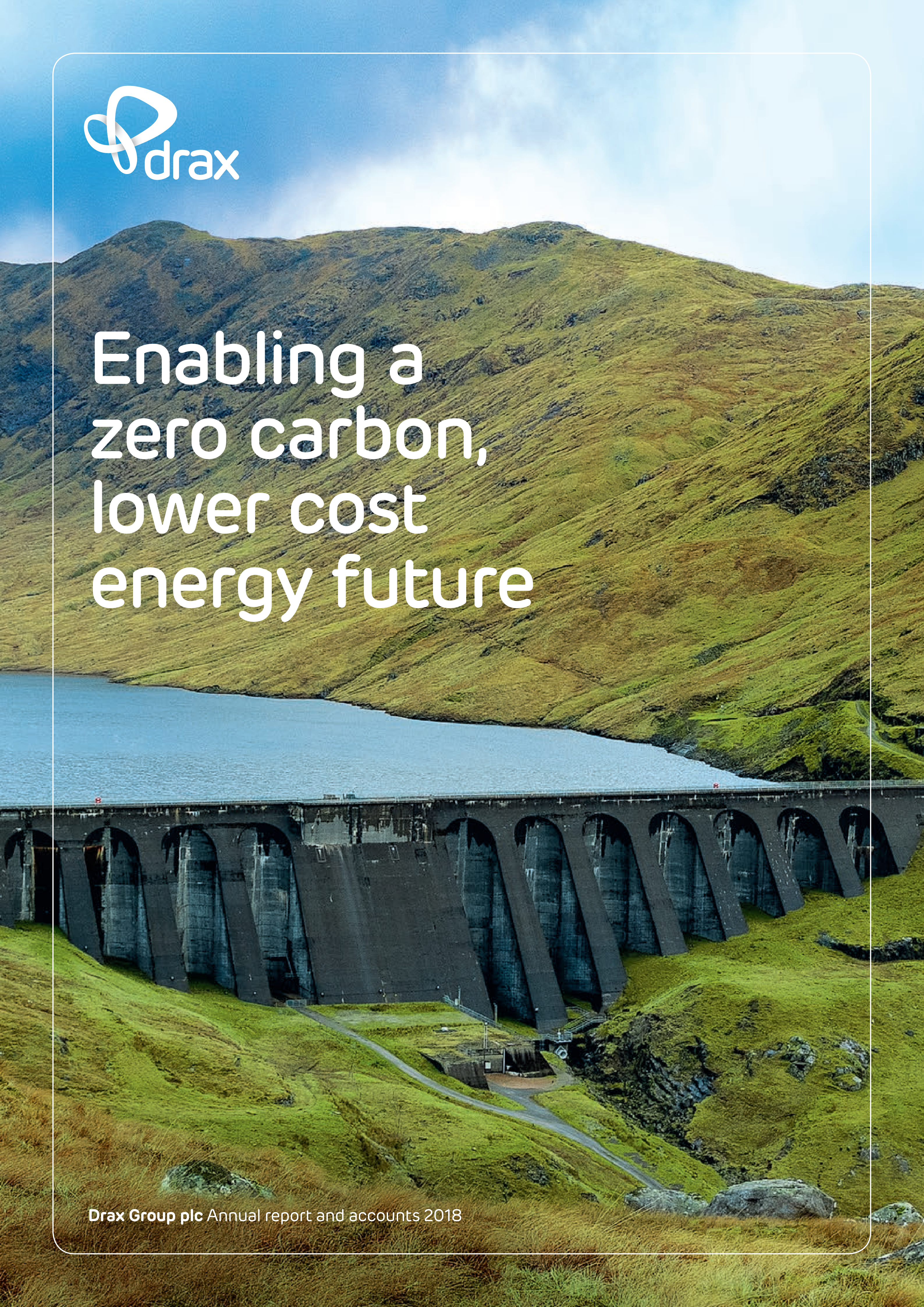


Enabling a zero carbon, lower cost energy future

Drax Group plc Annual report and accounts 2018

WELCOME TO DRAX GROUP

Our purpose: Enabling a zero carbon, lower cost energy future

Drax's goals are to enable:

- A zero carbon economy: Meeting climate change commitments and leaving our environment better than we found it
- A lower cost energy system: Ensuring the energy system is delivered at a lower cost
- Greater security and control: Providing and supporting a reliable supply of renewable energy and giving customers greater control of their energy

See more online at **www.drax.com**

Cover photo: Cruachan dam and reservoir above Cruachan Power Station, acquired by Drax on 31 December 2018 (case study on page 14).

CONTENTS

STRATEGIC REPORT
01 2018 Highlights
02 At a glance
04 Chair's statement
06 Chief Executive's review
10 Business Model
12 Market Context
14 Acquisition of generation assets
16 Pellet Production
18 Power Generation
20 B2B Energy Supply
22 Building a sustainable business
32 Stakeholder relations
34 Group financial review
42 Viability statement
44 Principal risks and uncertainties

GOVERNANCE
50 Letter from the Chair
52 Board of directors
54 Executive Committee
56 Corporate governance report
64 Nomination Committee report
69 Audit Committee report
75 Remuneration Committee report
101 Directors' report
104 Directors' responsibilities statement
105 Verification statement

FINANCIAL STATEMENTS
106 Independent auditor's report to the members of Drax Group plc
114 Financial statements
117 Financial statements contents
118 Consolidated financial statements
Consolidated income statement
Consolidated statement of comprehensive income
Consolidated balance sheet
Consolidated statement of changes in equity
Consolidated cash flow statement
123 Financial performance
135 Operating assets and working capital
142 Financing and capital structure
148 Other assets and liabilities
153 Our people
163 Risk management
173 Reference information
182 Company financial statements
Company balance sheet
Company statement of changes in equity
184 Notes to the Company financial statements

SHAREHOLDER INFORMATION
188 Shareholder information
191 Company information
192 Glossary

2018 HIGHLIGHTS

Adjusted revenue
£4,237m
(2017: £3,685m)

Adjusted gross profit
£601m
(2017: £545m)

Adjusted EBITDA[1]
£250m
(2017: £229m)

Total revenue
£4,229m
(2017: £3,684m)

Total gross profit
£639m
(2017: £368m)

Total operating profit
£60m
(2017: (£138m))

Net debt[2]
£319m
(2017: £367m)

Percentage of total UK renewable electricity generated[3]
12%
(2017: 15%)

Total recordable injury rate
0.22
(2017: 0.27)

Dividend per share
14.1p
(2017: 12.3p)

B2B Energy Supply meter points
396k
(2017: 376k)

Wood pellets produced
1,351kt
(2017: 822kt)

(1) Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, excluding the impact of exceptional items and certain remeasurements.
(2) Net debt is defined as borrowings less cash and cash equivalents. Net debt does not include the £687 million which was paid on 2nd January 2019 for the acquisition of the generation business from ScottishPower.
(3) Drax estimates that it produced around 12% of the UK's renewable electricity between Q4 2017 and Q3 2018 (Q4 2016 to Q3 2017). This is based upon the latest BEIS Energy Trends 6.1 data.

WHAT'S INSIDE

06 Our Group CEO, Will Gardiner, reviews the year and progress made against our strategy

10 Our business model describes our activities and how we generate value from our resources

22 Sustainability is at the heart of our business

OUR CORE ACTIVITIES AT A GLANCE

Drax Group operates an integrated value chain across three principal areas of activity: sustainable wood pellet production; flexible, low carbon and renewable energy generation; and energy sales and services to business customers. Our activities are underpinned by safety, sustainability, operational excellence and expertise in our markets.

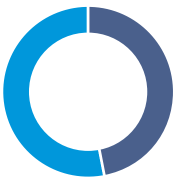
POWER GENERATION

Power generation

18.3TWh

(2017: 20TWh)

TOTAL REVENUE BY BUSINESS AREA



Total revenue

£4,229m

(2017: £3,684m)

EMPLOYEES BY BUSINESS AREA

Employees

2,716

(2017: 2,558)

Find out more at **www.drax.com**

PELLET PRODUCTION

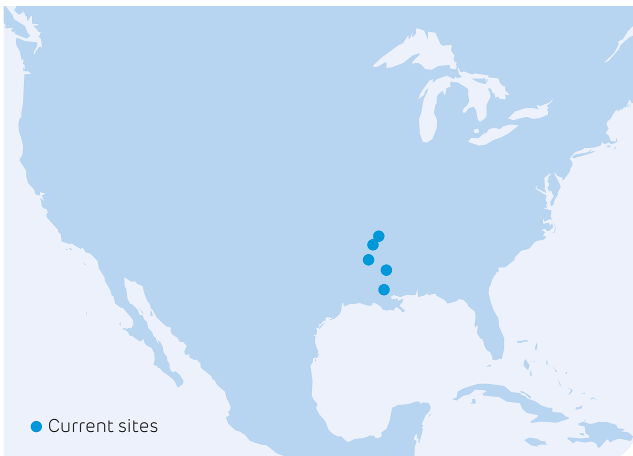
A leading producer of wood pellets from sustainable low-value commercial forestry residues.

Manufacture and supply of good quality wood pellets at the lowest cost to our Power Generation business for use in the generation of renewable electricity.

OUR ASSETS:
- 2 x 525 ktonne pellet plants
- 1 x 450 ktonne pellet plant
- 2.1 Mtonne export facility at Baton Rouge port

1,351kt

pellets produced



Read more **page 16**

POWER GENERATION

A portfolio of flexible, low carbon and renewable UK power generation.

A multi-site, multi-technology generation portfolio providing power and system support services to the electricity grid.

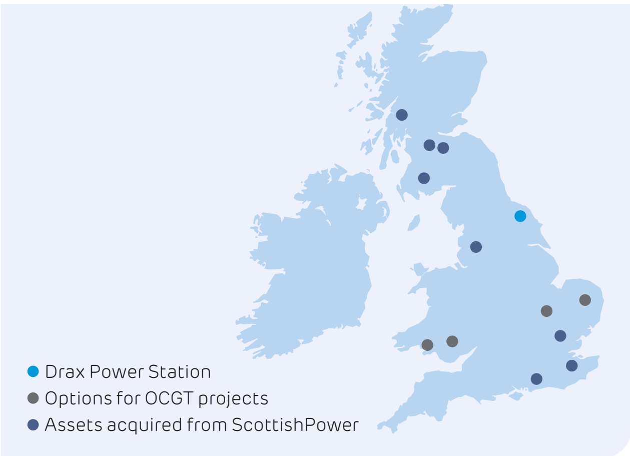
OUR ASSETS:

- 2.6GW biomass generation and system support
- 1.3GW coal generation and system support
- On 31 December 2018 we acquired a 2.6GW portfolio of assets from ScottishPower (see pages 14 and 15 for further details)
- Option for 4 x 299MW Open Cycle Gas Turbines (OCGT)

Generation
18.3TWh

Renewables
75%

Capacity
3.9GW
(6.5GW from 31 December 2018)



Read more page 18

B2B ENERGY SUPPLY

A leading supplier of renewable energy solutions to industrial and business customers.

Supplier of power, gas and value-adding services to industrial, corporate and small and medium-sized businesses, representing an 11% share of the B2B power market.

OUR ASSETS:

- Opus Energy
- Haven Power

Customer meters
396k

Power sales
20.9TWh

Read more page 20

CHAIR'S STATEMENT

> Our flexible, low carbon and renewable approach is delivering high quality earnings and further opportunities for growth."

Philip Cox CBE
Chair, Drax Group

INVESTMENT CASE

1. Critical to decarbonisation of the UK's energy system and a major source of flexible, low carbon and renewable power from a nationwide portfolio of generation technologies
2. Underlying growth in the core business and attractive investment opportunities
3. Increasing earnings visibility, reducing commodity exposure
4. Strong financial position and clear capital allocation plan

INTRODUCTION

In 2018 we made good progress with the strategy we first announced in December 2016.

The strategy is to focus on our flexible, low carbon and renewable generation, combined with a customer-focused approach to energy supply. The Group aims to deliver higher quality earnings, a reduction in commodity exposure and opportunities for growth aligned with the country's ambitious low carbon energy needs. I expect the Group to be at the centre of this change and to work in partnership with Government to help the UK meet its energy objectives.

In December 2018 we completed the acquisition of a portfolio of pumped storage, hydro and gas generation assets from ScottishPower, following shareholder approval at the General Meeting held on 21 December 2018. These assets are highly complementary to our strategy, and will form a very important part of our portfolio.

Operationally, the Power Generation business managed a major unplanned generator outage in early 2018, as well as an unrelated outage in December 2017 due to a fire at our rail unloading facility. Both outages restricted biomass generation in early 2018. We have learned important lessons from these events as we continuously strive for improved safety and operational performance.

Notwithstanding these events we continued to provide a significant amount of the UK's renewable power and completed the conversion of a fourth unit from coal to biomass – on schedule and budget.

We have continued to develop options for gas generation at four sites around the UK as well as the option for coal-to-gas repowering at Drax Power Station. These options could provide new sources of flexible generation and support the UK's decarbonisation targets while delivering attractive returns to our shareholders, subject to the right long-term support mechanism being in place.

Good quality, sustainable, low cost biomass is central to our business and, in Pellet Production, we successfully commissioned our third pellet plant – LaSalle Bioenergy – ahead of schedule and on budget. We also relocated our US administration to Monroe, Louisiana to bring increased focus and efficiency to our business. Although pellet quality improved in 2018 it was below the level we targeted and we are focused on delivering further improvements during 2019.

In B2B Energy Supply we have increased customer meters and margin, although the market for many of our customers remains challenging. This has contributed to an increase in bad debt provisioning.

Corporate governance page 50

RESULTS AND DIVIDEND

Adjusted EBITDA in 2018 of £250 million grew by 9% compared to 2017 (£229 million). This reflects high levels of renewable power generation from sustainable biomass as well as Adjusted EBITDA growth in our Pellet Production business.

At the 2018 half year results we confirmed an interim dividend of £22 million (5.6 pence per share) representing 40% of the full year expected dividend of £56 million (14.1 pence per share) (2017: £50 million, 12.3 pence per share). Accordingly, the Board proposes to pay a final dividend in respect of 2018 of £34 million, equivalent to 8.5 pence per share. This represents a 12% increase on 2017 and is consistent with our policy to pay a dividend which is sustainable and expected to grow as the strategy delivers an increasing proportion of stable earnings and cash flows.

The Group has a clear capital allocation policy which it has applied throughout 2018. 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.

Reflecting this approach to capital allocation, in February 2018 the Group announced a £50 million share buy-back programme, which was successfully completed in January 2019.

CORPORATE GOVERNANCE

In January 2018 Will Gardiner, who was previously Group Chief Financial Officer (CFO), became Group Chief Executive Officer, succeeding Dorothy Thompson CBE. His appointment followed a thorough review of internal and external candidates and was a natural progression after two years working alongside Dorothy developing a strategy which I am confident will continue to create significant benefits for all stakeholders.

We are also delighted to welcome Andy Skelton to the Board as CFO from January 2019. Andy is a highly experienced CFO having previously served as CFO at Fidessa. I extend my thanks to Den Jones who did an excellent job as Interim CFO, supporting the delivery of the strategy and the acquisition of the ScottishPower assets. Den will remain with the Group until May 2019 to support the integration process.

Drax remains committed to the highest standards of corporate governance. The Board and its committees play an active role in guiding the Company and leading its strategy. We greatly value the contribution made by our Non-Executive Directors and during a time of transition their role remains especially important.

During 2018, as part of our structured succession planning, we welcomed two new Non-Executive Directors to the Board. Nicola Hodson has valuable experience in technology, business transformation and energy. Vanessa Simms has over 20 years' experience in senior finance roles, with a particular focus on implementing strategic change.

David Lindsell will step down at the Annual General Meeting (AGM) in April 2019. David has served for ten years and remained on the Board during 2018 to assist with the onboarding of the new CFO and Chair of the Audit Committee. Tony Thorne will step down in June 2019 and Tim Cobbold will step down in September 2019, each having served nine years. Nicola will succeed Tony as Chair of the Remuneration Committee and Vanessa will succeed David as Chair of the Audit Committee. David Nussbaum will take over as our Senior Independent Director.

I would like to thank each of David Lindsell, Tony and Tim for their very significant contributions to the Board and, for David and Tony, their invaluable leadership of the Audit and Remuneration Committees respectively.

SUSTAINABILITY

A key part of our approach to corporate governance is sustainability. This remains at the heart of the Group and part of its culture. It covers both biomass sustainability and, more broadly, long-term sustainability – achieving a positive economic, social and environmental impact and considering long, medium and short-term factors in our stewardship of the business.

We measure our performance as part of our Group Scorecard, which covers a range of matters that we see as crucial to the longevity of the Group. We therefore use the Scorecard as a key element of our Bonus and Long Term Incentive plans.

OUR PEOPLE

Our people – employees and contractors – remain a key asset of the business and we are all focused on creating a diverse and inclusive working environment that is both safe and supportive. Employee safety is a long-held and central commitment of our operational philosophy. While the number of incidents we have experienced remains low, we need to remain vigilant and reduce the number of high potential incidents. We remain committed to the highest standards of safety and wellbeing across the Group.

I would also like to welcome colleagues from ScottishPower. We believe they will provide highly complementary expertise and a strong cultural fit, to create an expanded world-class engineering and operations capability.

My sincere thanks to all of my colleagues for their ongoing commitment, dedication and hard work.

In concluding, I would like to say that the Board remains totally committed to the complementary aims of delivering sustainable long-term value for the Group, supporting the communities in which we operate and enabling a zero carbon, lower cost energy future for the UK.

Philip Cox CBE
Chair

> Progressing our strategy and supporting the UK's transition to a low carbon economy."
>
> **Will Gardiner**
> Group CEO, Drax Group

2018 HIGHLIGHTS

1. Acquisition of ScottishPower generation assets
2. Adjusted EBITDA growth
3. Group Scorecard performance ahead of target
4. Conversion of fourth biomass unit
5. Commissioning and full production at LaSalle Bioenergy
6. Completion of US bond issue
7. Share buy-back programme
8. Launch of Bioenergy Carbon Capture and Storage (BECCS) pilot

STRATEGY

Our purpose is 'to enable a zero carbon, lower cost energy future', and this is the basis of our strategy.

Over time we expect the UK's power system to become increasingly dominated by intermittent wind and solar power. A smaller, but important, part of our power will need to be provided by other forms of low carbon generation that is available when wind and solar power are not available. Our strategy is to meet that need and support the UK power system.

Through addressing UK energy needs, and those of our customers, our strategy is designed to help us deliver long-term financial performance across the Group. In doing so we are reducing our historic exposure to commodity markets and delivering higher quality earnings with opportunities for growth.

Further growth will come from flexible operation of the Group's expanded generation portfolio and the provision of system support services as well as growth in our Pellet Production and B2B Energy Supply businesses. As we integrate the ScottishPower assets in 2019 we will be reassessing our longer term financial targets.

The Group's commitment to safety remains strong and, while the number of overall incidents was low, we did have a serious injury in one of our pellet plants in the US. During 2019 we will be strengthening our focus to reduce the number of high potential incidents.

SUMMARY OF 2018

We have made good progress with the delivery of our strategy during 2018 and delivered a Group Scorecard performance ahead of target.

Total Recordable Injury Rate (TRIR), our primary safety measure, was 0.22. This reflects a strong performance in Power Generation but with a significant failing in Pellet Production. As always there is more we can do in our pursuit of zero incidents, and in 2019 we will be redoubling our efforts to improve our safety performance.

Adjusted EBITDA, a financial KPI, was £250 million, in line with our expectation and significantly ahead of 2017. In Power Generation the impact of unplanned biomass outages in early 2018 restricted renewable power output. However, a strong team effort, the flexible and responsive operation of our coal generating units and the conversion of a fourth unit to biomass helped to mitigate the impact. Pellet Production increased output and reduced cost per pellet, although challenges remain on pellet quality. B2B Energy Supply grew its market share and margin per meter, but faced a challenging market for customers and competitors.

Group Financial Review page 34

In December 2018 we completed the acquisition of a portfolio of assets from ScottishPower for an initial net consideration of £687 million (based on total consideration of £702 million, less customary working capital adjustments). We expect the portfolio to provide high quality earnings and financial returns significantly ahead of the Group's cost of capital. Integration of these assets will take place during 2019.

During the year we replaced floating debt with fixed rate bonds, reducing our overall cost of debt and extending the maturity profile to further strengthen our already strong balance sheet. Net debt to Adjusted EBITDA was 1.3x at the end of December 2018, ahead of the forecast contained in the Shareholder Circular, dated 5 December 2018, of around 1.5x for the full year. The acquisition consideration was paid on 2 January 2019.

OPERATIONAL REVIEW

Our TRIR in Pellet Production was 0.63, a reduction on the previous year (2017: 0.83). We had five recordable safety incidents, three at our LaSalle plant and two at Amite. Morehouse completed the year with no incidents.

Our Pellet Production operations saw growth in Adjusted EBITDA and record levels of pellets produced, with output of 1,351kt, up 64% year-on-year. This reflects the successful commissioning of our third pellet plant, LaSalle, which has now achieved full production – ahead of plan – as well as consistent production at our Amite and Morehouse plants.

The focus of our activity is the US Gulf region – an area with strong commercial forestry, and good infrastructure and sustainability credentials. Recognising the importance of the region, we relocated our US administration from Atlanta, Georgia to Monroe, Louisiana, providing operational savings and supporting our focus on delivering good quality sustainable pellets at the lowest cost.

Pellet costs and pellet quality, which we measure based on the amount of fines (smaller particles of wood pellet material) in each cargo, are KPIs for the Group. High levels of fines lead to higher levels of dust, which can create health and safety risks through the supply chain. Year-on-year we have seen a significant improvement in pellet quality, although we did not achieve our target for 2018 and are focused on addressing this issue in 2019.

Increased volumes, operational improvements and a continuing focus on cost contributed to a year-on-year reduction in cost per tonne of 10%. This represents good progress, but there are more opportunities for cost reduction in order to achieve our goal of making biomass power generation viable without subsidy. We will do this by using a greater proportion of the very cheapest wood residues and expanding the use of sustainably sourced low-cost materials.

Early progress in this regard was the signing of a co-location agreement with Hunt Forest Products, a sawmill operator, which will see them build and operate a sawmill next to LaSalle. The agreement will enable a greater proportion of lower cost sawmill residues to be used, reducing transportation and the number of steps in the production process, thereby reducing the cost.

We have also built a new rail spur linking LaSalle to the regional rail network and our port facility at Baton Rouge. This will increase transportation efficiency, provide economies of scale and reduce both cost and carbon footprint.

We continue to evaluate opportunities for the acquisition of pellet capacity as well as the expansion of our existing sites.

In Power Generation, the unplanned biomass unit outages in early 2018 resulted in reduced generation. Biomass availability is a KPI for the Group. Since returning to service the units have performed well, with high availability during the remainder of the year. In 2018 the availability of our biomass units was 91%, ahead of target.

Notwithstanding outages our biomass units produced 12% of the UK's renewable power – 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 ambitious targets for decarbonisation.

The protection of both our people and our assets is a top priority. The fire we experienced in December 2017 demonstrates the combustible nature of biomass and the need for strong controls and processes. Throughout the year we commenced installation of suppression equipment throughout our biomass handling plant. These complement our existing processes and respond to the detection of ingition events in milliseconds.

In August 2018 we completed the conversion of a fourth generating unit from coal to biomass. This allows us to produce a greater amount of renewable power at times of high demand, which are typically periods of higher carbon intensity. In this way we plan to deliver more renewable power, while providing system support at minimum cost to the consumer. The operational experience to date has been encouraging.

In May 2018 we commenced a low-cost pilot project looking at the potential for Bioenergy Carbon Capture and Storage (BECCS). While at an early stage, the scheme is capturing carbon and offers the potential for biomass to deliver carbon negative generation, which will be required if the UK is to achieve its decarbonisation targets, further supporting the case for biomass generation in the long-term.

Stronger power prices in 2018, reflecting colder weather and higher underlying global commodity prices, led to an increase in the level of coal generation in the latter half of the year. However, the market for coal generation was challenging and our two remaining units increasingly focus on short-term power market opportunities, rather than baseload power generation.

In 2018 Value from Flexibility (a Scorecard measure of the value from flexible power generation, support services provided to the power network and attractively priced coal fuels) was £79 million, in line with plan. Given the structural shift in UK generation towards intermittent renewables we expect greater power price volatility, a growing need for system support services and increasing value from flexibility.

Our heritage is coal but our business is now flexible, low carbon and renewable power. We believe gas generation is consistent with supporting the transition of the energy system. To that end we are making progress with the development of options for four 299MW Open Cycle Gas Turbine (OCGT) plants and up to 3.6GW of

Adjusted EBITDA

£250m

(2017: £229m)

Total operating profit

£60m

(2017: (£138m))

B2B Energy Supply customer meters

396k

(2017: 376k)

Total Recordable Injury Rate

0.22

(2017: 0.27)

coal-to-gas repowering at Drax Power Station. These projects would require support through the Capacity Market (once re-established) and if successful in a future auction could result in 15-year index-linked capacity agreements, providing a clear investment signal and extending visibility of our contract-based earnings through the late 2030s.

As part of the acquisition of the ScottishPower generation assets, the Group also acquired a permitted option for the development of a 1.8GW Combined Cycle Gas Turbine at Damhead Creek, Kent.

In B2B Energy Supply, we increased our market share by 1%(1). This was a creditable performance in what is a competitive market, although below target.

The quality of business (a measure of the margin from power sales) was below our target, reflecting exceptionally cold winter weather, the costs associated with competitor failure, and a challenging market for customers resulting in increased bad debt expense and provisioning. In the context of the wider market this reflects a good performance.

Integration of Opus Energy is progressing and we have now consolidated our Northampton operations into a single site, which we expect to deliver additional operational efficiencies and cost savings.

We are making progress in reducing our cost to serve against target, which will be an important source of competitive advantage in the future. We are currently progressing the implementation of a new technology platform which will provide further opportunities for efficient operations. Technology has a key role in shaping the market and our business and we remain alert to opportunities this may present.

Digital offerings are a growing feature of the market. We believe our investment in this area will provide commercial opportunities, a reduced cost to service and an enhanced customer experience. It will also provide scalable data analytics and build on the roll-out of smart meters to deliver tailored customer propositions.

The business has a strong renewable proposition, with 69% of power sales renewable in 2018, a level which we expect to increase. Opus Energy also provides a route to market for more than 2,000 small embedded renewable generation sites.

POLITICS, REGULATION AND POLICY

Brexit remains a key issue for the UK. To date the impact on the Group has been limited, with the principal risk being a weakening of sterling and the cost of biomass which is generally denominated in other currencies. Through our use of medium-term foreign exchange hedges the Group has protected its position out to 2022 at rates close to those that we saw before the Brexit referendum vote.

Most of our wood pellets are imported from North America and Europe. The potential for delays at ports is a challenge, but with access to facilities at four UK ports and associated freight links, in addition to storage throughout our supply chain, we have a good degree of resilience should delays occur.

In the event of a 'hard' Brexit, the UK has indicated that it will leave the European Energy Union and EU Emissions Trading Scheme. This mechanism is an important part of the UK's total carbon price (the combined UK Carbon Price Support (CPS) and the European Union Emissions Trading Scheme – (EU ETS). The Government has confirmed that were this to happen the UK would increase the carbon tax to £34/tonne, compensating for the loss of the EU ETS until 2021. CPS has been the single most effective instrument in reducing the level of carbon emissions in power generation and Drax continues to support an effective carbon price signal for investment in low carbon technology.

CAPACITY MARKET

In November 2018 the Court of Justice of the European Union declared that the process used by the European Commission to approve the UK Capacity Mechanism was not valid. Following this decision the UK Government suspended capacity payments whilst the European Commission conducted a formal investigation. The European Commission is also challenging the Court's ruling.

The suspension of the Capacity Market impacted Group Adjusted EBITDA during 2018. In Generation we continued to meet our obligation and provide capacity but did not receive or accrue the revenue expected from this activity during the final three months of the year. In B2B Energy Supply we provided for all costs associated

(1) Based on the year-on-year change to the number of SME customer meters on supply

with the Capacity Market in 2018. Our approach was based on continuing to include charges in customer bills, with cash collected from those customers during the period. The cash will be paid to Elexon, as the collection agent, and held in escrow pending the re-establishment of the capacity market for generators, at a date yet to be determined during 2019. The net impact across the Group in 2018 was a £7 million loss to Adjusted EBITDA.

The Group assumes £68 million of capacity payment revenues in 2019. Of this, up to £47 million is derived from the ScottishPower assets. As part of the acquisition of these assets we agreed a compensation mechanism with Iberdrola. In the event that capacity payments are not received in respect of these assets in 2019, the mechanism provides, subject to gross margin thresholds, up to £26 million of payments to Drax. The agreement also allows for payments of up to £26 million to Iberdrola by Drax, subject to significantly higher than expected gross margin. These payments, if made, would not form part of Adjusted EBITDA for 2019.

We believe that the Capacity Market is an important cornerstone energy policy, a cost-effective safeguard for security of supply and necessary to underpin the development of new generation projects, including our own gas projects. Our view that the Capacity Market will be re-established on the same or similar terms is consistent with the position expressed by the UK Government. We expect the issue to be resolved during 2019 and we reflect this in our expectations for the year.

SAFETY, SUSTAINABILITY 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 the delivery of our strategy and crucial for long-term performance.

We have continued to maintain our rigorous and robust approach to biomass sustainability, ensuring the wood pellets we use are fully compliant with the UK's mandatory sustainability standards. The biomass we use to generate renewable power provides an 86% carbon emissions saving against coal, inclusive of supply chain emissions. Our biomass life cycle carbon emissions are 131kgCO_2-eq/MWh of electricity, less than half the UK Government's 285 kgCO_2-eq/MWh limit.

The sustainability credentials of biomass have been further reinforced by the EU's Renewable Energy Directive which was agreed by both the European Parliament and Council in June. This includes biomass sustainability criteria which should reinforce the credentials of sustainable biomass. During the year we also became participants of the CDP, a global disclosure system to measure and manage environmental impacts. We reported our performance for the climate and forest programmes.

During 2018, we published our second statement on the prevention of slavery and human trafficking in compliance with the UK Modern Slavery Act (2015) and have joined 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.

PEOPLE AND COMMUNITIES

Our people are critical to the success of the business. Through 2018 we have continued the implementation of our people strategy focused on driving performance and developing and retaining talent to deliver the Group's objectives. We have established Group-wide practices, including a behaviour framework focused on performance and personal development, and a Group-wide approach to recognising and retaining talent.

We are committed to having a diverse and inclusive workforce, where every employee has the opportunity to realise their potential. As part of this we aim to have, by the end of 2020, 40% of senior leadership roles held by women.

In March 2018 we published our first gender pay gap data. While the data showed that our businesses were in line with the energy sector overall, it highlighted that we still have work to do.

We continue to make an important contribution to the UK economy and to the local communities in which we operate. According to a study published by Oxford Economics in 2018, Drax's total economic impact – including our supply chain and the wages our employees and suppliers' employees spend in the wider consumer economy – was £1.6 billion, supporting 17,500 jobs across the UK in 2017.

OUTLOOK

Our focus remains on the delivery of our strategy and long-term earnings growth, underpinned by safety, sustainability, operational excellence and expertise in our markets.

In Pellet Production we remain focused on the production of good quality pellets at the lowest cost, cross-supply chain optimisation and identifying low-cost options to increase self-supply.

In Power Generation, 2019 will see the integration of the ScottishPower assets into our generation business and opportunities to operate as a coordinated portfolio of flexible, low-carbon and renewable generation.

We believe that biomass has an important role to play in the UK power market. We also believe that existing and new gas generation has an important role to play in supporting the transition to a zero carbon, lower cost, energy future and we continue to develop our projects in that area.

In B2B Energy Supply, we are investing in digital infrastructure which we believe will enable us to continue to grow, offer market leading propositions and develop our presence in the market for flexible demand management and other value-added services.

We have made good progress with the delivery of our strategy and will continue to build on this as we progress our targets, while playing an important role in our markets and enabling a zero carbon, lower cost energy future for the UK.

Will Gardiner
Group CEO

Flexible, low carbon and renewable power, enabling a zero carbon, lower cost energy future.

OUR ASSETS AND RESOURCES

FINANCIAL
- Multi-site, multi-technology portfolio of assets
- Growing proportion of non commodity-related earnings
- Efficient debt, foreign exchange and trading facilities
- Sustainable and growing dividend

PRODUCTION
- Flexible, low-carbon and renewable power generation
- Pellet production capabilities

INTELLECTUAL
- World leaders in sustainable biomass generation and logistics
- Innovation in Bioenergy Carbon Capture and Storage (BECCS)

HUMAN
- Wide range of knowledge and skills

NATURAL
- Low-value, sustainable forestry residues sourced from working forests, supports forest health and growth

SOCIAL
- Strong links to local communities
- Visitor centres at plant sites
- Employees volunteer in local communities

SAFETY
- Strong health and safety culture

OPERATIONS	FOCUS
GROUP Drax operates an integrated value chain across three principal areas of activity: sustainable wood pellet production; flexible, low carbon and renewable power generation; and energy sales and services to business customers.	• Enabling a zero carbon, lower cost energy future • Growth in the core business and attractive investment opportunities aligned to UK energy needs • Increasing earnings visibility • Strong financial position and clear capital allocation plan
PELLET PRODUCTION Manufacture and supply of good quality wood pellets to our Power Generation business for use in the generation of renewable electricity.	• Development of options for optimisation and efficiencies • Consistent production and quality of pellets • Continued cost reduction and Adjusted EBITDA growth • Options for expansion
POWER GENERATION Flexible, low carbon and renewable power generation and system support.	• Reliable biomass generation • Sustainably sourced biomass from our Pellet Production business and third parties • Integration of ScottishPower assets • System support services • Development of options for gas generation • Continued cost reduction and Adjusted EBITDA growth
B2B ENERGY SUPPLY Supplier of power, gas and value-adding services to industrial, corporate and small and medium-sized businesses.	• Investment in systems to support growth and Smart compliance • Development of value-added services • Continued cost reduction and growth in Adjusted EBITDA

UNDERPINNING EVERYTHING WE DO: SAFETY

(1) Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, excluding the impact of exceptional items and certain remeasurements.
(2) Net debt is defined as borrowings less cash and cash equivalents. Net debt does not include the £687 million which was paid on 2nd January 2019 for the acquisition of the generation business from ScottishPower.
(3) Group Scorecard shows growth in market share of 0.8%.

GROUP SCORECARD PERFORMANCE*

Group Adjusted EBITDA[1]
£250m
(2017: £229m)

Group NET DEBT[2]
£319m
(2017: £367m)

TOTAL RECORDABLE INJURY RATE
0.22
(2017: 0.27)

Ahead of plan
progress on delivering strategy

Good
progress on sustainability

$9.37/GJ
cost of production
(2017: $10.40/GJ)

8.0%
fines (a measure of wood pellet quality)
(2017: 9.6%)

91%
biomass availability
(2017: 79%)

£79m
value from flexibility
(2017: £88m)

11%[3]
market share
(2017: 10%)

CREATING SUSTAINABLE VALUE FOR OUR STAKEHOLDERS

SUSTAINABILITY ······ EXPERTISE ······ OPERATIONAL EXCELLENCE

* For further details please see page 92.

Delivering tomorrow's sustainable energy

Drax operates in a dynamic, rapidly changing market.

2018 saw the 10th Anniversary of the Climate Change Act (the 'Act') which has transformed the UK energy market and has demonstrated that market instruments can drive a cost-effective transition of the energy sector in line with climate goals. Since the Act became law the UK has seen its grid carbon content fall by more than 250g CO_2/kWh and coal generation has fallen by over 75%.

Despite this progress there is more to do. Decarbonisation of power generation, transport and heat remains a key driver of change across the energy sector. The UK's ambitious targets to reduce carbon emissions by 80% of 1990 levels means our power sector will almost certainly have to be net zero carbon by 2060.

Decarbonisation at this scale, across all sectors, is likely to require an absolute increase in the amount of electricity produced and consumed due to the electrification of heating and transport. A report from the Energy Transitions Commission (November 2018) estimates that electricity's contribution to global energy supply must rise from 20% to 60% by 2060. The European Commission's long-term strategy is only slightly less bullish when it concludes electricity will need to meet 50% of primary energy demand.

The International Panel on Climate Change concluded that as much as 85% of this energy could come from renewable energy – mainly wind and solar. Due to their intermittent nature this scale will only be achieved if the remaining 15% comes from sources which complement wind and solar, balancing the system and providing the increasingly valuable support services that a well-functioning energy system requires.

The challenges and opportunities presented by climate change are significant but they are not the only trends affecting the energy sector. Others include a need for more power generation, as the transport and heat sectors embrace new technologies, a need to manage more volatile sources of power, widely distributed sources of generation and customers who increasingly want more control over the way they use or generate their own energy. On page 13 we explore Drax's response to these trends in more detail.

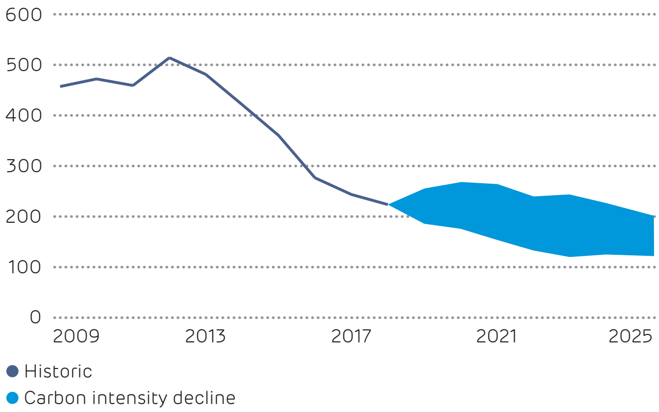
1 Drive to reduce carbon emissions

The UK Government aims to end unabated coal generation by 2025. Coal produced 5% of UK power in 2018 compared to 39% in 2012.

> OUR RESPONSE

We have reduced our coal generation facilities over the last five years, converting four of Drax Power Station's six generation units to use sustainable biomass. In 2018 we generated 13.8 TWh of renewable power, which represents 12% of the UK's total renewable power supply and means Drax is the largest renewable generator in the UK. We also launched a Bioenergy Carbon Capture and Storage (BECCS) pilot project.

THERMAL GENERATION VS RENEWABLE
(TWh)



Source: electricinsights.co.uk

2 Evolving mix of generation

The use of intermittent renewables, such as wind and solar, is increasing and flexible, thermal generation, such as coal, is declining. This places additional pressure to balance the energy system.

> OUR RESPONSE

Drax's portfolio of flexible generation (biomass, hydro and gas) provide these increasingly important services and bring more development opportunities.

As much as

85%

of the energy of the future could come from renewable sources

3 Need to safeguard the UK's security of supply

More distributed generation and the increase in intermittent renewables are driving increased levels of volatility in short-term prices and a need for assets to provide system support services. There is an increasing need for flexible sources of power which can provide services such as response, reserve, reactive power, black start and inertia.

At peak times UK power supply has been getting close to the total available generation capacity. Increasing intermittent renewable generation has resulted in higher levels of volatility in short-term prices and a need for flexible generation.

> OUR RESPONSE

Drax is becoming a truly national power generator with generation assets distributed across Scotland, Northern England and the South East, and options to develop generation assets in Wales and the East of England. The Group's total generation capacity now stands at 6.5 GW and we have options to develop a further 6.6GW. As well as adding capacity this increases our ability to provide the system services the grid relies upon.

4 Increasing market convergence and changing customer behaviour

As the energy market evolves, our business- to-business customers increasingly seek to create value from their portfolios through the installation of their own generation capabilities, the provision of demand side response and energy trading.

> OUR RESPONSE

Smart meter technology presents an opportunity to offer behind-the-meter services and the aggregation of information and capacity to customers large and small. This means Drax can open up power and flexibility markets to more customers. With flexible, renewable, low-carbon generation and trading expertise, Drax is strongly placed in this market to create shared value for customers and the Group.

5 A need for affordable, sustainable power

The business-to-business energy market is highly competitive and customers are demanding access to both low cost and renewable power.

> OUR RESPONSE

Drax now supplies more of its business-to-business customers with 100% renewable power, at no premium, than any of our competitors. Our investment in digital technologies is providing new opportunities, a reduced cost to serve and an enhanced customer experience.

See more online at
www.drax.com

Acquisition of 2.6GW of flexible, low-carbon and renewable UK power generation

In December Drax completed the acquisition of ScottishPower's portfolio of pumped storage, hydro and gas-fired generation assets for an initial net consideration of £687m – flexible, renewable and low carbon generation closely aligned to Drax's generation model.

Expected Adjusted EBITDA of

£90m–£110m*

in 2019

252

operational roles transferred to Drax as part of the acquisition, complementing and reinforcing Drax's existing engineering and operational capabilities.

* See page 15 for further details.

HIGHLIGHTS

- A unique portfolio of pumped storage, hydro and gas-fired generation assets
- Compelling strategic rationale
  - Growing system support opportunity for the UK energy system
  - Significant expansion of Drax's generation model
  - Diversified generation capacity – multi-site, multi-technology
  - Opportunities in trading and operations

STRONG FINANCIAL INVESTMENT CASE

- High quality earnings
- Expected returns from the acquisition significantly ahead of the stand-alone Drax Group's Weighted Average Cost of Capital
- Expected Adjusted EBITDA of £90 million–£110 million in 2019, subject to reinstatement of the Capacity Market*
- Group net debt/Adjusted EBITDA expected to be around 2x by the end of 2019, subject to the Capacity Market
- Supportive of credit rating and reduced risk profile for Drax
- Strengthens ability to pay a growing and sustainable dividend

* Expected 2019 Adjusted EBITDA is stated before any allocation of Group overheads (as these will be an allocation of the existing Drax Group cost base which is not expected to increase as a result of the acquisition).

STRONG ASSET BASE

Cruachan Power Station

- 440MW of large-scale storage and flexible generation
- A wide range of system support services and power generation
- Over 35% of the UK's pumped storage by volume – long-duration storage with the ability to achieve full load in 30 seconds, which it can maintain for over 16 hours

Galloway and Lanark hydro schemes

- Combined 126MW of stable and reliable renewable generation
- Lanark benefits from index-linked Renewable Obligation Certificate (ROC) revenues extending to 2027
- Galloway operates a reservoir and dam system providing storage capabilities and opportunities for peak demand generation and system support services

Daldowie

- 50k tonne biomass-from-waste facility.
- Firm offtake contract agreement with Scottish Water until 2026

Combined Cycle Gas Turbine power stations

Damhead Creek (805MW)
Rye House (715MW)
Shoreham (420MW)
Blackburn (60MW)

Find out more:

www.drax.com/acquisition2018

Increased production and Adjusted EBITDA growth

Our pellets provide a sustainable, low-carbon fuel source – one that can be safely and efficiently delivered through our global supply chain and used by Drax's Power Generation business to make flexible renewable electricity for the UK. Our manufacturing operations also promote forest health by incentivising local landowners to actively manage and reinvest in their forests.

INCREASING SUPPLY CHAIN TRANSPARENCY AND FOSTERING STAKEHOLDER ENGAGEMENT

We launched ForestScope.info, an interactive digital tool that tracks Drax's global supply chains in order to showcase the location and types of fibre we source, as well as key growth and inventory trends in the areas from which we source.

Its depth of information, and accessibility for non-experts, makes it an important tool for informing and engaging the range of stakeholders with an interest in Drax's biomass sustainability and sourcing practices.

ForestScope was launched at two stakeholder engagement briefings in June and July 2018. The London and Brussels events led to important discussions with organisations such as WWF, Client Earth and the Natural Resources Defence Council (NRDC).

We invite feedback from stakeholders to improve ForestScope and the sustainability of our operations.

Find out more:

http://forestscope.info

Sales of pellets in the year ending 31 December 2018 totalled £214 million, an increase of

57%

over 2017

CASE STUDY

Hunt Forest Products

The wood products industry produces large quantities of residual materials. Drax is making use of this and forming part of a virtuous cycle that benefits the forestry sector, rural communities and the environment.

With the world growing increasingly digital, the markets for residuals for pulp have been in decline. But with the growth of markets for biomass, in the form of sustainable wood pellets – which can utilize the same residuals for production of pellets and other parts of the process – there remains a sustained demand and market for this material.

As this alternative market continues to grow, so will demand. Finding ways in which this market can be made more efficient now could lead to benefits in the long term.

A collaboration between Drax and Louisiana-based Hunt Forest Products is helping to do precisely this through investment in a co-location site in Urania, LA, which will see a sawmill and pellet facility sitting side by side.

This innovative co-operation will help cut costs at our LaSalle plant, save time, reduce transportation emissions, and deliver further efficiencies.

Find out more:

www.drax.com/sawmill

FINANCIAL PERFORMANCE AND KPIs

Adjusted EBITDA of £21 million grew significantly compared to 2017 (£6 million), driven by increasing volumes of pellets produced and sold to the Power Generation business (on an arms-length basis) and lower production costs per tonne. This reflects operational efficiencies and greater utilisation of lower value forestry materials such as sawmill residues. Revenue in the year ended 31 December 2018 totalled £214 million, an increase of over 50% versus 2017.

Raw fibre procurement, transportation and processing comprised the majority of cost of sales and as such this remains an important area of focus and an opportunity for the business.

Through incremental investment in plant enhancements we expect to see further benefits from efficiencies and greater utilisation of lower cost residues.

Operating costs vary with throughput and increased in 2018, reflecting increased pellet production levels and throughput at the Port of Baton Rouge.

KPIs reflect a good performance on reducing the cost of production, which was ahead of target offset by the level of fines being significantly below target. Good quality pellets at the lowest cost is a key focus for the business and we will continue to work to improve quality and reduce cost during 2019.

FINANCIAL PERFORMANCE

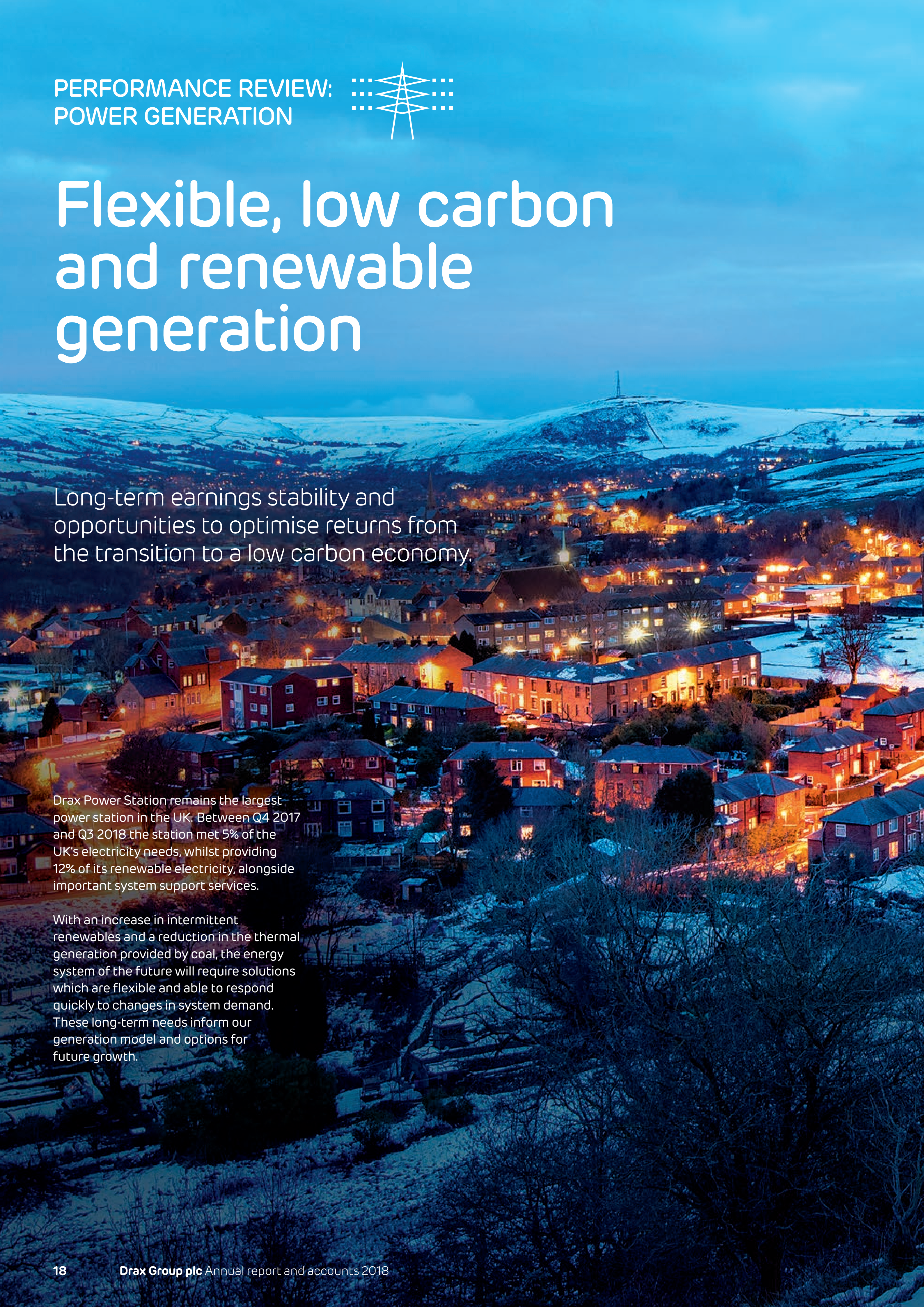
£m	Year ended 31 December 2018 Adjusted 2018	Exceptional items and Remeasurements	Total results	Year ended 31 December 2017 Adjusted 2017	Exceptional items and Remeasurements	Total results
Revenue	213.7	–	213.7	135.7	–	135.7
Cost of sales	(148.6)	–	(148.6)	(96.7)	–	(96.7)
Gross profit	65.1	–	65.1	39.0	–	39.0
Operating costs	(44.3)	–	(44.3)	(33.5)	–	(33.5)
Adjusted EBITDA	20.8			5.5		

KEY PERFORMANCE INDICATORS

KPI	Unit of measure	2018	2017
Fines	%	8.0	9.6
Cost of production	$/GJ	9.4	10.4

PERFORMANCE REVIEW:
POWER GENERATION

Flexible, low carbon and renewable generation



Long-term earnings stability and opportunities to optimise returns from the transition to a low carbon economy.

