110.2**	149.4
Increase in carbon assets	**(4.3)**	(3.7)
Decrease/(increase) in ROC assets	**54.0**	(71.2)
Total cash (invested in)/released from working capital	**(50.5)**	111.6
Defined benefit pension scheme contributions	**(13.1)**	(11.4)
Cash generated from operations	**471.2**	336.4

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

The Group has a strong focus on cash flow discipline and uses various methods to manage liquidity. When compared to the year end position, these methods have been utilised to a broadly consistent level throughout the year unless otherwise stated. The impact of these actions on the cash flows of the Group is described below.

Cash from ROCs is typically realised several months after the ROC is earned; however, through standard ROC sales and ROC purchase arrangements we are able to accelerate cash flows over a proportion of these assets. The net impact of ROC purchases and ROC sales on operating cash flows was a £131.2 million inflow (2018: £10.5 million outflow), reflected as a decrease (2018: increase) in ROC assets in the table above. The Group also has access to facilities enabling it to sell ROC trade receivables on a non-recourse basis. These facilities were utilised during the year but no amounts remained outstanding at 31 December (2018: £nil).

From time to time, where market conditions change, the Group can rebase foreign currency contracts (including cross-currency interest rate swaps). In 2019 this generated a working capital benefit, which is reflected as an adjustment to derivative remeasurements in the table above. The total cash benefit released from related trades that remained outstanding at 31 December 2019 was £106.8 million (2018: £2.9 million). This cash benefit includes £84.3 million (2018: £2.9 million) released from foreign currency contracts and £22.5 million (2018: £nil) from cross-currency interest rate swaps.

The Customers business has access to a facility which enables it to accelerate cash flows associated with trade receivables on a non-recourse basis, which generated a net cash inflow of £12.8 million in the year ended 31 December 2019, reflected as a reduction in receivables in the table above (2018: £24.4 million). The facility terms were amended in the year, increasing the facility size to £200 million from £150 million in 2018. Utilisation of the facility was £162.2 million at 31 December 2019 (2018: £149.4 million).

The Group has sought to normalise payments across its supplier base resulting in certain suppliers extending payment terms and some reducing terms. Suppliers are able to access a supply chain finance facility provided by a bank, for which funds can be accelerated in advance of the normal payment terms. The facility does not affect the Group's working capital, as payment terms remain unaltered with the Group. At 31 December 2019, the Group had trade payables of £33.1 million (2018: £2.2 million) related to reverse factoring. The Group also has access to a number of payment facilities to leverage scale and efficiencies in transaction processing, whilst providing a working capital benefit for the Group due to a short extension of payment terms within a normal working capital cycle. The amount outstanding under these facilities at 31 December 2019 was £90.6 million (2018: £87.0 million).

Changes in liabilities arising from financing cash flows

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

	As at 31 December 2019			
	Index-linked loans £m	Interest rate swaps £m	Lease liabilities £m	Total £m
Balance at 1 January	607.6	(27.9)	0.5	580.2
Cash flows from financing activities	635.9	5.4	(7.4)	633.9
Impact of foreign exchange rates	(8.2)	–	(0.4)	(8.6)
Fair value (gains)/losses	–	5.4	–	5.4
Other movements	9.9	–	39.8	49.7
Balance at 31 December	1,245.2	(17.1)	32.5	1,260.6

	As at 31 December 2018			
	Index-linked loans £m	Interest rate swaps £m	Lease liabilities £m	Total £m
Balance at 1 January	588.9	–	0.8	589.7
Cash flows from financing activities	(12.8)	–	–	(12.8)
Impact of foreign exchange rates	22.0			22.0
Fair value (gains)/losses	–	(27.9)	–	(27.9)
Other movements	9.5	–	(0.3)	9.2
Balance at 31 December	607.6	(27.9)	0.5	580.2

15 Equity and reserves

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

Accounting policy

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

	As at 31 December	
	2019 £m	2018 £m
Authorised:		
865,238,823 ordinary shares of 11 $\frac{16}{29}$ pence each (2018: 865,238,823)	**100.0**	100.0
Issued and fully paid:		
2019: 410,475,731 ordinary shares of 11 $\frac{16}{29}$ pence each (2018: 407,193,168)	**47.4**	47.0
	47.4	47.0

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

	Years ended 31 December	
	2019 (number)	2018 (number)
At 1 January	**407,193,168**	407,034,429
Issued under employee share schemes	**3,282,563**	158,739
At 31 December	**410,475,731**	407,193,168

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

Shares issued under employee share schemes

Throughout January to December 2019, a total of 3,282,563 shares were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan.

Share buy-back programme

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

Share premium

The share premium account reflects amounts received in respect of issued share capital that exceeds the nominal value of the shares issued.

	Share premium	
	2019 £m	2018 £m
At 1 January	**424.7**	424.3
Issue of share capital	**4.9**	0.4
At 31 December	**429.6**	424.7

Other reserves

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

	Capital redemption reserve £m	Translation reserve (restated) £m	Merger reserve £m	Total other reserves (restated) £m
At 1 January 2018	1.5	31.0	710.8	743.3
Exchange differences on translation of foreign operations	–	24.9	–	24.9
At 31 December 2018	**1.5**	**55.9**	**710.8**	**768.2**
Exchange differences on translation of foreign operations	–	(11.2)	–	(11.2)
At 31 December 2019	**1.5**	**44.7**	**710.8**	**757.0**

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

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

The share premium and the merger reserve arose on the financial restructuring of the Group which took place in 2005. Movements in the share premium reserve reflect amounts received on the issue of shares under employee share schemes.

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

16 Acquisitions

Accounting policy

Acquisitions of businesses are recognised at the point the Group obtains control of the target (the acquisition date). The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at their fair value on the acquisition date. The assets and liabilities are recognised in the Consolidated balance sheet and the revenues and profit or loss of the acquired business are recognised in the Consolidated income statement from the acquisition date. Acquisition-related costs are recognised in the income statement in the period the acquisition occurs as an exceptional item. Goodwill is measured as the excess of the fair value of the consideration transferred over the fair value of the identifiable net assets acquired.

Acquisition of Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited)

There were no acquisitions during 2019; however, the Group has updated the fair value of assets and liabilities acquired in respect of the acquisition of ScottishPower Generation Limited, which completed on 31 December 2018.

ScottishPower Generation Limited was renamed Drax Generation Enterprise Limited on 9 January 2019.

Measurement period adjustments
The fair value of the assets and liabilities acquired has been adjusted to reflect the following:

- The conclusion of the completion statement process in respect of the acquisition. This process resulted in changes to the values of financial assets and liabilities as estimated amounts were confirmed subsequent to the acquisition date. As a result, the Group made a further payment in accordance with the terms of the acquisition of £4.8 million, increased the fair value of the net assets acquired by £2.5 million, and recognised a corresponding increase in goodwill of £2.3 million.
- Finalisation of the terms of the defined benefit pension scheme transfer. This resulted in a reduction in the net opening surplus recognised by £1.1 million, with a corresponding increase to goodwill.
- The finalisation of the Group's assessment of cash-generating units and their fair values resulted in a net £0.2 million reduction in property, plant and equipment values.

As a result of these changes, total goodwill recognised in respect of the acquisition has increased by £3.5 million, to £78.3 million. The balance sheet as at 31 December 2018 has been restated. The additional consideration was paid in cash on 14 May 2019.

The acquisition was subject to a risk-sharing agreement in respect of 2019 UK Capacity Market payments. Following the reinstatement of the UK Capacity Market on 25 October 2019, and the subsequent receipt of cash in January 2020 in respect of backdated Capacity Market payment owed, no further amounts are due under this arrangement.

The updated fair values of the assets and liabilities acquired are set out in the table below:

	Original values assumed at 31 December 2018 £m	Remeasurements £m	Revised values at 31 December 2018 £m
Property, plant and equipment	690.0	(0.2)	689.8
Financial assets	40.7	5.4	46.1
Financial liabilities	(41.0)	(2.9)	(43.9)
Pension surplus	3.8	(1.1)	2.7
Provisions	(13.5)	–	(13.5)
Intangible assets	0.6	–	0.6
Deferred tax liability	(68.5)	0.1	(68.4)
Total identifiable net assets	**612.1**	**1.3**	**613.4**
Goodwill	74.8	3.5	78.3
Fair value of consideration payable	**686.9**	**4.8**	**691.7**

Goodwill of £78.3 million is largely reflective of the trading and operational opportunities that arise from acquiring a multi-site multi-fuel generation portfolio together with the assembled skilled workforce. None of the goodwill is expected to be deductible for tax purposes. Intangible assets reflect software previously recognised on the balance sheet of the acquiree.