Drax Power Station remains the largest power station in the UK. Between Q4 2017 and Q3 2018 the station met 5% of the UK's electricity needs, whilst providing 12% of its renewable electricity, alongside important system support services.

With an increase in intermittent renewables and a reduction in the thermal generation provided by coal, the energy system of the future will require solutions which are flexible and able to respond quickly to changes in system demand. These long-term needs inform our generation model and options for future growth.

FINANCIAL PERFORMANCE AND KPIs

Adjusted EBITDA of £232 million was a reduction of £5 million compared to 2017, principally reflecting the impact of forced outages in January and February 2018.

Contracts for Difference (CfD) generation contributed to a £73 million increase in revenue from 2017, following a full year of output. This was offset by lower margins from coal generation and lost capacity payments.

Biomass remains the single largest cost for the Group. We remain focused on opportunities for long-term cost reduction through efficiencies in operations, optimisation of our supply chain and expansion of the fuel envelope to include lower cost sustainably sourced material.

Operating costs included works associated with unplanned outages. These were offset by a deferral of a major planned outage on Unit 4 until summer 2019, and by the implementation of lean management programmes to improve business performance.

Remeasurements reflect gains and losses on derivative contracts.

FINANCIAL PERFORMANCE

	Year ended 31 December 2018			Year ended 31 December 2017		
£m	Adjusted 2018	Exceptional items and Remeasurements	Total results	Adjusted 2017	Exceptional items and Remeasurements	Total results
Revenue	**3,331.6**	**(8.3)**	**3,323.3**	2,719.6	(0.9)	2,718.7
Cost of sales	**(2,935.6)**	**46.7**	**(2,888.9)**	(2,321.2)	(176.0)	(2,497.2)
Gross profit	**396.0**	**38.4**	**434.4**	398.4	(176.9)	221.5
Operating costs	**(163.6)**	**–**	**(163.6)**	(160.9)	–	(160.9)
Adjusted EBITDA	**232.4**			237.5		

KEY PERFORMANCE INDICATORS

KPI	Unit of measure	2018	2017
Biomass unit technical availability*	%	**91**	79
Value from flexibility	£m	**79**	88

* Excludes Unit 4

KPIs were ahead of Scorecard targets, reflecting good biomass availability beyond the forced outages at the beginning of 2018, and value from flexibility – a measure of flexible generation, system support services and attractively priced coal fuels.

Value from flexibility reduced £9 million year-on-year, reflecting a specific ancillary services contract in 2016-2017 which did not extend into 2018.

Not all MWs are equal, the energy market requires more than just low-carbon electricity

Historically non-generation system support services have been provided by baseload thermal generation – coal and gas. As these assets withdraw from the market, and at the same time the level of intermittent generation increases, Drax is well positioned to meet these system needs and provide increasingly important and valuable services to the UK energy system.

Biomass, pumped storage, hydro and gas are all strategically aligned with these needs and enable Drax to offer a full suite of services to the grid:

- Renewable and low carbon electricity
- Flexible dispatchable generation
- Reserve
- Headroom and footroom
- Inertia
- Voltage control
- Reactive Power
- Black start
- Frequency Response

Find out more:

www.drax.com/systemservices

PERFORMANCE REVIEW:
B2B ENERGY SUPPLY

Increased market share but a challenging market for customers

Our B2B Energy Supply business – comprised of Opus Energy and Haven Power – is the fifth largest B2B power supplier in the UK and the largest provider of renewable energy to businesses. We provide a route to market for our flexible, renewable and low-carbon energy proposition. As the energy market transforms, we are working closely with our customers, offering them services to help them adapt to a world of flexible low-carbon and decentralised energy.

THE LARGEST SUPPLIER OF RENEWABLE ELECTRICITY TO BUSINESS IN THE UK
Opus Energy and Haven Power, Drax Group's B2B Energy Supply businesses, provided over 350,000 UK business sites with renewable electricity, making them the largest supplier of renewable electricity to UK business for the Ofgem compliance period ending in 2018.

Power suppliers have a responsibility to encourage and support businesses to be more sustainable and enable the UK to achieve the clean growth needed to meet our climate targets.

59% of businesses think renewable energy is key to a cleaner future, but 80% expect suppliers to take the lead in educating them about their renewable energy options.

Find out more:

www.drax.com/renewable100

CASE STUDY

Value of Flexibility and Demand Management

Flexibility in the form of demand management has an important role to play in an increasingly decentralised and low-carbon energy market. We are working with large customers to create value from their portfolios through the provision of demand-side response services and access to energy trading markets. In time, enabled by the deployment of smart meter technology, we also see an opportunity to offer behind-the-meter services and the aggregation of information and capacity to smaller customers, opening the market for flexibility to more customers. With flexible, low carbon and renewable generation and trading expertise, Drax is strongly placed in this market to create shared value for customers and the Group.

FINANCIAL PERFORMANCE AND KPIs

Adjusted EBITDA of £28 million was a decline of £1 million from 2017 (£29 million).

Revenue increased 12% during the year, reflecting the inclusion of Opus Energy (acquired in February 2017) for a full-year, and a 0.8% increase in market share.

During the final three months of the year, when the Capacity Market was suspended, we continued to include Capacity Market charges in customer bills, and to accrue the associated payments which will be transferred to Elexon during 2019.

Cost of Sales, which includes power purchases and grid charges, also increased 12%. The increased cost of meeting our Renewable Obligation (RO) during the year reflects the impact of RO mutualisation, caused by the failure of several market participants which resulted in a larger proportion of the industry's RO costs being shared by the remaining suppliers. In addition, gas costs were higher than expected following the "beast from the east" weather front during the first quarter. Gross profit of £143 million grew 22% compared to 2017.

Within operating costs, bad debt expense grew by £13 million in the year, to £31 million, reflective of challenging market conditions. Our investment in next generation systems and strong focus on continual process improvement are key elements in managing bad debt exposure and enabling operating efficiencies in future years.

In the context of the wider market this reflects a good performance.

FINANCIAL PERFORMANCE

£m	Year ended 31 December 2018 Adjusted 2018	Exceptional items and Remeasurements	Total results	Year ended 31 December 2017 Adjusted 2017	Exceptional items and Remeasurements	Total results
Revenue	2,242.4	–	2,242.4	1,999.0	–	1,999.0
Cost of sales	(2,099.0)	–	(2,099.0)	(1,881.6)	–	(1,881.6)
Gross profit	143.4	–	143.4	117.4	–	117.4
Operating costs	(115.2)	–	(115.2)	(88.0)	–	(88.0)
Adjusted EBITDA	28.2			29.4		

KEY PERFORMANCE INDICATORS

KPI	Unit of measure	2018	2017
Growth in market share	%	0.8	n/a

BUILDING A SUSTAINABLE BUSINESS

At Drax, being a sustainable business means achieving a positive economic, social and environmental impact as part of the Group's strategy.

GOVERNANCE

The Board has ultimate responsibility for the Group's economic, social and environmental performance. Additional information on our approach to sustainability is available at **www.drax.com/sustainability.**

WHAT MATTERS MOST

We have identified non-financial priorities that are material to our business and important to our stakeholders. Our 2018 progress and performance is reported under each priority area as follows:

IMPACT ON THE SUSTAINABLE DEVELOPMENT GOALS

The 17 United Nations' Sustainable Development Goals (SDGs) are a blueprint to achieve a better and more sustainable future for all. We have identified six SDGs and associated targets where we can have the greatest positive impact.

ENVIRONMENT

Carbon emissions page 23

Environmental impact page 24

Sourcing sustainable biomass page 25

Climate Action

We contribute to SDG 13 to take action to combat climate change and its impacts across our business.

Life on Land

We promote the implementation of sustainable forest management in all working forests that we source from.

CUSTOMERS

Customer service excellence page 27

Enabling our customers page 27

Affordable and Clean Energy

We contribute to increasing the share of renewable energy in the global energy mix.

Sustainable Cities and Communities

We contribute to SDG 11 to make cities and human settlements inclusive, safe, resilient and sustainable.

PEOPLE

Health, safety and wellbeing page 28

People and culture page 29

Ethics and integrity page 29

Positive social impact page 31

Industry, Innovation and Infrastructure

We contribute to upgrading infrastructure and retrofitting industries to make them sustainable, with increased resource efficiency and adoption of clean and environmentally sound technologies.

We contribute to upgrading the technological capabilities of our sector, encouraging innovation and contributing to research and development spending.

Partnerships for the Goals

We proactively collaborate and engage with all stakeholders and seek partners to achieve our purpose of 'Enabling a zero carbon, lower cost energy future'. This directly enhances the global partnership for sustainable development to support the achievement of the SDGs.

ENVIRONMENT

Carbon Emissions

SUMMARY PERFORMANCE

	Unit of measure	2018	2017	2016	2015	2014
Drax Group Scope 1 and 2 Carbon Emissions						
Scope 1						
Fossil fuel combustion	kt	**4,107***	6,169	6,021	13,101	16,476
Operations	kt	**<100***	<100	<100	<100	119
Total Scope 1	kt	**4,107***	6,169	6,021	13,101	16,595
Scope 2						
Purchased electricity	kt	**248***	127	151	216	249
Total Scope 1 and 2	kt	**4,355***	6,296	6,172	13,317	16,844
Proportion of emissions within the UK	%	**97.3**	–	–	–	–
Drax Group Biologically Sequestered Carbon (Biomass Combustion) Emissions						
Biologically sequestered carbon (biomass combustion)	kt	**13,019**	12,196▲	11,836▲	10,372▲	7,150
Drax Group Total Emissions per GWh of Electricity Generated by Fossil Fuel Combustion						
Gross generation	TWh	**19.4**	21.2	20.8	28.1	28.5
Emissions per GWh of electricity generation	t/GWh	**225**	297	297	474	591
Drax Group Total Energy Consumption						
Total Group energy consumption	TJ	**180971**	–	–	–	–
Total Group energy consumption within the UK	TJ	**173072**	–	–	–	–

* Limited external assurance using the assurance standard ISAE 3000 for 2018 data as indicated. For assurance statement and basis of reporting see **www.drax.com/sustainability**
▲ 2017, 2016 and 2015 data has been restated to reflect an update to the emissions factor applied to combustion data for Drax Biomass sites

Notes
We calculate and report our carbon emissions in accordance with the Companies Act 2006 and the European Union Emissions Trading System (EU ETS). We are required to disclose emissions from biologically sequestered carbon, which includes emissions released through the combustion of biomass to generate electricity. The biogenic CO_2 emissions resulting from power generation are counted as zero in official reporting to both UK authorities and under the EU ETS as the use of sustainable biomass is considered to be CO_2 neutral at the point of combustion. This methodology originates from the United Nations Framework Convention on Climate Change. The majority of our emissions result from the process of using solid fuel. This can make it difficult to identify other smaller trends that are still significant. To counteract this dominance and to ensure we retain a balance between highlighting significant developments and providing meaningful data, we have adopted a materiality threshold of 100,000 tonnes of CO_2e.

Drax Group's total Scope 1 carbon emissions decreased by 33.4% between 2017 and 2018. This reflects a reduced use of coal and the conversion of a fourth generation unit at Drax Power Station to use sustainable biomass as fuel.

Our Scope 2 carbon emissions increased, due to Pellet Production moving into our reporting scope. Pellet Production saw a record output as our third pellet plant, LaSalle in Louisiana, achieved full production in 2018.

We have reported our global and UK Total Energy Consumption for 2018, in advance of the Streamlined Energy and Carbon Reporting (SECR) requirements effective from April 2019.

INNOVATING TO DECARBONISE OUR BUSINESS

Drax is playing its part to enable a zero carbon future. We completed the conversion of our fourth biomass generating unit, which became operational in August 2018. We continue our work to replace our two remaining coal generating units with Combined Cycle Gas Turbines (CCGTs).

In May 2018 we started Europe's first Bioenergy Carbon Capture and Storage (BECCS) pilot project at Drax Power Station. The pilot will capture up to a tonne of CO_2 a day from the gases produced when renewable power is generated using biomass.

ADVOCATING FOR CARBON PRICING

In 2018 we continued our engagement with Government and stakeholders to advocate for a robust carbon price. We signed a joint European carbon pricing declaration with global companies calling for more action to support a strong and predictable carbon price.

ZERO CARBON ENERGY SUPPLY

Our B2B Energy Supply businesses are committed to sourcing the renewable power that our customers want. We provided over 350,000 UK business premises with 100% renewable electricity, making our B2B Energy Supply business the largest renewable electricity supplier to UK business for the Ofgem compliance period ending in 2018.

Additional information on our B2B Energy Supply fuel mix disclosures is available at

www.drax.com/opus-sources
www.drax.com/haven-sources

> At Drax we want to enable a zero carbon, lower cost energy future – to do that we have to test the technologies that could allow us, as well as the UK and the world, to deliver negative emissions and start to reduce the amount of carbon dioxide in the atmosphere."

Will Gardiner
Group CEO, Drax Group

Environmental Impact

SUMMARY PERFORMANCE

	Unit of measure	2018	2017	2016	2015	2014
Drax Power Station Emissions to Air						
Sulphur dioxide	kt	**5.5**	8.9	8.3	18.5	23.8
Nitrogen oxides	kt	**11.8**	14.9	14.7	31.4	35.5
Particulates	kt	**0.7**	0.8	1	0.9	0.9
Drax Power Station Water Use						
Total water withdrawal	mt	**61.7***	59.0	55.3	62.5	64.6
Total water returned	mt	**42.1***	40.1	38.4	35.2	34.1

* Limited external assurance using the assurance standard ISAE 3000 for 2018 data as indicated. For assurance statement and basis of reporting see **www.drax.com/sustainability**

Notes. Total water withdrawal is the sum of all water drawn into the boundaries of the organisation from all sources for any use over the course of the reporting period. This includes the River Ouse, borehole and mains water.

We are committed to managing, monitoring and reducing the environmental impact of our operations and the Group environment policy outlines our approach.

Our Environmental Management System (EMS) covering Drax Power Station is certified to ISO 14001. There were no major or minor breaches to our environmental permits at Drax Power Station in 2018. Emissions of sulphur dioxide and nitrogen oxides have reduced significantly over the last ten years, with the reductions continuing in 2018. This can be partly attributed to our reduced coal generation, as we completed the conversion of a fourth generating unit to burn biomass. Our particulate emissions also fell in 2018, with our emissions continuing to be well within our environmental permit limits.

Independent testing conducted on our behalf found emissions to air at Morehouse pellet plant exceeded permitted levels. We referred ourselves to the relevant authorities and we are working to ensure compliance.

Additional information on management of our environmental impact is available at

www.drax.com/sustainability

Sourcing Sustainable Biomass

SUMMARY PERFORMANCE

	Unit of measure	2018	2017	2016	2015	2014
Drax Power Station Average Biomass Supply Chain GHG Emissions						
Average biomass supply chain GHG emissions	kg CO_2-eq/MWh	130.74*	129.74	122.04	113.65	122.40

Drax Power Station Biomass Pellet Feedstock Sources in 2018

Country	Sawmill Residues (t)	Branches, Tops and Bark (t)	Diseased Wood (t)	End of Life Timber (t)	Thinnings (t)	Low Grade Roundwood (t)	Short Rotation Forestry (t)	Agricultural Residues (t)	Country Total (t)
USA	1,060,480	723,652	61	–	1,246,417	1,432,982	–	–	4,463,593
Canada	1,040,361	180,575	–	–	–	18,397	–	–	1,239,333
Latvia	342,544	49	199	–	894	373,587	–	–	717,274
Estonia	119,507	3,547	–	–	128,437	42,590	–	–	294,081
Portugal	31,388	7,358	379	1,977	42,906	111,357	1,876	–	197,241
Brazil	–	–	–	–	–	104,850	–	–	104,850
Belarus	77,402	14	58	–	260	1,847	–	–	79,581
UK	–	–	–	–	–	–	–	47,740	47,740
Other European	13,943	–	2	–	7	<1	<1	5,421	19,373
Lithuania	7,993	<1	<1	–	2	13	–	–	8,009
Total	**2,693,618**	**915,196**	**699**	**1,977**	**1,418,922**	**2,085,624**	**1,876**	**53,161**	**7,171,074**

* Limited external assurance using the assurance standard ISAE 3000 for 2018 data as indicated. For assurance statement and basis of reporting see **www.drax.com/sustainability**

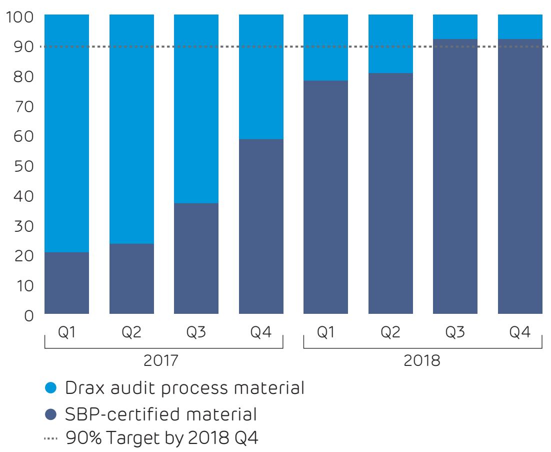
ENSURING SUSTAINABLE BIOMASS

We ensure our biomass is sustainable and compliant with appropriate legislation through a combination of proactive supplier engagement, third party certification schemes and our own audits and checks. The Group sustainability policy outlines our requirements and details of our due diligence process are available at **www.drax.com/sustainability.**

We are reviewing our woody biomass sourcing policy in line with the recommendations made by Forest Research in its 2018 report[(1)] . This is to provide further assurance that the biomass we source makes a net positive contribution to climate change, protects and enhances biodiversity and has a positive social impact on local communities.

In 2018 our biomass was sourced from established, responsibly managed working forests in the USA, Canada, Europe and Brazil. To enhance our biomass supply chain transparency, we provide detailed supply chain information at Drax ForestScope **http://forestscope.info**.

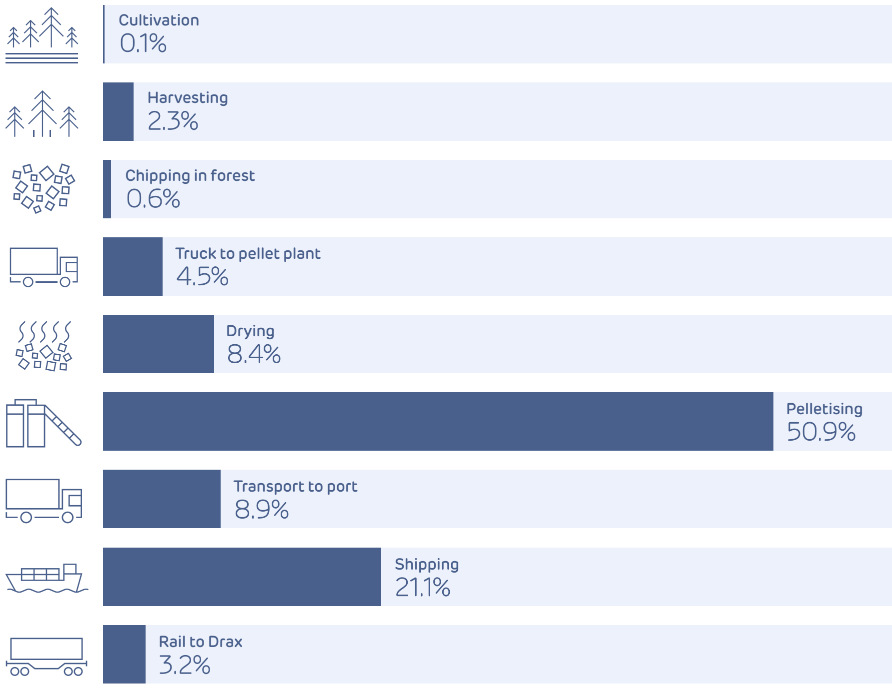
(1) Robert Matthews, Geoff Hogan and Ewan Mackie (2018), Carbon impacts of biomass consumed in the EU: Supplementary analysis and interpretation for the European Climate Foundation.



100% of our biomass is legally and sustainably sourced

At Drax, all our biomass suppliers must demonstrate that all necessary sustainability and legal requirements are being met. Supplier compliance is evidenced either by our own checks and an independent audit or by Sustainable Biomass Program (SBP) certification. SBP is a certification system for woody biomass, of which Drax is a founding member. We encourage our suppliers to move from our own audits and checks towards SBP certification. In Q4 2018 92% of our woody biomass sourced was SBP certified. This resulted in us achieving our target of sourcing 90% SBP-certified biomass fuel by the end of 2018.

DRAX AVERAGE BIOMASS SUPPLY CHAIN EMISSIONS IN 2018 (%)



No concerns regarding biomass supplier sustainability compliance were raised or escalated to the Ethics and Business Conduct Committee or the Executive Committee in 2018.

We monitor each step in the supply chain to ensure that our requirements are being met and that greenhouse gas (GHG) emissions associated with producing our biomass are calculated according to the regulatory requirements.

The UK Government has set a limit on the maximum supply chain GHG emissions permitted for sustainable biomass to be eligible for support under the Renewables Obligation. The current limit is 285 $kgCO_2$-eq/MWh of electricity, reducing to 200 $kgCO_2$-eq/MWh of electricity in 2020. In 2018, our average biomass supply chain GHG emissions amounted to 131 $kgCO_2$-eq/MWh* of electricity. This is consistent with our 2017 average biomass supply chain GHG emissions.

* Limited external assurance using the assurance standard ISAE 3000 for 2018 data as indicated. For assurance statement and basis of reporting see **www.drax.com/sustainability**

Additional information on our biomass sourcing, as well as coal sourcing, is available at

www.drax.com/sustainability

CASE STUDY

Maintaining forest carbon stocks

We source only sustainable biomass from working forests that are fully established and properly managed. Biomass can play an important role in providing markets for thinnings and low grade roundwood where few alternative uses exist. It also offers a market for material that has been damaged by natural disturbances, such as wind, fire, pests and diseases, and by-products of forest stands managed for the production of solid wood products, such as construction saw-timber and furniture.

We are committed to sourcing biomass that contributes to the long-term maintenance of growing stock and productivity and that helps to improve the health and quality of forests at a local and regional level. We monitor forest inventory data and local industry trends, in addition to certification and our auditing process, to determine whether biomass demand is having a positive impact on regional forest industries. This allows us to make informed sourcing decisions.

CUSTOMERS

Customer Service Excellence

Our aim is to provide customers with the best possible service. Both Haven Power and Opus Energy have strict standards for treating customers fairly, protecting customer data and privacy and have a clear complaints procedure if things go wrong.

Haven Power was shortlisted for "Supplier of the Year" at the Energy Awards 2018.

Enabling our Customers

SMART AND DIGITAL ENABLEMENT

Smart meters are key to supporting customers with greater insight and opportunities to optimise their energy use.

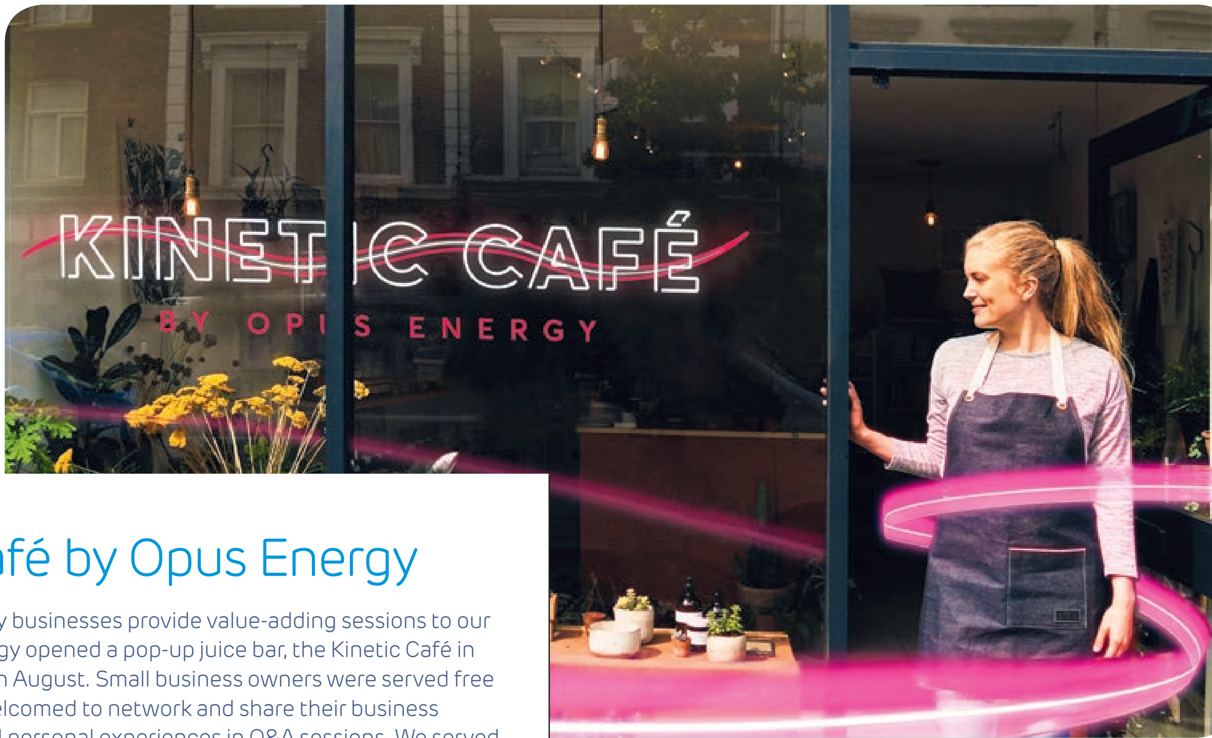
We are leading the way in rolling out smart meters to UK businesses and are investing in our digital platform to provide commercial opportunities, reduced cost to service and an enhanced customer experience.

In 2018 we upgraded the Haven Power and Opus Energy websites onto a single content management system, making it faster and easier for our teams to react to the market and deliver a smoother customer experience. We also created new functionality, making it simpler for UK businesses to get an accurate quote and switch to us online.

FACILITATING PROSUMERS' ROUTE TO MARKET

Opus Energy buys energy from generators and developers of solar, anaerobic digestion, hydro and wind power across the UK. In 2018 this amounted to 1,103 GWh of renewable energy generated from 2,176 generators.

During the year, Opus Energy worked in partnership with Home Farm near Daventry in Northamptonshire to trial an innovative solar power and battery storage system. The farm's 50 kW solar panels generate more power than the farm consumes. The surplus electricity is exported to the National Grid and Home Farm is paid for it by Opus Energy through a power purchase agreement.



CASE STUDY

Kinetic Café by Opus Energy

Our B2B Energy Supply businesses provide value-adding sessions to our customers. Opus Energy opened a pop-up juice bar, the Kinetic Café in London, for two days in August. Small business owners were served free energetic juice and welcomed to network and share their business challenges, advice and personal experiences in Q&A sessions. We served over 1,000 juices to customers and visitors who stopped by the café over the course of two days.

PEOPLE

Health, Safety and Wellbeing

SUMMARY PERFORMANCE

	2018 Actual	2018 Target	2017	2016
Drax Group Health and Safety				
LTIR[1]	0.09	0.13	0.13	0.02
TRIR[2]	0.22*	0.22	0.27	0.22
RIDDOR	9	7	7	4

1 LTIR is the total fatalities and lost time injuries per 100,000 hours worked
2 TRIR is the total fatalities, lost time injuries and medical treatment injuries per 100,000 hours worked
* Limited external assurance using the assurance standard ISAE 3000 for 2018 data as indicated. For assurance statement and basis of reporting see **www.drax.com/sustainability**

We have Safety Management Systems (SMS) in place to ensure safe workplaces for all our people. At Drax Power Station, the SMS is certified to OHSAS 18001 and subject to regular compliance reviews, the last of which took place in 2016. In Pellet Production, the SMS meets the requirements of OHSAS 18001 and the US certification ANSI Z10. The Group health and safety policy outlines our approach.

Safety performance is reported and reviewed regularly by local management teams, the Executive Committee and the Board. Each incident is comprehensively analysed and reviewed, lessons learned are shared with employees and actions are taken to mitigate the risk of future occurrences. At Drax Power Station, a weekly safety update is uploaded to our intranet and at Pellet Production, information is made available to employees through a health and safety online portal.

The Board receives monthly reports which include Total Recordable Injury Rates (TRIR), Lost Time Injury Rates (LTIR) and numbers of Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs) (or US equivalent) for the Group.

Our Group TRIR for 2018 was 0.22 per 100,000 hours worked. Following the fire at our Drax Power Station biomass pellet unloading facility in 2017, we carried out a full Safety and Engineering review. In 2018, initiatives were implemented to reduce the risk of future incidents and improve operator and plant safety. These initiatives continue into 2019.

2018 also saw the launch of the One Safe Drax toolkit for safety leaders, managers and supervisors at Drax Power Station. These tools provide a standard approach for safety management and support us in creating Safe People, Safe Systems and Process, and Safety Assurance to ensure we all go home safe and well every day.

Unfortunately, in December 2018 we had a major safety incident at our Drax Biomass LaSalle site which resulted in a colleague being injured. Operations at LaSalle were suspended until all employees were retrained on safety protocols and procedures.

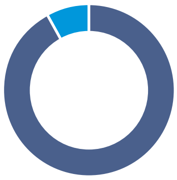
A full safety audit was carried out by an independent third party at all three pellet plants. The audits identified a major difference in safety culture between LaSalle and our other facilities. We currently have 42 action items we are working on that consist of the recruitment of new management staff, development of new safety programmes and procedures, safety audits, safety committees and structured training.

CASE STUDY

Supporting our employees' mental health

All employees across the Group have access to an Employee Assistance Programme. It's a free and confidential 24-hour service which offers support on anything from financial stress and family and relationship issues to addiction, housing concerns or legal information. There is a phoneline and an app and users can be referred for six sessions of counselling per issue, per year. Opus Energy ran 15 voluntary workshops to help our leaders understand the benefits of this service and they were attended by 113 managers.

EMPLOYMENT CONTRACTS*

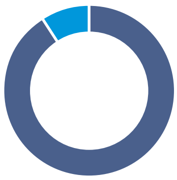


- Full time 92%
- Part time 8%

EMPLOYMENT GENDER*

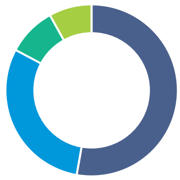
- Male 66%
- Female 34%

EMPLOYEES PER COUNTRY*



- UK 91%
- USA 9%

EMPLOYEES PER BUSINESS UNIT*



- B2B Energy Supply 53%
- Power Generation 30%
- Pellet Production 9%
- Corporate 8%

* Limited external assurance using the assurance standard ISAE 3000 for 2018 data as indicated. For assurance statement and basis of reporting see **www.drax.com/sustainability**

People and Culture

The Group works to maintain consistently high standards in its employment practices and all our employees benefit from a range of policies to support them in the workplace. These include policies designed to enable different work and lifestyle preferences, processes for employees to raise grievances or concerns about safety, along with supporting a diverse and inclusive workplace. Our Group-wide people strategy focuses on valuing our people, driving business performance and developing talent to deliver our strategic and operational objectives.

During the year we introduced our One Drax Awards, which recognise high-potential employees and reward those employees who act in ways that support and underpin our culture and values.

DIVERSITY AND INCLUSION

Drax Group is fully committed to the elimination of unlawful and unfair discrimination and we value the differences that a diverse workforce brings to the organisation. Our goal is to create and maintain a working environment that is both safe and supportive of all our people and where every employee has the opportunity to realise their potential. We believe that a commitment to diversity is critical to achieving our strategic goals. We are determined to be a place where employees, customers and suppliers alike feel respected, comfortable and supported in their diversity.

Further information on gender diversity is available in the **Corporate Governance Report on page 50**.

EMPLOYEE REPRESENTATION AND ENGAGEMENT

Across the Group, 19% of the workforce is covered by collective bargaining. We have representative employee consultation and information arrangements in place for those employees who have individual employment contracts.

We communicate with employees through channels including our internal intranet, quarterly newsletter and Open Forum meetings. Employees can ask our Group CEO questions through a weekly online question and answer portal.

We track employee engagement through our annual survey and in 2018 this was completed by 79% of employees.

Key themes included creating greater clarity for our colleagues about our key priorities and ensuring we continue to make improvements to the learning and development opportunities we have available. In 2019, we will develop Group and business action plans to address each theme, which the Executive Committee will review regularly.

Ethics and Integrity

At Drax Group we are committed to conducting business ethically, with honesty and integrity, and in compliance with all relevant laws and regulations. We do not tolerate any form of bribery, corruption or other unethical business conduct.

Our compliance framework consists of principles, policies and procedures. The principles underpin the wider framework and are set out in our Group ethics handbook, Doing the right thing. The handbook identifies the behaviours expected from our employees and contractors on topics including human rights, ethical business conduct and integrity. Our policies and procedures provide further guidance and instruction, in line with best industry practice. These include our Group Corporate Crime policy and Gifts and Hospitality, Conflicts of Interest and Due Diligence procedures.

The ethical principles contained in the handbook form part of our terms of employment. In 2018 the handbook was converted into a series of short videos. These are used as part of our new starter induction programme and for annual ethics refresher training. Teams that are exposed to increased risk receive tailored e-learning or classroom-based training.

RESPONSIBILITY FOR ETHICS

Governance of our framework is overseen by the Group Ethics and Business Conduct Committee (EBCC). The Committee meets quarterly and is chaired by the Group CFO. Managers and senior managers across the Group are responsible for demonstrating leadership on ethical matters and supporting teams to apply our ethical principles.

Our Group Corporate Compliance team carries out an annual review of the Group's gift and hospitality records and our Internal Audit team provides assurance on the robustness of our policies and processes. Results of the annual review, details of investigations conducted and audit outcomes are reported annually to both the EBCC and the Audit Committee.

The Group Corporate Compliance team also conducts annual risk assessments of each of its compliance programmes, which relate to areas including anti-bribery and corruption and modern slavery in supply chains. This is to ensure procedures remain fit for purpose and to recommend any further mitigation measures. The results are presented to the EBCC.

WORKING WITH OTHERS

We joined the UN Global Compact (UNGC) in January 2018 and have established representation on both their UK Advisory Group and Modern Slavery Working Group. This will enable us to play an active role in the UK UNGC network, to benchmark our compliance programmes, to share and exchange experience and promote peer collaboration.

We seek to work with suppliers, partners, agents, intermediaries, contractors, consultants and counterparties whose standards are consistent with our own. Third parties are subject to our pre-contract due diligence checks and continual monitoring through the lifecycle of the contract, via our third party due diligence system. In cases where a red flag is raised, we follow an EBCC-approved escalation protocol. Depending on the nature of the flagged issue, we may decide not to engage with a third party, to engage on a conditional basis, to collaborate on remedial action or to end an existing business relationship.

ANTI-BRIBERY AND ANTI-CORRUPTION

Our internal processes ensure consistency with our zero tolerance approach to bribery and corruption.

Geographic risk is factored into our country due diligence and third party due diligence systems. Conducting business in higher risk countries must receive prior approval from the Group Operational Risk Management Committee.

Following country approval, third parties are then put forward for our due diligence process. Suppliers in higher risk countries receive a higher level of initial due diligence and ongoing monitoring. We also screen the affiliates (directors, shareholders) of these suppliers and refresh their information on a more frequent basis, compared to our lower risk suppliers. Third parties with operations in, or linked to, higher risk countries are escalated to the EBCC for review prior to engagement. Ongoing monitoring is performed with new information provided to the relevant committee, as appropriate. In May 2018, we implemented a new due diligence system across the Group to facilitate this process.

Drax Group was not involved in any legal cases related to corruption and bribery in 2018.

LABOUR AND HUMAN RIGHTS

Our commitment to the protection of human rights includes not tolerating the use of underage workers or forced labour. This is captured in our Corporate Crime policy and our Corporate Responsibility (CR) statement.

Our CR statement outlines the standard of ethical business conduct we expect from suppliers. Businesses in our supply chain should offer a safe workplace for their employees that is free from harm, intimidation, harassment and fear. We have incorporated further provisions into our statement template to manage these risks within our procurement contracts and will further advance this effort in 2019 with the development of a Code of Conduct.

Within the Code of Conduct, we will emphasise our requirement for our suppliers and contractors working on our behalf to challenge unethical behaviour and promote a "speak up" culture.

MODERN SLAVERY

In 2018, we published our second modern slavery statement in accordance with the UK Modern Slavery Act. This describes the steps we are taking to reduce the risk of modern slavery in our supply chain.

DATA PRIVACY AND SECURITY

We take the privacy and security of the personal data we control seriously. We are committed to maintaining effective privacy and security programmes to ensure our people, customers and the third parties with which we engage have confidence in our data handling practices.

As part of our continual improvement programme, our Privacy, IT and Security teams were re-organised and expanded in 2018. Following an internal audit, which identified weaknesses in operational IT controls that support our cyber security at Drax Power Station, we initiated a comprehensive remediation programme to address the findings and introduce more robust control measures. We also continue to update our Privacy Compliance Programme to take account of the requirements of the General Data Protection Regulation (GDPR), the new UK Data Protection Act 2018 and other associated legislation.

To support our privacy compliance processes and policies, we maintain industry-leading control measures to protect our employee and customer data, by detecting and preventing threats and security breaches. In addition to traditional security measures, we undertake advanced threat monitoring and analytics measurement as a layered toolset designed to detect, identify, respond to and resolve cyber threats and attacks before they can happen. We are conscious that such threats continue to change. Accordingly, we run a continual security programme to improve and evolve our controls and response to cyber threats.

WHISTLEBLOWING

As set out in our Whistleblowing policy, at Drax we encourage employees to speak out and report concerns either internally or through our whistleblowing hotline.

Employees can raise issues internally through managers, a member of the Group Corporate Compliance team, directly with the EBCC or though our anonymous hotline, which is independently operated by a third party.

The Corporate Human Resources team records all hotline reports received and will raise any ethical-related matters with the Group Corporate Compliance team, which maintains an investigations log. Where required, the EBCC and Group General Counsel are consulted, and a course of action agreed. Should genuine concerns be raised, we have a strict non-retaliation policy.

During 2018, no reports were made through our third party whistleblowing hotline.

Additional information on ethics and integrity is available at

www.drax.com/sustainability

Positive Social Impact

We provide jobs, support economic growth, pay tax responsibly and deliver charitable and volunteering initiatives in the communities where we operate. Oxford Economics estimate that the Group contributed £1.6 billion towards UK GDP and supported 17,500 jobs across the country in 2017.

VOLUNTEERING AND CHARITABLE GIVING

In 2018, we provided £129,016 in charitable donations through employee match funding, payroll giving, our community fund and national fundraising days. We also established strategic national partnerships and consistent Group charity and community principles. We will roll-out our Group-wide social impact strategy in 2019.

Our Haven Power employees continued to support the Eden Rose Coppice Trust's Brickmakers' Wood project. They volunteered 882 hours and raised £6,052. Recognising its work with the charity, Haven Power was awarded the Utility Week 2018 'Community Initiative of the Year' title.

Additional information on our social impact is available at

www.drax.com/sustainability

NON-FINANCIAL INFORMATION STATEMENT

We have summarised in this Annual Report and Accounts our policies, standards and disclosures in relation to non-financial matters in line with the Non-Financial Reporting (NFR) requirements of the Companies Act 2006. This report forms our UN Global Compact (UNGC) Communication on Progress and we have mapped the NFR requirements to the four UNGC principle issue areas.

UN Global Compact	Non-Financial Reporting (NFR) Requirement	Policies, due diligence processes and outcomes	
Environment	Environmental matters	Environmental policy † Sustainability policy † Carbon emissions, page 23	Environmental impact, page 24 Sourcing sustainable biomass, page 25
Labour	Employees	Health and safety policy † Doing the Right Thing † Gender pay reporting † Health, safety and wellbeing, page 28	People and culture, page 29 Ethics and integrity, page 29 Gender diversity, page 29 Board diversity, page 52
	Social matters	Charitable donations policy ‡ Give as you earn policy ‡	Positive social impact, page 31
Human Rights	Respect for human rights	Corporate responsibility statement † Corporate crime policy ‡	Modern Slavery Act statement † Ethics and integrity, page 29
Anti-corruption	Anti-corruption and anti-bribery matters	Doing the Right Thing † Corporate crime policy ‡	Ethics and integrity, page 29
	A description of the company's business model	See Business Model, page 10	
	A description of the principal risks	People and environment, health & safety risks. See Principal Risks, page 44	
	A description of the non-financial key performance indicators	Total Recordable Injury Rate Group KPI. See Remuneration Report, page 92	

† Available on www.drax.com/policies ‡ Internal policy, not in public domain

STAKEHOLDER RELATIONS

We recognise that to enable a zero carbon, lower cost energy future we need to work with a diverse range of partners. That is why we spend time talking with and listening to our stakeholders. Here we highlight how our external engagement in 2018 has informed the way we operate our business.

COMMUNITIES AND LOCAL AUTHORITIES

Over the course of the year we engaged regularly with the communities around our businesses through quarterly community meetings, supporting local initiatives and formal drop-in sessions focused on our planning projects.

> OUTCOMES IN 2018

We amended the design of our Repower planning application in response to feedback from local residents.

CUSTOMERS

In B2B Energy Supply, we engaged with our customers through channels including social media, our website, telephone lines and our complaints procedure. Our energy services teams offered accelerator workshops that develop tailored energy solutions delivering value to our customers through self-generation, onsite storage and advanced sustainability initiatives.

> OUTCOMES IN 2018

We introduced online quote and join, so small businesses can come on supply via our website. We have turned our Ipswich office into a showcase for our energy services solutions with solar panels, electric vehicle charging points, an electric pool car, and installing energy efficient LED lighting.

Additional information on stakeholder relations is available at

www.drax.com/sustainability

EMPLOYEES

We maintain a regular dialogue with our employees about our strategy, plans and performance and the role they play in delivery. Through our Voice forums, briefings, townhalls, Q&A opportunities and our annual employee survey, colleagues can raise issues that are important to them and provide feedback on our progress towards creating a great place to work.

> OUTCOMES IN 2018

We committed to implement Group and business action plans, to address key themes raised by our employee survey.

GOVERNMENT AND REGULATORS

We frequently engage with regulators and policymakers in the UK, Europe and US to ensure our business understands and contributes to the evolving regulatory agenda. Over the course of 2018, we engaged with these audiences on a broad range of topics, including biomass sustainability; carbon pricing; carbon capture and storage policy; industrial strategy; and innovation, training and skills.

> OUTCOMES IN 2018

We signed joint letters with other utilities and NGOs to promote strong carbon pricing in the UK and across Europe. We joined the Powering Past Coal Alliance, to support the UK Government in promoting reduced coal use globally.

NON-GOVERNMENTAL ORGANISATIONS (NGOS)

We are in regular dialogue with a variety of domestic and international NGOs on energy, climate and forestry issues. They challenge our thinking and help us continue to refine and enhance our practices. In 2018, our outreach included participating in a series of roundtables focusing on our biomass sourcing.

> OUTCOMES IN 2018

We published an online tool, ForestScope, that enables members of the public to track wood fibre consignments across our supply chain in the Southern United States.

REGULATOR AND NETWORK BUSINESSES

We have engaged with Ofgem and National Grid on the need to deliver a secure and reliable network at least cost to the consumer. This is in addition to promoting efficient investment decisions and market behaviours via the system operator incentive scheme, industry licence code and charging arrangements.

> OUTCOMES IN 2018

We agreed to engage with National Grid's Price Control RIIO-2 work.

SCHOOLS

We engage with schools local to our businesses on Science, Technology, Engineering and Mathematics (STEM), skills and employability. At Drax Power Station, our tours are focused on learning outcomes and tailored for visitors of all ages.

> OUTCOMES IN 2018

Our outreach to local schools included: Opus Energy delivering interactive renewable energy lessons and Haven Power employees running a 'Learning About Work Day', where students practiced interview skills and received feedback on applications and CVs.

SHAREHOLDERS AND INVESTORS

Sharing timely and accurate communication with our shareholders and capital markets is central to our relationship with shareholders, investors and other financial stakeholders. We shared this information through a wide range of channels, including our Annual General Meeting and our full-year and half-year results, as part of an ongoing investor relations programme.

We also aim to build strong relationships with all our financial stakeholders.

> OUTCOMES IN 2018

In 2018, we communicated with our major shareholders on changes to our Remuneration Policy.

SUPPLIERS AND CONTRACTORS

We implemented a supplier engagement programme with our sustainable biomass supply chain. Our engagement included following up on claims raised by media monitoring and sharing latest academic reports and best practice.

> OUTCOMES IN 2018

We created a guide for landowners in the Southern United States to achieve their sustainable management goals.

THINK TANKS AND ACADEMICS

Over the course of 2018 Drax sponsored several PhDs at British universities focusing on topics relating to a low carbon energy future including electric vehicles, battery storage and biomass sustainability. In collaboration with Imperial College London and E4tech, we published a series of research reports looking at the future of the energy sector in the UK and globally, including Electric Insights, Energising Britain and Energy Revolution: A Global Outlook.

> OUTCOMES IN 2018

We started working with Forest Research to revise our woody biomass sourcing policy, building on analysis they produced for the European Commission.

TRADE AND INDUSTRY ASSOCIATIONS

We are actively engaged with trade bodies focusing on energy and sustainable forestry. These include the Sustainable Biomass Program, Bioenergy Europe, the UK Carbon Capture and Storage Association, Energy UK, Eurelectric and the US Industrial Pellet Association. We are also members of organisations promoting sustainable business practices, including the Confederation of British Industry, POWERful Women and Women in Science and Industry.

> OUTCOMES IN 2018

We participated in several Sustainable Biomass Program working groups, including work on greenhouse gas calculation requirements and streamlining the data transfer system.

GROUP FINANCIAL REVIEW

We remain committed to a strong balance sheet, alongside options for growth and delivery of a sustainable and increasing dividend."

Andy Skelton
Chief Finance Officer, Drax Group

INTRODUCTION

The Group has delivered year-on-year growth, with Adjusted EBITDA increasing to £250 million from £229 million in 2017. This is a significant achievement given the operational challenges faced during the first quarter in our Power Generation business. Strong operating performance in the remaining nine months from Power Generation, along with the conversion of a fourth generating unit from coal to biomass in the summer has helped to mitigate these events. Pellet Production reached record levels in 2018 with a reduction to the cost of each tonne produced. Our B2B Energy Supply business delivered a growth in gross profit through customer meter acquisition and retention, despite challenging market conditions, albeit Adjusted EBITDA was adversely affected by an increased level of bad debt charges.

Following the adoption of IFRS 9 'Financial Instruments' in the year, the Group has elected to present the income statement in a columnar format. Total Results represent the results of the Group in accordance with International Financial Reporting Standards (IFRS). They include re-measurements in relation to the fair value derivative contracts taken out to de-risk future cash flows, but which cannot be designated as hedging instruments under IFRS, and also exceptional items which are not part of the underlying performance of the business. Adjusted Results exclude the impact of these items, and are consistent with the way the Board and executive management review performance of the business throughout the year. They are discussed below separately from the Group's Total Results.

Certain remeasurements on derivative contracts have been allocated to the relevant line item to which the contracts relate; revenue or cost of sales.

Upon adoption of IFRS 9, we have recognised fair value gains and losses on certain foreign exchange forward contracts through other comprehensive income. These gains and losses were previously recognised in the income statement. As a result, prior year results have been restated. Further information is given in note 8.3 to the Consolidated financial statements.

The Group improved its access to capital in the year, with the issue of US$300 million loan notes at a fixed interest rate, which mature in November 2025. These were swapped back to sterling upon issuance. The proceeds were used to redeem £200 million loan notes with a floating interest rate and maturity date of May 2022, thereby extending the tenor of Drax's senior debt, giving increased certainty regarding future interest costs as well as diversifying available markets for future funding opportunities. The Group closely monitors and manages its cash position and closing net debt which was £319 million, resulting in a net debt to Adjusted EBITDA ratio of 1.3x at the end of the year. The initial net £687 million consideration for the acquisition of ScottishPower Generation Limited is included in payables at the year end.

Following shareholder approval at the General Meeting held on 21 December 2018, we completed the acquisition and gained control of ScottishPower Generation Ltd (subsequently renamed Drax Generation Enterprise Ltd) from Iberdrola on 31 December 2018. The company owns and operates a portfolio of UK pumped storage, hydro and gas generation assets. The acquisition has been partly funded by a debt facility of £725 million which matures in H2 2020. £550 million was drawn against this facility on 2 January 2019, with the remainder of the consideration settled in cash. We expect to refinance this debt during 2019.

On 15 November 2018 the Court of Justice of the European Union ruled that the process used by the European Commission to approve the UK Capacity Market was not valid, with the result that payments to UK generators were suspended. The net impact on the Group of the suspension in the 2018 results was a reduction in Adjusted EBITDA and Total operating profit of £7 million.

2018 HIGHLIGHTS

1. Adjusted revenue increased to £4,237 million / Total revenue increased to £4,229 million
2. Adjusted gross profit increased to £601 million / Total gross profit increased to £639 million
3. Significant improvement in total profit before tax to £14 million, impacted by non-cash gains on derivative contracts
4. Increase to Adjusted EBITDA[(1)], at £250 million
5. Net debt of £319 million delivering 1.3x net debt / Adjusted EBITDA ratio[(2)]
6. 12% increase in dividend to £56 million or 14.1 pence per share
7. Improved access to capital with fixed interest $300m US bond issue
8. Continued execution of strategy: acquisition of ScottishPower Generation Limited

(1) Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, excluding the impact of exceptional items and certain remeasurements.
(2) Net debt is defined as borrowings less cash and cash equivalents. Net debt does not include the £687 million which was paid on 2nd January 2019 for the acquisition of the generation business from ScottishPower.

	Year ended 31 December 2018			Year ended 31 December 2017 Restated		
	Adjusted Results[(1)] £m	Exceptional Items and Remeasurements £m	Total Results £m	Adjusted Results[(1)] £m	Exceptional Items and Remeasurements £m	Total Results £m
Revenue	4,237.3	(8.3)	4,229.0	3,685.2	(0.9)	3,684.3
Cost of sales	(3,636.3)	46.7	(3,589.6)	(3,140.2)	(176.0)	(3,316.2)
Gross profit	601.0	38.4	639.4	545.0	(176.9)	368.1
Operating and administrative expenses	(320.0)	–	(320.0)	(297.4)	–	(297.4)
Impairment losses on financial assets	(31.4)	–	(31.4)	(18.7)	–	(18.7)
Adjusted EBITDA[(2)]	249.6			228.9		
Depreciation	(129.2)	–	(129.2)	(122.7)	–	(122.7)
Amortisation	(44.6)	–	(44.6)	(43.6)	–	(43.6)
Asset obsolescence charge	–	(26.8)	(26.8)	–	–	–
Loss on disposal	(3.9)	–	(3.9)	(15.4)	–	(15.4)
Other gains/ (losses)	4.1	–	4.1	(0.4)	–	(0.4)
Acquisition and restructuring costs[(3)]	–	(27.7)	(27.7)	–	(7.8)	(7.8)
Operating profit/(loss)	76.0	(16.1)	59.9	46.8	(184.7)	(137.9)
Foreign exchange gains and losses	0.3	–	0.3	(10.6)	–	(10.6)
Interest payable and similar charges	(40.4)	(7.2)	(47.6)	(31.5)	(24.2)	(55.7)
Interest receivable	1.2	–	1.2	0.2	–	0.2
Profit/(loss) before tax	37.1	(23.3)	13.8	4.9	(208.9)	(204.0)

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) Adjusted EBITDA is defined as: earnings before interest, tax, depreciation, amortisation, excluding the impact of exceptional items and certain remeasurements. As EBITDA is a non-statutory measure, it has only been presented within the Adjusted Results column.
(3) Acquisition and restructuring costs reflect costs associated with the acquisition and integration of ScottishPower Generation Limited (2018) and Opus Energy Group Limited (2017) into the Group, along with costs associated with the restructuring of our Pellet Production and B2B Energy Supply businesses.

Group Adjusted EBITDA

£250m

(2017: £229m)

Group Adjusted gross profit

£601m

(2017: £545m)

INCOME STATEMENT

ADJUSTED RESULTS

Adjusted Results exclude the impact of certain remeasurements on derivative contracts which cannot be designated as hedging instruments under IFRS, along with exceptional items. More details on exceptional items are shown in note 2.7 to the Consolidated financial statements.

REVENUE

Adjusted revenue for 2018 of £4,237 million was £552 million greater than 2017, driven by Renewable Obligation Certificate (ROC) sales, the full year impact of Opus Energy (which was acquired in February 2017) and growth in sales in our B2B Energy Supply business.

Adjusted revenue in our Power Generation business rose to £3,332 million (2017: £2,720 million) despite a fall in electrical output, as a result of an increase in Contract for Difference (CfD) income from increased unit availability in 2018, together with an increase in ROC sales. Electrical output fell to 18.3TWh (2017: 20.0TWh) following unplanned outages during the first quarter. Subsequent to the fire in December 2017 in our biomass rail unloading facilities, safety measures were implemented which restricted operational availability. In addition, there was an unplanned outage on one of our biomass units. The combination of these events led to lower biomass generation in the first three months of 2018 than the equivalent period in 2017. Electrical output also reflects the impact of a maintenance outage for one coal unit, the conversion of a fourth unit from coal to biomass and the impact of low load factors on coal units during the summer. 75% of our generation was from biomass and 25% from coal in the year.

ROC sales of £665 million (2017: £368 million) increased significantly in the year as a result of a combination of the increase in market prices and actions taken to accelerate the timing of cash flows from ROCs. Where we choose to sell ROCs to accelerate cash flows, we may choose to purchase ROCs at a later date to meet our obligation, leading to an offsetting charge in cost of sales. At 31 December 2018, following these actions there was a similar value in revenue and cost of sales for ROC sales and purchases.

B2B Energy Supply revenues increased from £1,999 million in 2017 to £2,242 million in 2018 based on strong customer meter retention performance, and also benefiting from an additional month of Opus Energy revenue which was acquired in February 2017.

Revenues of our US-based Pellet Production business continued to rise, as we increased production from 822k tonnes in 2017 to 1,351kt in the year. This includes output from LaSalle Bioenergy which we acquired in 2017, and which commissioned in 2018. All three of our wood pellet plants are demonstrating an improvement in operating performance, having produced at record levels in 2018. Pellet Production revenues are from the sale of pellets from the US to our Power Generation business, based on an arm's-length contract.

GROSS PROFIT

Adjusted gross profit for 2018 of £601 million (2017: £545 million) was primarily derived from our generation and supply activities.

Power Generation delivered £396 million of Adjusted gross profit, largely in line with the prior year (£398 million) despite the impact of a reduction in generation noted above and a £7 million impact of lost revenue resulting from the Capacity Market suspension during the fourth quarter. This was partially offset by an increase in income from the CfD unit which generated more in 2018 than in the prior year when the unit underwent an unplanned outage, and by the receipt of insurance proceeds in respect of a claim for loss of generation from our biomass units during 2016-2018 (£17 million) which was largely recognised within cost of sales.

ROCs continue to form a key component of financial performance and the expected benefit of ROCs earned is recognised as a reduction in our biomass fuel costs at the point of generation. Each ROC is subsequently recognised as revenue when that ROC is sold to a third party. We earned ROCs, reducing costs, with a total value of £468 million in 2018 (2017: £481 million) reflecting additional biomass generation from the conversion of a fourth unit, net of the impact of the quarter one outages on biomass generation.

B2B Energy Supply Adjusted gross profit improved from £117 million in 2017 to £143 million in 2018, which includes an additional month of Opus trading. Margins benefited from a focus on higher value contracts with larger customers. All Capacity Market costs have been accrued for the fourth quarter, despite its suspension. Our approach is based on the assumption that the Capacity Market will reopen during 2019. In the Generation business, no Capacity Market income has been accrued. Until legislation is in place which enables Capacity Market payments to be made to generators for the fourth quarter, expected future revenue represents a contingent asset and will not be recognised in the income statement.

Pellet Production Adjusted gross profit relies on volume of pellet sales to our Power Generation business and close control over production costs. There is significant focus on reducing the cost base within this segment, and that, along with increasing output volumes which reduced the cost per tonne of pellets, has helped to improve gross profit to £65 million in 2018 (2017: £39 million).

Further segmental financial performance information is provided in the notes to our Consolidated financial statements on page 123.

OPERATING COSTS AND IMPAIRMENT LOSSES ON FINANCIAL ASSETS

Operating costs of £320 million increased from £297 million in 2017, reflecting unplanned outage costs on a biomass unit and a major planned outage on one of the coal units in Generation, along with a full year of costs in Opus Energy.

The B2B Energy Supply business experienced a £13 million increase in bad debt charges in the year taking the total charge to £31 million. The charge reflects a deterioration in market conditions in 2018, the impact of the increase in revenue, and the write-off of legacy debt.

Central costs of £28 million in 2018 reduced from £34 million in 2017, as a result of various savings initiatives.

ADJUSTED EBITDA

As a result of the financial performance described above, Adjusted EBITDA for 2018 was £250 million, compared to £229 million in 2017.

DEPRECIATION AND AMORTISATION

Depreciation of £129 million increased by £6 million in the year, reflecting charges for the LaSalle pellet production facility which was commissioned during the first quarter of 2018.

Amortisation charges totalled £45 million, in line with prior year, and largely relate to customer relationships and brand acquired with Opus Energy and also computer software. More details are shown in note 5.3 of the Consolidated financial statements.

OPERATING PROFIT

Adjusted operating profit increased from £47 million in 2017 to £76 million in 2018, influenced by the items described above.

NET INTEREST CHARGES

Adjusted net interest charges of £39 million have increased from £31 million in 2017 largely reflecting a full year's interest charge on the debt incurred in relation to the acquisition of Opus Energy in February 2017 and other costs associated with working capital management. More details are shown in Note 2.5 of the Consolidated financial statements.

PROFIT/LOSS BEFORE AND AFTER TAX

The Group's Adjusted profit before tax was £37 million for 2018, compared to a restated profit of £5 million for the previous year. The increase predominantly reflects an improvement in underlying business performance, reflected in higher gross profits.

The tax credit of £5 million compares to a £2 million charge in 2017. In 2017, HMRC agreed a claim arising from a patent relating to biomass which enables the Group to pay corporate taxes at a lower rate (10%) on profits which arise from the use of innovation. A benefit of £8 million was recognised during 2018 which drives a lower effective tax rate than the standard corporation tax rate in the UK.

The prior year charge includes the effects of a £16 million deferred tax charge arising from the reduction in US Federal tax rates to 21% from 1 January 2018, net of a credit of £10 million in relation to the patent box claim for years 2013 to 2016.

Adjusted profit after tax increased to £42 million in 2018 from £3 million in 2017 as a result of the factors above.

Group total operating profit

£60m

(2017: loss of £138m)

TOTAL RESULTS

Total Results represent the results of the Group in accordance with IFRS. They include re-measurements in relation to the fair value derivative contracts taken out to de-risk future cash flows, but which cannot be designated as hedging instruments under IFRS, and exceptional items which are not part of the underlying performance of the business. See note 2.7 to the Consolidated financial statements for more details.

IFRS 9 requires all gains and losses on derivative instruments to be reflected in profit or loss as they arise, independently of the maturity of the related commodity contract. Due to the volatility in fair value movements, which is entirely market dependent, we have chosen to exclude fair value gains and losses from Adjusted Results and present them in a separate column in arriving at Total Results, in order to retain transparency of underlying business performance. Fair value gains and losses are non-cash accounting adjustments.

REVENUE

Revenue re-measurements relate to fair value gains and losses on gas contracts in our Power Generation business, which are used as a proxy hedge to movements in power prices. After taking these losses into consideration, Total revenue in 2018 rose to £4,229 million from £3,684 million in 2017.

GROSS PROFIT

Total gross profit increased significantly in 2018 to £639 million (2017: £368 million) which reflects the underlying business performance along with fair value gains, principally on foreign exchange contracts, in 2018 as compared with significant fair value losses in 2017.

Foreign currency contracts are a key component of the Group's risk management strategy and help to secure and de-risk the future cash flows of the business, particularly fuel purchases which are typically denominated in US dollars, Canadian dollars or euros.

A proportion of foreign currency derivatives do not qualify for hedge accounting. In addition to hedging foreign currency commitments, we forward purchase coal, gas and freight, aspects of which also do not qualify for hedge accounting. The gains on these contracts in the year have predominantly been driven by the weakening of sterling following uncertainty around Brexit.

Prior year Total gross profit has been restated to reflect our new derivative gains and losses accounting policy, following IFRS 9 adoption, reducing it by £177 million.

In addition, under IFRS 9 we have elected to recognise fair value gains and losses on certain foreign exchange forward contracts directly in reserves in order to reduce income statement volatility. This change results in a reduction in derivative gains and losses recognised in the income statement of £17 million as at 31 December 2017.

DEPRECIATION AND AMORTISATION

In August, we completed the conversion of a fourth generating unit from coal to biomass. £27 million of coal-specific assets in relation to this unit have been fully written down, as they are no longer required to support generation activity. This charge is shown within exceptional items.

OPERATING PROFIT

Operating profit is stated after acquisition and restructuring costs of £28 million (2017: £8 million).

This included costs of £21 million which were incurred in connection with the acquisition of the generation business from ScottishPower.

During the first quarter, we announced the closure of our Atlanta office to relocate the US head office to Monroe, Louisiana, in close proximity to the pellet production and port facilities. As at 31 December 2018, we had incurred costs of £4 million (2017: £nil) in relation to this transition, which have been included within acquisition and restructuring costs.

As we continue to integrate our B2B Energy Supply businesses we have incurred certain one-off restructuring costs, as part of a programme of changes alongside our digital transformation. These totalled £3m (2017: £nil) and are also included in acquisition and restructuring costs.

Prior year transaction and restructuring costs relate to the acquisition of Opus Energy along with the disposal of Billington Bioenergy.

Total operating profit increased to £60 million from a loss of £138 million in 2017, primarily as a result of the movement in gains and losses on derivative contracts.

NET INTEREST CHARGES

Total net interest charges, excluding FX gains and losses of £46 million (2017: £56 million) includes £7 million of refinancing costs and acceleration of deferred financing costs related to the £200 million senior secured floating rate loan notes, which have now been repaid. The prior year included £24 million of early repayment charges and accelerated deferred finance costs for loans redeemed as part of the 2017 refinancing. These charges have been presented separately within exceptional items.

A full breakdown of interest payable is shown in note 2.5 to the Consolidated financial statements.

PROFIT/LOSS BEFORE AND AFTER TAX

The Group's Total profit before tax was £14 million for 2018, compared to a restated loss of £204 million for the previous year. The improved result predominantly reflects an improvement in underlying business performance (reflected in Adjusted EBITDA) along with the swing from losses on foreign currency contracts in 2017 to gains in 2018.

Applying the tax credit results in a Total profit after tax of £20 million (2017: restated loss after tax of £168 million) and a basic earnings per share of 5.0 pence (2017: loss per share of 41.3 pence).

BALANCE SHEET

The Group's Consolidated balance sheet at 31 December 2018 includes the assets and liabilities acquired as part of the acquisition of a portfolio of ScottishPower assets. No trading results are included in 2018, given the acquisition closed at 23:59 on the final day of the year. See note 5.1 to the Consolidated financial statements for more details.

PLANT, PROPERTY AND EQUIPMENT

The Group has a disciplined approach to capital expenditure, with all projects subject to review by investment committees and large projects requiring Board approval. Investment is prioritised to address safety and regulatory requirements, ensure the plant is maintained and fit for purpose, and is only released to enhancement projects where incremental returns have been identified. Capital expenditure in the year was £114 million, a £51 million reduction in expenditure from 2017. The prior year includes £48 million for the purchase and development of pellet production assets at LaSalle Bioenergy.

At Drax Power Station, investment reflected the outage following the 2017 fire, conversion of a fourth unit to biomass generation, along with routine asset replacement and upgrades, the purchase of strategic spares and continuing investment to develop the OCGTs and gas generation. Total expenditure for the year was £87 million.

Pellet Supply continued to invest in opportunities to improve efficiency and reduce costs, including the development of a new rail spur at LaSalle Bioenergy.

Excluding the purchase of the generation business from ScottishPower, the total carrying value of plant, property and equipment fell by £60 million in the 12 months to 31 December 2018, reflecting increased depreciation and the write-off of obsolete coal assets. Our four OCGT assets remain under development. See note 5.3 to the Consolidated financial statements for more information.

The total carrying value of plant, property and equipment, including the effect of the acquisition from ScottishPower, was £2,292 million, at 31 December 2018 (2017: £1,662 million).

In B2B Energy Supply the development of a new information technology platform and preparations for smart meters adoption added £28 million of capital expenditure to intangible assets.

CASH GENERATED FROM OPERATIONS

Cash generated from operations was £336 million in 2018, a decrease of £39 million from the previous year.

The Group has a strong focus on cash flow discipline and uses various methods to manage liquidity through the business' cash generation cycle. In addition to the £315 million Revolving Credit Facility (RCF), the Group optimises its trade receivables, trade payables and ROC assets to manage the day to day working capital position.

The B2B Energy Supply 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 cash inflow of £24 million at 31 December 2018 (£34 million at 31 December 2017). The facility terms were amended during the year, bringing more of the receivables balance into the scope of the facility, further improving our overall liquidity and risk profile. More details can be found in note 4.4 to the Consolidated financial statements.

During the year the Group has actively sought to bring its trade payable days closer to industry standards and has accessed several purchasing facilities which were used to manage cash payments while limiting the impact on suppliers. These facilities have generated a cash inflow of £87 million in the year (2017: £nil). The amounts under these facilities fall due 4-60 days from the year end.

During the year there was an increase in ROC assets of £71 million adversely impacting working capital (2017: inflow of £112 million). This reflects the increase in ROCs generated following the conversion of a fourth unit and the improvement in biomass generation output in the final quarter of 2018 compared to 2017. Cash from ROCs is typically realised several months after the ROC is earned. However, through selling and subsequently buyings ROCs through normal ROC sale and purchase arrangements we can optimise the timing of cash flows over a proportion of these assets.

Dividend

£56m

(2017: £50m)

Share buyback

£47m

(2017: £nil)

GROUP FINANCIAL REVIEW continued

Together these facilities and arrangements created a net cash inflow of £100 million (2017: inflow of £195 million) which has helped to drive a net inflow from working capital of £112 million in the year to 31 December 2018, compared to an inflow of £166 million in the year to 31 December 2017.

The overall net cash inflow for the year was £66 million (2017: £4 million outflow), after cash payments for capital expenditure of £104 million (2017: £159 million), dividend payments of £53 million (2017: £22 million) and share buy-backs of £47 million (2017: £nil). Cash taxes paid during the year were £1 million (2017: £14 million).

NET DEBT AND FUNDING

The Group held total borrowings of £608 million at 31 December 2018 (2017: £590 million) and net debt of £319 million (2017: £367 million).

In April 2018, the Group successfully completed a refinancing to convert floating to fixed debt and to extend the debt maturity out to November 2025. The Group issued a US$300 million bond with a fixed interest rate of 6.625%, which was swapped back to sterling upon issuance at an effective interest rate of 5%. The proceeds of the new issue were used to repay in full the £200 million floating rate bond issued in 2017 which had a maturity of 2022.

Incremental costs of the new borrowing (£4 million) have been deferred and will be amortised to net interest costs in the income statement.

The Group's financing structure also includes a £350 million 4.25% fixed rate bond and a £350 million facility comprised of an 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. At 31 December 2018 the RCF had been used to draw down letters of credit with a total value of £32 million (2017: £36 million).

On 2 January 2019, the Group drew down £550 million from a £725 million acquisition bridge facility to partially fund the acquisition of a portfolio of ScottishPower assets, with the remainder of the consideration funded from the Group's cash resources. The bridge facility matures in H2 2020. The amount payable in relation to the acquisition was included in other payables as at 31 December 2018.

The use of the receivables facility, trade payables facilities and ROC sales mentioned above accelerated cash flows to a value of £100 million (2017: £195 million) with a corresponding reduction in net debt. We expect to continue to use these facilities to manage our working capital in 2019.

The Group also has access to secured trading lines, available with certain counter parties, providing support to the trading programme.

We remain committed to a strong balance sheet and to maintaining an appropriate credit rating. The optimisation of working capital helped to drive a reduction to the net debt to Adjusted EBITDA ratio to 1.3x at 31 December 2018 (2017: 1.6x), excluding the £687 million paid on 2 January 2019 in respect of the acquisition of a generation business from ScottishPower.

Further information on funding arrangements is included in note 4.3 to the Consolidated financial statements, on page 142.

PENSIONS

The Group operates a defined contribution pension scheme in each of its operating companies and, in addition, the Power Generation business operates a defined benefit scheme within the Electricity Supply Pension Scheme framework, which closed to new members in 2002. The actuarial review of our defined benefit pension scheme at 31 December 2018, applying assumptions consistent with the methodology adopted in previous accounting periods, has resulted in a funding surplus of £19 million (31 December 2017: deficit of £1 million). This is largely driven by an increase in the discount rate assumption to 3.0% (31 December 2017: 2.6%) following lower inflation expectations, which has decreased the value of the scheme liabilities by £23 million.

The terms of the Trust Deed for the defined benefit scheme allow the Group to recover any surplus once the liabilities of the scheme have been settled. We have therefore recognised the funding surplus at 31 December 2018 in non-current assets within the Consolidated balance sheet.

The defined benefit scheme triennial valuation, which was last completed as at 31 March 2016, is based on more conservative discount rate and cost assumptions and resulted in a technical provisions deficit. This provision has improved since the triennial valuation, consistent with the movement in the accounting provision. The Group remains committed to make contributions towards the repair of this deficit until 2025.

Upon completion of the acquisition of the portfolio of assets from ScottishPower, certain employees with defined benefit pension rights were transferred to Drax. The employees continue to participate in the ScottishPower pension scheme whilst Drax is in the process of setting up a new scheme for the members to transfer to, which will include assets and liabilities for past service benefits. Drax's share of the ScottishPower pension scheme assets and liabilities for these employees has been calculated for inclusion in the Consolidated balance sheet, and results in a pension scheme surplus of £4 million. The Group is entitled to receive any surplus on the new scheme once the liabilities have been met under the terms of the draft Trust Deed.

DERIVATIVE CONTRACTS

We enter into forward contracts for the purchase and sale of physical commodities, principally power, gas, coal, biomass and carbon emissions, to secure the margin associated with forward electricity sales, and also foreign currency derivatives to fix sterling cash flows. All derivative contracts are measured at fair value as at the balance sheet date, with changes to this value being recognised in either the income statement (Total Results) or the hedge reserve dependent upon whether the contract qualifies as an effective hedge under IFRS (see note 7.2 to the Consolidated financial statements).

A gain of £92 million (2017: loss of £219 million) was recognised in the hedge reserve driven primarily by movements on foreign currency contracts as sterling weakened following Brexit uncertainty,

The term of our foreign currency derivative hedges is limited by available credit lines and market liquidity. We have hedges in place to cover anticipated exposures for five years, beyond which there is a risk that the cost of our fuel purchases will materially increase. We are actively working on reducing the long-term cost of biomass fuel.

The accounting treatment of derivative contracts is set out in note 7.2 to the Consolidated financial statements.

OTHER INFORMATION

ACQUISITION OF SCOTTISHPOWER GENERATION LIMITED

On 21 December 2018 shareholders approved the acquisition of ScottishPower Generation Limited and SMW Limited and the deal subsequently completed on 31 December 2018 for an initial net consideration of £687 million after working capital adjustments.

The acquisition terms include a compensation mechanism whereby if 100% of contracted Capacity Market payments are not received for the period from 1 January to 30 September 2019 a further payment could be made by either the Group or the vendor, up to a maximum of £26 million.

The acquisition consideration was paid on 2 January 2019 and is included in amounts payable in respect of acquisitions in the 31 December 2018 Consolidated balance sheet.

Given the short interval between signing the purchase agreement and completing the sale, a transitional service agreement has been executed with ScottishPower and includes a range of paid for services covering aspects of financial control, IT, accounting and payments for up to 12 months.

Financial information on the assets and liabilities acquired, plus an assessment of the impact of the acquisition on our financial statements, is provided in note 5.1 to the Consolidated financial statements.

IMPACT OF BREXIT

The ongoing negotiations for the withdrawal of the UK from the European Union and the evolving trade policy of the US administration continue to increase political and regulatory uncertainty. The Group continues to monitor these situations closely. We are engaged with government and regulators in the UK and internationally to ensure the Group's views and positions on current and forthcoming legislation and regulations, and on energy and environmental policy issues that may have implications for our business, are represented and to promote the benefits of biomass. Any associated sterling weakness may influence the future cost of fuel used by the Power Generation business. To manage this risk a number of financial instruments, including FX options, are used within the foreign exchange hedging programme, effectively capping future FX liabilities on an additional proportion of the future foreign currency fuel exposures.

DISTRIBUTIONS

On 20 April 2018, the Group commenced a £50 million share buy-back programme, designed to reduce share capital and return funds to shareholders. At 31 December 2018, this was substantially complete and the Group had bought back £47 million of shares, at an average price of 361 pence per share, which are held in a separate treasury share reserve. The programme was completed in January 2019.

At the Annual General Meeting on 25 April 2018, shareholders approved payment of a final dividend for the year ended 31 December 2017 of 7.4 pence per share (£30 million). The final dividend was paid on 11 May 2018.

On 23 July 2018, the Board resolved to pay an interim dividend for the six months ended 30 June 2018 of 5.6 pence per share (£22.4 million), representing 40% of the expected full year dividend. The interim dividend was paid on 12 October 2018.

At the forthcoming Annual General Meeting, on 17 April 2019, the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2018 of 8.5 pence per share (£33.6 million), payable on or before 10 May 2019. Shares will be marked ex-dividend on 18 April 2019. This brings the total dividend payable for 2018 to £56 million and delivers 12% growth on 2017.

The Board is confident that this level of dividend is sustainable and expects it to grow as the implementation of the business 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. 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.

PROFIT FORECASTS

In the Class 1 circular, published on 5 December 2018 in connection with the acquisition of a generation business from ScottishPower, we made the following statement in relation to the outlook for 2018: "Outlook for 2018 – continued growth in EBITDA", which constituted a profit forecast under the Listing Rules. Our financial results for 2018, as set out in this Annual report, demonstrate that we have achieved a growth of 9% in Adjusted EBITDA between 2017 and 2018, which is therefore consistent with the profit forecast that was made in the circular.

In the Class 1 circular, published on 5 December 2018 in connection with the acquisition of a generation business from ScottishPower, we made a profit forecast in relation to the portfolio of assets acquired for the 12-month period ending 31 December 2019. Full details of the profit forecast (including the assumptions on which it was made and the sensitivity to the Capacity Market payments due in 2019) are set out on pages 59 and 60 of the Class 1 circular.

The Class 1 circular can be accessed on the Group's website: **www.drax.com/circular2018**

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 on pages 44 to 49, 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 2019, 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 financial performance. Adverse events over the past 18 months have tested the ability of the Group to deliver 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 mitigated, and viability can be maintained, during the assessment period.

The Board also considered the impact of Brexit, concluding that the Group's FX hedging programme provides mitigation against FX volatility, whilst recognising that a material carbon asset may exist in the event of a no deal Brexit.

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 2018. It is built by business and segment, and includes growth assumptions appropriate to the markets each business serves. The Plan for 2019 includes the generation and other assets acquired from ScottishPower on 31 December 2018.

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-fueled renewable power. It is underpinned by the stable revenues available through the generation of CfD-backed electricity and contracted sales to B2B Energy Supply customers.

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.

Scenarios were constructed to consider the financial impact of Principal Risks occuring during the period, either as one-off events (e.g significant outage) or a sustained downturn (e.g commodity prices).

Where such scenarios suggest a risk to viability, the availability and quantum of mitigating actions is considered and the scenario is reassessed including plausible mitigations, which include acceleration of cash receipts, reductions to capital expenditure and operating costs and changes to trading strategies.

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 is based on a 'low case' where power prices fall by greater than £10/MWh from base case assumptions. 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.

The Plan also included assessment of a scenario considering the risk of the recently-suspended capacity market remaining closed during the period. The Board believes that the Capacity Market will be reinstated in some form during 2019, but mitigating actions are available if this does not occur.

Based on its review, the Board is satisfied the viability of the Group would be preserved in a range of scenarios, including significant deterioration of commodity market prices.

AVAILABILITY OF ADEQUATE FUNDING

The sources of funding available to the Group are set out in note 4.3 to the Consolidated financial statements (see page 142). 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 restructured its debt facilities, including the placement of a new $300 million bond, maturing in November 2025, to fix future debt service costs. The existence of established bond facilities, across the UK and US, provides the Group with the ability to access debt markets, should that need arise during the viability assessment period. Details of current facilities are described on page 40 of the Group Financial Review, and in Note 4.3 to the Consolidated financial statements.

On 2 January 2019, the Group drew down £550 million of its £725 million acquisition facility (maturing by July 2020) to support the acquisition of assets from ScottishPower. The Group is well positioned to refinance the acquisition facility promptly and the Board is confident that the Group has access to a range of options to maintain a robust 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

We manage the commercial and operational risks faced by the Group in accordance with policies approved by the Board.

We have reviewed the principal risks and consider they are broadly unchanged from the previous year, with the addition of Transaction risks to reflect the risks associated with the acquisition of generation assets from ScottishPower.

The Board is responsible for defining 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 effective identification and management of risk across the Group is integral to the delivery of our strategy.

The risk appetite determined by the Board varies dependent on the risk and guides the principles of the Group's culture and behaviour, and the intensity of risk management activities in achieving our business objectives.

The Group has a Risk Management Policy, that was reviewed this year and approved by the Board, which defines the Group's approach to risk management. The key elements of the Policy are as follows:

- identify principal risks that threaten the achievement of our strategic objectives then assess their significance to the business;
- put in place appropriate mitigating controls to manage identified risks to an acceptable level;
- escalate and report principal risk and control information to support management decision making;
- assign responsibility and define accountabilities for risk management and put these into practice across the Group;
- continuously monitor the changing risk environment, the Group's principal risks, 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 level principal risk owners and two Group risk management committees (RMCs) whose responsibilities include:

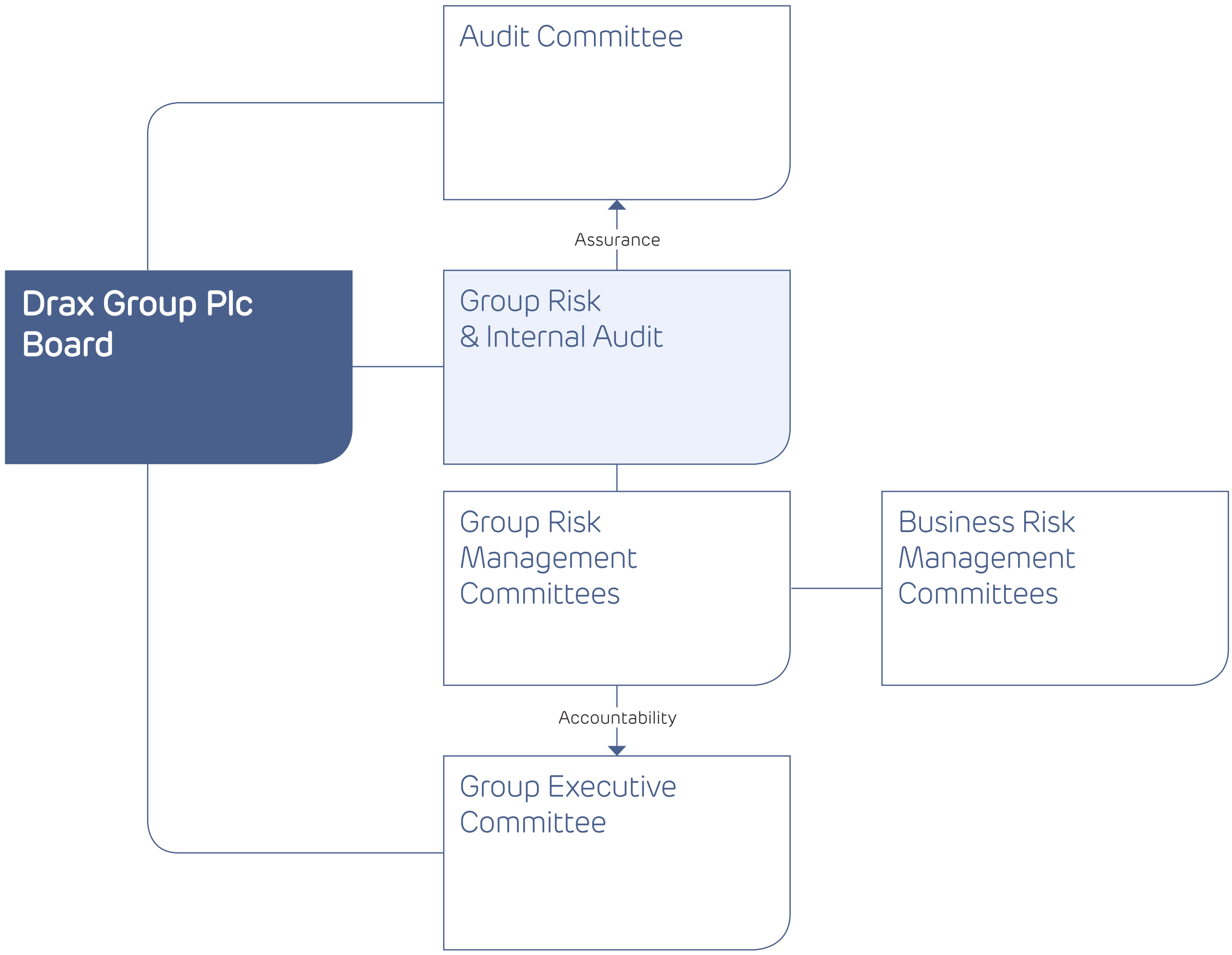
- ensuring that risks are identified, assessed and managed effectively within risk appetites and limits, including new and emerging risks;
- demonstrating robust governance of risk management by reviewing and challenging risk management across the Group and driving the completion of actions to manage risks within risk appetites and limits;
- driving an appropriate risk management culture, and an environment that promotes and creates positive risk-taking behaviour and clear accountability.

The Group RMCs receive reports from business unit RMCs and undertake reviews of the management of each principal risk across the Group.

Each business unit has RMCs that:

- report to the executive management of that area, assisting in the management of their risks. Each executive is responsible for ensuring that all risks associated with their specific area of the business are identified, analysed and managed systematically and appropriately;
- has terms of reference that require local level risk policies and control systems to be approved, implemented and monitored to ensure that activities are commensurate with the risk appetite established by the Board, are adequately resourced and comply with applicable legal and regulatory requirements.

The Group Executive Committee and the Board review reporting on risks from the Group RMCs and from Group Risk. 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 comprehensive and well-defined internal control system with clear structures, delegated authority levels and accountability. The Board has adopted a schedule of matters which are required to be brought to it for decision. The internal control system is designed to ensure that the directors maintain full and effective control over all significant strategic, financial and organisational issues.

Through the Audit Committee, the Board has implemented 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 results of each internal audit are documented in a report for internal distribution and action. A full copy of the report is distributed to the Group Executive Committee and the Chair of the Audit Committee, with an executive summary going to the other members of the Audit Committee. Each report includes management responses to Internal Audit's findings and recommendations and an agreement of the actions that management will take to improve the risk management and the internal control framework. In addition to the results of work undertaken by Internal Audit, the Audit Committee also satisfies itself that an action plan is in place and management are addressing issues raised by the external auditor in their yearly management letter.

Based on the reporting from the Group RMCs and from the Audit Committee in 2018, 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 continued

CHANGE IN RISK PROFILE

Risks are reported to the Board and disclosed in the annual report and accounts under nine principal risk headings. These are unchanged from 2017, with the addition of Transaction risks to reflect the risks associated with the acquisition of assets from ScottishPower.

Key: (^) Up/increasing (v) Down/reducing (=) No change

Risk	Mitigations	Movement	Changes in factors impacting risk in 2018
STRATEGIC RISKS			
Context The Group has a strategy designed to strengthen the long-term future of the Group. The strategy includes: – Building on our leading market position to provide system stability through an increasing portfolio of flexible; generation and demand. This provides higher quality, diversified earnings and management of commodity market exposure by increasing contractual and non-commodity related earnings; and – Targeted long-term growth opportunities with priority on post 2027 earnings and creating new opportunities in all the markets in which we operate. **Risk and impact** • Development of new, flexible OCGT plants and the re-powering of coal units to gas with a battery storage option is dependent on winning contracts with acceptable returns in Capacity Market auctions which is uncertain. • Post 2027 biomass generation is dependent upon the cost of generation relative to market prices. • Biomass self-supply requires acquisition and/or expansion to achieve the 30% self-supply target. Acquisition opportunities are dependent on willing vendors or distressed plants coming to market. • The energy markets in which we operate are evolving at a rapid pace. New entrants compete with existing players in both power generation and B2B Energy Supply and services.	• Diversifying our generation capacity through the acquisition of 2.6GW of portfolio of pumped storage, hydro and gas-fired generation assets. • Working on reducing projects' 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. • Working on cost reductions from biomass supply and generation efficiency to support post-2027 operations. • Actively pursuing potential acquisitions of pellet plant facilities and evaluate the case for expansion of existing facilities. • Continually analysing the changing dynamics of the markets in which we operate. • Implementing a programme of targeted investment to incubate new energy products and services to bring to market; research, develop and pilot new technologies; and develop joint ventures and partnerships where we need access to new skills and technology.	Down/reducing	• Acquisition of portfolio of flexible, renewable, low carbon assets from ScottishPower provides significant diversification of long-term earnings and expansion of our renewable generation model. • Conversion of fourth unit from coal to biomass gives greater flexibility of generation. • UK Capacity Market payments and auctions suspended following ruling by the European Court of Justice • LaSalle pellet facility now fully operational supporting self-supply target.
PEOPLE RISKS			
Context We need to ensure we have the right people in place with the leadership, 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 strong, high-quality leaders and engaged and talented people at all levels of the organisation.	• Maintaining consistent Group-wide performance management, potential assessment and career development frameworks. • Regularly surveying employees to monitor engagement levels and alignment of people with Group values. • Investing in development for all. • Ensuring regular employee communications. • Maintaining reward packages to aid recruitment and retention.	No change	• Continued embedding of our 'Creating a great place to work' strategy centred around valuing people, driving business performance and focusing on talent. This is placing greater onus on performance, learning, equitable treatment and consistency in approach across the Drax Group. • As part of the acquisition of assets from ScottishPower the c.250 employees who have moved to the Drax Group will need continued support as they integrate and contribute to our culture and processes.

Risk	Mitigations	Movement	Changes in factors impacting risk in 2018
POLITICAL AND REGULATORY RISKS			
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 economy trends towards decarbonising and decentralising. Regulation and compliance generally applicable to businesses is also increasing with increasing requirements for transparency and accountability. **Risk and impact** • Changes to UK policy, regulations or tariffs may reduce our ability to deliver forecast earnings from our base business and our growth strategy putting pressure on our financial results and cash flows. Issues include reform to: legal framework following Brexit; data privacy regulation; network access and charging arrangements; consumer service and affordability requirements. • More complex and challenging regulations increase the potential for non-compliant outcomes, regulatory investigation and sanctions. Brexit may require changes in regulatory reporting and data requirements.	• Engaging with politicians across the political spectrum and Government officials to understand and influence perception. • Communicating our socioeconomic value to the UK. • Working with stakeholders to establish 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, although the nature of our dedicated supply chain mitigates this risk. • 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. • The status of the UK Capacity Market is uncertain. UK Capacity Market payments and auctions are currently suspended. • 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 (where reasonable steps have been exhausted) remains. • Failures of small energy suppliers (cost mutualisation across industry). • The acquisition of assets from ScottishPower will change our engagement with government, particularly in Scotland.
BIOMASS ACCEPTABILITY RISKS			
Context The biomass market is still relatively new. Sustainability legislation at both an EU and UK level, and public understanding of the benefits of the technology, needs to be improved. **Risk and impact** • EU or UK sustainability policy changes could be unworkable and make it difficult for us to comply with policy requirements and claim subsidy in support of economic biomass generation. • Detractors and some environmental NGOs influence policy makers against biomass use.	• 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 NGOs 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 coalition with other utilities and those engaged in forest industries including using EU and US forestry expertise to brief Brussels.	=	• The legislative process for the Renewables Energy Directive has been completed and our current policy and approach satisfies it.

PRINCIPAL RISKS AND UNCERTAINTIES continued

Risk	Mitigations	Movement	Changes in factors impacting risk in 2018
PLANT OPERATING RISKS			
Context The reliability of our operating plant is central to our ability to create value for the Group. **Risk and impact** • Single point failures of plant could result in forced outages in our generation or pellet production plants. • Successful generation using biomass requires stringent quality throughout the supply chain, which continues to evolve and mature. Poor quality could result in unplanned loss of generation.	• Implementing a comprehensive risk-based plant investment and maintenance programme. • Maintaining adequate insurance in place to cover losses from plant failure where possible. • 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. • Maintaining stringent safety procedures in place for handling biomass and dust management. • Sampling and analysis through the supply chain to increase understanding of causes of fuel quality issues.	=	• Commissioning of LaSalle BioEnergy which is now fully operational. • Newly acquired assets from ScottishPower may increase the overall operating risks until fully integrated.
INFORMATION SYSTEMS AND SECURITY RISKS			
Context Our IT systems and data are essential to supporting the strategy and operations of the Group and meeting our legal, regulatory and compliance requirements. They need to be fit for purpose, fit for use and the confidentiality, availability and integrity of the systems and data needs to be ensured. **Risk and impact** • Delivery of key IT systems transformation is needed to support our strategy. • Reduced systems performance or reduced or non-availability of IT systems, data and facilities adversely affecting operations. • Security compromise of our systems and data, including personal data, causing operational, financial impact and regulatory non-compliance.	• Maintaining business continuity, disaster recovery and crisis management plans in place across the Group. • Maintaining cyber security measures, including a protect, detect, respond and recover strategy, in place. • Implementing a Retail transformation programme with robust governance and delivery. • Implementing a Group IT strategy and key projects to deliver Group-wide services, improving security, resilience and performance. • Running ScottishPower integration under a controlled programme and across business workstreams.		• The enforcement of key compliance regulations – GDPR and NIS Directive – have increased the regulatory and financial impact of this risk. • ScottishPower acquisition with resulting IT and Security integration and compliance. • IT Operating model redesign 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.
ENVIRONMENT, HEALTH AND SAFETY RISKS			
Context The health and safety 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 essential to ensure the long-term future of the business. **Risk and impact** • Our operations involve managing a range of hazards to personnel and the environment that arise from the processes we operate.	• Training employees to a high level of competence to appreciate and manage health, safety and environmental risk. • Maintaining robust management systems designed to mitigate risk. • Continuous reporting of events and prompt implementation of corrective actions. • Continuously monitoring processes to identify trends in performance. • Auditing of compliance against 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.	=	• TRIR continuing at better than the industry benchmark. • Commissioning of LaSalle BioEnergy which is now fully operational. • Installation of further fire suppression devices in our biomass conveying systems. • Newly acquired generation assets from ScottishPower may increase the environment, health, safety and environmental risks until fully integrated.

Risk	Mitigations	Movement	Changes in factors impacting risk in 2018
TRADING AND COMMODITY RISKS			
Context The margins of our Power Generation and B2B Energy Supply businesses are influenced by commodity and non-commodity market movements, which are inherently volatile. **Risk and impact** • Uncertainty in trading conditions could result in lower margins and a reduction in cash flow in our Power Generation business. • Drax Power may fail to secure future grid system services contracts which are a source of revenue diversity for the Group. • Commercial value from flexibility and leveraging a complicated supply chain, with uncertain running regimes requires good trading performance presenting opportunities in the market. • The value of ROCs generated may be lower than forecast if the recycle value outturns are below BEIS projections due to higher than anticipated renewable generation.	• Ensuring high levels of forward power sales for 2019/20 and a CfD for one generation biomass unit. • Enhancing optimisation capabilities through the newly acquired ScottishPower assets. • Hedging energy supply commodity price exposures when fixed price sales are executed with third parties. • Purchasing wood pellets under long-term contracts with fixed pricing. • Significant hedging of forward foreign exchange. • Hedging fluctuations in ROC generation from wind farms through weather derivatives.	=	• Sterling exchange rates against the Euro and Dollar remain weak. • Power prices higher with low market liquidity and increased volatility in short-term prices. • Prices for wood pellets increased. • Generation running regimes optimised with managed positions and scenario planning . • Conversion of additional unit to biomass provides opportunity for greater flexibility of generation and management of ROCs. • Increased power generation, change in exposure and additional hedging requirements with the acquisition of assets from ScottishPower. The OCGT plants bring a natural hedge to falling gas prices . • Recent supplier failures have led to supplier mutualisation processes being invoked for ROCs.
TRANSACTION RISKS			
Context We need to ensure that the integration of the assets newly acquired from ScottishPower runs smoothly and efficiently. In addition, contracted capacity payments make up a significant portion of the earnings of the ScottishPower assets but UK Capacity Market payments and auctions are suspended following the ruling by the European Court of Justice. **Risk and impact** • We may face difficulty in consolidating and integrating the assets into our procedures and systems. • The assets may fail to meet our expectations. • The status of the UK Capacity Market is uncertain. UK Capacity Market payments and auctions are currently suspended.	• A detailed integration plan has been developed. Performance against the business case and key integration milestones will be tracked by management and reported regularly to the Board and Audit Committee. • The Group has agreed a risk-sharing mechanism with the vendor (Iberdrola S.A.), which will activate in the event the Group does not receive 100% of the contracted Capacity Market payments for the acquired assets. The value of any further payment is capped at £26 million. Full details of the risk sharing mechanism are set out on the Group's website at **www.drax.com/cmrisk**. The UK Government has confirmed that the Capacity Market ruling does not change its belief that Capacity Market auctions are the most appropriate way to deliver secure electricity supplies at the lowest cost. The UK Government also noted that the Capacity Market ruling was decided on procedural grounds and did not constitute a direct challenge to the design of the Capacity Market mechanism itself.	NEW	• This risk was not included in the previous annual report as the acquisition completed on 31 December 2018.

CORPORATE GOVERNANCE REPORT: LETTER FROM THE CHAIR

> Setting the right standards on governance helps protect the business and the interest of stakeholders."

Philip Cox CBE
Chair, Drax Group

DEAR SHAREHOLDERS

I am pleased to present our Corporate Governance Report for 2018. We believe that good governance is essential to our continued success. The Board is committed to upholding the highest standards of governance and works closely with the executive team to do so. We are supportive of the new 2018 Corporate Governance Code (2018 Code) and are actively engaged in considering how we can most effectively apply the principles.

The Board consists of a strong team with a wide range of experience across various industries. Board membership has increased this year, as we continue to refresh our skills, experience and diversity.

KEY AREAS OF FOCUS

In 2018 we made strong progress with the strategy we announced in December 2016, ending the year with the successful acquisition of a portfolio of flexible, low carbon and renewable generation assets.

During 2018, we also spent a great deal of time discussing the wider economic, political and regulatory environment and considering the impact on Drax, addressing the opportunities and challenges ahead through our strategic planning. We invited experts from outside the Company to share their insights and experience with the Board, which provided us with a broader understanding of the factors affecting our markets, assets and communities.

Our people – employees and contractors – remain a key asset of the business and their safety is a long-held commitment of our operational philosophy. We pay particular regard to our safety performance and received regular updates from management.

It is important that our decisions as a Board are informed by long-term considerations. Actions taken today will shape the future performance of Drax and determine our impact on the world. By providing both support and challenge to management, in terms of how they address material issues, we have helped to develop ongoing opportunities for the business and to protect the long-term interests of stakeholders.

BOARD CHANGES

The Board has seen a number of changes in 2018. In January, Will Gardiner became Group CEO, succeeding Dorothy Thompson who retired. His appointment followed a thorough review of internal and external candidates and was a natural successor after two years as CFO working alongside Dorothy developing the Group's strategy.

In October we announced the appointment of Andy Skelton as Group CFO who joined us in January 2019. Andy is highly experienced, having previously served as CFO at Fidessa Group and held senior finance positions at CSR, Ericsson and Marconi.

I would like to extend my thanks to Den Jones for his excellent job as Interim CFO, supporting the delivery of the strategy and the acquisition of the ScottishPower assets. Den will remain with the Group until May 2019 to support the process of integrating those assets.

I am delighted to welcome Vanessa Simms to the Board who joined as a Non-executive director in June 2018. As reported in our Annual Report last year, Nicola Hodson joined in January 2018. Details of these new appointments can be found in the Nomination Committee Report on page 65.

OUR VALUES

Honest

We say what we mean and do what we say, we're genuine and true to our word

Energised

We're passionate about our daily activities and have the drive to turn ideas into action

Achieving

We're focused on our goals and determined to succeed. We work hard to deliver innovative solutions to help us do things better, for the benefit of the Group

Together

We work collaboratively with our colleagues, customers and stakeholders with a friendly approach and recognise the value each of us brings to achieving our Group vision

CULTURE AND GOVERNANCE

Our aim is to maintain an open and collaborative culture across all areas of the business. We believe that an effective and well embedded corporate culture helps to create a successful business. This will continue to be a key focus of the Board.

Good governance and behaviours are essential characteristics of how a successful business is run and how it reports, and we place high expectations on ourselves and therefore all of our people. Setting the right standards helps to protect the business and the interests of our stakeholders.

BOARD INDUCTION AND EVALUATION

A comprehensive induction programme is important for all of our new Board members. Both Nicola and Vanessa participated during 2018. We also run a programme of continuing evaluation for the Board to assess its effectiveness. More details of our evaluation and induction processes in the year are set out on pages 65 and 68.

SUCCESSION PLANNING AND DIVERSITY

We recognise the importance of diversity within the Group and we report on Board and Executive Committee composition and diversity on pages 52 to 54. We have set a clear target to increase female representation in senior leadership across the Group, to build a more diverse and inclusive business. By the end of 2020 our aim is to have 40% of senior leadership roles (Executive Committee and career levels 1 to 3) held by women. At the end of 2018 the figure was 27%.

We are committed to regular reviews of our succession planning, making sure that it is aligned to the Group's strategy. In addition to the succession planning for Board roles, the Nomination Committee received an update from the Group People Director on succession planning for senior management and the talent pipeline.

Throughout the year, directors took opportunities to meet with senior management across the Group including at the leadership team meeting in York and other informal discussions throughout the year.

The Board, through the Nomination Committee, also regularly reviews the length of tenure, skills and experience of the Board.

Maintaining the highest standards of corporate governance across the Group is a priority for the Board. This is integral to the delivery of our strategy and for creating sustainable long-term value for the benefit of our shareholders and stakeholders.

Philip Cox CBE
Chair

CORPORATE GOVERNANCE REPORT: BOARD OF DIRECTORS

The Board provides strong stewardship of the Group, shaping our purpose and strategy to generate sustainable long-term value.