Assessment of cash-generating units and allocation of goodwill
The Group has determined that each generation site acquired represents a cash-generating unit for impairment testing purposes.

Goodwill has been allocated to the hydro and pumped storage cash-generating units, Lanark (£11.3 million), Galloway (£40.1 million) and Cruachan (£26.9 million).

The Group conducts an annual impairment test for goodwill, as required by IFRS. The acquired goodwill has been tested for the first time as at 31 December 2019.

17 Adoption of new accounting standards and restatement of previously reported financial statements

IFRS 16 – Leases
IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases and SIC 27 Evaluating the Substance of Transactions involving the legal form of a lease.

The Group has adopted IFRS 16 from 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Consequently, comparative information in these Consolidated Financial Statements for the year ended 31 December 2018 has not been restated.

The new requirements have impacted the Group's accounting for lease contracts. The Group's lease portfolio predominantly relates to properties and the hire of plant and equipment at operating sites. On transition to IFRS 16 on 1 January 2019, assets controlled under lease contracts were brought onto the balance sheet as right-of-use assets, and the Group has recognised a corresponding liability for the amounts payable under the lease contracts.

On transition, the Group elected to use the available practical expedient allowing the standard to only be applied to those contracts identified as leases under the previous standards. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered into or modified before 1 January 2019. However, the Group has applied the new definition of a lease to all contracts entered into or modified on or after 1 January 2019. This change did not have a significant impact on the assessment of contracts that are in scope of the definition of a lease.

The Group has also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and lease contracts for which the underlying asset is of low value (less than £3,500).

Under IFRS 16, right-of-use assets are tested for impairment. This has replaced the previous requirement to recognise a provision for onerous lease contracts.

Nature of the effect of adoption of IFRS 16

Leases previously classified as finance leases

The Group has not changed the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e. the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019 and the related amounts on the balance sheet reclassified from property, plant and equipment to right-of-use assets and borrowings to lease liabilities.

Leases previously accounted for as operating leases

The Group has recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. When calculating the remaining lease payments, termination options and extension options have been considered in determining the lease term where deemed to be reasonably probable. The right-of-use assets are recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised.

The Group also applied the following practical expedients as permitted by IFRS 16:

- Use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with a lease term that ends within 12 months at the date of initial application;
- For leases of low value assets, the Group has elected to recognise a lease expense on a straight-line basis;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the above, as at 1 January 2019:

- Right-of-use assets of £37.1 million were recognised and presented separately in the balance sheet. This includes the lease assets recognised previously under finance leases of £0.6 million that were reclassified from property, plant and equipment.
- Additional lease liabilities of £37.6 million were recognised separately on the balance sheet. This includes £0.5 million previously recognised as finance leases that were reclassified from borrowings.

Prepayments of £0.1 million and trade and other payables of £0.7 million related to previous operating leases were derecognised.

The effect of adopting IFRS 16 as at 1 January 2019 is as follows:

	Previously reported at 31 December 2018 £m	Transition adjustments £m	**Adjusted balance sheet at 1 January 2019 £m**
Assets			
Right-of-use assets	–	37.1	**37.1**
Property, plant and equipment	2,292.3	(0.6)	**2,291.7**
Trade and other receivables	468.8	(0.1)	**468.7**
Liabilities			
Trade and other payables	(938.5)	0.7	**(937.8)**
IFRS 16 lease liabilities	–	(37.6)	**(37.6)**
Borrowings	(608.1)	0.5	**(607.6)**
Total adjustment on equity:			
Retained profits	442.7	–	**442.7**

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	£m
Operating lease commitments as at 31 December 2018	30.8
Less:	
Effect of discounting	(5.6)
Commitments relating to short-term and low-value leases	(0.8)
Add:	
Additional leases identified	9.7
Effect of rental changes	2.4
Other adjustments	1.1
Lease liabilities as at 1 January 2019	**37.6**

Key judgements made in response to new reporting requirements
Whilst judgements have been made on initial application of IFRS 16, these are not considered significant to the Consolidated Financial Statements

Impact of IFRS 16 on comparative information
As the Group has made the election to adopt the modified retrospective approach, no comparative information for the 31 December 2018 has been restated for the effects of transition to the new standard. This has led to a lack of comparability in certain areas of the financial statement for the two years.

Income statement
Under the previous accounting standards, operating leases were expensed to the income statement on a systematic basis over the lease term, in the year ended 31 December 2018, £6.3 million was expensed to operating expenses for the operating lease rentals. Under IFRS 16, operating leases are recognised on the balance sheet as right-of-use assets with a corresponding lease liability. Interest on the lease liability is expensed to the income statement as the discount on the lease liability unwinds. Depreciation on the right-of-use assets is charged to the income statement on a straight-line basis over the lease terms. Lease payments are no longer expensed to the income statement but reduce the lease liability.

The impact of IFRS 16 on the income statement for the year to 31 December 2019 was as follows:

	As at 31 December 2019 £m
Reduction in operating expense for lease rentals paid	7.4
Depreciation charged on right-of-use assets	(6.9)
Unwind of discount on lease liability	(1.2)
Total impact	(0.7)

Please refer to note 11 for the impact of IFRS 16 on the net debt calculation.

Restatement of previously reported financial statements

The impact of IFRS 16 and the correction of the retranslation of US subsidiary fixed assets (described above) on the balance sheet for the year ended 31 December 2018 was as follows:

		Adjustments		
	Previously reported at 31 December 2018 £m	Measurement period adjustments £m	Retranslations of US subsidiary fixed assets £m	Restated 31 December 2018 £m
Assets				
Non-current assets				
Goodwill	244.7	3.5	–	248.2
Intangibles	228.8	–	–	228.8
Property, plant and equipment	2,292.3	(0.2)	55.5	2,347.6
Other fixed asset investments	2.4	–	–	2.4
Retirement benefit surplus	22.7	(1.1)	–	21.6
Deferred tax assets	31.8	–	–	31.8
Derivative financial instruments	295.2	–	–	295.2
	3,117.9	2.2	55.5	3,175.6
Current assets				
Inventories	222.5	–	–	222.5
ROC and LEC assets	216.7	–	–	216.7
Trade and other receivables	468.8	5.4	–	474.2
Derivative financial instruments	215.4	–	–	215.4
Cash and cash equivalents	289.0	–	–	289.0
	1,412.4	5.4		1,417.8
Liabilities				
Current liabilities				
Trade and other payables	(938.5)	(2.1)	–	(940.6)
Amounts payable in respect of acquisitions	(686.9)	(4.8)	–	(691.7)
Current tax liabilities	(7.6)	(0.8)	–	(8.4)
Borrowings	(0.1)	–	–	(0.1)
Derivative financial instruments	(89.4)	–	–	(89.4)
	(1,722.5)	(7.7)	–	(1,730.2)
Net current (liabilities)	(310.1)	(2.3)	–	(312.4)
Non-current liabilities				
Borrowings	(608.0)	–	–	(608.0)
Derivative financial instruments	(62.0)	–	–	(62.0)
Provisions	(50.8)	–	–	(50.8)
Deferred tax liabilities	(316.0)	0.1	–	(315.9)
	(1,036.8)	0.1	–	(1,036.7)
Net assets/(liabilities)	1,771.0	–	55.5	1,826.5
Shareholders' equity				
Issued equity	47.0	–	–	47.0
Share premium	424.7	–	–	424.7
Treasury shares	(47.1)	–	–	(47.1)
Hedge reserve	199.9	–	–	199.9
Cost of hedging reserve	(8.9)	–	–	(8.9)
Other reserves	712.7	–	55.5	768.2
Retained profits	442.7	–	–	442.7
Total shareholders' equity	1,771.0	–	55.5	1,826.5

Glossary

Adjusted EBITDA
Earnings before interest, tax, depreciation, amortisation, excluding the impact of exceptional items and certain remeasurements.

Adjusted Results
Business performance after adjusting for material, one-off exceptional items, certain remeasurements, acquisition and restructuring costs, and debt restructuring costs.

BECCS
Bioenergy, carbon capture and storage system, with CO2 resulting from power generation captured and stored.

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.

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

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

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

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

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

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

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

EU ETS
The EU Emissions Trading System is a mechanism introduced across the EU to reduce emissions of CO2; the scheme is capable of being extended to cover all greenhouse gas emissions.

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

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

Headroom and footroom
Positive "reserve" (see opposite) may be termed headroom and negative reserve as footroom.

IFRSs
International Financial Reporting Standards.

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

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

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

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

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

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

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

RIDDORS
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

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

Summer
The calendar months April to September.

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

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

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

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

Winter
The calendar months October to March.