1 WILL GARDINER
Group Chief Executive Officer

Will joined Drax in 2015 as CFO and was appointed as CEO in January 2018. He has a wealth of experience in finance and technology, having held CFO and divisional Finance Director roles at a number of major companies. Will has been a key architect of our flexible, low-carbon, customer-focused strategy, and is responsible for all aspects of the stewardship of Drax Group, including developing an appropriate business strategy for Board approval and securing its timely and effective implementation. He provides leadership to the executive team and takes responsibility for important external relationships and stakeholder management. Will is also a non-executive director of Qardio plc.

Appointment to the Board: November 2015.

2 ANDY SKELTON
Chief Financial Officer

Andy joined Drax as CFO in January 2019. He was previously CFO at Fidessa Group plc and has held a number of senior finance positions at CSR plc, Ericsson and Marconi, including two years as CFO of Ericsson Nikola Tesla. His strong finance and commercial skills, alongside substantial experience in the technology sector, will be a valuable addition to the Board. Andy is responsible for the Financial Control and Planning, Corporate Finance, Investor Relations, Group Risk and Internal Audit functions.

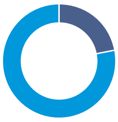
Appointment to the Board: January 2019.

3 ANDY KOSS
Chief Executive, Drax Power

Andy joined Drax in 2005 and has held a number of senior roles at Drax including Director of Strategy, Head of Investor Relations, Group Treasurer and Head of Risk. He has also held several senior treasury and investment banking roles with various major institutions. Andy is responsible for the safety, sustainability, operational excellence and expertise within Drax Power. Andy is also a board member of the Northern Powerhouse Partnership.

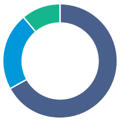
Appointment to the Board: January 2016.

GENDER DIVERSITY
As at 31 December 2018



- Female 22%
- Male 78%

COMPOSITION
As at 31 December 2018



- Non-executive 67%
- Executive 22%
- Chairman 11%

TENURE IN YEARS
As at 31 December 2018

- 0-3 56%
- 4-6 11%
- 7-9 22%
- 10 11%

Note: Andy Skelton is not included in the above analysis as he was not appointed as a director until 2 January 2019.

KEY TO COMMITTEES

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- Chair of Committee

4 PHILIP COX CBE
Chair

N R

Philip has extensive experience in both executive and non-executive roles, and in the energy sector. He is interim Executive Chair of Kier Group plc and was previously CEO and formerly CFO of International Power plc. Prior to this he held a senior operational position at Invensys plc and was CFO at Siebe plc. As a non-executive he was previously the Senior Independent Director at Wm Morrison Supermarkets plc, Chairman of Global Power Generation and a member of the boards of Talen Energy Corporation, PPL, Meggitt plc and Wincanton plc. His responsibilities at Drax include Board composition and succession, Board governance and stakeholder engagement.

Appointment to the Board: January 2015.

Appointment as Chair: April 2015.

5 TIM COBBOLD
Independent non-executive director

A N R

Tim has substantial experience in finance, engineering and executive leadership in different sectors, which means that he is well placed to contribute significantly to the Board and its committees. He is currently a non-executive director of Rotork plc. Tim was previously CEO of UBM plc, CEO of De La Rue plc, CEO of Chloride Group plc and, following Emerson Electric's takeover of Chloride, held a senior position in Emerson. Prior to that he held a number of senior positions in Smith Group plc. Tim will retire from the Board in September 2019.

Appointment to the Board: September 2010.

6 NICOLA HODSON
Independent non-executive director

A N R

Nicola brings valuable technology expertise as well as having extensive sales and IT experience. She is currently Vice-President, Global Sales and Marketing, Field Transformation at Microsoft, and was General Manager FS, PS, Manufacturing, Sales and Marketing Director at Siemens. Nicola was formerly a non-executive director at Ofgem, a Board member at the UK Council for Child Internet Safety and at the Child Exploitation and Online Protection group. Nicola will succeed Tony Thorne as the Remuneration Committee Chair in April 2019.

Appointment to the Board: January 2018.

7 DAVID LINDSELL
Senior Independent non-executive director

A N R

David has extensive financial, audit and regulatory experience, which has been a significant asset to the Board in his role as Chair of the Audit Committee. During his executive career, David was a Partner at Ernst & Young LLP and was Deputy Chair of the Financial Reporting Review Panel. He was a non-executive director and Chairman of the Audit and Risk Committee at Premier Oil plc and a non-executive director of HellermannTyton Group PLC. David will retire from the Board following the AGM in April 2019.

Appointment to the Board: December 2008.

8 DAVID NUSSBAUM
Independent non-executive director

A N R

David brings a wealth of experience in international development and environmental, community and charitable matters. David is CEO of The Elders, a group of independent global leaders working to promote peace and human rights, and Deputy Chair of the International Integrated Reporting Council. He was previously CEO of World Wide Fund for Nature UK, CEO of Transparency International, Finance Director and Deputy CEO of Oxfam and Finance Director of Field Group plc. In a non-executive capacity, David was Vice-Chair of Shared Interest Society, Chairman of Traidcraft plc and a non-executive director of Low Carbon Accelerator Limited.

Appointment to the Board: August 2017.

9 VANESSA SIMMS
Independent non-executive director

A N R

Vanessa has extensive experience in senior finance roles across different industries, including real estate, telecommunications and medical devices. She is currently CFO of Grainger plc and has worked in finance for 20 years, holding a number of senior positions within Unite Group plc, including deputy chief financial officer. Prior to that Vanessa was UK finance director at SEGRO plc. Vanessa's current and relevant financial experience will be invaluable to the Board as she transitions to take over as Chair of the Audit Committee in April 2019.

Appointment to the Board: June 2018.

10 TONY THORNE
Independent non-executive director

A N R

Tony's broad experience of operating in leadership roles in different geographies is of great value to the Board as the Group's operations develop. During his executive career, Tony was CEO of DS Smith plc and President of SCA Packaging Limited. He worked throughout the world in senior management roles for Shell International. He was the non-executive Chairman of South East Coast Ambulance Service. Tony will retire from the Board in June 2019.

Appointment to the Board: June 2010.

CORPORATE GOVERNANCE REPORT: EXECUTIVE COMMITTEE

Executive Committee members

1 WILL GARDINER
Group Chief Executive Officer

Will was appointed to the Executive Committee on joining the Group in November 2015.

Full biography on **page 52**.

2 ANDY SKELTON
Group Chief Financial Officer

Andy was appointed to the Executive Committee on joining the Group in January 2019.

Full biography on **page 52**.

3 ANDY KOSS
Chief Executive, Drax Power

Andy was appointed to the Executive Committee in March 2015, having joined the Group in June 2005.

Full biography on **page 52**.

4 CLARE HARBORD
Group Director of Corporate Affairs

Clare has extensive experience in public affairs, communications and stakeholder relations. Before joining Drax, Clare worked at Heathrow, the world's third busiest airport, where she was Director of Corporate Affairs for six years. Clare's previous experience also includes roles as Director of Communications at both the Ministry of Justice and E.ON.

Clare leads the Group's internal and external communications, brand, public affairs and corporate social responsibility strategies. She also has responsibility for sustainability, regulation, policy and compliance.

Appointment to the Executive Committee: May 2017, having joined the Group at the same time.

5 JONATHAN KINI
Chief Executive, Drax Retail

Jonathan spent a decade in director-level roles in telecoms, covering customer operations, finance, marketing and commercial. He was previously Director of SME at Vodafone, leading the strategy for UK products and services to small to medium-sized enterprises. Prior to that he was Customer Service Director at Virgin Media.

Jonathan oversees business operations and champions Drax's retail strategy across Haven Power and Opus Energy, leading a customer-focused approach to energy sustainability, energy management and providing 100% UK-based renewable energy.

Appointment to the Executive Committee: September 2016, having joined the Group in January 2016.

6 PENNY SMALL
Chief Transformation Officer

Penny has a wealth of experience in the energy industry, and has led major integration and transformation projects, including the integration of International Power and GDF Suez. She was previously Director of Asset Optimisation and Digital at Engie and, prior to that, was Director of Strategy and Communications.

Penny ensures best practice is applied across our Retail and IT transformation programmes. She is responsible for overseeing HR, Legal, Company Secretarial, as well as Strategy and M&A functions.

Appointment to the Executive Committee: November 2018, having joined the Group at the same time.

GENDER DIVERSITY
As at 31 December 2018

Male	60%
Female	40%

Note: Andy Skelton is not included in the above analysis as he was not appointed until 2 January 2019.

ROLE OF THE EXECUTIVE COMMITTEE
The Executive Committee focuses on the Group's strategy, financial structure, planning and performance, succession planning, organisational development and Group-wide policies.

HOW THE EXECUTIVE COMMITTEE FUNCTIONS
The Executive Committee receives regular reports on performance against the Business Plan and periodic business reports from each of the business units. Papers are distributed in advance of meetings, to brief members on matters to be discussed. Members also receive presentations on various business issues by senior managers within the business units.

COMPOSITION
With the exception of Penny Small, Chief Transformation Officer, (who was appointed a member in November 2018) and Andy Skelton, who joined the Committee in January 2019, all of those listed opposite served on the Executive Committee throughout the year and all continued to be members at the date of this report.

EXECUTIVE COMMITTEE ATTENDANCE 2018
The table below shows the number of meetings and attendance at them by members of the Executive Committee during 2018.

	Date appointed as a member of the current Executive Committee	Maximum possible meetings	Number of meetings attended	% of meetings attended
Will Gardiner	16 November 2015	11	11	100%
Clare Harbord	9 May 2017	11	11	100%
Jonathan Kini	1 September 2016	11	11	100%
Andy Koss	1 March 2015	11	11	100%
Penny Small	5 November 2018	2	2	100%

Number of meetings
The Executive Committee has 11 scheduled meetings each calendar year and arranges additional meetings if needed.

HIGHLIGHTS OF THE EXECUTIVE COMMITTEE'S 2018 ACTIVITIES

> HEALTH AND SAFETY
Considered regular updates from business units; deep dive analysis and lessons learned from the fire on the biomass fuel handling facilities in December 2017; increased focus on process safety as well as behavioural safety; reviewed governance process in respect of the health, safety and wellbeing reporting across the Group.

> NEW PEOPLE STRATEGY
Monitored continued roll-out including People Plan Roadmap, Big Picture Communication approach and the introduction of a new deferred cash award plan (One Drax Awards) for eligible employees below Board level to recognise and reward high performers and employees whose behaviours underpin our culture.

> STRATEGY
Monitored the progression of the first phase of the repowering project. Consideration of acquisition of a portfolio of assets from ScottishPower. Considered and reviewed options for flexible gas generation and considered tactics for the Capacity Market auction.

> BIOMASS
Reviewed successful commissioning of third pellet plant ahead of schedule. Monitored biomass optimisation strategy and biomass procurement update.

> GENERATION
Review of Beyond Coal initiative and ancillary services programme. Conversion and commissioning of fourth biomass unit.

> RETAIL
Considered Retail transformation plan to develop new supply platform. Monitored continued integration of Opus Energy and a detailed review of the business one year on from acquisition.

> GOVERNANCE
Considered GDPR Privacy Policy, gender pay gap reporting and review of certain Group policies including Security, Environment and Health and Safety.

> CAPITAL RESTRUCTURE
Considered refinancing proposal, and optimum financing for acquisition of ScottishPower generation assets.

A sound governance framework promotes the delivery of our strategy

DRAX GROUP PLC BOARD
Responsible for overseeing the Group's strategy and risk appetite, monitoring performance and ensuring that the necessary controls and resources are in place to deliver the Group's plans

AUDIT COMMITTEE
Oversees financial reporting, internal controls and risk management systems, whistleblowing and fraud, internal and external audit effectiveness

Page 69

NOMINATION COMMITTEE
Makes recommendations on the size, diversity and composition of the Board and succession planning for the directors and senior executives

Page 64

REMUNERATION COMMITTEE
Oversees the Group's approach to remuneration and sets key performance measures for the executive directors and members of the Executive Committee

Page 75

EXECUTIVE COMMITTEE
Focuses on the Group's strategy, financial structure, planning and performance, succession planning and organisational development below Board level

ROLE OF THE BOARD

The Board determines: the Group's strategy; the Group's appetite for risk; the risk management policies; the annual plan and key performance indicators; acquisitions and disposals, and other transactions outside delegated limits; material changes to accounting policies or practices; significant financial decisions; capital structure and dividend policy; shareholder communications; prosecution, defence or settlement of material litigation; Group remuneration policy; the terms of reference of Board committees; and the Board structure, composition and succession.

TERMS OF REFERENCE

The Board has a schedule of matters reserved for its decisions and formal terms of reference for its committees. These are reviewed regularly and are available to view on the Group's website at **www.drax.com**.

Matters which are not specifically reserved to the Board and its committees under their terms of reference, or to shareholders in General Meeting, are delegated to the Executive Committee or otherwise delegated in accordance with a schedule of delegated authorities approved by the Board.

HOW THE BOARD FUNCTIONS

Prior to each Board meeting the Chair and the Non-executive directors meet without management being present. At each meeting the Board receives a report from the Group Chief Executive Officer in relation to key business and operational matters and from the Group Chief Financial Officer in relation to the financial performance of the Group. It also receives regular reports on performance against the Business Plan, safety, operational and financial performance, and periodic business reports from senior management across the Group. The Board receives regular industry, regulatory and topical updates from internal specialists and from external experts and advisers. Papers are distributed in advance of Board and committee meetings, to brief directors.

The core activities of the Board and its committees are documented and planned on a forward agenda, with a list of matters arising from each meeting maintained and followed up at subsequent meetings.

The Group Company Secretary advises the Board on all governance matters, ensuring good information flows within the Board, its committees, the Executive Committee and senior management. The Group Company Secretary ensures that Board processes are complied with and is also responsible for compliance with the Listing, Prospectus, Disclosure Guidance and Transparency Rules, the Corporate Governance Code and the Companies Act. There is also good governance collaboration with other parties across all Group functions.

All Board committees are authorised to obtain legal or other professional advice as necessary, to secure the attendance of external advisers at their meetings and to seek information required from any employee of the Group in order to perform their duties.

The Company's Articles of Association (the Articles), give the directors power to authorise conflicts of interest. The Board has an effective procedure to identify potential conflicts of interest, consider them for authorisation and record them. The Articles also allow the Board to exercise voting rights in Group companies without restriction (for example to appoint a director to a Group company). The Articles are available on the Group's website at **www.drax.com.**

The Company has appropriate insurance cover in place in respect of legal action against directors of the Company and its subsidiaries.

BOARD DIVERSITY

The table below shows the gender diversity split in the Board and in different sectors of the workforce at 31 December 2018.

	Male		Female		**Total**	
Gender	No.	%	No.	%	**No.**	**%**
Board Members[(1)]	7	78	2	22	**9**	**100**
Senior Managers[(2)]	20	67	10	33	**30**	**100**
All employees[(3)]	1,776	66	910	34	**2,686**	**100**

Notes:
(1) Excluding Andy Skelton who was appointed in January 2019
(2) Direct reports of the Board (Executive Committee) and their direct reports
(3) Excluding Board Members and Senior Managers

NUMBER OF MEETINGS HELD

The Board and its committees have regular scheduled meetings and hold additional meetings as required. Directors are expected, where possible, to attend all Board meetings, relevant committee meetings, the Annual General Meeting (AGM) and any General Meetings.

- The Board has eight scheduled meetings each year.
- In 2018, additional meetings were held (by telephone) to address matters requiring formal decisions.
- A shareholder General Meeting was held in December 2018 in order to approve the acquisition of ScottishPower generation assets.
- The Board meets at least annually to consider strategy.

BOARD ROLES

The key responsibilities of members of the Board are as follows:

Position	Role
Chair	Responsible for leading and managing the Board, its effectiveness, and governance. Ensures Board members are aware of and understand the views and objectives of major shareholders and other key stakeholders. Helps to set the tone from the top in terms of the purpose, goal, vision and values for the whole organisation.
Group Chief Executive Officer	Responsible for the day-to-day management of the business, developing the Group's strategic direction for consideration and approval by the Board and implementing the agreed strategy.
Group Chief Financial Officer	Supports the Chief Executive in developing and implementing strategy, in relation to the financial and operational performance of the Group.
Chief Executive, Drax Power	Responsible for leading and developing the operation of the Power Generation business.
Independent Non-executive directors	Responsible for bringing sound judgement and objectivity to the Board's deliberations and decision-making process. Constructively challenge and support the executive directors. Monitor the delivery of the strategy within the risk and control framework set by the Board.
Senior Independent Non-executive director	Acts as a sounding board for the Chair and a trusted intermediary for other directors. Available to discuss any concerns with shareholders that cannot be resolved through the normal channels of communication with the Chair or the executive directors.

CORPORATE GOVERNANCE REPORT continued

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

It is the Board's view that throughout the period commencing on 1 January 2018, the Company has complied in full with the principles of the Code issued in April 2016. The Code can be found on the Financial Reporting Council website at **www.frc.org.uk**.

With the exception of Nicola Hodson, who was appointed as a director on 12 January 2018, Vanessa Simms who was appointed as a director on 19 June 2018, and Andy Skelton who was appointed as a director on 2 January 2019, all of the directors listed on pages 52–53 served throughout the year. Each of those listed remained directors as at the date of the approval of this report. Biographical details of the directors appear on pages 52–53.

TIME COMMITMENT

Directors' other commitments are kept under review to ensure that they have sufficient time to dedicate to our business. Under the terms of their letter of appointment, the Chair is expected to commit between 50 and 70 full days a year to this role. Under the non-executive directors' letters of appointment, each is expected to commit 12 to 15 full days a year. That includes attendance at Board meetings, the AGM, one annual Board strategy away day and at least one site visit per year.

In addition, they are expected to devote appropriate preparation time ahead of each meeting. The time commitment expected in respect of their membership of the Audit, Nomination and Remuneration Committees is an additional three to four full days a year in each case. However, in practice considerably more time is devoted, particularly by the Chairs of the Board committees.

Non-executive directors also spend time with management, to maintain their knowledge of the developing business and to understand the operational challenges being faced.

In January 2019 Phil Cox took on the role of Executive Chair at Kier Group plc on an interim basis during the search for a new CEO at Kier. The Board considered and approved his taking on of this additional interim commitment, and was confident that he would be able to continue to devote the appropriate time to his role as Chair of the Group.

DIRECTORS' INTERESTS, INDEMNITY ARRANGEMENTS AND OTHER SIGNIFICANT AGREEMENTS

Other than a service contract between the executive directors and a Group company, or as noted in the Remuneration Committee report, no director had a material interest at any time during the year in any significant contract with the Company or any of its subsidiary undertakings.

There are no agreements between the Group and its directors providing for compensation for loss of office or employment because of a takeover bid.

The Board has reviewed the independence of each non-executive director. None of the non-executive directors who served during the year had any material business or other relationship with the Group, and there were no other matters that were likely to affect their independence of character and judgement. The Board recognises that in view of the characteristics of independence set out in the UK Corporate Governance Code, length of service is an important factor when considering the independence of non-executive directors and that directors having served for longer than nine years may not be considered independent.

In November 2017, David Lindsell was re-appointed for a fourth time until the 2019 AGM. David is the Chair of the Audit Committee and the Senior Independent Director. The Board considered that David Lindsell's experienced oversight in ensuring careful financial stewardship as Chair of the Audit Committee was crucial during a period of change in the implementation of the new strategy, the development of the new Group CEO into that role, and the selection and appointment of a new Group CFO. To have David continuing in post during this period of transition, and assisting in the recruitment and induction of a new Audit Committee Chair in 2018, was considered to be an integral part of ongoing good financial governance. When David steps down after the 2019 AGM he will have served on the Board for over ten years. The Board is satisfied that David's judgement has remained wholly independent and that he has consistently displayed all of the behaviours expected of our independent non-executive directors.

The Board considers all of the non-executive directors to be independent.

CASE STUDY

The Board's role in the acquisition of ScottishPower generation assets

During 2018, the Board considered the potential acquisition of a portfolio of flexible low carbon and renewable generation assets. Early discussions included a consideration of, among other matters:

- Rationale for the transaction
- Alignment with strategy
- Integration plan
- Key risks
- Key financial considerations

Further preliminary work took place over the following months so that the Board was able to consider the opportunities and risks in greater detail. The Board received advice from internal teams including legal, treasury and finance functions and external advisers including legal, corporate brokers and the corporate sponsor.

Detailed papers to help the Board consider various aspects of the acquisition opportunity were considered including:

- Risk analysis
- Financial projections
- Funding
- Integration
- Effect on the Group's legal requirements
- Terms of the transaction

The effect on the Group's key stakeholders including shareholders, the workforce, customers, the community, external industry and environmental stakeholders was also considered.

A number of Board meetings were held to review the progress of negotiations and approve next steps. Day-to-day consideration of the transaction was delegated to a committee of the Board. In between formal Board meetings, the Chair, CEO and other members of senior management updated the Board on significant developments. Procedures were put in place to deal with any potential leak of market-sensitive information.

On 21 December 2018, shareholders in a General Meeting approved the transaction, which was completed on 31 December 2018.

Highlights of the Board's activities in 2018

POWER GENERATION

- Considered the forthcoming Capacity Market and OCGT bids and approved the level of exit price
- Considered proposals in respect of the repowering programme
- Considered the proposed new operating model
- Reviewed initial tenders for construction of OCGT plants

PELLET PRODUCTION

- Received updates on the biomass optimisation strategy
- Considered the engineering update on biomass handling facilities

FINANCE AND STRATEGY

- Discussion on the final dividend
- Approved the 2019 Business Plan and the Strategic Plan to 2022
- Confirmed support of a return of capital to shareholders in the form of a share buy-back
- Approved the 2017 annual report and accounts
- Approved, in principle, a proposed refinancing
- Reviewed the dividend policy
- Considered the Finance and risk update
- Approved the half-year report and accounts and the interim dividend
- Monitored business performance against the business plan

ENERGY SUPPLY

- Considered the provision of market access to third parties
- Reviewed the projects to develop a new supply platform
- Reviewed the integration of Opus Energy into the Group
- Considered the brand review

HEALTH AND SAFETY

- Received regular updates from the CEO
- Considered the review of the fire at the rail unloading facility and monitored the resulting programme of works
- Considered the health and safety and wellbeing update
- Considered the process safety review

SHAREHOLDERS, STAKEHOLDERS AND GOVERNANCE

- Confirmed support for the Group Communications Strategy
- Considered the Sustainability update
- Modern Slavery Act update considered and revised Modern Slavery Act statement approved
- Considered a review of cyber security
- Considered an update on the progress of the IT strategy
- Considered and approved the Group GDPR Privacy Policy
- Considered an update to gender pay gap reporting
- Considered a framework for the employee voice

ACQUISITION OF SCOTTISHPOWER GENERATION ASSETS

- Initial consideration of proposal including the strategic and financial rationale
- Considered reports on management, due diligence and the risks associated with the transaction and potential mitigation
- Approved detailed terms
- Considered preliminary integration plan
- Considered update to integration plan
- Approved the circular issued to shareholders on 5 December 2018
- Approved updated terms in light of the Capacity Market ruling
- Approved the acquisition financing – both bridge financing and refinancing plan

BOARD ATTENDANCE 2018

The table below shows the number of meetings held and the directors' attendance during 2018.

Director	Date appointed as a director and member of the Board	Scheduled meetings(1)	No. of meetings attended	% of meetings attended
Tim Cobbold	27 September 2010	8	8	100%
Philip Cox	1 January 2015	8	8	100%
Will Gardiner	16 November 2015	8	8	100%
Nicola Hodson(2)	12 January 2018	8	6	75%
Andy Koss	1 January 2016	8	8	100%
David Lindsell	1 December 2008	8	8	100%
David Nussbaum	1 August 2017	8	8	100%
Vanessa Simms	19 June 2018	5	5	100%
Tony Thorne	29 June 2010	8	8	100%

Notes:
(1) The scheduled meetings that each individual was entitled to, and had the opportunity to attend. Additional meetings were held (by telephone) to address matters requiring formal decisions.
(2) Nicola Hodson was unable to attend two meetings as a result of pre-existing commitments. However, she received the meeting papers and provided comments in advance of the meeting in order for her views to be considered.

SUCCESSION PLANNING

Good succession planning contributes to the delivery of the Group's strategy by ensuring the desired mix of skills and experience of Board members now and in the future. In 2019, three of our longest serving non-executive directors will be stepping down following the end of their tenure. In line with existing succession plans, arrangements are already in place to ensure, where appropriate, the smooth and effective transition into positions made vacant by these changes.

David Lindsell will step down after the 2019 AGM and will be succeeded as Audit Committee Chair by Vanessa Simms. David has been mentoring Vanessa as part of a structured induction programme to help with a smooth transition into the role. Tony Thorne will step down in June 2019 and will be succeeded as Chair of the Remuneration Committee by Nicola Hodson from the 2019 AGM. Nicola, who was appointed to the Remuneration Committee on her appointment to the Board in January 2018, has been mentored by Tony Thorne and will have served on the Committee for 15 months when she becomes the Remuneration Committee Chair. Finally, Tim Cobbold's tenure will come to an end in September 2019, having by then completed nine years.

David Nussbaum will be appointed as the Senior Independent Director from the 2019 AGM to succeed David Lindsell.

In addition to the recent appointment of Nicola Hodson and Vanessa Simms, the search for another new non-executive director is underway.

The Board is also committed to recognising and nurturing talent within executive and management levels across the Group to ensure that opportunities are created to develop current and future leaders. Through 2017 we developed a new people strategy which focuses on driving performance and developing talent to deliver the Group's objectives. During 2018 Group-wide practices have been established, including a career development and behaviour framework, focusing on performance and personal development.

DIRECTORS' DEVELOPMENT AND INDUCTION

To assist the Board in undertaking its responsibilities, a programme of training and development is available to all directors. Training needs are assessed as part of the Board evaluation procedure. The Board programme includes regular presentations from management and informal meetings to build understanding of the business and sector.

During the year, Board meetings took place in London, Selby and Northampton and included site tours, informal walkabouts and presentations from local management to give directors deeper understanding of, and insight into, particular issues faced by the business.

During the year directors had access to the advice and services of the Group General Counsel and Company Secretary. Directors may take independent advice at the Company's expense when it is judged necessary in order to discharge their responsibilities effectively. No such independent advice was sought in 2018.

All new directors receive a comprehensive and tailored induction programme, including meetings with key managers, sites visits, and briefings on key operational matters, Board procedures and governance matters. Both Nicola Hodson and Vanessa Simms participated in such inductions during 2018. This included specific elements for assuming the roles respectively of Chair of the Remuneration Committee and Chair of the Audit Committee.

STAKEHOLDER ENGAGEMENT

The feedback from our stakeholder engagement activities is available to the Board through the Executive Committee. This ensures that the interests of all stakeholders are considered, when relevant, in our decision making and is supportive of the Board's duty to promote the success of the Company as set out in Section 172 of the Companies Act 2006. (For further detail and information on stakeholder engagement and communication please refer to pages 32 and 33.)

Understanding the needs of our various stakeholders is essential to our long-term success

Engaging with our shareholders

Communication with shareholders is given a high priority. The Chair is keen to ensure that he maintains an open relationship with the Company's major shareholders, communicates directly with them and offers them the opportunity to meet any other directors. This enables the Board to understand their views on the Group and its governance.

Through the course of the year, the Group Chief Executive Officer, Group Chief Financial Officer and Head of Investor Relations meet with institutional shareholders and sell-side analysts (see opposite). These meetings allow us to discuss the Company's business model, strategy and marketplace, as well as provide an update on performance. Meetings are arranged proactively and on request and often include site visits, which provide shareholders with valuable insight into the Group's operations.

The Group engages Makinson Cowell, part of the KPMG Group, to advise and assist with communications with shareholders and regularly discusses matters with its brokers, Royal Bank of Canada and JP Morgan.

HOW DO WE ENGAGE?

The Annual General Meeting

The AGM is attended by the full Board of directors. Shareholders are encouraged to attend, ask questions and join the directors for informal discussions over coffee.

Details of the resolutions to be proposed at the 2019 AGM can be found in the Notice of AGM at **www.drax.com.** A printed copy of the notice can also be obtained from our registrars, Equiniti, or the Group Company Secretary. Details for both can be found on page 191.

> OUTCOMES

The AGM provides all shareholders with a forum to put questions to the Board of directors, and to vote on important issues.

Shareholder meetings

Through the year the management team are available to meet shareholders and, in addition, following the full and half year results, a structured programme of meetings is arranged to allow management to meet with institutional shareholders and prospective investors.

The Board receives reports of meetings which have taken place with institutional shareholders, together with regular market updates, which give the directors a clear understanding of their views and concerns. The Chair and Senior Independent Director are also available to meet with shareholders, independently of the executive directors, as required.

During 2018 the Chair of the Remuneration Committee, Tony Thorne, consulted with shareholders on the proposed changes to the Remuneration Policy.

> OUTCOMES

This allows the owners of the business to have access to management, for a two-way conversation, to better understand the business, its operation and strategy.

Sell-side analyst engagement

Executive directors engage with sell-side analysts at the full and half year results presentations, and the Head of Investor Relations is in regular dialogue with analysts.

Financial results are communicated to the market twice a year, at the preliminary and interim results, where a presentation is given to sell-side analysts, which is made available to the public through a webcast on the Group's website.

> OUTCOMES

Allows analysts and investors to have up-to-date and accurate information on the business and its strategy so that they can come to an informed view on the Company's performance and prospects.

Engaging with our employees

We recognise how important engaged and motivated employees are to the continued success of the business. That is why we communicate with our employees through various channels.

HOW DO WE ENGAGE?

"Ask Will"

Each week the CEO takes questions from across the Group on a wide range of topics. His responses are shared with the whole workforce.

> OUTCOMES

Allows the CEO to hear the employee "voice" directly, and allows employees to receive direct feedback on their questions.

Employee voice

The Executive Committee and the Board have discussed the best and most effective means of engaging with employees. More direct interface by Board members with employee forums will commence in 2019 and be regularly reviewed to ensure it is effective and meaningful.

> OUTCOMES

Allows the Board to gain greater insight into matters that are most important to employees, engaging directly with employee representatives, and being able to share the Board's views on employee matters and, more broadly, the future of the business.

Beyond Coal

Executive director, Andy Koss, led ongoing engagement with employees in the Power Generation business on the largest transformation in the history of the power station.

> OUTCOMES

Gave employees the opportunity to learn more about future plans and progress being made. The Board attended a Beyond Coal Exhibition to meet employees.

Employee engagement

The Board receives regular updates on employee matters, including engagement scores, wellbeing initiatives, gender pay gap reporting and safety.

> OUTCOMES

Provides a foundation to support richer conversations with employees as the employee voice framework develops.

NOMINATION COMMITTEE REPORT

> We continue our work to ensure that the right leadership is in place to steer the Group effectively."

Philip Cox CBE
Chair

COMMITTEE MEMBERS
Tim Cobbold
Nicola Hodson (appointed 12 January 2018)
David Lindsell
David Nussbaum
Vanessa Simms (appointed 19 June 2018)
Tony Thorne

ATTENDING BY INVITATION
Group Chief Executive Officer
Group People Director

NUMBER OF MEETINGS HELD IN 2018: THREE

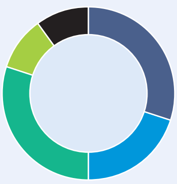
The Group Company Secretary is Secretary to the Committee.

ATTENDANCE IN 2018

Committee member	Date appointed a member	Maximum possible meetings	No. of meetings attended	% of meetings attended
Tim Cobbold	27 September 2010	3	3	100%
Philip Cox	22 April 2015	3	3	100%
Nicola Hodson	12 January 2018	3	2	67%
David Lindsell	1 December 2008	3	3	100%
David Nussbaum	1 August 2017	3	3	100%
Vanessa Simms	19 June 2018	1	1	100%
Tony Thorne	29 June 2010	3	3	100%

Nicola Hodson was unable to attend one meeting due to a pre-existing commitment. However, she received the meeting papers and provided comments in advance of the meeting in order for her views to be considered.

NOMINATION COMMITTEE ALLOCATION OF TIME



- Corporate Governance 30%
- Board and committee composition 20%
- Succession planning and talent 30%
- Board effectiveness 10%
- Other 10%

ROLE OF THE COMMITTEE
The Committee's principal responsibilities are to:
- keep under review the Board's structure, size and composition (including requisite skills, diversity, knowledge and experience);
- conduct the search and selection process for new directors, taking advice from independent search consultants as appropriate; and
- ensure a rigorous succession planning process for the directors and other senior managers, including the identification of candidates from both within and outside the Group.

NOMINATION COMMITTEE ACTIVITIES IN 2018
- Appointed Vanessa Simms as a non-executive director
- Appointed Andy Skelton as Group Chief Financial Officer
- Considered the effectiveness and performance of the Board and its committees
- Reviewed management development and succession planning

I am pleased to present the Nomination Committee Report for the year ended 31 December 2018.

When considering the appointment of new directors the Committee adopts a formal process which considers the skills, knowledge, diversity and experience that support the Company in delivering its strategic goals. This includes providing the Board with an appropriate balance and mix of skills required for both now and in the future.

As Chair of the Committee, I am responsible for overseeing the progress made towards improving diversity in appointments to the Board and supporting an effective succession plan for senior management in a way that is consistent with the long-term strategy of the Group. The Committee will continue to monitor the balance of the Board to ensure sufficient breadth and depth of expertise is available from the existing members, and will recommend further appointments to the Board as appropriate. The Committee also takes an active interest in the quality and development of talent and capabilities below Board level, ensuring that appropriate opportunities are in place to develop high-performing individuals and to build diversity in senior roles across the business.

TERMS OF REFERENCE
The Committee's terms of reference are reviewed annually by the Committee and then by the Board. The terms of reference are available on the Group's website at **www.drax.com/governance**.

DIRECTORATE CHANGES

As detailed in last year's annual report, Will Gardiner was appointed as Group CEO in January 2018 and Den Jones was appointed on an interim basis as CFO.

In conducting our search for a CFO, a thorough and rigorous recruitment process was initiated and overseen by the Committee. Heidrick & Struggles/JCA Group was appointed to assist with the search and ensure a comprehensive search of the external market. Heidrick & Struggles/JCA Group has signed up to the Hampton Alexander voluntary code of conduct on gender diversity and, aside from assisting with recruitment, has no connection with the Group. Due to the complex and technical nature of the Drax business the search was specifically looking for a CFO who would be able to quickly get up to speed and credibly engage with the wide variety of operational activities across the Group as well as play a key role in shaping its future. When assessing the relative importance of different skills, it was felt that core skills of control, reporting, cost management and process understanding were particularly important.

The candidate selection process focused on both technical expertise and experience as well as the behavioural traits important for success at Drax. In particular, the ability to look for the right solution, innovate for a better future, embrace change and lead teams. Psychometric tests were used to further enhance and refine the selection decision.

As we announced in October 2018, Andy Skelton joined the Board as Group CFO in January 2019.

Andy Skelton was chosen for this role due to his experience in building and leading finance teams, and also understanding and optimising processes, both within finance and across businesses. He has strong core financial control and accounting expertise and very good experience of driving business transformation.

Two new non-executive directors also joined the Board in 2018. Firstly, Nicola Hodson, whose appointment was reported in our Annual report and accounts last year, joined in January bringing her experience in technology, business transformation and energy. Nicola will succeed Tony Thorne as Chair of the Remuneration Committee from the 2019 AGM. Secondly, Vanessa Simms who joined in June, has more than 20 years' experience in senior finance roles, bringing a particular focus on implementing strategic change. Vanessa will succeed David Lindsell as Chair of the Audit Committee, when he steps down on the conclusion of this year's AGM.

In considering the selection of candidates for these two new non-executive appointments, the Committee reflected on the attributes, skills and experience necessary for suitable successors to the roles of Audit and Remuneration Committee Chairs. Finally, Tim Cobbold will step down in September 2019, as by that date he will have completed nine years on the Board.

NON-EXECUTIVE DIRECTORS

It is the Board's policy that each non-executive director will be appointed for a term of three years which, subject to the Board being satisfied with the director's performance and commitment, and a resolution to re-elect at the appropriate AGM, may be renewed by mutual agreement. The Board will not normally extend the aggregate period of service of any independent non-executive director beyond nine years, and any proposal made to extend a non-executive director's aggregate period of office beyond six years is subject to rigorous review.

On page 58 we explain the rationale for David Lindsell remaining on the Board until the 2019 AGM, notwithstanding that his term as Non-executive director exceeds nine years.

I would like to thank David Lindsell, Tony Thorne and Tim Cobbold for their very considerable contributions to the Board during a period of significant changes for the business.

BOARD AND COMMITTEE EVALUATION

The Board recognises that it continually needs to monitor and improve its performance. This is achieved through the annual performance evaluation, full induction of new Board members and ongoing Board development activities.

For 2018 it was determined that an internal Board performance evaluation would be most beneficial to the Company. The Chair and the Group Company Secretary coordinated the evaluation ensuring that areas of focus arising from last year in particular were subject to review.

The form of questionnaire was approved by the Chair, and was subsequently completed by all directors. Following completion of the questionnaires, the Chair holds a series of one-to-one meetings with each of the directors to allow him to fully evaluate the performance of the Board, each of its Committees and individual Board members.

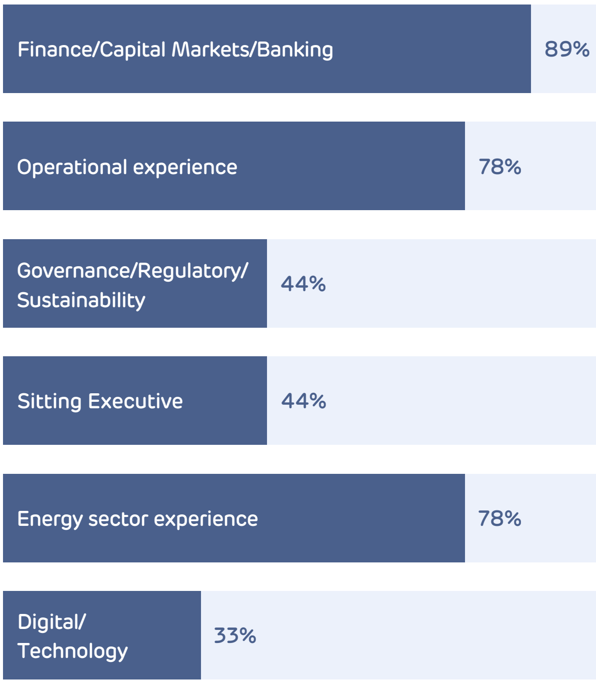
BOARD AND COMMITTEE EVALUATION

POINTS FROM 2017	WHAT WE DID
• Improving diversity, as it was recognised that additional focus is needed to further widen the composition of the Board	• Board diversity has been improved with the appointment of two female NEDs • Updated Board diversity policy to reflect the increased focus • Several initiatives have been put in place to improve diversity across the Group and remain focused on the Hampton Alexander targets
• Further examination of new technologies in the energy sector and their impact on the business	• Full strategy review with the executive team • Discussed the development of battery storage and the implications of widespread use of electric vehicles
• Cyber security risk	• IT strategy paper considered by the Board in May and technology strategy discussion at October Board strategy away days
• Risk appetite – increased discussion on risk and the Board's appetite for risk	• Cyber security reviewed annually and considered at Board meetings following the development of new cyber security plans • Approved the Group security policy • Focus on GDPR and associated improvements on privacy processes across business
• Increased focus on assessing non-financial qualitative and quantitative measures when assessing company performance	• The Board's overall risk appetite was considered at the January Board meeting and is considered on individual projects as they are brought to the Board • Approved new risk management policy
• How can executives use non-executive directors more	• Non-financial measures considered further in terms of the corporate scorecard
• Implementation of the new employee performance and appraisal process to drive forward talent development	• This is moving forward with good examples of wider Non-executive director engagement such as the senior management/leadership event
	• The Board reviewed capability development during its two-day strategy meeting and the Remuneration Committee reviewed the new career development framework and approach to performance management in November

POINTS FROM 2018	WHAT WE PLAN TO DO IN 2019
• Diversity – recent appointments have helped to improve gender diversity but more needs to be done in terms of social and ethnic diversity	• There will be continued focus on diversity in its widest sense in considering new appointments to the Board and at senior management level. Build on recent initiatives to improve diversity in the senior leadership pipeline.
• People leadership and succession planning – this was improving as a result of recent initiatives but there is still work to be done	• The Board will closely monitor the implementation of initiatives to improve people leadership, talent development and succession planning
• Strategy – a well planned and developed strategy review	• Enhance strategy review by wider thinking on skills required for the future
• Cyber security risk remains a key focus	• The Board to continue with its high level of focus on cyber security risk with periodic independent reviews of cyber security
• Safety – improved reporting on process safety which needs to continue and develop	• The Board to continue its increased focus on safety and to monitor the development of a new approach to safety reporting for process safety
• Stakeholders – wider stakeholder engagement an area to work on	• The Board will focus on the issue of stakeholders especially in light of the acquisition of the ScottishPower assets • All major projects to be reviewed for impact on all stakeholders

Skills and knowledge of the board

Each bar shows the number of members on the Board with strong or very strong skills or experience in this area



Board of Directors **page 52**

SUCCESSION PLANNING AND DIVERSITY

The Board recognises that effective succession planning is key to the Company's ability to achieve its strategic objectives. It is also integral to maintaining an effective Board. Selecting and supporting the right individuals is an essential role of the Committee. In November, the Group People Director provided an update to the Committee on the talent succession and development programme with a strong focus on the leadership pipeline. By the end of 2020, the aim is to have 40% of senior leadership roles held by women.

The Board embraces diversity in its broadest sense, believing that a wide range of experience, background, perspective, skills and knowledge is the foundation of a high performing and effective team. As part of our commitment to this, the Board's Diversity Policy was reviewed and updated by the Committee. The review included aspects of new and emerging best practice and regulatory developments in the area of senior management and Board diversity. The policy now covers race, gender, educational and professional background.

As well as bringing important skills and experience from their respective backgrounds, the addition of Nicola Hodson and Vanessa Simms to the Board has improved the Board's gender diversity. This will continue to be a key consideration during 2019 when we seek to recruit a new non-executive director to the board.

SKILLS AND KNOWLEDGE OF THE BOARD

A key responsibility of the Committee is to ensure that the Board maintains a balance of skills, knowledge and experience appropriate to the long-term operation of the business and delivery of the strategy. As in past years, the Nomination Committee has reviewed the composition of the Board and as part of this review the Committee considered whether the:

- Board contains the right mix of skills, experience and diversity;
- Board has an appropriate balance of executive directors and non-executive directors; and
- non-executive directors are able to commit sufficient time to the Company in order to discharge their responsibilities effectively.

Following the review, the Committee was satisfied that the Board continues to have an appropriate mix of skills and experience, both for now and for the future, to operate effectively. All the directors have many years of experience, gained from a broad range of businesses and they collectively bring a range of expertise and knowledge of different business sectors to Board deliberations, which encourages constructive, challenging and innovative discussions.

BOARD INDUCTION

All directors	Executive	Non-executive
Operational review	Visits to key sites	Meetings with shareholders (as appropriate)
Financial review	Build relationship with Chair and Executive Committee Board members and the Senior Leadership Team	Meetings with external advisers (as appropriate)
Strategic overview	Meetings with shareholders	Additional specific training with internal specialists as appropriate to the individual non-executive director's experience and training requirements
Directors' duties and responsibilities		
Governance structure		
Review of previous minutes and meeting papers		
Other key documents including strategy and business plan		
Meetings with other Board members		

INDUCTION OF NEW DIRECTORS

All new directors receive a comprehensive, tailored, induction. During the year, Nicola Hodson and Vanessa Simms were appointed as non-executive directors. It was anticipated that Nicola would be appointed as Remuneration Committee Chair and that Vanessa would be appointed as Audit Committee Chair and as such their induction programmes were tailored accordingly. More details can be found in the table above.

RENEWAL AND RE-ELECTION

If the Board appoints a director, that director must retire at the first AGM following their appointment. That director may, if they so wish, put themselves forward for election. Vanessa Simms and Andy Skelton were appointed by the Board subsequent to the 2018 AGM and therefore they will retire and offer themselves for election by shareholders at the forthcoming AGM.

The Articles provide that one-third of directors shall retire by rotation each year and are eligible for re-election by shareholders at the AGM. In accordance with the Code, the Company will continue its practice to propose all directors for annual re-election. Accordingly, each of Tim Cobbold, Philip Cox, Will Gardiner, Nicola Hodson Andy Koss, David Nussbaum and Tony Thorne will retire at the forthcoming AGM and, being eligible, offer themselves up for re-election. David Lindsell will be standing down on the conclusion of the AGM.

Following the evaluation and review of the Board described above, I concluded that the directors offering themselves for election and re-election continue to demonstrate commitment, management and business expertise in their particular role and continue to perform effectively. The election and re-election respectively of each director is recommended by the Board. Further information of the service contracts for the executive directors and letters of appointment for the non-executive directors are set out in a table on page 97.

The executive directors' service contracts and non-executive directors' letters of appointment are available for inspection by prior arrangement during normal business hours at the Company's registered office. They will also be available for inspection at the venue of the AGM, prior to that meeting, details of which are contained in the Notice of Meeting.

During the year, I held 8 meetings with the non-executive directors in the absence of the executive directors, and, separately, the Senior Independent Director held a meeting with the non-executive directors without me being present, as required by provision A.4.2 of the Code.

This report was reviewed and approved by the Nomination Committee.

Philip Cox CBE
Chair of the Nomination Committee
25 February 2019

AUDIT COMMITTEE REPORT

"The Committee focused on internal controls, risk management and the acquisition of the new generation assets."

David Lindsell
Chair

COMMITTEE MEMBERS

Tim Cobbold
Tony Thorne
Vanessa Simms
(appointed 20 June 2018)
David Nussbaum
Nicola Hodson

The Board is satisfied that the Committee's membership has the recent and relevant financial experience required by the Code.

ATTENDING BY INVITATION

Chair of the Board, Group Chief Executive, Chief Financial Officer, Group Financial Controller, Group Finance Manager, Head of Group Risk and Internal Audit, External auditor, Deloitte LLP.

NUMBER OF MEETINGS HELD IN 2017

Five (four scheduled meetings and one additional meeting to review the acquisition of assets from ScottishPower)

The Group Company Secretary acts as Secretary to the Committee.

ATTENDANCE IN 2018

Committee member	Date appointed a member	Maximum possible meetings	No. of meetings attended	% of meetings attended
Tim Cobbold	27 September 2010	5	5	100
David Nussbaum	1 August 2017	5	5	100
David Lindsell	1 December 2008	5	5	100
Tony Thorne	29 June 2010	5	5	100
Nicola Hodson	12 January 2018	5	4	80
Vanessa Simms	20 June 2018	3	3	100

Nicola Hodson was unable to attend one meeting as a result of pre-existing commitments, however received papers and provided comments in advance of the meeting.

The Chair of the Committee reports the Committee's deliberations to the following Board meeting. The minutes of each Committee meeting are circulated to all members of the Board.

In undertaking its duties, the Committee has access to the services of the Chief Financial Officer and the Group Company Secretary and their resources, as well as access to external professional advice.

ROLE OF THE COMMITTEE

The Committee's role is unchanged. It assists the Board to fulfil its oversight responsibilities by undertaking the following:

- monitoring the integrity of the financial statements and other information provided to shareholders;
- reviewing significant financial reporting issues and judgements contained in the financial statements;
- advising the Board on whether the Committee believes the annual report and accounts are fair, balanced and understandable;
- maintaining an appropriate relationship with the Group's external auditor and review the effectiveness and objectivity of the external audit process;
- reviewing the systems of internal control and risk management;
- monitoring and reviewing the effectiveness of the internal audit function; and
- making recommendations to the Board (to put to shareholders for approval) regarding that appointment of the external auditor.

AUDIT COMMITTEE ACTIVITIES IN 2018

The Audit Committee follows a programme of work designed to ensure that the Group has sound risk management processes, a robust system of internal control and delivers fair and balanced performance reporting.

During the year, the Committee undertook its duties in accordance with an annual work plan, which is agreed in November for the following calendar year. A rolling 12-month plan is also reviewed at each meeting, to enable the consideration of any emerging issues to be scheduled.

The main areas of work undertaken by the Committee at each of its routinely scheduled meetings during 2018 are set out on page 70. In addition, the Committee met in November 2018 to review the contents of the shareholder circular in relation to the acquisition of power generation assets from ScottishPower and recommend that the Board approve the circular.

TERMS OF REFERENCE

The Committee's terms of reference are reviewed annually by the Committee and then by the Board. The terms of reference are available on the Group's website at **www.drax.com/governance**.

Meeting	February	April	July	November
Item under review	• Year-end review of accounting issues and judgements (2017) • Final report from Deloitte LLP (Deloitte) on their audit findings • Consideration of the 2017 annual report, financial statements and preliminary results announcement • Update on effectiveness of risk management and internal control systems and of fraud prevention and detection procedures • Progress of internal audit plan, outstanding actions and recent reports • 2018 internal audit strategy and risk mapping • The effectiveness of the external audit process and of internal audit • The Audit Committee's effectiveness	• Management update on accounting issues and judgements • Operation of the whistleblowing policy and update to policy • The operation and effectiveness of the Ethics and Business Conduct Committee • Update on the internal control environment • Key risks and controls in the B2B Energy Supply business • The external auditor's management letter for the 2017 audit • Engagement letter for the auditor's review of the interim financial statements • Principal IT risks and controls, focusing on required improvements in the operation of day-to-day cyber security technology processes and controls • Progress of the internal audit plan, outstanding actions and recent reports • Senior Accounting Officer reporting to HMRC	• Accounting issues and judgements affecting the 2018 interim financial statements • Consideration of the half-yearly financial report and results announcement • Report from Deloitte on their interim review findings • Update on the internal control environment • Progress of internal audit plan, recent reports and outstanding actions • Independent assurance report on the sustainability of all biomass burned in 2017/2018 • The Audit Committee's terms of reference	• Accounting issues and judgements, new accounting standards and key regulatory focus areas affecting the 2018 financial statements, including changes in the presentation of gains and losses on derivative contracts in the income statement consequent upon the implementation of IFRS 9 • Approval of the external auditor's terms of engagement • Deloitte planning report on the 2018 audit and proposed audit fees • The composition and qualifications of the Group's finance teams • The key risks and controls in Power Generation and Pellet Production • Review of the effectiveness of the Group's internal controls and risk management systems and of its procedures for detecting fraud and preventing bribery • Drax Group tax strategy document for publication • Progress of internal audit plan, outstanding actions and recent reports • The internal audit plan for 2018/19

The Committee receives annual updates on financial risks and controls from each of the Group's primary business units. The Pellet Production, Power Generation and B2B Energy Supply businesses each attended a Committee meeting to discuss the risk management and internal control systems in their businesses.

During the year the Committee met the external auditor twice, and the Head of Group Risk and Internal Audit once in the absence of management. No matters of concern were drawn to the Committee's attention at any of these meetings. The Committee's understanding with both the external and internal auditor is that, if they should at any time become aware of any matters giving them significant concern, they will immediately draw it to the Committee's attention via the Chair of the Committee.

REVIEWING THE EFFECTIVENESS OF THE SYSTEM OF RISK MANAGEMENT AND INTERNAL CONTROLS

The Committee received updates on the Group's internal control environment and feedback on internal audit reports at each meeting. Risk mitigations and progress with previously agreed actions were monitored and progress discussed.

During 2018 two areas of control weakness were identified: cyber security operational controls and payroll at Opus Energy.

Whilst no serious cyber security breaches have occurred and Drax has continued to invest in a range of cyber security solutions, an internal audit review of cyber security controls in Power Generation and Drax Corporate identified some weaknesses in the definition and consistency of operation of operational controls. A comprehensive programme designed to address these weaknesses, including the establishment of a technology governance function, was immediately initiated. The majority of the required improvements had been made by 31 December 2018 and the remaining actions will be completed in 2019.

No serious issues have arisen with the operation of the Opus Energy payroll, but weaknesses in processes and controls were identified. These had resulted in a small number of errors in payments to staff. Management responded by preparing a plan to improve the internal processes which support the payroll, including deploying new staff, and also proposed bringing the entire payroll in-house. This will be implemented during 2019.

The Committee also reviews the outcome of whistleblowing reports and conducts an annual review on behalf of the Board. The Board has access to these reviews and also receives updates when issues arise. No issues arose during the year which required further investigation by the Committee or the Board.

At the November meeting the Committee considered in detail the effectiveness of the Group's internal controls and risk management systems and also its procedures for detection of fraud, based principally on its reviews during the year of key risks and internal controls in the Group's three businesses and its corporate functions, the quarterly updates by management on the control environment, internal audit findings and discussions with the external auditor.

REVIEWING THE 2018 ANNUAL REPORT AND ACCOUNTS

Between the year-end date and the date of the approval of the annual report and accounts, the Committee met in February 2019 principally to review the draft 2018 Annual report and accounts and the external auditor's findings. The Committee reviewed papers prepared by management on accounting issues and judgements affecting the accounts and a report from Deloitte setting out their audit findings.

The Committee also reviewed the underlying process, internal controls, forecasts and relevant assumptions made in preparing the Viability Statement, disclosed on page 42. Having challenged the assumptions made in this process and considered the appropriateness of the three-year period of assessment, the Committee concluded that the process supporting the Viability Statement was robust and that the Statement was fair.

Explanations of the critical accounting judgements, estimates and assumptions are set out in detail throughout the notes to the consolidated financial statements, with a summary on pages 114 to 116. The Committee reviewed these aspects of the financial statements, paying particular attention to those issues that involve the most subjective and complex judgements, namely the valuation of commodity and foreign exchange contracts, the new presentation of certain re-measurements and exceptional items in the consolidated income statement, the measurement of unbilled and deferred revenue in the B2B Energy Supply business. and the accounting for the acquisition of the portfolio of assets from ScottishPower.

Matter	Issue and key judgements	Factors considered and conclusions reached
Valuation of derivative financial instruments	The Group makes extensive use of derivative financial instruments in order to manage key risks facing the business and its balance sheet includes significant assets and liabilities arising from derivatives which are stated at their fair value. The fair values for derivative financial instruments are determined using forward price curves and, where an instrument incorporates an element of optionality, an option pricing model. The inputs to these calculations include assumptions regarding future transactions and market movements, as well as credit risk, and are therefore subjective. The fair value of open derivative contracts, which is in essence the difference between the contract price and the price that could be achieved in the market at 31 December 2018, was £511 million in the case of contracts for which the market value was greater than the contract price, and £151 million in the case of contracts for which the market value was less than the contract price.	The Committee reviewed the Group's derivative position in February, July and November 2018, having regard in particular to the critical judgemental areas described in note 7.2 to the consolidated financial statements. The Committee considered the position as at 31 December 2018 at its meeting in February 2019, when it also reviewed the change in presentation of the consolidated income statement triggered by the implementation of the new accounting standard IFRS 9, as discussed in 'Presentation of certain re-measurements and exceptional items' below. At each meeting, management explained the trends in market prices that underpinned changes in the fair value of the derivative portfolio and highlighted any new types of derivative instrument for the Committee's consideration. The Committee concluded that the fair value calculations had been performed in a reasonable and consistent manner based on quoted market prices as explained in note 7.2 to the consolidated financial statements and that the system of controls in place was fit for purpose. Accordingly, it was concluded that the amounts included in the financial statements were appropriate.

Matter	Issue and key judgements	Factors considered and conclusions reached
Presentation of certain remeasurements and exceptional items	In order to present more clearly what the Group considers to be its underlying business performance, the Group has this year introduced a columnar presentation of its income statement. As well as a column that presents all items of income and expense in accordance with International Financial Reporting Standards (IFRS), Adjusted results that exclude exceptional items and reflect certain re-measurements of derivative financial instruments are reported separately in a different column, with a middle column bridging the other two columns. This is consistent with the practice followed by other major UK power generation companies. The decisions on classification of exceptional items involve judgement as to whether an item is truly exceptional by virtue of its nature, size and/or incidence. The Group's policy is to fix exposures to commodity price movements and changes in foreign exchange rates using derivative contracts (see notes 7.1 and 7.2 to the consolidated financial statements). Where such contracts do not qualify for hedge accounting, unrealised gains and losses on the contracts are credited or charged to income under IFRS. It is the Group's view that such unrealised gains and losses do not reflect the underlying performance of the business because they are economically related to contracted future purchases and sales of commodities. Accordingly, such gains and losses are excluded from Adjusted results until the related contract is recognised as a physical sale or purchase, at which point Adjusted results reflect the commodity sale or purchase (and any associated foreign exchange contract) at the contracted price(s).	For each of the material exceptional items, the Committee considered management's justification for classifying the item as exceptional and concluded that separate disclosure of these items in the income statement was appropriate. The Committee discussed with management the controls applied to ensure that all maturing derivative contracts that qualify for re-measurement are identified and that the cumulative gains and losses on such contracts are correctly calculated, and discussed with the external auditors the work they had carried out to satisfy themselves that the total net IFRS accounting loss reported on such contracts was fairly stated.
Unbilled B2B Energy Supply revenue	The Group's revenue for energy supply includes an estimate of energy supplied between the date of the last meter reading and 31 December 2018. The method of estimating such revenues is complex and judgemental. They are estimated through the billing systems on a customer-by-customer basis, using historical consumption patterns and taking account of current factors such as weather patterns. Further information regarding unbilled revenue is given in note 2.2 to the consolidated financial statements. The method of estimating unbilled revenue is inherently complex and involves judgement. The value of unbilled revenue in the B2B Energy Supply business was £147 million at 31 December 2018.	The Committee reviewed with management the process for and the key assumptions applied in determining the calculation of unbilled receivables, noting that historically, final settlements had been closely in line with the amounts accrued in the consolidated financial statements. The Committee also noted the work done in this area by the external auditors and in particular their observation that more than 90% of the unbilled debt as at 31 December 2018 had been billed by the end of January 2019. The Committee concluded that the process and assumptions applied were appropriate and reasonable.

Matter	Issue and key judgements	Factors considered and conclusions reached
Accounting for the acquisition of the portfolio of assets from ScottishPower	On 31 December 2018 the Group acquired ScottishPower Generation Limited (since re-named Drax Generation Enterprise Limited) for an initial net consideration of £687 million. Business combination accounting requires a fair value exercise to be undertaken to allocate the purchase price to the identifiable assets acquired and the liabilities assumed, with any excess of the consideration over the net of the identifiable assets acquired and the liabilities assumed being recognised as purchased goodwill. Particularly in the case of a capital intensive business such as power generation, fair value assessments require subjective judgements based on a wide range of complex variables.	The Committee reviewed management's report on the fair value exercise, noting that the exercise had been carried out for the Group by a major accounting firm, focusing on the key judgements and estimates including the basis for the purchased goodwill arising, and obtaining explanations from management for any significant variances from the asset valuations prepared for and used by the Board in arriving at the amount of the purchase consideration to be offered to the vendor. The Committee concluded that the assets acquired and liabilities assumed were fairy stated in the consolidated balance sheet on the basis of the fair value exercise and approved the disclosures in note 5.1 to the consolidated financial statements, while noting that the initial accounting for the acquisition was incomplete and the amounts recognised in the consolidated financial statements for the business combination thus had been determined only provisionally.

FAIR, BALANCED AND UNDERSTANDABLE

As a result of its review of the Annual report and accounts, underpinned by its discussions with operating and finance management regarding the Strategic report, and with the Group finance team regarding the financial statements, the Audit Committee advised the Board that, in the Committee's view, the Annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

REVIEW OF AUDIT COMMITTEE EFFECTIVENESS BY MEMBERS

In line with the FRC's Guidance on Audit Committees, the Committee reviewed its own effectiveness. This review was completed using the Board performance evaluation questionnaire referred to on page 65.

The questionnaire included questions on the effectiveness of the Audit Committee in monitoring the integrity of the Group's financial statements, the Group's internal controls and risk management systems, its arrangements and processes to ensure compliance with its ethical standards, and the effectiveness of the internal audit activities and the external audit process. The questionnaire also asked whether the Committee has sufficient expertise, time and access to key staff and information to enable it to discharge its monitoring and oversight role effectively.

The questionnaire results were discussed by the Committee at the February 2018 meeting, which concluded that the composition of its membership, the manner in which it operates and the reviews that it undertakes throughout the year all contribute to the continued effective functioning of the Committee. Members were satisfied that the Committee remained effective.

EXTERNAL AUDITOR EFFECTIVENESS

The Committee reviewed the effectiveness of the external auditor, Deloitte, who have performed the role continuously since the Company's listing in 2005 and were reappointed in 2017 following a tender process. The Committee's assessment was based on inputs obtained in the course of monitoring the integrity of the financial statements and the significant financial reporting issues and judgements underlying the financial statements, and on its direct interactions with the external auditors.

The Committee's principal interactions with the auditors were its discussions of the audit work performed on areas of higher audit risk and the basis for the auditors' conclusions on those areas. These interactions were supplemented by others that enabled them, for example, to gauge the depth of the auditors' understanding of the company's business. The Committee's review focused on the level of experience and expertise of the audit team, their objectivity and professional scepticism, and their preparedness to challenge management in a knowledgeable, informed and constructive manner. The Committee's review also took account of feedback from management on the effectiveness of the audit process.

INDEPENDENCE OF THE EXTERNAL AUDIT

The Group has an Auditor Independence Policy, the provisions of which include:

- seeking confirmation that the auditor is, in its professional judgement, independent of the Group, and obtaining from it an account of all relationships which may affect the firm's independence and the objectivity of the audit partner and staff;
- a requirement to rotate the lead audit partner every five years;
- a policy governing the engagement of the auditor to conduct non-audit work, under which:
  - the auditor may not be engaged to provide certain categories of work, including those where they may be required to audit their own work or make management decisions, or where the auditor would act in an advocacy role for the Group;

- there is a clear approval process for engaging the auditor to conduct other categories of non-audit work, subject to financial limits. Permitted non-audit services for which the fee exceeds £50,000 are required to be approved in advance by the Audit Committee;
- all engagements of the auditor to conduct non-audit work are reported to the next meeting of the Committee; and
- the balance between the fees paid to the external auditor for audit and non-audit work is monitored by the Committee.

The Policy can be found on the Company's website at **www.drax.com**.

The Committee also receives reports from the external auditor on its own processes and procedures, to ensure its independence and objectivity and to ensure compliance with the relevant standards.

The current lead audit partner, James Leigh, has completed the maximum permitted term of five years. The Committee has agreed that he will be replaced by Anthony Matthews, who has previously acted as the audit partner for the Group's B2B Energy Supply Business.

Details of the amounts paid to the external auditor during the year for audit and other services are set out in note 2.3 to the consolidated financial statements on page 128. Deloitte were appointed as reporting accountant for the circular to shareholders in relation to the acquisition of generation assets from ScottishPower, which required them to report on historical financial information relating to Drax and the generation assets concerned. They also performed financial due diligence for the directors and for JP Morgan Cazenove as sponsor in relation to the transaction. The services concerned are in the nature of assurance services and not advisory services but are required by the EU Audit Regulation to be classified as "non-audit services". However, audit firms are permitted to carry out such investment circular reporting engagements for audit clients and this is common practice in the UK as the auditor is able to bring to bear their knowledge of the business and its financial reporting processes, which enables them to perform the work required in a more efficient, and possibly more effective, manner than a firm that does not have such knowledge. Nevertheless, in order to minimise any threat to the integrity, objectivity and independence of the audit team, the financial due diligence work was carried out by a separate team from Deloitte.

No contractual obligations exist that restrict the Group's choice of external auditor.

AUDITOR REAPPOINTMENT

Having considered the effectiveness and independence of the external auditor as described above, the Audit Committee agreed to recommend to the Board that a resolution to reappoint Deloitte LLP as the company's external auditor should be put to shareholders at the AGM in April 2019.

The Group has complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

INTERNAL AUDIT

The Group operates a co-sourced model for its internal audit function. Under this model, the internal team conducts core financial controls reviews. Reviews of specialist technical areas are outsourced to firms with appropriate experience and qualifications.

The Committee reviews and approves the internal audit plan for the year. Its review is designed to ensure that priority is given to the areas of highest risk for the Group and that the audit work focuses on key controls, so as to optimise the level of assurance provided to the Committee and to management

The Committee receives reports at each meeting regarding the internal audit programme and reviews undertaken. Recommendations are made to management for control improvements as appropriate. Topics dealt with by internal audit reports reviewed by the Committee during 2018 included:

- Property, plant and equipment recognition, existence and controls
- Revenue recognition
- Business plan modelling, governance and monitoring
- ROC and CfD claims
- Corporate crime risk management and compliance framework
- Cyber security
- GDPR readiness
- Derivatives valuation and accounting treatment
- Off-site biomass stocks controls
- Commodity hedging in B2B Energy Supply
- Market regulation compliance
- Opus payroll
- IT project management
- Health and Safety
- Pellet Production financial controls and procurement

In addition, at each of its scheduled meetings the Committee received reports detailing progress with implementing recommendations previously raised by internal audit and is satisfied that management has taken appropriate steps to implement the recommendations raised.

The Chair of the Committee, independent of management, maintains regular and direct contact with both the internal and external auditor, allowing open dialogue and feedback.

The Committee has considered the effectiveness of internal audit, based on the quality of its plan and the information provided in it its reporting, and is satisfied that the co-sourcing model described above remains appropriate for the Group and that on this basis the quality, experience and expertise of the function is appropriate for the business.

This report was reviewed and approved by the Audit Committee.

David Lindsell
Chair of the Audit Committee
25 February 2019

REMUNERATION COMMITTEE REPORT

"Management had a successful year, both in terms of business results and advancing the Group's strategy."

Tony Thorne
Chair

COMMITTEE MEMBERS
Tim Cobbold
Philip Cox
David Lindsell
David Nussbaum
Nicola Hodson (appointed 12 January 2018)
Vanessa Simms (appointed 19 June 2018)

ATTENDING BY INVITATION
Group Chief Executive Officer
Group People Director
External remuneration advisers

NUMBER OF MEETINGS HELD IN 2018: 5

The Group Company Secretary is Secretary to the Committee.

This Directors' Remuneration Report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended (the Regulations) and the provisions of the Code.

ATTENDANCE IN 2018

Committee member	Date appointed a member	Maximum possible meetings	No. of meetings attended	% of meetings attended
Tim Cobbold	27 September 2010	5	5	100
Philip Cox	22 April 2015	5	5	100
Nicola Hodson	12 January 2018	5	3	60
David Lindsell	1 December 2008	5	5	100
David Nussbaum	1 August 2017	5	5	100
Vanessa Simms	19 June 2018	3	3	100
Tony Thorne	29 June 2010	5	5	100

Nicola Hodson was unable to attend two meetings as a result of pre-existing commitments. However she received the meeting papers and fed back comments in advance of the meeting.

TERMS OF REFERENCE
The Committee's terms of reference are reviewed regularly by the Committee and then by the Board. The terms of reference are available on the Group's website at **www.drax.com/governance**.

ROLE OF THE COMMITTEE
The Committee's principal responsibilities are to:
- keep under review the Remuneration Policy as last approved by shareholders in April 2018;
- recommend to the Board the remuneration strategy and framework for the executive directors and members of the Executive Committee;
- determine, within that framework, the individual remuneration packages for the executive directors and members of the Executive Committee;
- approve the design of annual and long-term incentive arrangements for executive directors and members of the Executive Committee, including agreeing the annual targets and payments under such arrangements;
- determine and agree the general terms and conditions of service and the specific terms for any individual within the Committee's remit, either on recruitment or on termination;
- determine the policy for, and scope of, executive pension arrangements; and
- oversee any major changes in employee benefit structures throughout the Group and review remuneration trends across the Group.

REMUNERATION COMMITTEE ACTIVITIES IN 2018
Considered and approved the:
- annual report of the Committee on remuneration for 2017;
- remuneration of executive directors and members of the Executive Committee;
- amendments to the termination provisions applying to Dorothy Thompson, reducing payments made during 2018;
- remuneration terms for the incoming CFO.

Reviewed:
- the salary increases and aggregate bonuses paid in the three businesses and corporate functions;
- the design and progress in implementation of the new Group-wide employee remuneration policies being implemented by management with due regard for coherence with the remuneration of the executive directors;
- the salaries and bonuses for senior staff (below the Executive Committee);
- the commencement of the comparison of the Group's Remuneration policy with the new Corporate Governance Code.

ANNUAL STATEMENT TO SHAREHOLDERS

Dear shareholders

This report reviews the key matters considered by the Remuneration Committee in the past year and the matters we expect to consider in the future. With two clarifications to address shareholders' concerns, highlighted below, the Committee has operated in line with the revised 2017-2019 Remuneration Policy, which was approved by shareholders, at the April 2018 AGM.

I leave the Board in June 2019, having served nine years as a non-executive director, six as Chair of the Remuneration Committee. I am delighted to say that Nicola Hodson will replace me as Chair. During 2019 Nicola will lead a full review of the Remuneration Policy, with the results of this review incorporated into a new policy which will be compliant with the new Corporate Governance Code, for consideration by shareholders at the 2020 AGM.

REVIEW OF 2018

Management had a successful year, both in terms of business results and advancing the Group's strategy. This success has been reflected in the Group's share price which was up by over 30% over the year. Our strategic objectives are reflected in our Group Scorecard which drives performance across all our employees and are taken into account in determining both the short-term and long-term remuneration outcomes for the executive directors. In terms of performance against our key objectives I am pleased to note the following highlights:

Adjusted EBITDA at £250 million increased by 9% compared to the prior year, with the Group benefiting from good availability in the Power Generation business, better electricity prices and a substantial uplift in output in Pellet Production. In B2B Energy Supply margin grew, and market share increased by 1%, but the business faced a challenging market for customers and higher than expected bad debt provisioning. A significant step in the acceleration of our strategy was the December 2018 acquisition of ScottishPower's generation assets, but there were also important strategic moves in the conversion of Unit 4 to biomass and bringing the LaSalle pellet plant on stream, ahead of schedule.

Management continued to extend our capabilities in the utilisation of biomass fuel and the sustainability of alternative low carbon energy sources. Drax's own programme has been reinforced by the sustainability criteria set out in the 2018 European Union Directive on biomass. A third-party audit designed to test the efficacy of Drax's reporting of biomass sustainability data enabled us to demonstrate the veracity of our own analysis of biomass sustainability as a genuine alternative to traditional energy sources. This is important, as the data is crucial for the payments to be made under the ROC and CfD regimes.

Safety was generally good throughout the Group, with an improvement in the Total Recordable Injury Rate to 0.22 (2017: 0.27).

It was note-worthy the degree to which the executive directors involved themselves in the process improvements and determination of additional investment to reduce the chances of a repeat of the explosion experienced on the biomass rail unloading facilities at the end of 2017.

The Group continues to be committed to paying a competitive and fair salary and benefits package that is consistent with our employees' roles and the external market. To provide the basis for a common approach to valuing roles and thus setting salary and benefits across the Group, management carried out a Group-wide job evaluation and external benchmarking exercise in 2017. In addition, employee feedback has been sought on employee benefits provisions and, relevant changes to this provision will be implemented during 2019. The Gender Pay Gap report demonstrated, consistent with the industry, that there are significantly fewer women at senior level. It is recognised that this needs to change and our aim is to have 40% of the senior roles filled by women by the end of 2020 (27% as at 31 December 2018).

ANNUAL ASSESSMENT OF PERFORMANCE IN 2018

The Committee determines the remuneration of the executive directors and members of the Executive Committee against the strategic objectives and priorities of the Group. Principally this is done through an assessment of performance against the targets set in the Group Scorecard, with the Remuneration Committee using its discretion to adjust the result where the numeric outcome does not reflect properly Group or individual performance. Executive pay is therefore closely aligned to business performance with a high proportion of total remuneration delivered through variable pay, rewarding achievement of short-term and long-term targets. In 2018 changes to the Remuneration Policy were approved by shareholders at the 2018 AGM, which included removing the personal element in the determination of executive director bonuses. This fully aligns the approach to bonus across all levels of the Group with the executive directors and members of the Executive Committee earning bonus only where this is merited by the Group's performance against pre-determined metrics set by the Committee.

There is a detailed review of performance against the Scorecard on pages 92 and 93. Components within the Scorecard can be scored between 0 and 2, a score of 1 representing on-target performance. Mindful of the overall objectives of the Group and taking account where considered appropriate of the representations of the executive directors, the Committee sets stretching targets at the beginning of the year. During the year there are two formal reviews giving the Committee the opportunity to discuss with and, challenge management on the progress made and likely Scorecard outcomes.

The Committee determines the final Scorecard result in February of the following year and reports to Shareholders on the outcome in the annual report for the year in which the bonus is paid. In 2018 there were no changes to the targets within the year. For the financial year 2018, the Committee determined the overall performance at 1.05 which was marginally above target performance. The Committee assessed that this fairly reflected the Group's performance and that there was no need to apply discretion to the outcome of the Scorecard.

The above score results in annual bonuses of 53% of the maximum being paid to executive directors. The Committee believes that this bonus outcome fairly reflects the performance of each of the executive directors. Further detail on this outcome is set out on page 94.

The above score is applied to both the annual bonus and the Long-Term Incentive Plan (LTIP). Details of the outcomes are set out on page 94.

LONG-TERM ASSESSMENT OF PERFORMANCE

Under the current remuneration policy the Long-Term Incentive Plan (LTIP) is delivered through a Performance Share Plan (PSP) in respect of which the first grants were made in 2017. However, for vestings which will take effect in 2018, the relevant award to test is the share award granted in 2016, made under the 2014-2016 Remuneration Policy which operated a Bonus Matching Plan (BMP).

Share awards made in 2016 under the BMP were tested at the end of 2018 through two measures: Total Shareholder Return (TSR) accounted for up to 50%, and the three-year average of the Group Scorecard, which also accounted for up to 50%.

The Company's TSR over the period was between the median and upper quartile of the comparator group, leading to 89.5% vesting of the 50% related to relative TSR. The average Corporate Scorecard outcome over the same period was 1.06 leading to 25.76% of vesting. By combining the above vesting percentages, it creates an overall vesting of 57.63% of the 2016 share awards.

The Committee determined that the vesting outcome was consistent with the Group's and executive directors' performance and did not exercise discretion in determining the final outcome for the 2016 share awards.

CEO TOTAL REMUNERATION

At £1.9 million Will Gardiner's 2018 total remuneration is above that of his predecessor's 2017 total remuneration of £1.2 million. Will's base pay and bonus earned are both lower than his predecessor's while the earnings under the BMP matching award, made in 2016 following Will's recruitment, are higher, primarily reflecting better relative (and absolute) share price performance. Based on the financial performance of the Group in the year, Will's contribution to the performance of the Group over the period since he joined and the TSR and Scorecard performance, the Committee has determined that the vesting of the award is appropriate. Further details on the vested shares is shown on page 94.

BASE PAY INCREASES

Will Gardiner was promoted from CFO to CEO effective 1 January 2018, with an appropriate uplift in pay from £400,000 to £530,000. No separate uplift was applied to reflect the salary increases applied to other executive directors or the wider workforce. Prior to her departure, Will's predecessor was paid a salary of £588,318. There was an interim CFO in place for 2018 (not appointed as a statutory director).

Drax Power CEO Andy Koss's salary was reviewed and he received an increase of 3.8%, effective from 1 April 2018, this increase being aligned with the wider workforce.

For the 2019 pay review, where an increase has been applied for executive directors, increases will be in line with those applied to the wider Group workforce and will take effect in April 2019.

SHAREHOLDER ENGAGEMENT

During 2018 we engaged with each of the largest 12 shareholders plus four proxy agencies, with an explanation of the proposed revisions to the 2017-19 policy. There were follow ups with a number of these and good discussions around not only the proposed changes but also their feedback on specific aspects of the policy. These discussions will be used in shaping the 2020-2022 policy, which will go out for consultation with the major shareholders, prior to it being finalised. Additionally, there were a number of discussions with the proxy agencies on the 2017 remuneration report, specifically in regard to the termination arrangements for the previous CEO. Again, these discussions provided valuable feedback.

Including abstentions, the level of shareholder support at the 2018 AGM was 93% for the revised policy and 92% for the remuneration report. This was a significant and pleasing improvement on the previous policy at the 2017 AGM where the level of support was 77.03%.

APPLICATION OF POLICY

During the year we applied the revised 2017-19 executive remuneration policy that was approved by shareholders in 2018 at the AGM, subject to two amendments:

Firstly, we amended the pensions provision for executive directors to allow the employer's contribution to be 'up to 20%' as opposed to the existing straight 20%. Consistent with this revision, the Committee determined that the contribution to the pension for Andy Skelton at the time of his appointment as CFO would be 16%, which is the same level paid to members of the Executive Committee and other senior staff.

Secondly, in respect of the termination of an executive director, for whatever reason, we have removed any obligation on the Committee to consider the departing executive for an annual bonus for any unworked period of notice. The removal of this obligation was achieved through each executive director agreeing to vary long standing contractual terms. As previously agreed with shareholders there is now no such obligation in the executive directors' contracts of employment so the Committee saw it appropriate to clarify the policy and wishes to thank the executive directors for their agreement.

Feedback from shareholders, emerging best practice and Committee judgement is reflected in the outcomes to the following areas addressed in the year:

(i) treatment of the outgoing Group CEO, Dorothy Thompson, taking into account the agreed termination arrangements, the remuneration policy, and her service agreement;
(ii) remuneration package for the incoming Group CFO, balancing the need to remunerate a high-quality individual competitively with the objective to stop the ratcheting up of remuneration; and
(iii) pay outcomes for the year in the context of performance achieved.

In addition to the above, the Committee reviewed the progress made across the Group in implementing the changes made to performance management and the ongoing work with regards to benefits alignment across the UK businesses. It also approved the new approach to remuneration governance to be put in place for 2019.

UPDATE ON TERMINATION ARRANGEMENTS FOR PREVIOUS CEO

As noted in the 2017 Remuneration Report (page 84), we announced in September 2017 that Dorothy Thompson had given notice of her intention to stand down as Group CEO and to leave the Drax Group. It was agreed that she would leave on 31 December 2017 prior to the completion of her 12-month notice period.

Details of related remuneration were included in the 2017 report and, as part of this, it was noted that Dorothy was entitled to salary, pension and other benefits for the unworked period of notice from January 2018 to September 2018. Phased payments in respect of this unworked notice were made in March 2018, June 2018 and, the final payment was made in September 2018. Considering Dorothy's commencement of alternative employment during 2018, the final payment for unworked notice was reduced by the amount she earned in her new appointment which took effect during her notice period.

In addition, the termination arrangements for Dorothy meant she was eligible to be considered for a bonus for the unworked period of her notice, this being January to September 2018. This reflected the terms set in connection with Dorothy standing down and mindful of the terms of her prevailing service agreement. Following Dorothy being appointed to a significant external role, the Committee determined that she had forfeited the right to be considered for a bonus. Therefore, no bonus for 2018 will be paid to Dorothy.

These adjustments were made in line with the terms of her service agreement and verified by external advisers.

APPOINTMENT OF NEW CHIEF FINANCIAL OFFICER

Andy Skelton was appointed Group CFO effective 2 January 2019, with a salary of £355,000, an annual on-target bonus potential of 70% of salary (maximum 140%) and a potential award of shares under the Performance Share Plan of 175% of salary. Consistent with the Group-wide pay review process and, as a result of his start date, Andy's salary will not be reviewed again until April 2020. Andy will receive cash in lieu of pension, at 16% of salary. This is below the level of 20% for the other executive directors but in line with members of the Executive Committee and other senior staff. The lower pension contribution as compared to the other executive directors, reflects general shareholder concerns over executive pension contributions and the Committee's aim to lower fixed remuneration, where appropriate. No additional provisions or buy outs, beyond the package detailed above, have been put in place as part of Andy's remuneration. The grant of shares to Andy under the PSP is expected to be made in the period following announcement of the results of the 2018 financial year.

COMPARISON WITH DRAX REMUNERATION POLICY AND THE NEW CORPORATE GOVERNANCE CODE (CODE)

The existing Drax Remuneration Policy is considered to be broadly compliant with the new Code on Corporate Governance although we expect, during 2019, to implement further changes to practices to enable us to comply with the Code. We will of course report on this within the annual report for 2019. The 2019 review will also consider the Terms of Reference of the Committee. Highlighted below are certain matters which are under review.

Remuneration Committee Remit and Employee Voice: The Committee sets the remuneration of the executive directors and the next level, being the members of the Executive Committee. Periodically or when there is a change of personnel at senior level, the Committee will externally benchmark the salaries against an agreed comparator group of companies. Salary increases for executive directors and Executive Committee members are made only after the Committee has reviewed increases for the wider workforce.

Annually the Committee reviews the individual salaries, bonuses and LTIP awards to other senior managers across the Group below the Executive Committee, comprising approximately 20 persons. It also reviews the trends in salaries and bonuses each year, including the average salary increase and the range of increase for the workforce, within the three businesses units and the corporate office.

In 2018 the Group People Director reported twice to the Committee to update on progress with regard to the impact on the workforce of a number of ongoing Group-wide remuneration initiatives. Detailed information was shared with the Committee which had the opportunity to raise questions and challenge the approach. Topics covered included, but were not limited to, employee benefits provision, remuneration governance, updates to the implementation of changes made to employee bonus arrangements, gender pay gap reporting and, annual outcomes for employee pay and bonus reviews. The Committee was also updated on the implementation of the previously agreed approach to performance management, which supported cultural change across the Group. Information provided to the Committee included the results of employee surveys.

There are a number of existing channels designed to capture the views of the workforce on a wide range of issues including remuneration. Feedback from these is included in the presentations by the Group People Director. Nevertheless, as part of the 2019 review, the Committee will consider whether these existing channels are enough to make sure that employees' views are sufficiently understood by the Committee to inform its decisions or whether there is a need to reinforce the existing structures. The Committee believes that its approach to executive remuneration does align with the wider company pay policies but, in the 2019 review, it will need to consider how best to explain this to the wider workforce.

LTIP vesting period and post-termination shareholding requirement: The structure of the Group's LTIP (the Performance Share Plan) with a three-year performance period and a further two years post-vesting holding period meets the criteria specified by the Code. It also applies to leavers as seen in the termination arrangements for the previous CEO.

The current share ownership guideline is 200% of salary in Drax shares to be accumulated over five years although we recognise that some of our shareholders would like to see a higher requirement. It is worth noting that Will Gardiner made a substantial purchase of shares in 2018 to further align his interests with those of shareholders.

The 2019 review will also develop a policy around how the share ownership guideline will apply post termination and the processes required to implement this.

Pensions: There are a wide range of pension arrangements across the Group including both Defined Benefit and Defined Contribution plans.

Executive directors' remuneration has historically included a 20% company contribution, either as a contribution to pension or cash in lieu of same, with members of the Executive Committee and senior managers (not in the Defined Benefit scheme) eligible for up to 16%. As mentioned on page 77, we have made changes to this element of the Policy and the incoming Group CFO's remuneration package includes a company contribution of 16% which reflects the broader intent to align with the updated Code.

The pension arrangements for executive directors will form a part of the 2019 remuneration policy review.

NEW REPORTING REQUIREMENTS

CEO pay ratios: We recognise the requirement for UK quoted companies, with more than 250 employees, to publish the pay ratio between their CEO and the average UK employee for 2019, i.e. in 2020. Given that the review of UK employee benefits, which will impact significantly on the reporting values, will only be finalised in 2019, the Committee decided to continue with the existing format (see page 81) for the 2018 reporting year. Therefore, the first report from the Drax Group, under this requirement, will be made as part of the 2019 Annual Report.

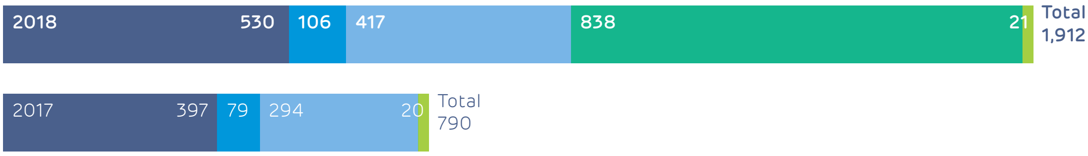
SUMMARY

Along with the other members of the Committee, I am satisfied that the 2018 remuneration outcomes for the executive directors fairly reflect the corporate performance, provide a fair and consistent approach to remuneration across the Group, and remain in shareholders' interests. The planned review, in 2019, of the current remuneration policy will allow the provisions of the revised Code to be incorporated whilst also taking into account the feedback received from shareholders and other stakeholders.

Remuneration at a glance

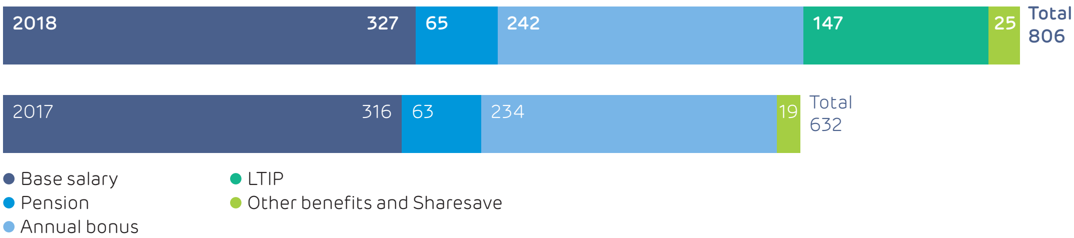
Below is a top line summary of the remuneration earned by each of our executive directors during 2018. This shows the alignment between our remuneration framework, the Company's performance and how the payments to directors in 2018 link to this.

WILL GARDINER (GROUP CEO) £000s



Will was Group CFO during 2017 and this is reflected in the remuneration summary noted above. Will commenced as Group CEO on 1 January 2018.

ANDY KOSS (CHIEF EXECUTIVE, DRAX POWER) £000s



- Bonus is the total value of the annual bonus payable in respect of performance in the relevant year, including the cash bonus and the value of bonus deferred which is paid in shares after three years subject only to continued service.
- The performance conditions for the BMP Matching Awards awarded in March 2016 and due to vest in March 2019 were 50% Relative TSR and 50% Group Scorecard.

BONUS EARNED FOR 2018

The resulting bonus outcomes as a percentage of base salary were:

Bonus earned for Group CEO

Target bonus 75% X Group score 1.05

- Group CEO 79% of salary out of a maximum of 150% salary

Bonus earned for other executive directors

Target bonus 70% X Group score 1.05

- Executive directors 74% of salary out of a maximum of 140% salary

BONUS EARNED FOR 2018

The table below sets out the bonuses earned and the split between cash and deferred elements

Executive director	2018 bonus (as % base salary)	Bonus earned £000	Of which paid in cash (65% of bonus) £000	Of which deferred into shares (35% of bonus) £000
Will Gardiner, Group CEO	79%	417	271	146
Andy Koss, CEO, Generation	74%	242	158	84

ANNUAL BONUS INCENTIVE OUTCOMES FOR 2018

Area	Weighting	Score/ Outcome
Financial (Group/Business Units)	62.5%	0.68
Operations	32.5%	0.33
Strategy (Development/Implementation)	5%	0.04

• Overall "Group score" (maximum 2)	1.05
• Bonus outcome as % of maximum	53%
• Range of bonus outcomes as % of salary	74%-79%

LONG-TERM INCENTIVE PLAN (LTIP)

For BMP awards granted in March 2016, vesting was conditional upon two performance measures with up to 50% of shares vesting subject to TSR performance and up to 50% of shares vesting subject to Group Scorecard performance as below:

Total shareholder return TSR (50%)	Company Scorecard (50%)
TSR performance over three years relative to FTSE 51–150 as follows: • Below median = 0% vesting • At median = 15% vesting (threshold) • Upper quartile = 100% vesting	Group Scorecard performance averaged over the three-year performance period as follows (capped at 1.5): • Score <1 = 0% vesting • Score 1 = 15% vesting (threshold score) • Score 1.5 = 100% vesting

The outturn for the vesting of awards in 2019 is:

BMP	Weighting	Score/Outcome	Vesting outcome	Overall vesting
2016 scorecard	16.6%	1.30		
2017 scorecard	16.6%	0.84		
2018 scorecard	16.6%	1.05		
Average scorecard (maximum 1.5)	50%	1.06	25.76%	12.88%
Relative TSR performance	50%	Rank of 26 out of 90	89.50%	44.75%
BMP outcome as a % of maximum				**57.63%**

The Committee considered the circumstances surrounding the outturn for 2019 and following discussion chose not to exercise discretion.

PAY RATIOS

As noted on page 79, the first reporting of values under the new CEO pay ratio reporting requirements will be made in the remuneration report for 2019. The ratio included here shows the ratio of pensionable pay between the executive directors and the wider UK workforce. The equivalent ratio between the CEO and the wider UK workforce is 13.4:1.

In addition, following the initial submission of gender pay gap reports, in respect of 2017, the 2018 gender pay gap data will be submitted and published in line with the mandated deadline. As with the 2017 reports, the submissions will re-emphasise the Group's commitment to significantly reducing the currently identified gender pay gaps.

2018

10.9 : 1

2017

12.8 : 1

Directors' Remuneration Policy

The current remuneration policy was effective from 25 April 2018. Normally it would be binding on the Group for three years but, as detailed in our 2017 Remuneration Report, the Committee intends to review the policy in 2019 and incorporate the results of this review in a new policy to be presented to shareholders at the 2020 AGM. It is intended to undertake consultation with shareholders in the summer of 2019.

The 2017-19 Remuneration Policy was revised in 2017 and, voted on last year when we received high levels of shareholder support. The principal change from that of the previous policy was to remove the personal element in calculating the executive directors annual bonus, thereby ensuring alignment with the changes being made across the wider workforce. The policy will be reviewed to ensure that it remains fit for purpose at Drax and is consistent with the new Corporate Governance Code and investor sentiment in 2019 with the results of this review incorporated into a new three-year remuneration policy to be presented to shareholders at the 2020 AGM.

In the meantime and, as outlined in the Chair's letter, the current executive directors no longer have a clause in their contracts requiring the Committee to consider whether to pay a bonus pertaining to any unworked notice for the financial year in which their employment is terminated. Although this change has already taken effect, the revised policy to be put to shareholders at the 2020 AGM will also incorporate this change.

The core principles of the current remuneration policy are set out below:

- making sure that executive remuneration is linked strongly to performance and the achievement of strategic objectives;
- ensuring transparency in executive pay reporting through simplification in design and appropriate reporting;
- securing and retaining top talent and incentivising strong performance;
- maintaining flexibility, to recognise the uncertain business environment, whilst ensuring that remuneration outcomes are aligned to shareholder interests; and
- bonuses earned solely for the delivery of stretching corporate and divisional related financial, strategic and operational targets, as measured through the Group Scorecard.

The Committee retains the overall discretion to adjust the bonus if the Group Scorecard outcome is not reflective of corporate or individual performance in the year.

The following is an overview of our remuneration framework under the policy.

KEY COMPONENTS OF REMUNERATION

The remuneration policy for executive directors has been designed to support the delivery of strong business performance and the creation of shareholder value. We set out below the key components of the remuneration policy for executive directors, and in the notes following the table we comment on differences between the policy and the remuneration of employees generally.

BASE SALARY

Base salary is set in order to attract, reward and retain the right calibre of executive to deliver the leadership and management needed to execute the Group's vision and Business Plan.

PRACTICAL OPERATION

Base salary reflects the role, the executive's skills and experience, and market level. It is paid in 12 monthly instalments.

To determine the market level, the Committee reviews remuneration data on executive positions at companies which the Committee considers to be appropriate comparators.

The comparator companies are selected, with advice from the Committee's remuneration advisers, taking into account factors such as, but not limited to, sector, size, and international presence.

On appointment, an executive director's base salary is set at the market level, or below if the executive is not fully experienced at this level.

Where base salary on appointment is below market level to reflect experience, it will be increased over time to align with the market level, subject to performance.

Base salaries of all executive directors are generally reviewed once each year, with increases applying from April. Reviews cover individual performance, experience, development in the role and market comparisons.

MAXIMUM POTENTIAL VALUE

The base salaries of executive directors in post at the start of the policy period, and who remain in the same role throughout the policy period, will not usually be increased by a higher percentage than the average annual percentage increase in salaries of all other Group employees.

Exceptions to this, subject to performance and development, are where:

(i) An executive director has been appointed at below market level to reflect experience. Under this scenario, increases will be capped at 5% above the average annual percentage increase in salaries of all other Group employees.

(ii) An executive director has been promoted internally and their salary is below market level. Under this scenario, increases will not be capped and the Committee can increase base salary to the market level within an appropriate timeframe.

PERFORMANCE MEASURES

No performance measures apply.

ANNUAL BONUS

The award of annual bonus is linked directly to achieving the annual Business Plan targets.

The aim of the deferred portion of annual bonus is to further align executives to shareholders' interests, by linking share-based reward to long-term sustainable performance.

Practical operation

65% of annual bonus earned is paid in cash, normally three months after the end of the financial year to which it relates.

35% of annual bonus earned is deferred in nil cost awards over shares under the Deferred Share Plan (DSP), which vest after three years subject to continued employment or "good leaver" termination provisions.

The DSP was introduced in 2017, as a vehicle for deferring the relevant proportion of annual bonus in shares.

Annual bonus earned (subject to the maximum opportunity) is:

Target bonus x Group score.

Target bonus is 50% of maximum.

Score ranges from zero to 2.0.

Each measure in the Group scorecard is assigned a weighting and three performance levels (low, target and stretch). The score is zero if performance is below the low target, one if performance is at target and two for stretch performance.

Dividends in respect of the deferred shares are reinvested in additional shares, which vest when the deferred shares vest.

In certain circumstances, the Committee can apply clawback to any annual bonus awards, as set out in the notes to the policy table.

Summary scorecard and performance results are published in the annual report on remuneration.

The Committee will review the formulaic outcome of the annual bonus and has the discretion to amend the final outcome to make sure that bonus payments reflect overall performance. The use of such discretion will be explained fully in the relevant annual report on remuneration.

Maximum potential value

Role	Maximum bonus potential (% of base salary)
Chief Executive	150%
Other executive directors	140%

There is no payment for below threshold performance.

Performance measures

Group score is based on performance, against the Group Scorecard, of strategic and Business Plan targets set, each year, by the Committee, in conjunction with the Board. Performance measures include financial, operational and strategic objectives. Typically, across the Group and Business Units, around 40% of the Scorecard is based on financial objectives, 30–40% on strategic goals with the balance on operational issues. The Committee has the discretion to vary the weightings from year to year.

The Scorecard is amended each year, in line with business strategy and objectives.

In exceptional circumstances such that the Committee believes the original measures and/or targets are no longer appropriate, the Committee has discretion to amend performance measures and targets during the year.

Directors' Remuneration Policy continued

DRAX 2017 PERFORMANCE SHARE PLAN (PSP)

The PSP is the Company's long-term incentive plan implemented following shareholder approval at the 2017 AGM. It replaces the legacy BMP and links long-term share-based incentives to TSR and to the achievement of Business Plan strategic targets.

Practical operation

The PSP was approved by shareholders at the 2017 AGM.

Under the PSP, executive directors receive an annual grant of nil cost conditional awards over shares.

Shares vest on the third anniversary of the grant, subject to continued service or "good leaver" termination provisions, and the achievement of performance conditions over a three-year period determined by the Committee. Vested awards are subject to a further holding period of two years.

Dividends or dividend equivalents (which may assume notional reinvestment) are paid on PSP awards.

The Committee will include an override provision in each grant under the PSP. This will give the Committee discretion to determine that no vesting shall occur, or that vesting shall be reduced, if there are circumstances (relating to the Company's overall performance or otherwise) which make vesting when calculated by reference to the performance conditions alone inappropriate.

In certain circumstances, the Committee can apply malus or clawback to unvested/vested awards, as set out in the notes to the policy table.

The Committee reserves discretion to:

(i) amend the performance conditions/targets attached to outstanding awards granted under this policy, in the event of a major corporate event or significant change in economic circumstances, or a change in accounting standards having a material impact on outcomes; and

(ii) adjust the vesting of PSP awards and/or the number of shares underlying unvested PSP awards, on the occurrence of a corporate event or other reorganisation.

In the event of a change of control, the treatment of long-term incentives will be determined in accordance with the relevant plan rules.

Maximum potential value

The maximum annual grant is 175% of base salary.

Performance measures

There are two performance measures which apply to PSP awards, as follows:

(i) TSR performance over three years relative to FTSE 350 comparator group (50% of award), vesting as follows:

Below Median = 0%
At Median = 25%
Upper Quartile = 100%

(ii) Average corporate scorecard (as described in the annual bonus) over three financial years (50% of award), vesting as follows:

Average Score 0.75 = 0%
Average Score 1 = 50%
Average Score 1.5 = 100%

While each annual corporate score can range from zero to 2.0, the three-year average corporate score is capped at 1.5. For illustration:

Year 1 Score 1.8
Year 2 Score 0.9
Year 3 Score 1.2
Average corporate score = 1.3

Straight line vesting occurs between performance levels for both conditions.

PENSION

Pension provision is one of the components to attract, reward and retain the right calibre of executive, to ensure delivery of the leadership and management needed to execute the Group's vision and Business Plan.

Practical operation

Executive directors are entitled to non-contributory membership of the Group's defined contribution pension plan. The employer's contribution for executive directors is a maximum of 20% of base salary. (Note – As explained on page 77, following consultation with shareholders in 2018, the percentage employer contribution was revised to allow for a maximum of 20% of salary to executive directors (previously the policy stated a set 20% of salary).)

Alternatively, at their option, executive directors may either have contributions of the same amounts made to their personal pension schemes, cash in lieu of pension (subject to normal statutory deductions), or a combination of pension contributions and cash in lieu of pension.

Maximum potential value

Maximum is 20% of base salary.

Performance measures

No performance measures apply.

BENEFITS

Benefits are provided to be market competitive as an integral part of directors' total remuneration.

Practical operation

Executive directors receive a car allowance, life assurance (four times salary), the opportunity to participate in all-employee share plans on the same basis as other employees, annual private health assessment and annual private medical cover.

Additional benefits may be provided if the Committee considers them appropriate.

Relocation expenses and/or second base expenses are paid, where appropriate, in individual cases. Directors' relocation expenses are determined on a case-by-case basis. The policy is designed to assist the executive director to relocate to a home of similar standing.

Maximum potential value

Benefits are set at a level appropriate to the individual's role and circumstances.

The maximum opportunity will depend on the type of benefit and cost of its provision, which will vary according to the market and individual circumstances.

Performance measures

No performance measures apply.

SHARE OWNERSHIP GUIDELINE

The Group's share ownership guidelines align the interests of executives with shareholders.

Practical operation

The share ownership guideline is that all executive directors should retain shares to the value of 200% of base salary, to be accumulated over five years. Until this level is reached, directors who receive shares by virtue of any share plan award or who receive deferred bonus shares must retain 50% of the shares received net (i.e. after income tax and national insurance contributions). Only shares that have actually vested count towards the threshold.

Maximum potential value

N/A

Performance measures

N/A

ELEMENTS OF PREVIOUS POLICY THAT WILL CONTINUE – BMP AWARDS MADE IN 2015, 2016 AND 2017

Remuneration component and link to strategy	Practical operation	Performance measures
Bonus Matching Plan – deferred awards made in 2015, 2016 and 2017 and conditional awards made in 2015 and 2016. Links long-term share-based incentives to TSR and to the achievement of Business Plan strategic targets.	Vesting is subject to the achievement of performance conditions (conditional awards) and continued service or "good leaver" termination provisions (deferred and conditional awards). Further details of the terms of the awards were included in the Annual remuneration reports for the respective years.	Vesting of conditional awards is subject to relative TSR and average Group Scorecard outcome over three years.

Directors' Remuneration Policy continued

PERFORMANCE MEASURES AND APPROACH TO SETTING TARGETS
The measures for elements of variable pay are:

- Group Scorecard, consisting of strategic and Business Plan targets set by the Committee each year in conjunction with the Board. The Group Scorecard aligns incentives of executive directors with achievement of key business goals.
- Relative TSR, which aligns executive director remuneration with creation of long-term shareholder value.
- The Committee sets targets for the performance measures each year, taking into account market conditions, the Business Plan and other circumstances as appropriate. A summary of the Group Scorecard targets that apply for the following year are disclosed in the Annual Report on Remuneration.

CIRCUMSTANCES IN WHICH MALUS OR CLAWBACK MAY APPLY
Malus and/or clawback may be applied to incentive awards under the following circumstances:

- **Clawback for the annual bonus** – the Committee may require a director to repay any amount of annual bonus payment it considers appropriate, in circumstances of financial misstatement, or misconduct, or if assessment of a performance condition is found to have been based on an error, inaccuracy or misleading information, or in other circumstances that the Committee considers to justify the operation of the clawback provision.
- **Malus and clawback for the BMP** – if a repayment of bonus is required (see "annual bonus" above) the Committee shall reduce the number of shares that may vest under the BMP by an appropriate amount (in respect of an award made pursuant to the annual bonus payment subject to the clawback). The Committee may also reduce the number of shares under a BMP award in circumstances of financial misstatement, or if assessment of a performance condition is found to have been based on an error, inaccuracy or misleading information, or in other circumstances that the Committee considers to justify the operation of the clawback provision.
- **Malus and clawback for the PSP and DSP** – the Committee may also reduce the number of shares under a PSP and/or DSP award in circumstances of financial misstatement, or if assessment of a performance condition is found to have been based on an error, inaccuracy or misleading information, or in other circumstances that the Committee considers to justify the operation of the clawback provision.

COMMITTEE'S JUDGEMENT AND DISCRETION
In addition to assessing and making judgements on the meeting of performance targets and the appropriate incentives payable, the Committee has certain operational discretions it can exercise in relation to executive directors' remuneration. These include, but are not limited to:

- reviewing the formulaic outcome of the annual bonus and applying discretion to amend the final outcome, to ensure that bonus payments reflect overall performance or an individual executive's performance;
- deciding whether to apply malus or clawback to an award; and
- determining whether a leaver is a "good leaver".

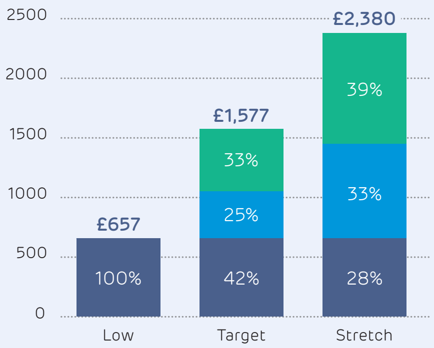
Where such discretion is exercised, it will be explained in the relevant directors' remuneration report.

REMUNERATION SCENARIOS
The composition and value of the executive directors' remuneration packages at low, target and stretch performance scenarios under the Drax Group remuneration policy are set out in the charts on page 87. The assumptions used in the charts are provided in the following table:

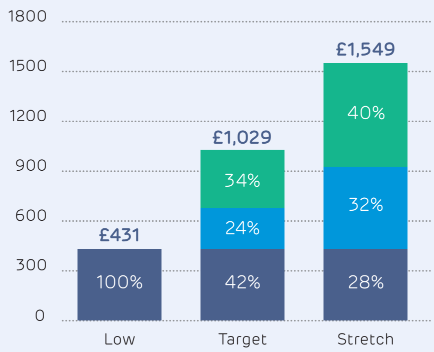
BASE SALARY, PENSION AND BENEFITS

Description	Scenario	Annual bonus (Determined on base salary)	PSP
Salary is the rate payable to each director from 1 January 2018	**Low**	None	None
The value of benefits is taken from the single figure for the year ended 31 December 2018	**Target**	50% of the maximum bonus	TSR: 62.5% vesting (midpoint between threshold and maximum) Scorecard: 50% vesting
Pension is the value of the pension payable on the salary rate used	**Stretch**	Maximum bonus (150% of salary for Group Chief Executive, 140% of salary for other executive directors)	Maximum PSP opportunity (175% of salary) with no allowance for share price appreciation or dividend equivalents

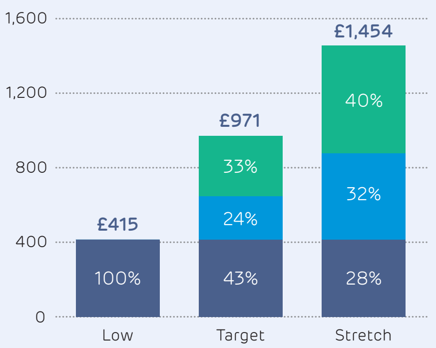
WILL GARDINER
(GROUP CHIEF EXECUTIVE)
£,000



ANDY SKELTON
(GROUP CHIEF FINANCIAL OFFICER)
£,000



ANDY KOSS
(CHIEF EXECUTIVE OF DRAX POWER)
£,000



● Fixed elements ● Annual variable ● Multi-period variable

APPROACH TO RECRUITMENT REMUNERATION

The Committee will apply the core principles on page 82 and the components set out in the table on pages 82 to 86 to determine the remuneration of newly appointed directors. Base salary will be set at a level appropriate to the role and the experience of the director being appointed. Where this is below the market level, it will be adjusted over time to align with the market level, subject to performance. The incentive provision for a new executive director will include annual bonus up to 150% of salary and a PSP award of up to 175% of salary.

In relation to directors appointed from outside the Group, where the Committee considers it to be necessary to secure the appointment of the director, the Committee may:

- pay compensation for loss of benefits on resignation from a previous employer, such as loss of long-term share incentives (subject to the right to phase any payment to reflect performance, the requirement to mitigate loss and the Company's right to claw back any amount which is subsequently paid to the executive by the former employer, and to claw back an appropriate proportion of the payment if the executive leaves soon after appointment); and
- make appropriate payments in circumstances where a director is relocated from outside the UK.

SERVICE AGREEMENTS AND COMPENSATION ON LOSS OF OFFICE

Executive directors' service agreements are of indefinite duration, terminable at any time by either party giving 12 months' notice.

Element	Details
Notice periods	Executive directors may be required to work during the notice period or may be provided with pay in lieu of notice if not required to work the full notice period. Under each of the executive directors' service agreements, the Company has the right to make a payment in lieu of notice of termination, the amount of that payment being the salary and benefits that would have accrued to the executive director during the contractual notice period.
Compensation for loss of office	If an executive director's employment is brought to an end by either party and if it is necessary to determine a termination payment, the Committee's policy, in the absence of a breach of the service agreement by the director, is to determine a director's termination payment in accordance with his/her service agreement. The termination payment will be calculated based on the value of base salary and contractual benefits that would have accrued to the director during the contractual notice period. The Committee will seek mitigation to reduce the amount of any termination payment to a leaving director when appropriate to do so, having regard to the circumstances and the law governing the agreement. It may, for example, be appropriate to consider mitigation if the director has secured another job at a similar level. Mitigation would not apply retrospectively to a contractual payment in lieu of notice. In addition, the director may be entitled to a payment in respect of his/her statutory rights. The Group may pay reasonable fees for a departing director to obtain independent legal advice in relation to their termination arrangements and nominal consideration for agreement to any contractual terms protecting the Company's rights following termination. No service agreement includes any provision for the payment of compensation upon termination. Any compensation payable in those circumstances would need to be determined at the time and in the light of the circumstances.

Directors' Remuneration Policy continued

Element	Details
Treatment of annual bonus on termination	All bonus payments are discretionary benefits. The Committee will consider whether a departing director should receive an annual bonus in respect of the financial year in which, and/or immediately preceding which, the termination occurs, pro-rated to reflect the period of the performance year completed at the date of termination. The Committee will take into account performance; cooperation with succession; any breach of goodwill, and adherence to contractual obligations/restrictions. If the employment ends in any of the following circumstances, the director will be treated as a "good leaver" and the director will be eligible for a bonus payment: • redundancy; • retirement; • ill-health or disability, proved to the satisfaction of the Company; and • death. If the termination is for any other reason, a bonus payment will be at the Committee's discretion and it is the Committee's policy to ensure that any such bonus payment properly reflects the departing director's performance and behaviour towards the Company. Therefore the amount of any such payment will be determined, taking into account (i) the director's personal performance and behaviour towards the Company and (ii) the Group performance. If a bonus payment is made, it will normally be paid as soon as is reasonably practicable after the Group performance element has been determined for the relevant period. There may be circumstances in which the Committee considers it appropriate for the bonus payment to be made earlier, for example, on termination due to ill-health, in which case, on-target Group performance score shall be assumed. No payment will be made unless the director is employed on the date of bonus payment, except for "good leavers" as defined above.
Treatment of unvested long-term incentive and deferred share awards on termination	The Committee will consider the extent to which deferred and conditional share awards held by the director under the BMP, DSP and PSP should lapse or vest. Any determination by the Committee will be in accordance with the rules of the BMP, DSP and PSP (as approved by shareholders). In summary, the rules of the BMP and PSP provide that awards will vest (pro-rated to the date of employment termination) if employment ends for any of the following reasons ("long-term good leaver reasons"): • redundancy; • retirement; • ill-health or disability proved to the satisfaction of the Company; • change of ownership; and • death. If employment ends for any other reason, the rules of the BMP and PSP require the Committee to exercise its discretion. In doing so, it will take account of all relevant circumstances, in particular, the Company's performance; the director's performance and behaviour towards the Company during the performance cycle of the relevant awards; and other relevant factors, including the proximity of the award to its maturity date. The rules of the BMP also provide that in circumstances where awards vest, deferred and conditional shares vest as soon as reasonably practicable following termination. Awards, which vest subject to satisfaction of the relevant performance conditions, will be time pro-rated and will be phased over the performance cycle of the relevant awards. The rules of the DSP provide that deferred bonus awards will vest (in full) if employment ends for any of the "long-term good leaver reasons" detailed above. If employment ends for any other reason, the rules of the DSP require the Committee to exercise its discretion. In doing so it will take account of all relevant circumstances, in particular, the Company's performance; the director's performance and behaviour towards the Company during the performance cycle of the relevant awards; and a range of other relevant factors, including the proximity of the award to its maturity date. The rules of the BMP also provide that in circumstances where awards vest, they do so at the normal vesting date, unless the Committee exercises discretion to vest awards earlier. Awards which vest subject to satisfaction of the relevant performance conditions will be (time) pro-rated.
Outside appointments	Executive directors may accept external Board appointments, subject to the Chair's approval. Normally only one appointment to a listed company would be approved. Fees may be retained by the director.

CONSIDERATION OF CIRCUMSTANCES FOR LEAVERS

The Committee will consider whether the overall value of any benefits accruing to a leaving director is fair and appropriate, taking account of all relevant circumstances. Examples of circumstances in which the Committee may be minded to award an annual bonus payment and/or permit the vesting of PSP awards include:

- the director's continued good performance up to and following the giving of notice; and
- the director accommodating the Company in the timing of his/her departure and handover arrangements.

Conversely, the Committee may be minded not to allow such payments if the reason for the departure is:

- poor performance; or
- the director does not continue to perform effectively following notice.

REMUNERATION OF NON-EXECUTIVE DIRECTORS AND CHAIR

Remuneration component and link to strategy	Practical operation	Maximum potential value
Fees To attract a Chair and independent non-executive directors who, together with the executive directors, form a Board with a broad range of skills and experience.	The Chair's remuneration is determined by the Committee whilst that of the other non-executive directors is determined by the Chair and the executive directors. These are determined in the light of: • fees of chairmen and non-executive directors of other listed companies selected for comparator purposes, on the same basis as for executive directors; • the responsibilities and time commitment; and • the need to attract and retain individuals with the necessary skills and experience. Non-executive directors' fees are reviewed periodically against market comparators. They were last reviewed in 2017. Current fee levels are shown in the annual report on remuneration. The Chair receives an annual fee. Non-executive directors receive an annual base fee. Additional annual fees are paid: • to the Senior Independent Director (which includes the fee for chairing a Board Committee other than the Audit Committee); • to the Chair of the Audit Committee; • to the Chair of the Remuneration Committee; and • to the Chair of any other committee (this is not paid to the Chair of the Nomination Committee if he or she is also the Chair of the Board). Non-executive directors are not entitled to participate in any performance related remuneration arrangements.	Overall aggregate fees paid to all non-executive directors will remain within the limit as stated in the Company's Articles (currently £1,000,000).
Expenses	Reasonable travel and accommodation expenses are reimbursed as applicable.	

Non-executive directors do not receive any benefits in kind, nor are they eligible for any annual performance bonus, pension or any of the Group's share-based reward plans.

The Chair's notice period is six months whilst the other non-executive directors have a notice period of one month.

Directors' Remuneration Policy continued

DIFFERENCES BETWEEN THE POLICY AND THE REMUNERATION OF EMPLOYEES GENERALLY

The following differences apply between the remuneration of directors and the arrangements for the remuneration of employees generally:

- executive directors and a number of senior employees are eligible for PSP awards, although there are differences in terms of levels of grant;
- annual bonus levels vary across the workforce, but the requirement to defer a portion of annual bonus applies only to executive directors;
- employees in the collective bargaining unit have a contractual right to receive an annual bonus subject to Company performance and continued employment, whereas directors and all other UK-based employees participate in a discretionary bonus scheme; and
- in some cases hourly paid employees qualify for overtime payments.

CONTEXT

Wider employee population

In determining executive remuneration, the Committee also takes into account the level of general pay increases within the Group. The Committee's policy is that annual salary increases for executive directors should not exceed the average annual salary increase for the wider employee population unless there is a particular reason for a higher increase, such as a change in the nature or scope of responsibilities or if an executive director has been appointed at a salary below market level reflecting experience in the role.

The Committee has considered a number of comparison metrics when determining its approach to executive remuneration, including the ratio of Group Chief Executive to median employee pay.

Environmental, social and governance issues

The Committee is able to consider corporate performance on environmental, social and governance issues when setting the remuneration of executive directors. Specific measures can be included in the balanced Group Scorecard. The Committee is also able to consider these issues in determining whether to exercise its discretion to adjust the overall score, and in considering the performance conditions override under the PSP, as described on page 86.

Annual Report on Remuneration

The relevant sections of this report have been audited as required by the Regulations and, in accordance with the Regulations, this part of the report will be subject to an advisory vote at the AGM to be held on 17 April 2019.

SINGLE TOTAL FIGURE OF REMUNERATION FOR EACH DIRECTOR (AUDITED INFORMATION)

The table below sets out the single figure of remuneration and the breakdown for each executive director for 2018, together with comparative earnings for 2017:

	Salary/Fees (£000)		Other benefits(1) (£000)		Bonus(2) (£000)		Long Term Incentives(3) (£000)		Pension (£000)		Other (4) (£000)		Total (£000)	
Name	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	**2017**	**2018**	2017
Will Gardiner	**530**	397	**21**	20	**417**	294	**838**	–	**106**	79	–	–	**1,912**	790
Andy Koss	**327**	316	**19**	19	**242**	234	**147**	–	**65**	63	**6**	–	**806**	632

Notes:
(1) Other benefits include car allowance, private medical insurance, life assurance, permanent health insurance and dependent's pension.
(2) Bonus is the cash value of the annual bonus payable in respect of performance in the relevant year which is paid in March of the following year (e.g. 2018 bonus is paid in March 2019), including the value of bonus deferred and paid in shares after three years subject only to continued service.
(3) Represents the value of BMP matching awards vesting in March 2019, together with the dividend shares in relation to those vested shares. The value is calculated based on the average share price over the last quarter of 2018, which was £3.857.
(4) Represents the value of the Sharesave Awards granted in 2018 based on the share price on grant (£2.750) less the exercise price (£2.105).

BASE SALARIES

The base salaries of the executive directors as at 31 December 2018, together with comparative figures as at 31 December 2017, are shown in the following table:

	Base salary as at 31 December 2018 £000	Base salary as at 31 December 2017 £000	Percentage increase
Will Gardiner	**530**	400	32.5%
Andy Koss	**330**	318	3.8%

The base salary for Andy Koss was reviewed with effect from 1 April 2018. In line with policy, the salary was reviewed and increased by 3.8%. This was aligned with the wider workforce increase of 3.8%. Will Gardiner's salary was increased to £530,000 as at 1 January 2018 on his appointment as Group CEO. The figure shown for 2017 refers to his previous role of CFO.

ANNUAL FEES

	Fees at 31 December 2018 £000	Fees at 31 December 2017 £000	Percentage increase
Chair	**250**	250	0%
Non-Executive Director base fee	**55**	55	0%
Senior Independent Director	**10**	10	0%
Audit Committee Chair	**10**	10	0%
Remuneration Committee Chair	**10**	10	0%
Nomination Committee Chair(1)	**7.5**	7.5	0%

Note:
(1) This is not paid if the Chair of the Nomination Committee is also the Chair of the Board.

From 1 January 2019 David Nussbaum is donating his gross fees to charity.

The table below (Audited Information) sets out the single figure of remuneration and breakdown for each non-executive director for 2018 together with comparative figures for 2017:

		Base fee £000	Additional fee for Senior Independent Director £000	Additional fee for chairing a committee £000	Total £000
Philip Cox					
(Chair of the Board and Chair of Nomination Committee)	**2018**	**250**	**–**	**–**	**250**
	2017	250	–	–	250
Tim Cobbold	**2018**	**55**	**–**	**–**	**55**
	2017	55	–	–	55
David Lindsell					
(Senior Independent Director and Chair of Audit Committee)	**2018**	**55**	**10**	**10**	**75**
	2017	55	10	10	75
David Nussbaum	**2018**	**55**	**–**	**–**	**55**
	2017	23	–	–	23
Nicola Hodson(1)	**2018**	**53**	–	–	**53**
Vanessa Simms(2)	**2018**	**29**	–	–	**29**
Tony Thorne					
(Chair of Remuneration Committee)	**2018**	**55**	**–**	**10**	**65**
	2017	55	–	10	65

Note:
(1) Appointed 12 January 2018.
(2) Appointed 19 June 2018.

DETAILS OF PERFORMANCE AGAINST METRICS FOR VARIABLE PAY AWARDS

Annual bonus plan outcome

A summary of the Committee's assessment in respect of the 2018 Group Scorecard is set out in the following table:

	Weighting	Low target	Target	Stretch target	Outturn	Score
Safety						
Total recordable injury rate	10%	0.27	0.22	0.15	0.22	1.0
Finance						
Group Adjusted EBITDA (£m)	30%	229	251	289	250	1.0
Group net debt (£m)	5%	(422)	(400)	(362)	(319)	2.0
Progress on delivering strategy (Performance vs plan)	10%	Approaching Plan	On Plan	Ahead of Plan	Ahead of Plan	1.3
Sustainability						
People, reputation & responsibility (Performance vs plan)	5%	Approaching Plan	On Plan	Ahead of Plan	Approaching Plan	0.9
Pellet Production						
Fines at Disport (%)(1)	7.5%	7.5%	6.5%	5.5%	8.0%	0.0
Cost of production ($/GJ)(2)	7.5%	10.90	9.82	8.35	9.37	1.2
Power Generation						
Biomass unit technical availability (%)(3)	5%	ND	ND	ND	90.7%	2.0
Value from Flexibility (£m)	5%	63	78	93	79	1.0
B2B Energy Supply						
Cost to serve customers (£/MPAN)	5%	ND	ND	ND	ND	2.0
Quality of business (£/MWh)	5%	ND	ND	ND	ND	0.0
Growth in market share %	5%	0.6%	0.9%	1.2%	0.8%	0.8
Total weighting/Score	100%					1.05

Notes:
The targets were aligned with the Group's strategy and 2018 Business Plan and reviewed regularly by the Board as part of their ongoing scrutiny of business and executive performance.
ND – Not disclosed. It is considered that the disclosure of detailed performance against these metrics would be commercially sensitive. It would therefore not be appropriate to disclose these figures.
(1) Q4 average fines at disport.
(2) Excludes one off write offs and exceptional costs.
(3) Unit 4 is not included, only Units 1-3 of our Biomass Generation facilities.

Outlined below is a brief synopsis of the KPIs used and their strategic rationale:

Group

- Safety is the first priority for the business. The Total Recordable Injury Rate (TRIR) is defined as the number of incidents per 100,000 hours worked. We continue to target upper quartile safety performance.
- Financial performance metrics for 2018 were based on underlying adjusted EBITDA, net debt and progress on delivering strategy. The weighting given to adjusted EBITDA, at 30%, reflects the priority given to a strong Group financial performance.
- Being a sustainable business means driving long-term, profitable growth while achieving a positive economic, social and environmental impact. Ensuring that our staff are fully engaged and regard Drax as an employer they would recommend is an important part of this impact.
- Pellet quality impacts both Drax Biomass and Drax Power. The "fines" metric is used to drive pellet quality, from own supply, which in turn minimises downstream supply chain costs.
- Developing strong in-house pellet supply capability, and lowering pellet production costs have a direct impact on gross margins available from Generation.
- The value available to the Group from biomass generation is a key driver of gross margins. Biomass unit technical availability reflects the value that can be derived from maximising biomass unit output.
- The value from flexibility captures the value available from fully supporting the grid.

Further details of how these individual metrics support the business strategy and drive both shareholder value and performance can be found on pages 1 to 49.

The Committee made an in-depth review of the score for each of the performance measures, ensuring these were individually supportable, and then reviewed the overall outcome, to determine whether to exercise its discretion and adjust the final score. Additional consideration of the appropriateness of the overall Group Scorecard result was also reviewed by the Committee.

Safety. The independently verified Total Recordable Injury Rate for the 2018 financial year was 0.22 which was on target and represented an improvement on the score for the 2017 financial year (0.27).

Finance. Adjusted EBITDA achieved for the 2018 financial year of £250 million, included the impact of the Government's suspension of Capacity Payments. The Committee determined this qualified as in line with the target of £251 million. Net debt at the year-end had reduced to £319 million against a stretch target of £362 million, reflecting management's strong focus in this area (for further information, see page 40 of the Group Financial Review). In respect of delivery of strategy, separate objectives were set addressing a combination of operational efficiency, cost reduction and transitioning to new technology platforms, each of which are important drivers for future development and which contain commercially sensitive information. The Committee set thresholds at the beginning of the financial year and after considering the performance against each objective, the Committee determined an outcome of 1.3.

Sustainability. In the three areas shown in the table, the Committee set specific objectives which constituted part of the Group's 2018 sustainability plan. In determining performance, the Committee reviewed quantitative outcomes, (for example analysis included assessment prepared by an external agency tracking reputation). The quantitative outcome for the year was below target at 0.9. In reviewing this outcome the Committee decided, that despite progress in this important area over the year, it would not adjust the score.

Pellet Production. Fines (a measure of wood pellet quality) and cost of production are key measures for assessing operational efficiency. Fines failed to achieve the minimum threshold whilst cost of production was scored at 1.2. Further information can be found on page 7 of the CEO report.

Power Generation. Biomass technical availability (defined on page 192) is a key metric relating to our ability to operate when needed and is considered by the Board regularly as part of overall operational performance. The Committee considered performance to have exceeded target. Value from flexibility is used by management to assess Drax's support to balancing the electricity grid. The Committee determined that performance was on target. Further information can be found on page 7 of the CEO report.

B2B Energy Supply. Each of the three targets adopted by the Committee are used by management and reported to the Board as part of tracking business performance. Each is commercially sensitive. Quality of business was below the minimum threshold. Growth in market share satisfied the low threshold whilst cost to serve customers was judged to have satisfied the stretch target. Further information on each target can be found on page 8 of the CEO report.

The Committee approved the Group Scorecard result for 2018 at its meeting on 20 February 2019, subject to the final approval of the financial results and annual report and accounts by the Directors on 25 February 2019.

BONUS EARNED FOR 2018

The resulting bonus outcomes as a percentage of base salary were:

Bonus earned for CEO

Target bonus 75% X Corporate score 1.05

Bonus earned for other executive directors

Target bonus 70% X Corporate score 1.05

The table below sets out the bonuses earned and the split between cash and deferred elements.

Executive director	2018 bonus (as % base salary)	Bonus earned £000	Of which paid in cash (65% of bonus) £000	Of which deferred into shares (35% of bonus) £000
Will Gardiner, Chief Executive Officer	79%	**417**	271	146
Andy Koss, Chief Executive, Drax Power	74%	**242**	158	84

No discretion was exercised by the Committee in determining the bonus outcome.

DETAIL OF BMP INCENTIVE OUTCOMES (AUDITED INFORMATION)

The vesting outcome for matching awards granted in 2016 under the BMP, which were subject to performance conditions and will vest in 2019, are provided in the tables below.

Performance measure	Proportion of award	Performance for threshold vesting (15%)	Performance for maximum vesting	Actual performance	Vesting
Relative TSR vs FTSE 51–150 constituents	50%	Median	Upper quartile	Rank of 26 out of 90 = 89.50%	44.75%
Average Corporate Score for 2016, 2017 and 2018	50%	Average score of 1	Average score of 1.5	Scores of 1.30, 0.84 and 1.05 Average of 1.06 = 25.76%	12.88%
					57.63%

No discretion was exercised by the Committee in determining the BMP outcome. The table provides the resulting awards due to vest based on this vesting result.

Executive director	Awards granted	Awards vesting	Dividend shares earned	Total shares due to vest	Value based on average share price in last quarter of 2018 (£3.857) £000
Will Gardiner, Chief Executive Officer	353,504	203,724	13,487	217,211	838
Andy Koss, Chief Executive, Drax Power	61,999	35,729	2,361	38,090	147

PSP AWARDS GRANTED DURING 2018 (AUDITED INFORMATION)

The table below shows the conditional awards granted under the PSP to executive directors on 5 March 2018.

Executive director	Award as % of salary	Number of shares granted[1]	Face value of Awards £
Will Gardiner	175%	363,725	927,500
Andy Koss	175%	218,063	556,063

Note:

(1) The number of shares awarded was based on the average share price in the three day period prior to grant, which was 255.2 pence. In accordance with the PSP rules, dividend shares are awarded at the time and in the event that awards actually vest. No dividend shares are awarded where the initial awards lapse.

The performance conditions that apply to the PSP awards granted in 2018 are set out below.

Performance measure	Proportion of award	Performance for threshold vesting	Vesting at threshold performance	Performance for 50% vesting (Corporate Scorecard only)	Performance for maximum vesting
Relative TSR vs FTSE 350 constituents	50%	Median	25%	–	Upper quartile
Average Corporate Score	50%	Average score of 0.75	0%	Average score of 1	Average score of 1.5

Straight line vesting occurs between performance levels for both conditions. Performance for both conditions is measured over three financial years to 31 December 2020.

DSP DEFERRED AWARDS GRANTED DURING 2018 (AUDITED INFORMATION)

The table below shows the deferred share awards granted under the DSP to executive directors on 5 March 2018 in respect of bonus earned for performance in 2017. Awards will vest after three years subject to continued service only.

Executive director	Value of deferred bonus £	Number of shares granted(1)
Will Gardiner	102,836	40,327
Andy Koss	81,741	32,055

Note:
(1) The number of shares awarded was based on the average share price in the three day period prior to grant, which was 255 pence. In accordance with the DSP rules, dividends in respect of the deferred shares are reinvested in additional shares, which vest when the deferred shares vest.

SHARESAVE AWARDS GRANTED DURING 2018

A total of 8,551 Sharesave awards were granted to Andy Koss on 28 March 2018. The exercise price was 210.5 pence which represents a 20% discount to the prevailing share price at the time of offer. The face value of the awards was £23,515 which is based on the share price of 275 pence on 28 March 2018. The awards will vest after three years subject to continued service only.

TOTAL PENSION ENTITLEMENTS FOR DEFINED CONTRIBUTION SCHEMES (AUDITED INFORMATION)

Executive directors are entitled to non-contributory membership of the Group's defined contribution pension plan, with either an employer contribution of up to 20% of base salary, or contributions to a personal pension, or cash in lieu of pension, or a combination of any of these up to a maximum contribution of up to 20% of base salary.

No director was a member of the defined benefit pension scheme.

In line with the broader Group-wide review of colleague benefits, the current arrangements afforded to Executive Directors will be reviewed during 2019.

PAYMENTS TO FORMER DIRECTORS (AUDITED INFORMATION)

Dorothy Thompson stood down as an executive director of the Group with effect from 31 December 2017. Pursuant to the terms of her service agreement, and reflecting an adjustment in respect of the final instalment following the exercise of discretion by the Committee, payments were made to Dorothy in

January 2018 (£278,963);

June 2018 (£139,482); and

September 2018 (£78,861).

These were in respect of pay and contractual benefits for the period of unworked notice. The payments are in addition to any payments relating to the vesting of Drax long-term incentive awards granted prior to her final date of employment. In addition (with the exception of the final instalment), the payments are in accordance with the arrangements noted in the 2017 Annual Report. As noted on page 78, adjustments were made to the final values which were in line with the terms of Dorothy's service agreement and verified by external advisers. No separate payments were made in respect of Dorothy's termination arrangements.

As reported in the 2017 Remuneration Report, Dorothy is entitled to pro-rata vesting of BMP and PSP Awards made in 2016 and 2017. A total of 95,417 shares, including dividend shares, are due to vest in March 2019 in respect of the BMP Awards made in 2016, based on the resulting vesting of 57.63%.

STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS (AUDITED INFORMATION)

The shareholding guidelines require executive directors who receive shares by virtue of share plan awards, or who receive deferred bonus shares under the cash bonus plan, to retain 50% of the shares received net (i.e. after income tax and national insurance contributions) until the value held is equal to at least 200% of salary. Only shares that have actually vested count towards the threshold. As at 31 December 2018, the shareholding guidelines had not been met, as detailed in the table below:

DIRECTORS' INTERESTS IN SHARES

Name	Number of shares	Value at year end(1)	Shareholding as a percentage of salary	Shareholding guideline
Will Gardiner	144,488	£518,712	98%	200%
Andy Koss	57,746	£207,308	63%	200%

(1) Based on the mid market quotation on 31 December 2018 of £3.59.

DIRECTORS' INTERESTS UNDER LTIPs (BMP, PSP AND DSP)

	Date of grant	As at 1 January 2018	Awards made during the year	Awards vesting during the year	Awards lapsing during the year	As at 31 December 2018	Date of vesting(1)	Face value of awards(2)
Will Gardiner								
2016 BMP Matching Award	2 March 2016	353,504	0	0	0	**353,504**	2 March 2019	£1,269,079
2016 BMP Deferred Award	2 March 2016	5,063	0	0	0	**5,063**	2 March 2019	£18,176
2016 Sharesave Award	5 April 2016	14,778	0	0	0	**14,778**	1 May 2021	£23,054
2017 PSP	15 May 2017	213,326	0	0	0	**213,326**	15 May 2020	£765,840
2017 BMP Deferred Award	28 March 2017	50,486	0	0	0	**50,486**	28 March 2020	£181,245
2018 PSP	5 March 2018	0	363,725	0	0	**363,725**	5 March 2021	£1,305,773
2018 DSP	5 March 2018	0	40,327	0	0	**40,327**	5 March 2021	£144,774
Total		**637,157**	**404,052**	**0**	**0**	**1,041,209**		£3,707,941
Andy Koss								
2015 BMP Matching Award	4 March 2015	49,160	0	0	49,160	**0**	–	£0
2016 BMP Matching Award	2 March 2016	61,999	0	0	0	**61,999**	2 March 2019	£222,576
2017 PSP	15 May 2017	169,567	0	0	0	**169,567**	15 May 2020	£608,746
2017 BMP Deferred Award	28 March 2017	40,130	0	0	0	**40,130**	28 March 2020	£144,067
2018 PSP	5 March 2018	0	218,063	0	0	**218,063**	5 March 2021	£782,846
2018 DSP	5 March 2018	0	32,055	0	0	**32,055**	5 March 2021	£115,077
2018 Sharesave Award	28 March 2018	0	8,551	0	0	**8,551**	1 May 2021	£12,968
Total		**320,856**	**258,669**	**0**	**49,160**	**530,365**		£1,886,010

Notes:
The deferred share awards are not subject to performance conditions.
There are no awards remain vested but unexercised.
(1) The vesting date shown reflects the three year anniversary but the Committee reserves the right to change the vesting date by a period not exceeding 30 days.
(2) Based on the mid market quotation on 31 December 2018 of £3.59.

There is no shareholding requirement for non-executive directors. The table below shows the shareholdings of the non-executive directors and their connected persons and the value as at 31 December 2018, when the share price was 359 pence per share.

	Number of shares	Value at year end
Tim Cobbold	1,000	£3,590
Philip Cox	60,000	£215,400
Nicola Hodson	nil	–
David Lindsell	7,500	£26,925
David Nussbaum	nil	–
Vanessa Simms	nil	–
Tony Thorne	7,500	£26,925

As at the date hereof there have been no changes to the shareholdings or share interests since 31 December 2018.

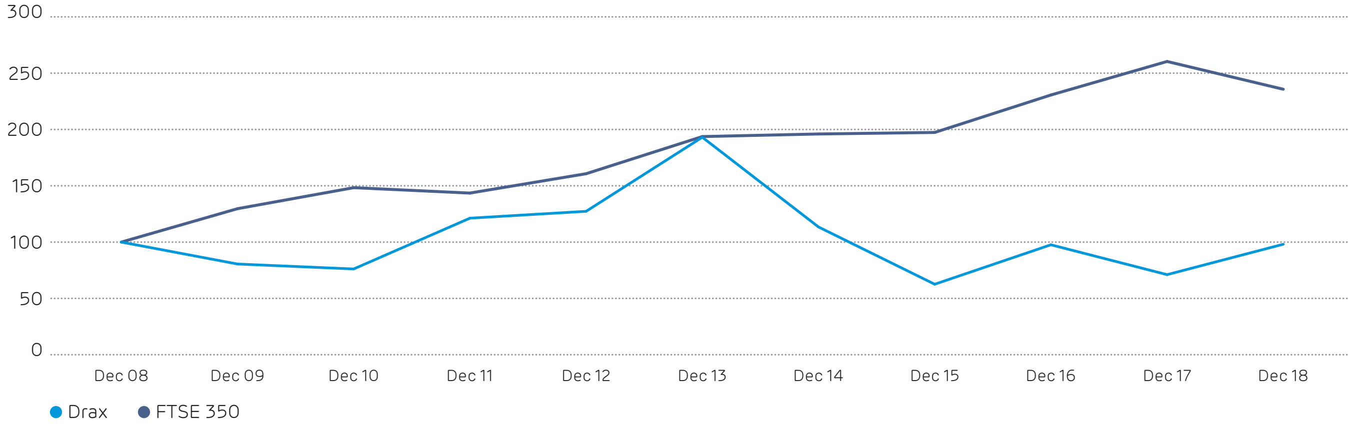
SERVICE AGREEMENTS

The following table shows, for each director of the Company at 25 February 2019, or those who served as a director of the Company at any time during the year ended 31 December 2018, the start date and term of the service agreement or contract for services, and details of the notice periods.

Director	Contract start date	Contract term (years)	Unexpired term at the date of publication	Notice period by the Company (months)	Notice period by the director (months)
Tim Cobbold	27 September 2016	3 years	7 months	1	1
Philip Cox	1 January 2018	3 years	1 year and 10 months	6	6
Will Gardiner	16 November 2015	Indefinite term	Not applicable	12	12
Nicola Hodson	12 January 2018	3 years	1 year and 10 months	1	1
Andy Koss	1 January 2016	Indefinite term	Not applicable	12	12
David Lindsell	1 December 2017	17 months	1 month	1	1
David Nussbaum	1 August 2017	3 years	1 year and 6 months	1	1
Vanessa Simms	19 June 2018	3 years	2 years and 4 months	1	1
Andy Skelton	2 January 2019	Indefinite term	Not applicable	12	12
Tony Thorne	29 June 2016	3 years	4 months	1	1

DRAX TEN-YEAR TSR DATA TO 31 DECEMBER 2018

The graph below shows how the value of £100 invested in both the Company and the FTSE 350 Index on 31 December 2008 has changed. This index has been chosen as a suitable broad comparator against which the Company's shareholders may judge their relative returns given that, in recent years, the Company has been a member of the FTSE 350 Index. The graph reflects the TSR (determined according to usual market practice) for the Company and the index referred to on a cumulative basis over the period from 31 December 2008 to 31 December 2018.



GROUP CHIEF EXECUTIVE OFFICER'S PAY IN LAST TEN FINANCIAL YEARS

Year	2009	2010	2011	2012	2013	2014	2015	2016	**2017**	**2018**
Chief Executive's total single figure (£000)	903	1,155	1,196	1,406	3,360	1,854	1,248	1,581	**1,236**	**1,912**
Bonus % of maximum awarded	77%	100%	100%	100%	100%	73%	46%	88%	**53%**	**53%**
BMP Matching Award % of maximum vesting		–	–	–	–	40.52%	21.66%	15.43%	**0%**	**57.63%**

PERCENTAGE CHANGE IN THE GROUP CHIEF EXECUTIVE OFFICER'S REMUNERATION COMPARED WITH THE WIDER EMPLOYEE POPULATION

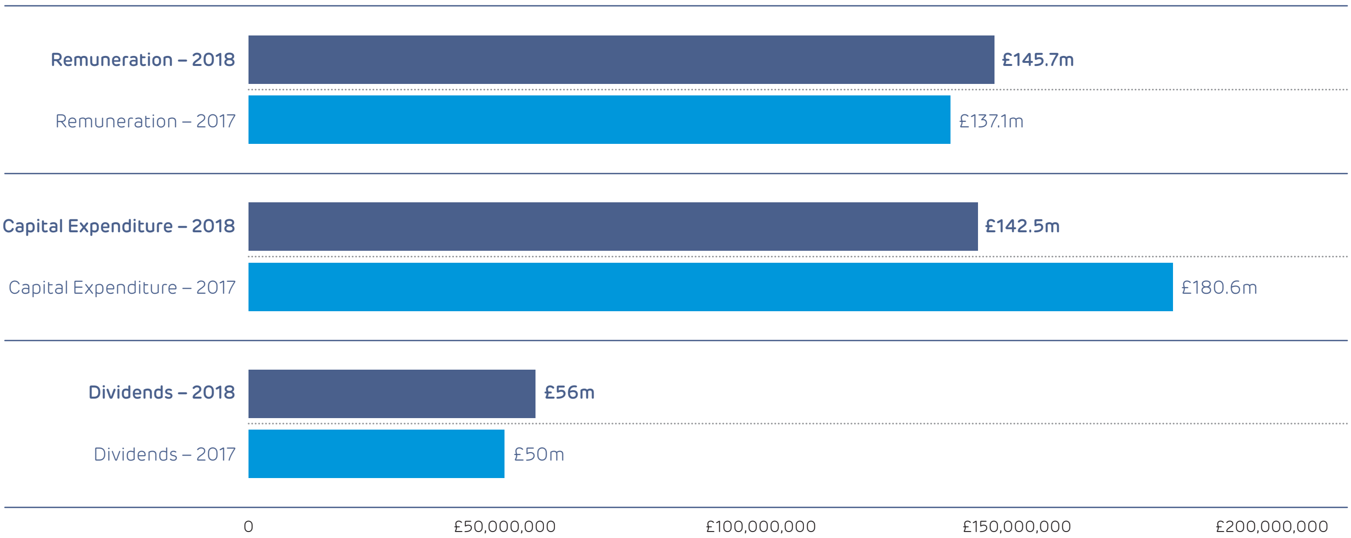
The table below shows how the percentage change in the Group CEO's salary, benefits and bonus between 2017 and 2018 compares with the percentage change in the average of each of those components of pay for a group of employees. The Committee has selected all Group employees below executive director level based in the UK, as these are the vast majority of Group employees and provide the most appropriate comparator.

	Salary	Taxable benefits	Bonus		
			£000		
	Percentage increase	Percentage increase	2017	2018	% increase
Chief Executive (Will Gardiner 2018/Dorothy Thompson 2017)[1]	-9.4%	-70.0%	463.3	417.4	-9.9%
Average for UK employees	3.8%	2.75%	4.3	4.0	-7.0%

Note:
(1) Because of the change in CEO with effect from 1 January 2018, the figures above note the change in remuneration between the outgoing and incoming CEO although, as a consequence, do not reflect a like for like comparison.

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below illustrates the relative importance of spend on pay compared to other disbursements from profit, namely distributions to shareholders and capital expenditure. These were the most significant outgoings from the Company in the last financial year, other than normal operating costs.



Notes:
(1) Remuneration 2018 see note 6.1.
(2) Capital expenditure 2018 see note 3.1.
(3) Dividends 2018 see note 2.9.

STATEMENT OF IMPLEMENTATION OF THE REMUNERATION POLICY IN 2019

The remuneration policy was implemented following its approval by shareholders at the AGM in April 2018.

The Committee will review salaries in accordance with the Policy and will take account of the increase in base pay of the collective bargaining group and other salary reviews in the Group.

GROUP SCORECARD

The Group Scorecard measures and targets for 2019 have been established for the Group and for each Group business. Details of performance against the measures will be disclosed in the 2019 Annual Report on Remuneration so far as possible, whilst maintaining commercial confidentiality.

The following table sets out the categories and a description of the measures.

Target	Reason for use
GROUP	
Safety	
TRIR	The same basis for assessing performance as in previous years, focused on reducing the number of safety-related incidents.
Finance & strategy	
Group Adjusted EBITDA	Adjusted EBITDA is our principle financial metric, combining the underlying performance of each business (including the acquired ScottishPower assets) to give a Group outcome. The targets assume that the Government resumes capacity payments in full, within the year. In the event it did not, the Remuneration Committee will determine the appropriate adjustment to the targets.
Average Net Debt	A structural reduction in debt is a key objective for the Group with progress assessed against average net debt targets.
Progress on delivering strategy	This element will assess progress in the integration of the acquired ScottishPower assets, comparing actual performance against the acquisition case approved by the Board.
Sustainability	
People, reputation & responsibility	Sustainability is assessed under the three elements of people, reputation and the sustainability of our biomass fuel combining performance against three KPIs into a single score.
Pellet Production	
KPI	
Fines at disport	Our focus remains on improving the quality of biomass pellets, measured as the percentage of fines (dust) in each shipment unloaded at UK ports.
Cost of production	Reducing the cost of biomass production will make a positive contribution to the Group's financial performance in the medium term and beyond 2027.
Power Generation	
KPI	
Commercial availability	Availability of our generating assets is a key determinant of our ability to deliver earnings.
Value from flexibility	Financial value is created by providing flexible support services to the UK electricity grid.
B2B Energy Supply	
KPI	
Cost to serve customers	By reducing cost to serve we increase the efficiency and effectiveness of our energy supply operations.
Value created as gross margin	Gross margin is the key driver of value for our energy supply business.
SMART meter installation	By increasing the volume of smart meters installed, we expect to increase profit and to meet regulatory requirements.

NON-EXECUTIVE DIRECTORS' FEES

Non-executive directors' fees will be reviewed by the Chair and executive directors in November 2019.

SHAREHOLDER VOTING

The table below shows the voting outcome for the remuneration policy and the Annual Report on Remuneration at the AGM on 25 April 2018.

	For		Against		Total		Votes withheld
Name	Shares	%	Shares	%	Shares	%	Shares
Approval of the directors' remuneration policy	343,764,260	93.62	23,420,963	6.38	367,185,223	100	5,601
Approval of the annual report on remuneration	336,956,748	92.40	27,713,350	7.60	364,670,098	100	2,520,725

COMMITTEE ACTIVITY AND KEY DECISIONS IN 2018

Matters considered and decisions reached by the Committee in 2018 are shown in the table below:

Considered the 2017 balanced Group Scorecard and decided not to exercise its discretion to adjust the score.
Adopted the 2018 Group Scorecard for the purpose of determining relevant aspects of 2018 remuneration.
Approved executive director and senior staff personal scores and annual bonus awards for 2017.
Approved the vesting of the 2015 BMP awards.
Considered and approved the 2017 Annual Report on Remuneration.
Approved the operation of the all-employee Sharesave Share Plan in 2018.
Approved the Deferred Share Plan and Performance Share Plan awards for 2018.
Approved the Performance Share Plan awards for 2018 for senior management below Board.
Reviewed 2017 Gender Pay Gap reporting.
Approved the proposed remuneration package for the Chief Financial Officer.
Noted the bonus awards to senior management below Executive Committee member level.
Approved a proposal for members of the Executive Committee and senior staff salary review.
Received an update on shareholder engagement.
Agreed the revised termination payment for the former CEO, Dorothy Thompson.
Approved the remuneration package for the new Chief Transformation Officer.
Received an update from the Group People Director on pay and benefits in the wider workforce.
Reviewed the fees paid to PricewaterhouseCoopers LLP (PwC) as, the Committee's remuneration adviser, together with fees paid by the Group to PwC for other matters, and reviewed PwC's independence.
Reviewed fees for the Chair and Non Executive Directors.
Approved in principle the operation of share plans in 2019.
Reviewed year to date progress on the 2018 scorecard and likely impact on remuneration outcomes for Executive Directors and wider workforce (bonus and LTIP).

In 2018, the members of the Remuneration Committee were Tony Thorne, Chair of the Committee; Tim Cobbold; Philip Cox; David Lindsell; and David Nussbaum, Nicola Hudson (from January 2019) and Vanessa Simms (from June 2018), all of whom are independent non-executive directors. The Group Company Secretary was Secretary to the Committee.

The Group CEO was invited to attend meetings of the Committee, except when his own remuneration was discussed.

ADVISER TO THE COMMITTEE

The adviser to the Committee for the year was PwC. PwC is an independent adviser appointed by the Committee in October 2010, following a competitive tender process, to advise on market practice and remuneration of executive and non-executive directors. PwC is a member of the Remuneration Consultants Group and a signatory to its Code of Conduct. In addition, the Committee has satisfied itself that the advice it receives is objective and independent as PwC has confirmed there are no conflicts of interest.

From time to time the Group engages PwC to provide financial, taxation and related advice on specific matters. The Committee will continue to monitor such engagements in order to be satisfied that they do not affect PwC's independence as an adviser to the Committee.

PwC was paid £100,300 during 2018 in respect of advice given to the Committee.

The Committee also considers the views of the Group Chief Executive regarding the performance and remuneration of the other executive directors and senior staff.

During 2018, the Committee has also been advised by the Group Company Secretary and, Group People Director.

OTHER MATTERS

Remuneration received from external appointments

No remuneration was received by the executive directors for service as a non-executive director elsewhere.

This report was reviewed and approved by the Remuneration Committee.

Tony Thorne
Chair of the Remuneration Committee
25 February 2019

DIRECTORS' REPORT

DIRECTORS' REPORT

This report contains information which the Company is obliged to disclose and which cannot be found in the strategic, financial, sustainability or corporate governance reports of this document.

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report for the year ended 31 December 2018. The directors' report required under the Companies Act 2006 is comprised of this Report, the Corporate Governance Report and the Audit, Nomination and Remuneration Committee Reports.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 7.2 to the consolidated financial statements.

ANNUAL GENERAL MEETING (AGM)

The AGM will be held at 11.30am on Wednesday 17 April 2019 at Grocers Hall, Princes St, London EC2R 8AD. A separate document contains the notice convening the AGM and includes an explanation of the business to be conducted at the meeting.

DIVIDENDS

An interim dividend of 5.6 pence per share was paid on 12 October 2018, to shareholders on the register on 21 September 2018.

The directors propose a final dividend of 8.5 pence per share, which will, subject to approval by shareholders at the AGM, be paid on 10 May 2019, to shareholders on the register on 23 April 2019.

Details of past dividends can be found on the Company's website at **www.drax.com/dividend-history**.

No shareholder has waived or agreed to waive dividends payable in the year or in future years.

SHARE CAPITAL

The Company has only one class of equity shares, which are ordinary shares of 11 $^{16}/_{29}$ pence each. There are no restrictions on the voting rights of the ordinary shares.

Drax Group plc has a Premium Listing on the London Stock Exchange and currently trades as part of the FTSE 250 Index, under the symbol DRX and with the ISIN number GB00B1VNSX38.

SHARES IN ISSUE

At 1 January 2018	**407,034,429**
Issued in period through the Sharesave Plan(1)	158,739
At 31 December 2018	**407,193,168**
Treasury shares at 31 December 2018	13,023,639
Total voting rights at 31 December 2018	394,169,529
Issued between 1 January and 25 February 2019 through the Sharesave Plan	2,375
At 25 February 2019	**407,195,543**
Treasury shares at 25 February 2019	13,841,295
Total voting rights at 25 February 2019	393,354,248

Notes:
(1) 44 members of the Sharesave Plan exercised their options

No other ordinary shares were issued during the year.

AUTHORITY TO PURCHASE OWN SHARES

At the AGM held on 25 April 2018, shareholders authorised the Company to make market purchases of up to 10% of the issued ordinary share capital.

Between 20 April 2018 and 31 December 2018 the Company purchased 13,023,639 shares at a cost (including dealing and associated costs) of £47,142,942. Between 1 January 2019 and 21 January 2019 the Company purchased a further 817,656 shares at a cost (including dealing and associated costs) of £3,107,239. In total the Company purchased 13,841,295 shares at a cost of £50,250,181. All shares were purchased in the open market. The shares are held as treasury shares.

At the 2019 AGM, shareholders will be asked to renew this authority. More details on the resolution number 18 can be found in the separate notice of meeting.

INTERESTS IN VOTING RIGHTS

Information provided to the Company in accordance with the Financial Conduct Authority's Disclosure and Transparency Rules (DTR) is published in a timely manner on the London Stock Exchange's Regulatory News Service – a Regulatory Information Service and also on the Company's website.

As at 25 February 2019, the following information had been received in accordance with DTR5 from holders of notifiable interests in the voting rights of the Company. The information provided below was correct at the date of notification. However, investors are only obliged to notify the Company when a notifiable threshold is crossed and therefore it should be noted that the holdings below may have changed but without crossing a threshold.

	Date last notification made	Number of voting rights directly held	Number of voting rights indirectly held	Number of voting rights in qualifying financial instruments	Total number of voting rights held	% of the issued share capital held[1]
Invesco plc	19.10.2018	–	79,520,354	–	79,520,354	20%
Schroders plc	28.01.2019	–	39,349,790	58,561	39,408,351	10%
Artemis Investment Management LLP	20.08.2018	–	20,156,858	–	20,156,858	5%
Orbis Holdings Limited	19.10.2018	–	19,890,687	–	19,890,687	5%

Notes:
(1) As at the date of the last notification made to the Company by the investor, in compliance with DTR

RIGHTS AND OBLIGATIONS ATTACHING TO SHARES

There are various rights and obligations attaching to the ordinary shares which are set out in the Articles. A copy of the Articles can be accessed on the Company's website at **www.drax.com/policies**.

Attention should be given to the following sections within the Articles, covering the rights and obligations attaching to shares:

Variation of rights – which covers the rights attached to any class of shares that may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate General Meeting of the holders of those shares.

Transfer of shares – provides detail of how transfers of shares in certified and uncertified form may be undertaken. It also sets out the directors' rights of refusal to effect a transfer and the action that directors must take following such refusal. It should be noted that a shareholder does not need to obtain the approval of the Company, or of other holders of shares in the Company, for a transfer of shares to take place.

Voting and deadlines for exercising voting rights – these sections of the Articles deal with voting on a show of hands and on a poll. They also cover the appointment of a proxy or corporate representative. In respect of voting deadlines, the Articles provide for the submission of proxy forms not less than 48 hours before the time appointed for the holding of the meeting. It has been the Company's practice since incorporation to hold a poll on every resolution at Annual General Meetings and General Meetings.

A trustee holds shares on behalf of employees in respect of the Group's Share Incentive Plan. The voting rights attached to such shares are not directly exercisable by the employees. The employee may direct the trustee on how to vote at a General Meeting and the trustee may only cast its vote in respect of shares over which it has received a valid direction from employees.

Changes to the Articles – the Articles may only be changed by shareholders by special resolution.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues, and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, so far as possible, be identical to that of other employees.

OTHER SIGNIFICANT AGREEMENTS

The Group has the following main financing agreements:

- A £350 million facilities agreement dated 20 December 2012 (as amended and restated on 10 December 2015 and 21 April 2017 and further amended by way of a supplemental amendment agreement dated 4 May 2017) between, amongst others, Drax Corporate Limited and Barclays Bank PLC (as facility agent) (the Facilities Agreement).
- A £725 million acquisition bridge facility agreement dated 31 December 2018 between, amongst others, Drax Corporate Limited and Barclays Bank PLC (as facility agent), Bank of America Merrill Lynch Limited and J.P. Morgan Securities Plc (the Acquisition Bridge Facilities Agreement).
- An indenture dated 5 May 2017 between, amongst others, Drax Finco plc and BNY Mellon Corporate Trustee Services Limited (as Trustee) (the Indenture) governing) £350,000,000 4.25% senior secured notes due 2022 (the Fixed Rate Notes).
- An indenture dated 26 April 2018 between, amongst others, Drax Finco plc and BNY Mellon Corporate Trustee Services Limited (as Trustee) (the Indenture) governing $300,000,000 6.625% senior secured notes due November 2025.

Under both the Acquisition Bridge Facilities Agreement and the Facilities Agreement, a change of control occurs if any person or group of persons acting in concert gains control of Drax Group plc or if Drax Group plc no longer holds directly or indirectly 100% of the issued share capital of Drax Group Holdings Limited or else if a party other than Drax Group plc becomes the beneficial owner of more than 50% of the voting rights of Drax Group plc's direct subsidiary, Drax Group Holdings Limited. Following a change of control, if any lender requires, it may by giving notice to the relevant Group entity within 30 days of receiving notice from such Group entity that a change of control has occurred, cancel its commitments and require the repayment of its share of any outstanding amounts within three business days of such cancellation notice being given.

Under the Indenture, a change of control occurs if a party other than Drax Group plc becomes the beneficial owner of more than 50% of the voting rights of Drax Group plc's direct subsidiary, Drax Group Holdings Limited, or else if all or substantially all of the assets of Drax Group Holdings Limited are disposed outside of the Drax corporate group. No later than 60 days after any change of control, Drax Group Holdings must offer to purchase any outstanding Fixed Rate Notes and Floating Rate Notes at 101% of the principal amount of such notes plus accrued interest and other unpaid amounts.

There are no other significant agreements to which the Group is a party that take effect, alter or terminate upon a change of control of the Group following a takeover bid.

STRATEGIC REPORT

The Strategic report on pages 1 to 49 contains disclosures in relation to employee participation, Greenhouse Gas emissions, future development and research activities.

POST BALANCE SHEET EVENTS

On 2 January 2019 an initial net consideration of £687 million was paid for the acquisition of the ScottishPower generation assets.

AUDITORS AND THE DISCLOSURE OF INFORMATION TO THE AUDITOR

So far as each person serving as a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing the report, of which the auditor is unaware. Having made enquiries of fellow directors, each director has taken all steps that he/she ought to have taken as a director to ascertain any relevant audit information and to establish that the auditor is aware of that information. This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act.

Resolutions will be proposed at the AGM for (i) the reappointment of Deloitte LLP as the auditor of the Group; and (ii) authorising the directors to determine the auditor's remuneration. As explained, the Audit Committee reviews the appointment of the auditor, the auditor's effectiveness and its relationship with the Group, including the level of audit and non-audit fees paid to the auditor. Further details on the work of the auditor and the Audit Committee are set out in the Audit Committee report on pages 69 to 74.

The directors' report was approved by the Board on 25 February 2019 and is signed on its behalf by:

Brett Gladden
Group Company Secretary

Registered office:
Drax Power Station
Selby
North Yorkshire
YO8 8PH

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 25 February 2019 and is signed on its behalf by:

Will Gardiner
Chief Executive, Drax Group

VERIFICATION STATEMENT FROM BUREAU VERITAS UK LIMITED

Bureau Veritas UK Limited (hereafter "Bureau Veritas") has been commissioned by Drax Group Plc. (hereafter "Drax") to provide limited assurance over sustainability activities reported in its Annual report and accounts 2018 (hereafter 'the Report') and website (**www.drax.com/sustainability**), including the following selected performance indicators:

- GHG emissions (scope 1, 2);
- Health and safety performance (Total Recordable Injury Rate);
- Employee headcount (gender, country, business unit);
- Water data; and
- Biomass supply chain emissions.

Based on our verification activities and scope of work, nothing has come to our attention to indicate that the selected performance indicators are not fairly stated in the Report in all material respects.

ADDITIONAL COMMENTARY

Based on the work conducted, we identified the following areas of progress and good practice:

- Drax keeps track of the workers' incidents and produces monthly Health & Safety executive reports containing incident details, hours worked and injury frequency rates.

Based on the work conducted we recommend Drax to consider the following:

- Reduce the materiality threshold for GHG emissions reporting. For the Report, Drax has adopted a materiality threshold of 100,000 tonnes of CO_2; and
- Be consistent on the inclusion of Drax businesses in the reported sustainability key performance indicators. For parameters, such as water, Drax does not include data from all businesses.

A full verification statement including methodology, limitations and exclusions can be found on the Drax website (**www.drax.com/sustainability**).

Bureau Veritas UK Limited
20th February 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRAX GROUP PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- the financial statements of Drax Group plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Consolidated income statement;
- the Consolidated statement of comprehensive income;
- the Consolidated and parent company balance sheets;
- the Consolidated and parent company statements of changes in equity;
- the Consolidated cash flow statement;
- the basis of preparation and statement of accounting policies on pages 114 to 116;
- the related Group notes 2.1 to 8.4; and
- the related parent company notes 1 to 9

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SUMMARY OF OUR AUDIT APPROACH

Key audit matters	The key audit matters that we identified in the current year were: • Presentation of the Consolidated income statement • Valuation of commodity and foreign exchange contracts • Estimation of retail unbilled revenue • Accounting for the acquisition of Drax Generation Enterprise Limited (Scottish Power assets) Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used for the Group financial statements was £7.6m (2017: £6.8m). This was determined taking into consideration a number of metrics, but with particular focus on Earnings before Interest, Taxation, Depreciation and Amortisation (Adjusted EBITDA) which excludes the impact of exceptional items and certain remeasurements, as this measure is of direct relevance to readers of the financial statements. Our selected materiality represents approximately 3.0% of Adjusted EBITDA for the year (2017: 2.9% of Adjusted EBITDA).
Scoping	We focused our Group audit scope primarily on the audit work at five locations, being Drax Power, Haven Power, Opus Energy, Drax Biomass and Drax Generation Enterprise Limited. These were subject to a full scope audit, other than Drax Biomass and Drax Generation Enterprise Limited which were subject to specific audit procedures to support our Group audit opinion. These five locations represent the principal business units and account for virtually all of the Group's net assets, revenue and profit before tax.

SUMMARY OF OUR AUDIT APPROACH CONTINUED

Significant changes in our approach

The following changes were made to the key audit matters reported in the prior year:

- We have included as a key audit matter the presentation of the Consolidated income statement covering both exceptional items and certain remeasurements;
- We have also included the accounting for the acquisition of Drax Generation Enterprise Limited as a new acquisition in the year; and
- The risk of impairment at Drax Power is no longer a key audit matter given the levels of headroom in both the previous and current year.

In the current year, our Group audit scope was extended to include Drax Generation Enterprise Limited following its acquisition by the Group on 31 December 2018.

Other aspects of our audit approach remain broadly consistent with the prior year.

CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

Going concern

We have reviewed the directors' statement on page 42-43 to the financial statements concerning whether they considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and their identification of any material uncertainties to the Group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 44-49 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 44 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 42 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We previously identified the risk of asset impairment at Drax Power as a key audit matter reflecting the significant management judgements involved in assessing impairment and the sensitivity of the level of headroom to reasonable changes in assumptions made. Given the improvements in revenue arising from both commodity prices and other sources of income, the level of headroom within the impairment assessment in the prior year, and the established impairment assessment process in place, we no longer consider this to be a key audit matter.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRAX GROUP PLC continued

PRESENTATION OF THE CONSOLIDATED INCOME STATEMENT

Key audit matter description

In the current year, the Group has changed the presentation of its Consolidated income statement set out on page 118 of the Annual Report. The Consolidated income statement now segregates Adjusted results from Exceptional items and certain remeasurements (the 'Middle column') in arriving at the results for the year. The prior year Consolidated income statement has been restated on a consistent basis. Further detail is disclosed in the Group's critical accounting judgements, estimates and assumptions set out on pages 114 to 116, note 2.7 Certain remeasurements and exceptional items and the Audit Committee report on pages 69 to 74.

The Adjusted results are a critical measure for stakeholders and underpin the Group's segmental analysis and description of business results and therefore the classification of items between Adjusted results and the Middle column is important for users of the accounts.

The key items included within the Middle column are as follows:

- Remeasurement of certain energy contracts;
- Asset obsolescence charges;
- Acquisition and restructuring costs;
- Debt restructuring costs; and
- Related tax charges and credits.

The Group has established a policy which governs which items are exceptional and should be recognised in the Middle column. However, judgement is applied in the application of this policy, and whether the above items meet the definition under the policy to be presented within the Middle column. This is a key area of audit focus for us.

Certain remeasurements comprise unrealised gains or losses on derivative contracts to the extent that those contracts do not qualify for hedge accounting, or hedge accounting is not effective. Such gains and losses are reclassified into Adjusted results when the related contract leads to a physical sale or purchase. The effect of excluding certain remeasurements from the Adjusted result is to reflect commodity sales and purchases at contracted prices in those Adjusted results.

There is a risk that adjusted profit measures are misleading and that the principles used to determine the classification as exceptional are not in line with relevant guidance, substantiated or applied on a consistent basis. This also represents a possible fraud risk in relation to the allocation of items to the Middle column.

How the scope of our audit responded to the key audit matter

We assessed the design and implementation of key controls around the presentation of items within either Adjusted results or the Middle column.

We evaluated the Group's accounting policy for exceptional items and certain remeasurements against guidance issued by the FRC and European Securities and Markets Authority (ESMA) regarding the publication of transparent, unbiased and comparable financial information.

We considered management's rationale for the treatment of exceptional items presented, and performed an independent assessment of the selection and presentation of each item against the Group's accounting policies and relevant regulatory guidance. We challenged management over the principles used to determine items as exceptional, assessing whether the application of the Group's policy was appropriate and consistent.

For the remeasurement of certain derivative contracts and the recycling of fair value movements to either revenue or cost of sales on realisation, we reviewed relevant accounting literature in order to determine whether the approach adopted was appropriate. The accounting standards for this are subject to interpretation and are currently being reviewed by the International Financial Reporting Standards Interpretation Committee ('IFRIC'). However, their draft determination supports the Group's new presentation of the Consolidated income statement.

We reviewed the presentation and disclosure of management's conclusions in the Annual Report & Accounts to assess whether the disclosures are consistent with the Group's policy and relevant accounting standards.

Key observations

We are satisfied that the items presented as exceptional and within certain remeasurements in the Financial Statements are materially in compliance with the Group's accounting policies, applicable accounting standards and guidance, and are clearly described to readers of the Annual Report and Accounts.

We are satisfied that the prior year Consolidated income statement has been represented on a basis consistent with the new format adopted for 2018.

The majority of acquisition and restructuring costs relate to the Scottish Power acquisition (£21m). However, there are certain smaller costs incurred in the year which relate to restructuring activities in other areas of the business, and which have been treated as exceptional items, and presented within the Middle column in the Consolidated income statement. Whilst the treatment of these costs as exceptional is subjective, the costs incurred are not material to the Financial Statements.

VALUATION OF COMMODITY AND FOREIGN EXCHANGE CONTRACTS

Key audit matter description	*Net Gains on derivative contracts recognised in the Consolidated income statement in the year are £38.4m (2017: losses of £176.9m), with related derivative assets of £510.6m and liabilities of £151.4m recognised on the balance sheet as at 31 December 2018. Further detail of the key judgements are disclosed in the Group's critical accounting judgements, estimates and assumptions set out on pages 114 to 116 and the Audit Committee report on pages 69 to 74. Section 7 sets out the financial risk management notes.* The Group has exposure to a number of different financial risks including foreign exchange risk and commodity risk, and use a variety of derivative contracts to mitigate these risks, including commodity contracts, floating swap forwards and cross currency swaps. The valuation of derivative contracts is complex and requires judgement in areas including the selection of appropriate valuation methodologies, and assumptions in respect of future market prices and credit risk factors. Due to the large amount of data involved in the contract valuations, and the requirement for certain manual adjustments, we have identified a fraud risk relating to the potential for management or employees of the company to value trades inappropriately.
How the scope of our audit responded to the key audit matter	We evaluated the design and implementation and tested the operating effectiveness of key controls related to the valuation of commodity and foreign exchange contracts. We used our internal financial instrument specialists to test management's key judgements and calculations, including testing a sample of trades undertaken to trade tickets, confirming key contractual terms such as volumes and contracted prices. We have assessed the valuation models used by management, including any manual adjustments to determine the fair value of the derivative instruments and performed independent valuations across a sample of both commodity and foreign exchange contracts. We have analysed the appropriateness of management's forward price curve assumptions by benchmarking these to third party sources and reviewed the consistency of the assumptions used across other areas of the financial statements, such as asset impairment. We have challenged management's approach and assumptions involved in assessing fair value adjustments such as credit risk, time value of money and spread adjustments.
Key observations	From our testing, we are satisfied that the valuation of commodity and foreign exchange contracts is reasonable. We consider the valuation models used by management to be appropriate and the forward curve assumptions adopted are within an acceptable range.

ESTIMATION OF RETAIL UNBILLED REVENUE

Key audit matter description	*The recognition of retail revenue requires an estimation of customer usage between the date of the last meter reading and year end, which is known as unbilled revenue. Across the retail division, unbilled revenue at the balance sheet date amounted to £146.5m (2017: £195m) Further detail of the key judgements are disclosed in the Group's critical accounting judgements, estimates and assumptions set out on pages 114 to 116 and the Audit Committee report on pages 69 to 74. Accrued income is disclosed in note 3.5.* The method of estimating unbilled revenue is complex and judgemental and requires assumptions for both the volumes of energy consumed by customers and the related value. We identified a fraud risk in relation to revenue recognition in the retail businesses, in particular to the estimates underpinning unbilled revenue, as these judgemental areas could be manipulated by management to mis-report revenue.
How the scope of our audit responded to the key audit matter	We evaluated the design and implementation and tested the operating effectiveness of key controls related to the estimation of unbilled revenue. This included controls over the reconciliation of meter readings provided by the energy markets, and which are used by management to estimate the power supplied. We also tested the controls over the price per unit applied in the valuation of unbilled revenue. When external market information was not available at the balance sheet date, we obtained and considered management's reconciliation of the volume of power purchased to their calculations of revenue supplied and completed sample tests to check that the December 2018 unbilled revenue amount was subsequently billed. We also reviewed the aggregate unbilled revenue balance from previous periods to test that the amounts recognised were subsequently billed in line with the values accrued.
Key observations	Our retrospective reviews of estimated revenues found that management have historically achieved a high level of accuracy. We considered the estimates for revenue earned in the year to be appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRAX GROUP PLC continued

ACCOUNTING FOR THE ACQUISITION OF DRAX GENERATION ENTERPRISE LIMITED

Key audit matter description	*On 31 December 2018, the Group acquired Drax Generation Enterprise Limited for £686.9m. In accordance with IFRS 3 "Business Combinations", management has recognised the identifiable assets and the liabilities at their acquisition date fair values. Further detail of the key judgements are disclosed in the Group's critical accounting judgements, estimates and assumptions set out on pages 114 to 116, the Audit Committee report on pages 69 to 74, and the acquisition note at 5.1.* We have identified a key audit matter in relation to the assumptions applied in respect of the Purchase Price Allocation (PPA) exercise, identifying in particular judgement related to the fair value of property, plant and equipment (PP&E), goodwill and any intangible assets arising. Goodwill of £74.8m has been recognised.
How the scope of our audit responded to the key audit matter	We evaluated the design and implementation of key controls related to the acquisition process. We tested the acquisition balance sheet and initial fair value adjustments of the acquired businesses including challenging management with regards to the identification and valuation of PP&E, the recognition of intangible assets and identification of liabilities. This was performed by assessing the adjustments applied to the acquired assets and liabilities and determining whether these have been appropriately recorded at fair value. We considered the expertise and approach taken by third party experts engaged by management to perform the PPA exercise. We evaluated the valuation work undertaken to support the acquisition, and whether contradictory evidence to the valuations adopted existed. We also used our internal valuation specialists to review the third party report and identify areas for particular focus in our work.
Key observations	Based on the work performed, we are satisfied that the acquired businesses have been appropriately accounted for in accordance with IFRS 3 "Business Combinations". Initial judgements in valuing PP&E in particular have been applied, including in the determination of depreciated replacement cost values. The disclosures in note 5.1 make clear that the valuation is preliminary and there could be further amendments as the valuations are finalised, in accordance with the requirements of IFRS 3.

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£7.6m (2017: £6.8m)	£4.6m (2017: £4.1m)
Basis for determining materiality	We have determined materiality by considering a range of possible benchmarks but with a particular focus on Adjusted EBITDA, which excludes the impact of exceptional items and certain measurements, together with profit before and after interest and tax as well as the scale of the balance sheet and the overall size of the business. Our selected materiality represents a approximately 3.0% of Adjusted EBITDA for the year (2017: 2.9% of Adjusted EBITDA)	We have capped materiality at 60% of the materiality identified for the Group. This is a judgement and reflects the significant value of investments held on the balance sheet at the year end (£717.0m).
Rationale for the benchmark applied	When determining materiality, we have considered the size and scale of the business and the nature of its operations. We have also considered which benchmarks would be of relevance to the users of the financial statements and those applied to the audit of similar businesses. We consider that Adjusted EBITDA is of particular relevance to users of the financial statements and is a key measure of performance used by the Group, and excludes volatility caused in particular by the remeasurements of derivative contracts.	When determining materiality, we considered the net assets of the company as its principal activity is as an investment holding company for the Group.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.4m (2017: £0.3m) for the parent company and Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our group audit scope primarily on the audit work at five locations, being Drax Power, Haven Power, Opus Energy, Drax Biomass and Drax Generation Enterprise Limited. These represent the principal business units of the Group and account for virtually all of the Group's net assets, revenue and profit before tax. This is in line with 2017, other than Drax Generation Enterprise Limited which is new in the year. A full scope audit was performed for Drax Power, Haven Power and Opus Energy. For Drax Generation Enterprise Limited and Drax Biomass, specific audit procedures were performed in order to support the Group audit opinion. This scope was selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at all locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £3.0m to £5.3m (2017: £3.5m to £5.2m).

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

During 2018 the Senior Statutory Auditor visited Drax Power, and other senior team members also visited Drax Generation Enterprise Limited, Opus Energy and Haven Power. The Senior Statutory Auditor visited Drax Biomass in the US in 2017.

In previous years, a US component team performed the audit of Drax Biomass. In the current year, the Group audit team has performed this audit, following a restructuring of Drax Biomass resulting in more of the finance function being controlled from the UK.

OTHER INFORMATION

We have nothing to report in respect of these matters

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors on page 104 that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the audit committee on pages 69 to 74 does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement on page 58 required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team including all component audit teams and involving relevant internal specialists, including tax, pensions, IT and financial instrument specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified the potential for possible fraud risk in the following areas: the impairment of fixed assets, the valuation of commodity and foreign exchange contracts, the cut off risk for unbilled and billed revenue, the presentation of the Consolidated income statement and the use of working capital transactions to potentially enhance cashflows; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, Pensions legislation, Tax legislation, and Regulations established by regulators in the key markets in which the Group operates, including the Office of Gas and Electricity Markets (Ofgem).

Audit response to risks identified

As a result of performing the above, we identified the presentation of the Consolidated income statement, valuation of commodity and foreign exchange contracts and estimation of retail unbilled revenue as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC;
- in addressing the risk of fraud in the impairment of fixed assets, we have challenged management's underlying assumptions and future cash flow forecasts, benchmarked key market related assumptions including future commodity prices, support mechanisms and discount rates against external data where available, and run sensitivity analysis to assess whether an impairment would be required if a range of more conservative assumptions were adopted;
- in addressing the risk of fraud in revenue recognition, we have performed focussed testing on trades close to the year end combined with analytical review procedures to assess accuracy and completeness of revenue recognised;
- in addressing the risk of fraud in the use of working capital transactions, we have challenged management on the rationale for all transactions entered into and reviewed the accounting treatments adopted by management against the specific contractual terms and arrangements associated with each individual transaction and reviewed the related disclosures in the financial statements; and

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders at the Annual General Meeting on 25 April 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 14 years, covering the years ending 31 December 2005 to 2018, inclusive.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

James Leigh FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

25 February 2019

FINANCIAL STATEMENTS

INTRODUCTION

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

The notes to the financial statements provide additional information on the items in the Consolidated income statement, Consolidated balance sheet and Consolidated cash flow statement. The notes include explanations of the information presented. In general, the additional information in the notes to the financial statements is required by law, International Financial Reporting Standards (IFRS) or other regulations to facilitate increased understanding of the primary statements set out on pages 118-122.

BASIS OF PREPARATION

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 IAS Regulation and the Companies Act 2006.

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

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items are not retranslated.

Foreign exchange gains and losses arising on such revaluations are recognised in the income statement within finance costs.

Foreign operations

The assets and liabilities of foreign operations with a functional currency other than sterling are translated into sterling using published exchange rates at the reporting date. The income and expenditure of such operations are translated into sterling using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the retranslation of the operation's net assets and its results for the year are recognised in the Consolidated statement of comprehensive income.

Going concern

The Group's business activities, along with future developments that may affect its financial performance, position and cash flows, are discussed within the Strategic report on pages 1 to 49 of this Annual Report.

In the viability statement on page 42 the directors state that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years.

Consequently, the directors also have a reasonable expectation that the Group will continue in existence for the next 12 months and, therefore, have adopted the going concern basis in preparing these financial statements.

Basis of consolidation

These consolidated financial statements incorporate the financial results of the Company and of all entities controlled by the Company, (its subsidiaries) made up to 31 December each year. The Company owns 100% of the equity of all subsidiaries.

The Group acquired and gained control of ScottishPower Generation Limited (subsequently renamed Drax Generation Enterprise Limited), a company that owns and operates a portfolio of UK hydro, pumped storage and gas-fired generation assets, at 23:59 on 31 December 2018 (the Acquired Generation Business). The assets and liabilities acquired have been included in the Group's Consolidated balance sheet at 31 December 2018. Due to the timing of the acquisition, no income, expenditure or cash flows are included in the Group's consolidated financial statements in respect of the Acquired Generation Business.

ACCOUNTING POLICIES

The significant accounting policies for the measurement of an individual item in the financial statements are described in the note to the financial statements relating to the item concerned (see contents on page 117).

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early-adopted any standard, interpretation or amendment that has been issued but is not yet effective.

A full listing of new standards, interpretations and pronouncements under IFRS applicable to these financial statements is presented in note 8.2. The application of new requirements has not had a material effect on the financial statements, other than in respect of IFRS 9. The transition to IFRS 9 is described in note 8.3.

Note 8.2 also includes the anticipated impact of IFRS 16 which will affect the financial statements in future periods.

JUDGEMENTS AND ESTIMATES

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

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The judgements involving a higher degree of estimation or complexity are set out below and in more detail, including sensitivity analysis where appropriate, in the related notes.

Critical accounting judgements

The critical judgements made in the process of applying the Group's accounting policies during the year that have the most significant effect on the amounts recognised in the financial statements are set out below.

Capacity market – on 15 November 2018 the General Court of the Court of Justice of the European Union found in favour of a claim against the European Commission, annulling the Commission's State aid approval of the UK Capacity Market. This ruling imposed a standstill period on the Capacity Market, with payments under existing contracts and future capacity auctions suspended indefinitely until reapproval. The Government have since announced that they expect the Capacity Market to be reinstated during 2019, and that back-dated payments will be made to generators who have complied with their capacity obligations during the standstill period.

Following the ruling, the Group ceased to accrue capacity market income in Generation. Revenue accrued but unpaid during the period from 1 October was derecognised due to the current uncertainty over the recovery of these amounts (totalling £7 million).

Reflecting previous Government consultations and the announcement on 7 February 2019 that the Collection Agent expects to recommence collection of the supplier charge from March 2019, including amounts relating to the standstill period, Capacity Market costs have been accrued in the B2B Energy Supply business in full.

The impact of this approach on the Group's financial statements is a reduction in revenue and Adjusted EBITDA of approximately £7 million.

See note 7.6 on **page 171**

On the basis the Group expects the Capacity Market to be reinstated during 2019, with back-payments made to generators, the suspension has not had a material impact on estimates of future cash flows for the purpose of impairment analyses in the Generation business, including the OCGT development projects.

See note 2.4 on **page 128** and note 5.3 on **page 150**

Certain remeasurements and exceptional items – management makes judgements regarding transactions to exclude from the Adjusted Results of the Group, as described under Alternative Performance Measures, below.

See note 2.7 on **page 132**

Acquisition accounting – having assessed the circumstances of the transaction to purchase the Acquired Generation Business on 31 December 2018, it was concluded that the transaction represented the acquisition of a business and not an asset purchase. The Group acquired assets, people and processes. Accordingly, the transaction has been treated as a business combination in the financial statements.

See note 5.1 on **page 148**

Sources of estimation uncertainty

The following are the sources of estimation uncertainty that carry the most significant risk of a material effect on next year's accounts – that is, the items where actual outcomes in the next 12 months could vary significantly from the estimates made in determining the reported amount of an asset or liability.

Property, plant and equipment – property, plant and equipment is depreciated on a straight-line basis over its useful economic life. Useful economic lives are estimated and based on past experience, future replacement cycles and other available evidence. Useful economic lives are reviewed annually.

See note 3.1 on **page 135**

Fair value of acquired assets and liabilities – the assets and liabilities of the Acquired Generation Business have been recognised at fair value in the Group's Consolidated balance sheet. The fair values of the property, plant and equipment have been calculated based on their depreciated replacement cost, before adjusting to reflect either a premium for immediate availability or a provision for economic obsolescence, as appropriate.

In addition, the terms of the acquisition include a risk-sharing mechanism with the vendor that may result in a change to the overall level of consideration payable in the event UK Capacity Market payments are not received during 2019. A further payment may be made by the vendor, or by the Group, as applicable. The value and beneficiary of the further payment is dependent upon the gross profit achieved by the acquired business in 2019 and is capped at £26 million, as described in the Circular of 5 December 2018, published on the Group's website.

On the basis the Group believes that the Capacity Market will be reinstated during 2019, with back-payments made to generators, the fair value of the contingent payment at 31 December 2018 is considered to be £nil. The contingent arrangement could increase or decrease the fair value of the acquisition consideration in these financial statements by up to £26 million.

See note 5.1 on **page 148**

Impairment – an impairment review is conducted annually of goodwill and of other assets and cash-generating units where an indicator of possible impairment exists. In 2018, an impairment assessment has been completed for three of the Group's CGUs which have allocated goodwill or intangible assets with an indefinite life. The assessment of future cash flows that underpins such a review is based on management's best estimate of retail margins, future commodity prices, supply volumes, the capacity market and economic conditions.

See note 2.4 on **page 128** and notes 5.2 and 5.3 on **page 150**

Derivatives – derivative financial instruments are recorded in the Group's balance sheet at fair value. The assessment of fair value is derived from assuming a market price for the instrument in question. The Group bases its assessment of market prices upon forward curves that are largely derived from readily obtainable quotations and third party sources. However, any forward curve is based at least in part upon assumptions about future transactions and market movements. Where such instruments extend beyond the liquid portion of the forward curve, the level of estimation increases as the number of observable transactions decreases.

See note 7.2 on **page 167**

Revenue recognition – the nature of some of the Group's activities, particularly within the B2B Energy Supply segment, results in revenue being based on the estimated volumes of power supplied to customers at an estimated average price per unit. Assumptions that underpin these estimates are applied consistently and comparison of past estimates to final settlements suggests a high degree of accuracy. However, actual outcomes may vary from initial estimates.

Revenue from contracts satisfied over time is recognised in line with the progress of those contracts. Assumptions are applied consistently but actual outcomes may vary from initial estimates.

See note 2.2 on **page 125**

Pensions – the Group records a net surplus or liability in its balance sheet for its obligation to provide benefits under approved defined benefit pension schemes, less the fair value of assets held by the pension schemes. The actuarial valuation of the scheme assets and liabilities is performed annually and depends on assumptions regarding interest rates, inflation, future salary and pension increases, mortality and other factors, any of which are subject to future change.

An actuarial gain on the Group's defined benefit pension scheme has resulted in an accounting surplus arising on the Group's defined benefit pension scheme at 31 December 2018. The terms of the Trust Deed allow the Group to recover any surplus once the liabilities of the scheme have been settled; accordingly, the surplus has been recognised in full as a non-current asset on the balance sheet. The net surplus in 2018 includes an initial estimate of amounts due in respect of the Guaranteed Minimum Pension to equalise pension benefits for men and women, following a High Court ruling in October 2018.

See note 6.3 on **page 157**

Taxation – in accounting for both current and deferred tax the Group makes assumptions regarding the likely treatment of items of income and expenditure for tax purposes. These assumptions are based on interpretation of relevant legislation and, where required, consultation with external advisers.

See note 2.6 on **page 130**

ADOPTION OF IFRS 9 AND IFRS 15

In the year ended 31 December 2018, the Group has applied IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' for the first time.

During the year, the Group reviewed the presentation of gains and losses on derivative financial instruments that do not qualify for hedge accounting in the consolidated income statement. Following this review, the Group has elected to present these amounts in the line item most closely related to the underlying commodity contract. Previously unrealised gains and losses were presented separately. In addition, the Group has elected to apply the 'cost of hedging' provisions of IFRS 9, resulting in certain unrealised gains and losses previously recognised in the income statement being recognised in reserves.

Both of these changes have been applied retrospectively and the prior year financial statements have been restated. See note 8.3 for further details.

Adoption of IFRS 15 has not resulted in any changes to the timing or amount of revenue recognised. See note 8.3 for further details.

ALTERNATIVE PERFORMANCE MEASURES (APMS)

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

Exceptional items are those transactions that, by their nature, do not reflect the trading performance of the Group in the period. For a transaction to be considered exceptional, management considers the nature of the transaction, the frequency of similar events, previous precedent and commercial context. Exceptional items are approved by the Audit Committee.

Certain remeasurements comprise fair value gains and losses on derivative forward contracts to the extent those contracts do not qualify for hedge accounting, or hedge accounting is not effective, which under IFRS are recorded in revenue or cost of sales as described above. The Group regards all of its forward contracting activity to represent an economic hedge. The impact of excluding these fair value remeasurements is to reflect commodity sales and purchases at contracted prices (the price paid or received in respect of delivery of the commodity in question), taking into account the impact of financial trading (such as forward foreign currency purchases), in the Adjusted Results.

Further information on exceptional items and certain remeasurements in the current and previous period is included in note 2.7 to the financial statements.

The Group presents an additional subtotal in the Adjusted Results column. Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, excluding the impact of exceptional items and certain remeasurements. Adjusted EBITDA is the primary measure used by the Board and executive management to assess the financial performance of the Group.

FINANCIAL STATEMENTS CONTENTS

> SECTION 1

CONSOLIDATED FINANCIAL STATEMENTS

118 Consolidated income statement
119 Consolidated statement of comprehensive income
120 Consolidated balance sheet
121 Consolidated statement of changes in equity
122 Consolidated cash flow statement

> SECTION 2

FINANCIAL PERFORMANCE

123 2.1 Segmental reporting
125 2.2 Revenue
127 2.3 Operating expenses
128 2.4 Review of fixed assets for impairment
129 2.5 Net finance costs
130 2.6 Current and deferred taxation
132 2.7 Certain remeasurements and exceptional items
133 2.8 Earnings per share
134 2.9 Dividends
134 2.10 Retained profits

> SECTION 3

OPERATING ASSETS AND WORKING CAPITAL

135 3.1 Property, plant and equipment
137 3.2 Other fixed asset investments
138 3.3 ROC assets
138 3.4 Inventories
139 3.5 Trade and other receivables
141 3.6 Contract costs
141 3.7 Trade and other payables

> SECTION 4

FINANCING AND CAPITAL STRUCTURE

142 4.1 Reconciliation of net debt
142 4.2 Cash and cash equivalents
142 4.3 Borrowings
145 4.4 Cash generated from operations
146 4.5 Equity and reserves

> SECTION 5

OTHER ASSETS AND LIABILITIES

148 5.1 Acquisitions
149 5.2 Goodwill
150 5.3 Intangible assets
152 5.4 Provisions

> SECTION 6

OUR PEOPLE

153 6.1 Employees and directors
153 6.2 Share-based payments
157 6.3 Retirement benefit obligations

> SECTION 7

RISK MANAGEMENT

163 7.1 Financial risk management
167 7.2 Derivative financial instruments
169 7.3 Other financial instruments
170 7.4 Hedge reserve
171 7.5 Cost of hedging reserve
171 7.6 Contingent assets and liabilities
172 7.7 Commitments

> SECTION 8

REFERENCE INFORMATION

173 8.1 General information
173 8.2 Basis of preparation
175 8.3 Adoption of new accounting standards and change in presentation of income statement
177 8.4 Related party transactions
178 8.5 Unaudited Pro forma financial information of the enlarged group

DRAX GROUP PLC

182 Company financial statements
184 Notes to the Company financial statements

SECTION 1: CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2018 Adjusted Results[1] £m	Year ended 31 December 2018 Exceptional items and certain remeasure-ments £m	Year ended 31 December 2018 Total Results £m	Year ended 31 December 2017 Restated[5] Adjusted Results[1] £m	Year ended 31 December 2017 Restated[5] Exceptional items and certain remeasure-ments £m	Year ended 31 December 2017 Restated[5] Total Results £m
Revenue	2.2	4,237.3	(8.3)	4,229.0	3,685.2	(0.9)	3,684.3
Cost of sales		(3,636.3)	46.7	(3,589.6)	(3,140.2)	(176.0)	(3,316.2)
Gross profit		601.0	38.4	639.4	545.0	(176.9)	368.1
Operating and administrative expenses	2.3	(320.0)	–	(320.0)	(297.4)	–	(297.4)
Impairment losses on trade receivables	3.5	(31.4)	–	(31.4)	(18.7)	–	(18.7)
Adjusted EBITDA[2]		249.6			228.9		
Depreciation	3.1	(129.2)	–	(129.2)	(122.7)	–	(122.7)
Amortisation	5.3	(44.6)	–	(44.6)	(43.6)	–	(43.6)
Asset obsolescence charge	3.1	–	(26.8)	(26.8)	–	–	–
Losses on disposals	3.1	(3.9)	–	(3.9)	(15.4)	–	(15.4)
Other gains/(losses)		4.1	–	4.1	(0.4)	–	(0.4)
Acquisition and restructuring costs[3]	2.7	–	(27.7)	(27.7)	–	(7.8)	(7.8)
Operating profit/(loss)		76.0	(16.1)	59.9	46.8	(184.7)	(137.9)
Foreign exchange gains/(losses)	2.5	0.3	–	0.3	(10.6)	–	(10.6)
Interest payable and similar charges [4]	2.5	(40.4)	(7.2)	(47.6)	(31.5)	(24.2)	(55.7)
Interest receivable	2.5	1.2	–	1.2	0.2	–	0.2
Profit/(loss) before tax		37.1	(23.3)	13.8	4.9	(208.9)	(204.0)
Tax:							
– Before effect of changes in rate of tax	2.6	0.2	1.6	1.8	3.2	38.3	41.5
– Prior year patent box credit	2.6	4.8	–	4.8	10.3	–	10.3
– Effect of changes in rate of tax	2.6	(0.2)	–	(0.2)	(15.7)	–	(15.7)
Total tax credit/(charge)		4.8	1.6	6.4	(2.2)	38.3	36.1
Profit/(loss) for the year attributable to equity holders		41.9	(21.7)	20.2	2.7	(170.6)	(167.9)
Earnings/(loss) per share		Pence		Pence	Pence		Pence
– Basic	2.8	10.4		5.0	0.7		(41.3)
– Diluted	2.8	10.3		4.9	0.7		(40.9)

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 2.7 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 includes costs associated with the acquisition and on-boarding of ScottishPower Generation Limited (2018) and Opus Energy Group Limited (2017) into the Group along with costs associated with the restructuring of our Pellet Production and B2B Energy Supply businesses.
(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
(5) Results for the year ended 31 December 2017 have been restated due to the initial application of IFRS 9, see note 8.3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Years ended 31 December	
	Notes	2018 £m	2017 Restated[1] £m
Profit/(loss) for the year		**20.2**	(167.9)
Items that will not be subsequently reclassified to profit or loss:			
Actuarial gains on defined benefit pension scheme	6.3	**15.9**	21.4
Deferred tax on actuarial gains on defined benefit pension scheme	2.6	**(3.0)**	(4.1)
Gain on equity investments		**0.2**	–
Net fair value gains on cost of hedging	7.5	**24.8**	19.5
Deferred tax on cost of hedging	2.6	**(4.7)**	(3.7)
Net fair value gains/(losses) on cash flow hedges	7.4	**164.3**	(137.3)
Deferred tax on cash flow hedges	2.6	**(31.2)**	25.0
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations	4.5	**7.2**	3.4
Net fair value gains on cash flow hedges	7.4	**21.4**	3.8
Deferred tax on cash flow hedges	2.6	**(4.2)**	(0.7)
Other comprehensive income/(expense)		**190.7**	(72.7)
Total comprehensive income/(expense) for the year attributable to equity holders		**210.9**	(240.6)

(1) Results from the year ended 31 December 2017 have been restated due to the initial application of IFRS 9, see note 8.3

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2018 £m	2017 Restated[(1)] £m
Assets			
Non-current assets			
Goodwill	5.2	**244.7**	169.9
Intangible assets	5.3	**228.8**	232.0
Property, plant and equipment	3.1	**2,292.3**	1,661.9
Other fixed asset investments	3.2	**2.4**	1.3
Retirement benefit surplus	6.3	**22.7**	–
Deferred tax assets	2.6	**31.8**	22.7
Derivative financial instruments	7.2	**295.2**	190.7
		3,117.9	2,278.5
Current assets			
Inventories	3.4	**222.5**	272.1
ROC assets	3.3	**216.7**	145.5
Trade and other receivables and contract-related assets	3.5	**468.8**	417.5
Derivative financial instruments	7.2	**215.4**	175.5
Current tax assets	2.6	**–**	6.2
Cash and cash equivalents	4.2	**289.0**	222.3
		1,412.4	1,239.1
Liabilities			
Current liabilities			
Trade and other payables and contract-related liabilities	3.7	**(938.5)**	(732.4)
Amounts payable in respect of acquisitions	5.1	**(686.9)**	(4.1)
Current tax liabilities	2.6	**(7.6)**	–
Borrowings	4.3	**(0.1)**	(18.6)
Derivative financial instruments	7.2	**(89.4)**	(109.6)
		(1,722.5)	(864.7)
Net current (liabilities)/assets		**(310.1)**	374.4
Non-current liabilities			
Borrowings	4.3	**(608.0)**	(571.1)
Derivative financial instruments	7.2	**(62.0)**	(94.2)
Provisions	5.4	**(50.8)**	(36.3)
Deferred tax liabilities	2.6	**(316.0)**	(230.0)
Retirement benefit obligations	6.3	**–**	(1.2)
		(1,036.8)	(932.8)
Net assets		**1,771.0**	1,720.1
Shareholders' equity			
Issued equity	4.5	**47.0**	47.0
Share premium	4.5	**424.7**	424.3
Treasury shares	4.5	**(47.1)**	–
Hedge reserve	7.4	**199.9**	126.1
Cost of hedging reserve	7.5	**(8.9)**	(40.7)
Other reserves	4.5	**712.7**	705.5
Retained profits	2.10	**442.7**	457.9
Total shareholders' equity		**1,771.0**	1,720.1

(1) The balance sheet for the year ended 31 December 2017 has been restated due to the initial application of IFRS 9, see note 8.3

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 25 February 2019.

Signed on behalf of the Board of directors: **Will Gardiner**
Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued equity £m	Share premium £m	Treasury Shares £m	Hedge reserve (restated) £m	Cost of hedging (restated) £m	Other reserves £m	Retained profits (restated) £m	Total £m
At 1 January 2017 – as presented	47.0	424.2	–	305.4	–	702.1	566.5	2,045.2
Adoption of IFRS 9 (note 8.3)	–	–	–	–	(57.5)	–	57.5	–
At 1 January 2017 – restated	47.0	424.2	–	305.4	(57.5)	702.1	624.0	2,045.2
Loss for the year	–	–	–	–	–	–	(167.9)	(167.9)
Other comprehensive (expense)/income	–	–	–	(109.2)	15.8	3.4	17.3	(72.7)
Total comprehensive (expense)/income for the year	**–**	**–**	**–**	**(109.2)**	**15.8**	**3.4**	**(150.6)**	**(240.6)**
Equity dividends paid (note 2.9)	–	–	–	–	–	–	(21.6)	(21.6)
Issue of share capital (note 4.5)	–	0.1	–	–	–	–	–	0.1
Movements on cash flow hedges released directly from equity	–	–	–	(85.7)	–	–	–	(85.7)
Deferred tax on cash flow hedges released directly from equity	–	–	–	15.6	–	–	–	15.6
Movements on cost of hedging released directly from equity	–	–	–	–	1.3	–	–	1.3
Deferred tax on cost of hedging released directly from equity	–	–	–	–	(0.3)	–	–	(0.3)
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	–	6.1	6.1
At 31 December 2017	**47.0**	**424.3**	**–**	**126.1**	**(40.7)**	**705.5**	**457.9**	**1,720.1**
Profit for the year	–	–	–	–	–	–	20.2	20.2
Other comprehensive income/(expense)	–	–	–	150.3	20.1	7.2	13.1	190.7
Total comprehensive income/(expense) for the year	**–**	**–**	**–**	**150.3**	**20.1**	**7.2**	**33.3**	**210.9**
Equity dividends paid (note 2.9)	–	–	–	–	–	–	(52.5)	(52.5)
Issue of share capital (note 4.5)	–	0.4	–	–	–	–	–	0.4
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 4.5)(i)	–	–	(47.1)	–	–	–	–	(47.1)
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	–	4.0	4.0
At 31 December 2018	**47.0**	**424.7**	**(47.1)**	**199.9**	**(8.9)**	**712.7**	**442.7**	**1,771.0**

(i) 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 2018 these shares have not been cancelled and are recognised as treasury shares

(ii) The year ended 31 December 2017 has been restated due to the initial application of IFRS 9, see note 8.3

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Years ended 31 December 2018 £m	2017 £m
Cash generated from operations	4.4	**336.4**	375.7
Income taxes paid		**(1.0)**	(14.0)
Other gains/(losses)		**0.4**	(0.1)
Interest paid		**(25.9)**	(46.6)
Interest received		**1.2**	0.2
Net cash from operating activities		**311.1**	315.2
Cash flows from investing activities			
Purchases of property, plant and equipment		**(103.8)**	(159.0)
Purchases of software assets		**(28.8)**	(15.7)
Other investments		**(0.9)**	–
Acquisition of subsidiaries		**–**	(379.8)
Net cash used in investing activities		**(133.5)**	(554.5)
Cash flows from financing activities			
Equity dividends paid	2.9	**(52.5)**	(21.6)
Proceeds from issue of share capital		**0.4**	0.1
Purchase of own shares		**(47.1)**	–
Repayment of borrowings		**(218.5)**	(493.8)
New borrowings drawn down		**213.3**	768.5
Other financing costs paid		**(7.6)**	(17.9)
Net cash generated (absorbed by)/generated from financing activities		**(112.0)**	235.3
Net increase/(decrease) in cash and cash equivalents		**65.6**	(4.0)
Cash and cash equivalents at 1 January		**222.3**	228.4
Effect of changes in foreign exchange rates		**1.1**	(2.1)
Cash and cash equivalents at 31 December	4.2	**289.0**	222.3

The consideration of £687 million due in respect of the Acquired Generation Business was settled subsequent to the year end on 2 January 2019. There were no material non-cash transactions in either the current or previous year.

The Group recorded a net loss of £21.7 million arising on exceptional items and certain remeasurements in the Consolidated income statement in 2018. Acquisition and restructuring costs of £27.7 million are included in cash generated from operations (see note 4.4) and cash paid in respect of debt restructuring of £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 4.4.

SECTION 2: FINANCIAL PERFORMANCE

The financial performance section gives further information about the items in the Consolidated income statement. It includes a summary of financial performance by each of the Group's businesses (note 2.1), analysis of certain income statement items (notes 2.2–2.6) and information regarding the Adjusted and Total Results, distributable profits and dividends (notes 2.7–2.10). Further commentary on the Group's trading and operational performance during the year, which is predominantly reflected in Adjusted EBITDA, can be found in the Strategic report on pages 1 to 49, with particular reference to key transactions and market conditions that have affected the results.

2.1 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. Our businesses are:

- Power Generation: power generation activities in the UK;
- Pellet Production: production of sustainable compressed wood pellets at our processing facilities in the US; and
- B2B Energy Supply: supply of electricity and gas to business customers in the UK.

The generation assets acquired from ScottishPower will form part of the Power Generation segment. No profit or loss has been recognised in respect of these assets in 2018 as the assets were acquired at 23:59 on 31 December 2018.

The operating segments are consistent with the prior year. Each business is an operating segment for the purpose of segmental reporting. Information reported to the Board for the purposes of assessing performance and making investment decisions is based on these three operating segments. The measure of profit or loss for each reportable segment presented to the Board on a regular basis is Adjusted EBITDA (as defined on page 116).

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 reporting segment for the year ended 31 December 2018. The Board monitors the Adjusted Results for the Group by operating segment as presented in the tables below:

	Year ended 31 December 2018						
	Power Generation £m	B2B Energy Supply £m	Pellet Production £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasure-ments £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					76.0	(16.1)	59.9
Net finance costs					(39.2)	(7.2)	(46.4)
Foreign exchange gains					0.3	–	0.3
Profit before tax					37.1	(23.3)	13.8

2.1 SEGMENTAL REPORTING continued

The following is an analysis of the Group's performance by reporting segment for the year ended 31 December 2017 (restated due to the initial application of IFRS 9, see note 8.3):

	Year ended 31 December 2017 (Restated)						
	Power Generation £m	B2B Energy Supply £m	Pellet Production £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasure-ments £m	Total Results £m
Revenue							
External sales	1,686.2	1,999.0	–	–	3,685.2	(0.9)	3,684.3
Inter-segment sales	1,033.4	–	135.7	(1,169.1)	–	–	–
Total revenue	2,719.6	1,999.0	135.7	(1,169.1)	3,685.2	(0.9)	3,684.3
Segment gross profit	398.4	117.4	39.0	(9.8)	545.0	(176.9)	368.1
Segment Adjusted EBITDA	237.5	29.4	5.5	(9.8)	262.6		
Central costs					(33.7)		
Consolidated Adjusted EBITDA					228.9		
Acquisition and restructuring costs					–	(7.8)	(7.8)
Depreciation and amortisation					(166.3)	–	(166.3)
Other losses					(0.4)	–	(0.4)
Loss on disposal					(15.4)	–	(15.4)
Operating profit/(loss)					46.8	(184.7)	(137.9)
Net finance costs					(31.3)	(24.2)	(55.5)
Foreign exchange losses					(10.6)	–	(10.6)
Profit/(loss) before tax					4.9	(208.9)	(204.0)

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 2018 £m	**Additions to property, plant and equipment 2018 £m**	Additions to intangible assets 2017 £m	Additions to property, plant and equipment 2017 £m
Power Generation	**–**	**86.5**	2.4	77.0
B2B Energy Supply	**28.3**	**2.2**	12.6	17.6
Pellet Production	**0.3**	**20.2**	0.4	66.2
Corporate unallocated	**0.3**	**4.7**	0.6	3.8
Total	**28.9**	**113.6**	16.0	164.6

Additional assets with a fair value of £690.6 million were acquired as part of the business combination described in note 5.1.

Total cash outflows in relation to capital expenditure during the year were £132.6 million (2017: £174.7 million). Key capital investments in the year include the conversion of the fourth unit at Drax Power Station to run on biomass fuel and preparatory work for the repowering of the fifth and sixth units to gas (Power Generation); investment in digital transformation in the B2B Energy Supply segment; and expansion projects in the Pellet Production segment. The prior year includes £48 million for the purchase of the LaSalle Bioenergy pellet plant.

2.1 SEGMENTAL REPORTING continued

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 2018, the Pellet Production segment sold wood pellets with a total value of £213.7 million (2017: £135.7 million) to the Power Generation segment and the Power Generation segment sold electricity, gas and ROCs with a total value of £1,336.7 million (2017: £1,033.4 million) to the B2B Energy Supply 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 2018 includes £555.8 million from one individual customer (2017: no amounts from any individual customer) that represented 10% or more of total revenue for the year. These revenues arose in the Power Generation segment.

2.2 REVENUE

Accounting policy

The Group has adopted IFRS 15 for the first time in 2018. The accounting policies have been updated, however the amount and timing of revenue recognition in the Group's financial statements is unchanged (see note 8.3).

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.

Revenues from the sale of electricity by our Power Generation business are measured based upon metered output delivered at rates specified under contract terms or prevailing market rates as applicable.

Following conversion of the fourth unit in July 2018, three biomass-fuelled generating units at Drax Power Station 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. A corresponding asset is recognised on the balance sheet (see note 3.3). Revenue from sale of ROCs is recognised when the ROC is transferred to a third party.

The Group recognises the income or costs arising from the 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 B2B Energy Supply 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 B2B Energy Supply 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.

2.2 REVENUE continued

CfD payments

The Group is party to a Contract for Difference (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 2018 was £111 per MWh.

When market prices at the point of generation are above/below the strike price, the Group makes/receives an additional payment to/from LCCC equivalent to the difference between the market power price at the point of dispatch and the strike price. 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 2018 we are in CP17.

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 inflation. The buy-out price in CP17 is £47.22. ROCs are typically procured in arm's-length transactions with renewable generators at a market price typically 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 ROC generators.

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 and the expected 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 our working capital position. External sales of ROCs in the table below include £555.8 million of such sales (2017: £201.2 million), with a similar value reflected in cost of sales. See note 3.3 for further details of ROCs generated and sold by the Power Generation business and those utilised by the B2B Energy Supply business in the year.

Further analysis of revenue for the year ended 31 December 2018 is provided in the table below:

	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 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
B2B Energy Supply			
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

Certain remeasurements of £(8.3) million (2017: £(0.9) million) are comprised of gains and losses on gas derivative contracts not designated into hedge accounting relationships under IFRS 9. Power Generation electricity sales includes £4.3 million proceeds from an insurance claim received in the year (2017: £4.0 million).

2.2 REVENUE continued

The following is an analysis of the Group's revenues for the year ended 31 December 2017:

	Year ended 31 December 2017 (Restated) External £m	Intra-group £m	Total £m
Power Generation			
Electricity sales	1,030.9	774.5	1,805.4
ROC and LEC sales	367.8	258.9	626.7
CfD income	248.2	–	248.2
Ancillary services	30.7	–	30.7
Other income	8.6	–	8.6
B2B Energy Supply			
Electricity and gas sales	1,933.9	–	1,933.9
Pellet sales	6.3	–	6.3
Other income	58.8	–	58.8
Pellet Production			
Pellet sales	–	135.7	135.7
Elimination of intra-group sales	–	(1,169.1)	(1,169.1)
Total adjusted consolidated revenue	3,685.2	–	3,685.2
Certain remeasurements	(0.9)	–	(0.9)
Total consolidated revenue	3,684.3	–	3,684.3

2.3 OPERATING EXPENSES

This note sets out the material components of Operating and administrative expenses in the Consolidated income statement, page 118, and a detailed breakdown of the fees paid to our auditor, Deloitte LLP, in respect of services they provided to the Group during the year.

	Years ended 31 December **2018 £m**	2017 Restated £m
The following expenditure has been charged in arriving at operating profit:		
Staff costs (note 6.1)	**145.7**	137.1
Repairs and maintenance expenditure on property, plant and equipment	**45.7**	50.7
Other operating and administrative expenses	**128.6**	109.6
Total operating and administrative expenses	**320.0**	297.4

The prior year has been restated for the initial application of IFRS 9 (see note 8.3).

Operating lease costs of £3.3 million in respect of land and buildings and £1.6 million in respect of other operating leases (2017: £2.3 million and £5.7 million) are included in other operating and administrative expenses.

2.3 OPERATING EXPENSES continued

Auditor's remuneration

	Years ended 31 December 2018 £000	2017 £000
Audit fees:		
Fees payable for the audit of the Group's consolidated financial statements	**905.1**	652.8
Fees payable for the audit of the Company's subsidiaries	**32.4**	31.4
	937.5	684.2
Other fees:		
Review of the Group's half-year condensed consolidated financial statements	**91.0**	88.5
Other services	**2.0**	2.0
Total audit-related fees	**1,030.5**	774.7
Other assurance services	**1,335.0**	125.0
Other non-audit fees	**139.0**	–
Total non-audit fees	**1,474.0**	125.0
Total auditor's remuneration	**2,504.5**	899.7

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 2018 consist of agreed upon procedures and other assurance services provided in connection with the bond finance raised in April 2018, and reporting accountant and related services for the Class I circular issued for the ScottishPower transaction in December 2018 (2017: assurance and agreed-upon procedures performed in relation to the bond finance raised in May 2017).

Other non-audit fees 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)** and discussed further in the Audit Committee report on page 69.

2.4 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. The Group considers the smallest collections of assets that generate independent cash flows to be its operating entities (Drax Power, Haven Power, Opus Energy, Drax Biomass and the OCGTs) and accordingly considers the Group to be comprised of five CGUs.

The assets of the Acquired Generation Business have been recognised on the Group's Consolidated balance sheet as at 31 December 2018 at fair value (see note 5.1). These assets are therefore not included in the impairment review at 31 December 2018.

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 our 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 (see note 5.2 and 5.3).

2.4 REVIEW OF FIXED ASSETS FOR IMPAIRMENT continued

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 and Drax Biomass). The review considered the effect on previously calculated headroom of movements in market prices for commodities and changes in foreign exchange rates. The review also considered the impact of the recent suspension in Capacity Market payments. The Group's core planning assumption reflects the belief that the UK electricity market needs a capacity mechanism to ensure continuity of supply and that the Capacity Market will be reinstated during 2019. As a result, estimates of future cash flows are not materially affected by the current suspension. Separate consideration has been given to the impact on the OCGT development assets, see note 5.3.

2.5 NET FINANCE COSTS

Finance costs reflect expenses incurred in managing our debt structure (such as interest payable on our bonds) as well as foreign exchange gains and losses, the unwinding of discount on provisions for reinstatement of our sites at the end of their useful lives (see note 5.4) and net interest charged on the Group's defined benefit pension scheme obligation (see note 6.3). 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 26 April 2018, the Group issued loan notes of USD $300 million, listed on the Luxembourg Stock Exchange. The proceeds of the issue were used to repay in full the £200 million floating rate loan notes issued in 2017. Incremental costs of the new borrowing (£3.8 million) have been deferred and are being amortised over the period to maturity of the debt instrument. Deferred costs of £5.2 million in relation to the floating rate notes have been written off in the period, in addition to an early repayment charge of £2.0 million (2017: deferred costs of £10.4 million and early repayment charges of £13.8 million in relation to the refinancing of the Group's previous debt structure).

As described in note 2.7, these costs 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 4.3.

	Years ended 31 December	
	2018 £m	2017 £m
Interest payable and similar charges:		
Interest payable on borrowings	**(36.3)**	(25.6)
Unwinding of discount on provisions (note 5.4)	**(0.9)**	(0.7)
Amortisation of deferred finance costs	**(3.1)**	(3.5)
Net finance cost in respect of defined benefit scheme (note 6.3)	**0.1**	(0.5)
Other financing charges	**(0.2)**	(1.2)
Total interest payable and similar charges included in adjusted results	**(40.4)**	(31.5)
Interest receivable:		
Interest income on bank deposits	**1.2**	0.2
Total interest receivable included in adjusted results	**1.2**	0.2
Foreign exchange gains/(losses) included in adjusted results	**0.3**	(10.6)
Total recurring net interest charge included in adjusted results	**(38.9)**	(41.9)
Exceptional costs of debt restructure:		
Fees to exit existing facilities	**(2.0)**	(13.8)
Acceleration of deferred costs in relation to previous facilities	**(5.2)**	(10.4)
Total exceptional costs of debt restructure	**(7.2)**	(24.2)
Total net interest charge	**(46.1)**	(66.1)

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

2.6 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 2018 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.

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	
	2018 £m	2017 Restated £m
Total tax charge/(credit) comprises:		
Current tax		
– Current year	17.0	20.3
– Adjustments in respect of prior periods	(5.2)	(10.6)
Deferred tax		
– Before impact of tax rate changes	(18.4)	(61.5)
– Impact of tax rate changes	0.2	15.7
Total tax credit	(6.4)	(36.1)

	Years ended 31 December	
	2018 £m	2017 Restated £m
Tax charged/(credited) on items recognised in other comprehensive income:		
Deferred tax on actuarial gains/(losses) on defined benefit pension scheme	3.0	4.1
Deferred tax on cash flow hedges	35.4	(24.3)
Deferred tax on cost of hedging	4.7	3.7
	43.1	(16.5)

2.6 CURRENT AND DEFERRED TAXATION continued

	2018 £m	2017 Restated £m
	Years ended 31 December	
Tax charged/(credited) on items released directly from equity:		
Deferred tax on cost of hedging	2.8	0.2
Deferred tax on cash flow hedges	(17.7)	(15.6)
	(14.9)	(15.4)

UK corporation tax is the main rate of tax for the Group and is calculated at 19.00% (2017: 19.25%) 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 2018			Year ended 31 December 2017		
	Adjusted Results £m	Exceptional items and certain remeasurments £m	Total Results £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results (Restated) £m
Profit/(loss) before tax	37.1	(23.3)	13.8	4.9	(208.9)	(204.0)
Profit/(loss) before tax multiplied by the rate of corporation tax in the UK of 19.00% (2017: 19.25%)	7.0	(4.4)	2.6	0.9	(40.2)	(39.3)
Effects of:						
Adjustments in respect of prior periods	(5.7)	–	(5.7)	(11.8)	–	(11.8)
Expenses not deductible for tax purposes	1.1	3.5	4.6	–	1.3	1.3
Impact of change to tax rate	0.2	–	0.2	15.7	–	15.7
Difference in overseas tax rates	(0.3)	–	(0.3)	(3.0)	–	(3.0)
Patent box benefit	(8.1)	–	(8.1)	(2.6)	–	(2.6)
Other	1.0	(0.7)	0.3	3.0	0.6	3.6
Total tax (credit)/charge	(4.8)	(1.6)	(6.4)	2.2	(38.3)	(36.1)

As a result of the reduction in the US federal tax rates from 2018 to 21%, and tax relief now arising to the Group from the UK Patent Box regime (see below), in the medium term we anticipate our Group underlying effective tax rate to 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 now entitled to apply a lower rate of tax to some of its profits each year which are derived from utilisation of that technology. Adjustments in respect of prior periods includes a claim agreed in respect of the Patent Box regime for previous years of £4.8 million (2017: £10.3 million).

2.6 CURRENT AND DEFERRED TAXATION continued

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 2017	(100.8)	(170.9)	–	–	38.8	(25.6)	16.8	(241.7)
Acquisition of Opus Energy	–	–	–	(40.7)	–	–	–	(40.7)
Credited/(charged) to the income statement	33.7	8.7	–	7.5	(8.5)	7.1	(2.7)	45.8
Charged to other comprehensive income in respect of actuarial gains	–	–	–	–	–	–	(4.1)	(4.1)
Credited to other comprehensive income in respect of cash flow hedges	24.3	–	–	–	–	–	–	24.3
Charged to other comprehensive income in respect to cost of hedging	(3.7)	–	–	–	–	–	–	(3.7)
Credited to equity in respect of cash flow hedges	15.6	–	–	–	–	–	–	15.6
Charged to equity in respect of cost of hedging	(0.3)	–	–	–	–	–	–	(0.3)
Effect of changes in foreign exchange rates	–	1.2	–	–	(3.4)	–	(0.3)	(2.5)
At 1 January 2018	**(31.2)**	**(161.0)**	**–**	**(33.2)**	**26.9**	**(18.5)**	**9.7**	**(207.3)**
Effect of acquisition	**–**	**(48.5)**	**–**	**–**	**–**	**(20.0)**	**–**	**(68.5)**
(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 of 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 31 December 2018	**(63.8)**	**(203.0)**	**2.0**	**(26.1)**	**22.2**	**(33.2)**	**17.7**	**(284.2)**
Deferred tax balances (after offset) for financial reporting purposes:								
Net deferred tax asset	**–**	**(11.1)**	**2.0**	**–**	**22.2**	**–**	**18.7**	**31.8**
Net deferred tax liability	**(63.8)**	**(191.9)**	**–**	**(26.1)**	**–**	**(33.2)**	**(1.0)**	**(316.0)**

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

Within the above deferred tax balances is a net deferred tax asset of £31.8 million (2017: £22.7 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 generating sufficient profits in future periods against which to utilise this asset.

2.7 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, the Board and the analysts 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 ScottishPower Generation Limited (2018) and Opus Energy Group Limited (2017) into the Group, along with costs associated with the restructuring of the Pellet Production and B2B Energy Supply businesses.

2.7 CERTAIN REMEASUREMENTS AND EXCEPTIONAL ITEMS continued

- Costs incurred as a result of restructuring the Group's debt in 2018 and 2017, including facility break costs and the acceleration of the amortisation of deferred finance costs associated with the redeemed facilities.
- Asset obsolescence charges relating to coal-specific assets written-off following the conversion of the fourth unit at Drax Power Station to run on biomass.

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	
	2018 £m	2017 Restated £m
Exceptional items:		
Acquisition and restructuring costs	**(27.7)**	(7.8)
Asset obsolescence charges	**(26.8)**	–
Exceptional items included within Operating Profit	**(54.5)**	(7.8)
Cost of debt restructure	**(7.2)**	(24.2)
Exceptional items included in Profit Before Tax	**(61.7)**	(32.0)
Taxation on Exceptional items	**9.0**	4.7
Exceptional items after taxation	**(52.7)**	(27.3)
Remeasurements:		
Net remeasurements included in Gross Profit	**38.4**	(176.9)
Taxation on certain remeasurements	**(7.4)**	33.6
Remeasurements after taxation	**31.0**	(143.3)
Reconciliation:		
Adjusted results	**41.9**	2.7
Exceptional items after tax	**(52.7)**	(27.3)
Remeasurements after tax	**31.0**	(143.3)
Profit/(loss) after tax	**20.2**	(167.9)

The prior year has been restated due to the initial application of IFRS 9 see note 8.3.

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 – see note 6.2) were exercised and treated as ordinary shares as at the balance sheet date.

	Years ended 31 December	
	2018	2017 Restated
Earnings/(loss) attributable to equity holders of the Company (£m)	**20.2**	(167.9)
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**402.4**	406.8
Effect of dilutive potential ordinary shares under share plans	**4.5**	3.5
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	**406.9**	410.3
Earnings/(loss) per share – basic (pence)	**5.0**	(41.3)
Earnings/(loss) per share – diluted (pence)	**4.9**	(40.9)

Repurchased shares (see note 4.5) are not included in the weighted average calculation of shares. Application of the same calculation to Adjusted profit after tax of £41.9 million results in Adjusted basic EPS of 10.4 pence and Adjusted diluted EPS of 10.3 pence (2017: Adjusted profit after tax of £2.7 million, Adjusted basic EPS of 0.7 pence and Adjusted diluted EPS of 0.7 pence).

Prior year EPS has been restated due to the initial application of IFRS 9, see note 8.3.

2.9 DIVIDENDS

	Years ended 31 December	
	2018 £m	2017 £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 2018 of 5.6 pence per share paid on 12 October 2018 (2017: 4.9 pence per share paid on 4 October 2017)	**22.4**	20.0
Final dividend for the year ended 31 December 2017 of 7.4 pence per share paid on 11 May 2018 (2016: 0.4 pence per share paid on 12 May 2017)	**30.1**	1.6
	52.5	21.6

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 2018 of 8.5 pence per share (equivalent to approximately £33.6 million) payable on or before 10 May 2019. The final dividend has not been included as a liability as at 31 December 2018. This would bring total dividends payable in respect of the 2018 financial year to £56.0 million.

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.

2.10 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	
	2018 £m	2017 Restated £m
At 1 January	**457.9**	624.0
Profit/(loss) for the year	**20.2**	(167.9)
Actuarial gains on defined benefit pension scheme (note 6.3)	**15.9**	21.4
Deferred tax on actuarial gains on defined benefit pension scheme (note 2.6)	**(3.0)**	(4.1)
Equity dividends paid (note 2.9)	**(52.5)**	(21.6)
Gain on equity investment	**0.2**	–
Net movements in equity associated with share-based payments (note 6.2)	**4.0**	6.1
At 31 December	**442.7**	457.9

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 financial statements, set out on pages 182 to 187 of this Annual report, disclose the Parent Company's distributable reserves of £233.6 million. Sufficient reserves are available across the Group as a whole to make future distributions in accordance with the Group's dividend policy for the foreseeable future.

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

The immediate cash resources of the Group of £289.0 million are set out in note 4.2 and the recent history of cash generation within note 4.4. 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 4.3) 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.

SECTION 3: OPERATING ASSETS AND WORKING CAPITAL

This section gives further information on the operating assets we use to generate revenue and the short-term liquid assets and liabilities, managed during day-to-day operations, that comprise our working capital balances.

3.1 PROPERTY, PLANT AND EQUIPMENT

This note shows the cost, depreciation and net book value of the physical assets controlled by us that we use in our businesses to generate revenue. The cost of an asset is what we paid to purchase or construct the asset. Depreciation reflects the usage of the asset over time and is calculated by taking the cost of the asset, net of any residual value, to the income statement evenly over the useful economic life of the asset. An asset's net book value is its cost less any depreciation (including impairment, if required) charged to date.

Accounting policy

Property, plant and equipment are initially measured at cost. Cost comprises the purchase price (after deducting trade discounts and rebates), any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimate of the present value of the costs of dismantling and removing the item and restoring the site. Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment in value.

We construct many of our assets as part of long-term development projects. Assets that are in the course of construction are not depreciated until they are ready for us to use in the way intended. This category has been shown separately for the first time in 2018.

Depreciation is provided on a straight-line basis to write down assets to their residual value evenly over their estimated useful economic lives (UEL) of the assets from the date of acquisition (where relevant, limited to the expected decommissioning date of the power station – currently expected to be 2039). The table below shows the range of useful lives at the date of acquisition and the average remaining useful life at the balance sheet date of the main categories of asset we own in years:

	Average UEL remaining	Range of UELs at acquisition
Freehold buildings	23	8–33
Plant and equipment		
Electricity generation assets:		
Drax Power Station common plant	13	2–33
Drax Power Station biomass-specific assets	17	2–26
Drax Power Station coal-specific assets	5	3–19
Pellet production plant	14	5–20
Other plant, machinery and equipment	5	1–33
Decommissioning asset	21	34
Plant spare parts	21	Up to 34

Freehold land held at cost is considered to have an unlimited useful life and is not depreciated.

Electricity generation assets are grouped according to the fuel type of the plant. Certain assets at Drax Power Station are common to the whole plant and are shown separately.

Pellet production plant includes the US-based assets of the Group's Pellet Production segment.

Within the plant and equipment categories shorter lives are attributed to components that are overhauled and upgraded as part of rolling outage cycles. The majority of assets within these categories have a remaining useful life in excess of 15 years.

Plant spare parts are depreciated over the remaining useful life of the power station.

Costs relating to major inspections, overhauls and upgrades to the power station are included in the asset's carrying amount or recognised as a separate asset, as appropriate, if the recognition criteria are met; namely, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

Estimated useful lives and residual values are reviewed annually, taking into account regulatory change and commercial and technological obsolescence, as well as normal wear and tear. Residual values are based on prices prevailing at the balance sheet date. Any changes are applied prospectively.

3.1 PROPERTY, PLANT AND EQUIPMENT continued

Significant estimation uncertainty

Asset lives are reviewed annually at each balance sheet date. Following the Government's announcement relating to the cessation of coal generation, the Group concluded that coal generation will cease during 2025, but that the two existing coal units will be retained for conversion to alternative fuels in the period to 2039. The useful lives of electricity generation plant currently fuelled by biomass are unaffected by this change. No changes to the useful economic lives of assets have been made as a result of the most recent review.

At each balance sheet date the Group reviews its property, plant and equipment to determine whether there is any indication that these assets may be impaired. The Group's accounting policy in respect of impairment, along with details of the impairment review conducted during 2018, are set out in note 2.4.

	Freehold land and buildings £m	Plant and equipment £m	Plant spare parts £m	Assets under course of construction £m	Total £m
Cost:					
At 1 January 2017	288.3	2,080.8	64.6	120.5	2,554.2
Acquired in business combination	4.9	4.1	–	–	9.0
Additions at cost	17.1	8.5	9.0	129.8	164.4
Disposals	(6.4)	(29.9)	–	–	(36.3)
Issues/transfers	0.2	110.5	(6.6)	(101.1)	3.0
IT software transferred to intangible assets	–	(39.4)	–	–	(39.4)
At 1 January 2018	**304.1**	**2,134.6**	**67.0**	**149.2**	**2,654.9**
Acquired in business combination (note 5.1)	159.3	521.8	–	8.9	690.0
Additions at cost	3.6	8.8	8.7	92.5	113.6
Disposals	(2.8)	(80.2)	–	(1.2)	(84.2)
Issues/transfers during the year	14.0	108.6	(9.7)	(128.1)	(15.2)
At 31 December 2018	**478.2**	**2,693.6**	**66.0**	**121.3**	**3,359.1**
Accumulated depreciation and impairment:					
At 1 January 2017	59.3	834.9	18.5	–	912.7
Depreciation charge for the year	11.4	109.9	1.4	–	122.7
Acquired in business combination	–	2.4	–	–	2.4
Disposals	(3.4)	(16.6)	0.2	–	(19.8)
IT software transferred to intangible assets	–	(25.0)	–	–	(25.0)
At 1 January 2018	**67.3**	**905.6**	**20.1**	**–**	**993.0**
Depreciation charge for the year	12.0	114.4	2.8	–	129.2
Disposals	(2.3)	(50.8)	(2.3)	–	(55.4)
At 31 December 2018	**77.0**	**969.2**	**20.6**	–	**1,066.8**
Net book amount at 31 December 2017	236.8	1,229.0	46.9	149.2	1,661.9
Net book amount at 31 December 2018	**401.2**	**1,724.4**	**45.4**	**121.3**	**2,292.3**

Disposals include obsolete assets with a net book value of £26.8 million which have been written off in 2018 following the conversion of the fourth unit at Drax Power station to biomass.

3.1 PROPERTY, PLANT AND EQUIPMENT continued

Plant and equipment shown above includes the following categories of assets:

	Biomass and coal plant £m	Hydro-electric plant £m	Gas thermal plants £m	Pellet production plant £m	Other £m	Total plant and equipment £m
Cost:						
At 1 January 2017	1,891.6	–	–	180.3	8.9	2,080.8
Acquisition of Opus Energy	–	–	–	–	4.1	4.1
Additions at cost	8.5	–	–	–	–	8.5
Disposals	(29.9)	–	–	–	–	(29.9)
Issues/transfers	104.8	–	–	5.4	0.3	110.5
IT software transferred to intangible assets	(36.9)	–	–	–	(2.5)	(39.4)
At 1 January 2018	**1,938.1**	–	–	**185.7**	**10.8**	**2,134.6**
Acquired in business combinations (note 5.1)	–	379.5	120.8	21.5	–	521.8
Additions at cost	–	–	–	5.3	3.5	8.8
Disposals	(80.1)	–	–	–	(0.1)	(80.2)
Issues/transfers	66.6	–	–	43.8	(1.8)	108.6
At 31 December 2018	**1,924.6**	**379.5**	**120.8**	**256.3**	**12.4**	**2,693.6**
Accumulated depreciation and impairment:						
At 1 January 2017	812.7	–	–	18.2	4.0	834.9
Depreciation charge for the year	98.9	–	–	10.6	0.4	109.9
Acquisition of Opus Energy	–	–	–	–	2.4	2.4
Disposals	(16.6)	–	–	–	–	(16.6)
IT software transferred to intangible assets	(25.0)	–	–	–	–	(25.0)
At 1 January 2018	**870.0**	–	–	**28.8**	**6.8**	**905.6**
Depreciation charge for the year	94.9	–	–	17.8	1.7	114.4
Disposals	(50.7)	–	–	(0.1)	–	(50.8)
At 31 December 2018	**914.2**	–	–	**46.5**	**8.5**	**969.2**
Net book amount at 31 December 2017	1,068.1	–	–	156.9	4.0	1,229.0
Net book amount at 31 December 2018	**1,010.4**	**379.5**	**120.8**	**209.8**	**3.9**	**1,724.4**

Plant and equipment includes assets held under finance lease agreements with a carrying value at 31 December 2018 of £0.9 million (2017: £1.1 million).

Issues and transfers reflect changes in the categorisation of assets during the period e.g. when an asset under construction is complete, it is transferred to the relevant depreciable asset category, or the issue of spare parts for use in repair and maintenance projects. When spares are utilised in such projects, the cost of the part is transferred from the property, plant and equipment balance and recognised as an expense in the income statement within operating costs.

3.2 OTHER FIXED ASSET INVESTMENTS

Other fixed asset investments include equity investments held by the Group.

Accounting policy

Other fixed asset investments are recognised at fair value, based on quoted market prices where available, at the date of transfer. The Group designates its investments as at fair value through other comprehensive income, as they are intended to be held and not traded, in accordance with IFRS 9. Where quoted market prices are not available and investments cannot be fair valued, they are held at cost and are reviewed for impairment annually.

	Years ended 31 December	
	2018 £m	2017 £m
At 1 January	**1.3**	–
Additions	**0.9**	1.6
Fair value gains/(losses)	**0.2**	(0.3)
At 31 December	**2.4**	1.3

During the year, the Group invested in C-Capture Limited. As these shares are not listed, a value cannot be reliably estimated and the investment is held at cost.

SECTION 3: OPERATING ASSETS AND WORKING CAPITAL continued

3.3 ROC ASSETS

We earn Renewable Obligation Certificate (ROC) assets, which are accredited by the Office for Gas and Electricity Markets (Ofgem), as a result of burning sustainable compressed wood pellets to generate electricity. This note sets out the value of these assets that we hold at the year end.

Accounting policy

ROCs are recognised as current assets in the period they are generated and are initially measured at fair value based on anticipated sales prices. The value of ROCs earned is recognised in the income statement as a reduction in fuel costs in that period.

Where our B2B Energy Supply business incurs an obligation to deliver ROCs to Ofgem, that obligation is provided for in the period incurred.

At each reporting date the Group reviews the carrying value of ROC assets held against updated anticipated sales prices. Where relevant, this takes account of agreed forward sale contracts and the likely utilisation of ROCs generated to settle our own ROC obligations. Any impairment is recognised in the period incurred.

Significant estimation uncertainty

The fair values and net realisable values of ROCs referred to above are calculated based on assumptions regarding future sales prices in the market, taking into account agreed forward sale contracts where appropriate. Historic experience indicates that the assumptions used in the valuation are reasonable; however, actual sales prices may differ from those assumed.

ROC valuations also include an estimate of the future benefit that may be obtained from the ROC recycle fund at the end of the compliance period. The recycle fund provides a benefit where supplier buy-out charges (incurred by suppliers who do not procure sufficient ROCs to satisfy their obligations) are paid over to renewable generators on a pro-rata basis. The estimate is based on assumptions about likely levels of renewable generation and supply over the compliance period and is thus subject to some uncertainty. The Group utilises external sources of information in addition to its own forecasts in making these estimates. Past experience indicates that the values arrived at are reasonable but they remain subject to possible variation.

	Total £m
Carrying amount:	
At 1 January 2017	257.6
Earned from generation	480.9
Purchased from third parties	33.7
Utilised by our B2B Energy Supply business	(258.8)
Sold to third parties	(367.9)
At 1 January 2018	**145.5**
Earned from generation	**467.7**
Purchased from third parties	**582.6**
Utilised by our B2B Energy Supply business	**(319.8)**
Sold to third parties	**(659.3)**
At 31 December 2018	**216.7**

Recognition of revenue from sales of ROCs is described in further detail on page 126. The Group has increased sales and purchases of ROCs in the year as a result of working capital arrangements as described in note 4.4.

3.4 INVENTORIES

We hold stocks of fuels and other consumable items that we use in the process of generating electricity and raw materials used in the production of compressed wood pellets. This note shows the cost of coal, biomass, other fuels and plant consumables held at the end of the year, including items at Drax Power Station, our facilities in the US and those off-site locations.

Accounting policy

Our raw materials and fuel stocks are valued at the lower of the weighted average cost to purchase and net realisable value.

The cost of fuel stocks includes all direct costs and overheads incurred in bringing the fuel to its present location and condition, including the purchase price, import duties and other taxes (including amounts levied on coal under the UK carbon price support mechanism) and transport/handling costs. The Group uses forward foreign currency exchange contracts to hedge the costs denominated in foreign currencies. Where these contracts are designated into hedge relationships in accordance with IFRS 9, the stock cost is recognised at the hedged value. In previous periods, the cost of fuel stock also included gains and losses arising from fair value changes on maturing derivative contracts that did not qualify for hedge accounting. This practice has been discontinued and all such gains and losses are now included in cost of sales when they arise. The prior year has not been restated for this change in policy as the impact was not material.

3.4 INVENTORIES continued

Both coal and biomass stocks are weighed when entering, moving within or exiting our sites using technology regularly calibrated to industry standards. Fuel burn in the electricity generation process is calculated using a combination of weights and thermal efficiency calculations to provide closing stock volumes. Both calibrated weighers and efficiency calculations are subject to a range of tolerable error. All fuel inventories are subject to regular surveys to ensure these measurements are sufficiently accurate.

Coal stocks are verified by an independent stock survey carried out by a suitably trained specialist and a provision is made where the survey indicates a lower level of stock than indicated by the methods described above. Despite being an independent process, the survey depends on estimates and assumptions and as a result actual values may differ.

The characteristics of biomass require specialist handling and storage. On-site biomass at Drax Power Station is stored in sealed domes with a carefully controlled atmosphere for fire prevention purposes and thus cannot be surveyed using traditional methods. Biomass stock is surveyed using regularly calibrated state-of-the-art RADAR scanning technology.

	As at 31 December	
	2018 £m	2017 £m
Coal	**81.0**	44.5
Biomass	**114.7**	205.2
Other fuels and consumables	**26.8**	22.4
	222.5	272.1

Inventories of biomass include £0.6 million of fibre and other raw materials utilised in the production of compressed wood pellets (2017: £1.5 million) and £0.9 million of work in progress (2017: £0.1 million) in our Pellet Production business.

Other fuels and consumables include £4.4 million of consumables acquired as part of the ScottishPower acquisition.

The cost of inventories recognised as an expense in the year ended 31 December 2018 was £1,601.1 million (2017: £1,285.8 million).

3.5 TRADE AND OTHER RECEIVABLES

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

Accounting policy

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost. A provision for impairment of trade receivables is measured at an amount equal to the lifetime expected credit loss. The transition to IFRS 9 has not had a significant impact on the calculation of the provision.

	Years ended 31 December	
	2018 £m	2017 Restated £m
Amounts falling due within one year:		
Trade receivables	**162.6**	125.7
Accrued income	**197.0**	203.7
Contract assets	**4.3**	5.3
Prepayments and other receivables	**104.9**	82.8
	468.8	417.5

Trade receivables and accrued income principally represent sales of energy to counterparties within both our Power Generation and B2B Energy Supply businesses. At 31 December 2018, the Group had amounts receivable from two (2017: five) significant counterparties representing 12% (2017: 20%) of total trade receivables and accrued income.

Of total trade receivables and acrrued income at 31 December 2018 £266.6 million (2017: £255.7 million) relates to B2B Energy Supply sales.

Contract assets have been separated from accrued income for the first time on application of IFRS 15. The 2017 figures have been updated on the same basis. Contract assets relate to amounts for goods or services provided under customer contracts, where the entitlement to consideration is contingent on something other than the passage of time. The Group has recognised a contract asset for any work performed where payment is not yet due. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer, usually in the following financial period.

3.5 TRADE AND OTHER RECEIVABLES continued

The movement in the allowance for doubtful debts is laid out in the following table:

	Years ended 31 December	
	2018 £m	2017 £m
At 1 January	**28.2**	4.0
Receivables written off	**(15.6)**	(14.2)
Additional amounts provided against	**33.6**	18.7
Acquisition	–	19.7
Amounts reversed as recovered	**(0.8)**	–
Changes in models/risks parameters	**(1.4)**	–
At 31 December	**44.0**	28.2

The Group does not consider there to be any requirement for further provisions in excess of the provision for doubtful debts of £44.0 million (2017: £28.2 million). This provision, which principally relates to B2B Energy Supply receivables, has been determined using a lifetime expected credit loss calculation. Assumptions made regarding the recoverability of balances have been determined with reference to past default experiences in line with our policies and future prospects reflecting our understanding of our customer base. Specific balances are provided against where default events have occurred. Balances are only written off if deemed irrecoverable after all credit control procedures have been exhausted or the customer is in administration.

The expected credit loss rates have been reviewed and updated during 2018 in order to reflect current cash collection rates in the B2B Energy Supply business and expectations of future cash collection rates. The change in rates applied has not had a material impact on the total provision in the current period and is not expected to significantly impact future periods. However, it has resulted in more balances having a provision applied. As a result, the value of trade receivables that are past due but are completely unprovided against, in accordance with the assessment described above, has reduced to £1.2 million (2017: £32.2 million).

Credit and counterparty risk are both discussed in further detail in note 7.1.

In the B2B Energy Supply business amounts provided against trade and other receivables increased by £33.6 million in the year, with a net charge in the income statement of £31.4 million, following a deterioration in cash collection rates in the first half of the year. During the second half of the year, collection processes were reviewed and improved. We expect this improvement to be indicative of future collection rates. At the end of the year, provisions of £44.0 million were £15.8 million higher than the end of the prior year.

The following table shows the risk profile of amounts due from customers based on the Group's provision matrix at 31 December 2018.

	Trade receivables days past due					
	Balances not yet due	Up to 30 days	More than 30 days	More than 60 days	More than 90 days	Total
Group						
Expected credit loss rate – %	<1%	7%	19%	32%	59%	26%
Estimated total gross carrying amount at default – £m	18.4	75.2	11.5	6.8	58.6	170.5
Lifetime expected credit losses – £m	0.1	5.2	2.2	2.2	34.3	44.0

The expected credit loss rate is a weighted average for the portfolio of trade receivables associated with the B2B Energy Supply business.

The majority of balances not yet due are held in the Power Generation business where the risk of default is considered to be very low. The analysis above excludes receivables acquired in business combinations – see note 5.1.

3.6 CONTRACT COSTS

The Group incurs costs of obtaining contracts in the B2B Energy Supply businesses.

Accounting policy

Management expects that incremental broker fees paid to intermediaries as a result of obtaining electricity and gas contracts are recoverable. The Group has therefore capitalised them as contract costs and amortises them on a straight line basis over the contract period in line with the recognition of revenue. The balance is included within prepayments in note 3.5. This amount includes both current and non-current balances.

Amounts capitalised on the Consolidated balance sheet were £39.0 million at 31 December 2018 (2017: £39.3 million). In 2018 the amount of amortisation was £37.2 (2017: £24.4) and there was no impairment loss recognised.

3.7 TRADE AND OTHER PAYABLES

Trade and other payables represent amounts we owe to our suppliers (for trade purchases and ongoing costs), tax authorities and other creditors that are due to be paid in the ordinary course of business. We make accruals for amounts that will fall due for payment in the future as a result of our activities in the current year (e.g. fuel we have received but for which we have not yet been invoiced).

Accounting policy

Trade and other payables are measured at amortised cost.

	As at 31 December	
	2018 £m	2017 Restated £m
Amounts falling due within one year:		
Trade payables	**110.5**	79.5
Fuel accruals	**128.1**	95.3
Energy supply accruals	**309.8**	291.9
Other accruals	**183.0**	136.6
Other payables	**187.1**	101.5
Contract liabilities	**20.0**	27.6
	938.5	732.4

Energy supply accruals includes £235.5 million (2017: £225.0 million) in relation to the Group's obligation to deliver ROCs arising from B2B Energy Supply activities. The remaining balance principally comprises third party grid charge accruals of £51.7 million (2017: £36.8 million) and Feed-in-Tariff accruals of £14.1 million (2017: 25.9 million).

The Group recognises a liability in respect of its unsettled obligations to deliver emissions allowances under the EU Emission Trading Scheme (ETS). Accruals at 31 December 2018 include £nil (2017: £30.6 million) with respect to the Group's estimated net liability to deliver CO_2 emissions allowances. Allowances are purchased in the market and are recorded at cost.

Other payables includes £87.0 million (2017: £Nil) due under payment facilities described in note 4.4.

Contract liabilities primarily relate to the advance consideration received from customers for fixed price electricity and gas contracts, for which revenue is recognised based on the stage of completion of the multi-year contract. This has been shown separately for the first time in 2018 due to the implementation of IFRS 15. The prior year has been restated to the same format. The balance reduces as revenue is subsequently recognised in the following period, offset by further advance consideration received.

SECTION 4: FINANCING AND CAPITAL STRUCTURE

This section provides further information about the Group's capital structure (equity and debt financing) and cash generated from operations during the year.

4.1 RECONCILIATION OF NET DEBT

Net debt is calculated by taking our borrowings (note 4.3) and subtracting cash and cash equivalents (note 4.2). The table below reconciles net debt in terms of changes in these balances across the year.

	Years ended 31 December	
	2018 £m	2017 £m
Net debt at 1 January	**(367.4)**	(93.5)
Increase/(decrease) in cash and cash equivalents	**65.6**	(4.0)
Decrease/(increase) in borrowings	**4.2**	(267.8)
Effect of changes in foreign exchange rates	**(21.5)**	(2.1)
Net debt at 31 December	**(319.1)**	(367.4)

Borrowings includes listed bonds, bank debt, revolving credit facilities and finance leases, net of any deferred finance costs. A reconciliation of the increase in borrowings during the year is set out in the table on page 143.

Borrowings at 31 December 2018 does not include the acquisition bridge facility that was drawn down after the balance sheet date on 2 January 2019, see note 4.3.

During 2018, the Group entered into a cross-currency interest rate swap, fixing the sterling value of the principal repayments in respect of the Group's US dollar denominated debt (see note 4.3). If US dollar balances are translated at the hedged rate, rather than the rate prevailing at the balance sheet date, net debt would be reduced by £22.0 million (2017: £nil). The corresponding value of the hedging instrument is recognised at its fair value as a derivative financial instrument, see note 7.2.

4.2 CASH AND CASH EQUIVALENTS

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

	As at 31 December	
	2018 £m	2017 £m
Cash and cash equivalents	**289.0**	222.3

4.3 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 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 the policy set out in note 7.1. 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.

Post-balance sheet events

On 16 October 2018, the Group entered into a £725 million acquisition bridge facility (the Facility) to finance the acquisition of ScottishPower Generation Limited (see note 5.1). The Group incurred £3.8 million of costs establishing the Facility during the year, which were deferred on the balance sheet at 31 December 2018.

On 2 January 2019, the Group settled the initial consideration due in respect of the acquisition of £687 million, which was part-funded by £550 million drawn from the Facility. The balance of the consideration was funded from existing cash reserves.

4.3 BORROWINGS continued

Reconciliation of borrowings

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

	As at 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 $300 million USD 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 $25 million USD 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 2.5)	–	3.1	3.1
Repayment of floating rate loan notes on 1 May 2018	–	5.2	5.2
Impact 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

On 26 April 2018, the Group issued USD $300 million loan notes listed on the Luxembourg Stock Exchange. The notes have a fixed interest rate of 6.625% and mature in 2025. The proceeds of the issue were used to repay £200 million floating rate loan notes issued in 2017. Costs associated with the repayment of these loan notes have been classified as exceptional.

The purpose of the new loan notes is to extend the maturity date of the Group's senior debt and reduce exposure to interest rate volatility.

The Group has taken out a cross-currency interest rate swap (see note 7.1) 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 principal at £213.3 million in 2023, the impact of which would reduce borrowings by £22.0 million.

The $25 million revolving 30 day facility remains available to the Group, but was undrawn at 31 December 2018.

	As at 31 December 2017		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	329.0	(7.1)	321.9
Cash movements:			
Draw-down of Opus Energy acquisition facility	200.0	(3.8)	196.2
Draw-down of $25 million USD revolving facility	18.5	–	18.5
Borrowings repaid on 5 May 2017	(493.8)	–	(493.8)
Fixed rate loan notes drawn down	350.0	(11.4)	338.6
Floating rate loan notes drawn down	200.0	(6.5)	193.5
Non-cash movements:			
Indexation of linked loan	1.8	–	1.8
Amortisation of deferred finance costs (note 2.5)	–	2.4	2.4
Borrowings repaid on 5 May 2017	–	10.9	10.9
Changes in finance lease liabilities	(0.3)	–	(0.3)
Borrowings at 31 December	605.2	(15.5)	589.7

4.3 BORROWINGS continued

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 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 $300 million USD 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

In addition to the $300 million USD loan notes issued in 2018, the Group's financing structure also includes £350 million of 4.25% fixed rate notes and a £350 million Senior Facility comprised of a £315 million revolving credit facility (RCF) and an index-linked term loan of £35 million.

The RCF matures in April 2021, with an option to extend by one year, and has a margin of 150 basis points over LIBOR. At 31 December 2018, the RCF had been utilised to draw down letters of credit with a total value of £31.8 million (2017: £35.7 million).

The Group had two facilities available but undrawn at 31 December 2018:

- £725 million acquisition bridge facility, subsequently part-drawn on 2 January 2019 (as described above); and
- USD $25 million 30-day revolving facility.

The Group has no other undrawn debt facilities, although it has access to certain non-recourse trade receivable finance facilities and payment facilities, as described in note 4.4, which are utilised to accelerate working capital cash inflows and defer cash outflows.

	As at 31 December 2017		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
2022 floating loan notes	200.0	(5.6)	194.4
2022 fixed loan notes	350.0	(9.9)	340.1
Index-linked loan	35.9	–	35.9
$25 million USD revolving facility	18.5	–	18.5
Finance lease liabilities	0.8	–	0.8
Total borrowings	605.2	(15.5)	589.7
Split between:			
Current borrowings	18.6	–	18.6
Non-current borrowings	586.6	(15.5)	571.1

The Group's financing structure, including the index linked loan, the loan notes and the RCF are secured against the assets of a number of the Group's subsidiaries, with the exception of the US subsidiary's land and buildings.

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 2018, this value was £11.9 million (2017: £3.6 million).

4.4 CASH GENERATED FROM OPERATIONS

Cash generated from operations is the starting point of our cash flow statement on page 122. The table below makes adjustments for any non-cash accounting items to reconcile our net profit for the year to the amount of cash we have generated from our operations.

	Years ended 31 December	
	2018 £m	2017 Restated £m
Profit/(loss) for the year	**20.2**	(167.9)
Adjustments for:		
Interest payable and similar charges	**47.3**	66.3
Interest receivable	**(1.2)**	(0.2)
Tax credit	**(6.4)**	(36.1)
Depreciation, amortisation and other write downs	**173.8**	166.3
Asset obsolescence charge	**26.8**	–
Losses on disposal	**3.9**	15.4
Certain remeasurements of derivative contracts	**(38.4)**	176.9
Defined benefit pension scheme current service cost	**6.8**	7.3
Non-cash charge for share-based payments	**4.0**	6.1
Other non-cash losses	**4.3**	0.4
Close out of currency contracts(1)	**(4.9)**	(9.8)
Operating cash flows before movement in working capital	**236.2**	224.7
Changes in working capital:		
Decrease in inventories	**52.5**	15.4
(increase)/decrease in receivables	**(15.4)**	60.6
Increase/(decrease) in payables	**149.4**	(22.4)
(Increase)/decrease in carbon assets	**(3.7)**	0.6
(Increase)/decrease in ROC assets	**(71.2)**	112.1
Total cash released from working capital	**111.6**	166.3
Defined benefit pension scheme contributions	**(11.4)**	(15.3)
Cash generated from operations	**336.4**	375.7

Note:
(1) During 2016 we closed out a number of in-the-money forward foreign currency purchase contracts with a total value of £14 million. As these contracts were designated into hedge accounting relationships under IFRS 9, the benefit is being recognised in the income statement when the hedged transaction occurs.
(2) The prior year has been restated due to the initial application of IFRS 9 (see note 8.3).

The B2B Energy Supply 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 £24 million in the year ended 31 December 2018, reflected as a reduction in receivables in the table above (2017: inflow of £34 million). The facility terms were amended during the year, increasing the facility size to £150 million and bringing more of the receivables balance into its scope, further improving the Group's overall liquidity and risk profile.

Cash from ROCs is typically realised several months after the ROC is earned; however, through standard ROC sales and purchase arrangements we are able to accelerate cash flows over a proportion of these assets. The net impact of ROC purchases and sales on operating cash flows was a £10.5 million outflow (2017: £161.0 million inflow). We also have access to facilities enabling us to sell ROC trade receivables on a non-recourse basis. These facilities were unused at the period end (2017: £Nil).

The Group entered into a number of payment facilities in 2018 to leverage scale and efficiencies in transaction processing, whilst providing a working capital benefit for the Group, for which £87.0 million was outstanding at 31 December 2018 (2017: £Nil). The amounts fall due between 4 and 60 days from the end of the year.

The Group has sought to normalise payment 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 our working capital, as payment terms remain unaltered with the Group. At 31 December 2018, amounts utilised were not material.

4.5 EQUITY AND RESERVES

Our 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	
	2018 £m	2017 £m
Authorised:		
865,238,823 ordinary shares of 11 $^{16}/_{29}$ pence each	**100.0**	100.0
Issued and fully paid:		
2018: 407,193,168 ordinary shares of 11 $^{16}/_{29}$ pence each	**47.0**	47.0
	47.0	47.0

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

	Years ended 31 December	
	2018 (number)	2017 (number)
At 1 January	**407,034,429**	406,700,321
Issued under employee share schemes	**158,739**	334,108
At 31 December	**407,193,168**	407,034,429

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

Shares issued under employee share schemes

Throughout January to December 2018, a total of 158,739 shares were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan. Of the shares issued, 42,874 were issued to individuals who have left the Group where discretion was used to vest the shares.

Share buy-back programme

On 20 April 2018, the Group announced the commencement of a £50.0 million share buy-back programme. As at 31 December 2018, the Group had repurchased 13.0 million ordinary shares as part of the programme at a total cost, including transaction costs, of £47.1 million. These shares are held in a separate Treasury Share reserve awaiting reissue or cancellation and have no voting rights attached to them.

Subsequent to the year end, 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.

4.5 EQUITY AND RESERVES continued

Share premium

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

	Share premium	
	2018 £m	2017 £m
At 1 January 2018	**424.3**	424.2
Issue of share capital	**0.4**	0.1
At 31 December 2018	**424.7**	424.3

Other reserves

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

	Capital redemption reserve £m	Translation reserve £m	Merger reserve £m	Total other reserves £m
At 1 January 2017	1.5	(10.2)	710.8	702.1
Exchange differences on translation of foreign operations	–	3.4	–	3.4
At 31 December 2017	**1.5**	**(6.8)**	**710.8**	**705.5**
Exchange differences on translation of foreign operations	–	7.2	–	7.2
At 31 December 2018	**1.5**	**0.4**	**710.8**	**712.7**

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

Exchange differences relating to the translation of the net assets of the Group's US-based subsidiaries from their functional currency (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, which reflect the change in fair value of derivative financial instruments designated into hedge accounting relationships in accordance with IFRS 9, are set out in notes 7.4 and 7.5.

SECTION 5: OTHER ASSETS AND LIABILITIES

This section provides information on the assets and liabilities in the Consolidated balance sheet that are not covered in other sections, including goodwill, other intangible assets and provisions.

5.1 ACQUISITIONS

Accounting policy

Acquisitions of businesses are recognised at the point the Group obtains control of the target (the acquisition date). The consideration transferred and 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 ScottishPower Generation Limited

The Group announced the proposed acquisition of ScottishPower Generation Limited from Iberdrola on 16 October 2018. The acquisition was approved by shareholders on 21 December 2018 and subsequently completed at 23:59 on 31 December 2018.

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

DGE owns and operates a portfolio of hydro, pumped storage and gas-fired power generation assets, including Cruachan Power Station, one of only four pumped storage assets in the UK, run-of-river hydro schemes in Lanark and Galloway, and gas-fired Combined Cycle Gas Turbine (CCGT) power stations at Damhead Creek, Rye House and Shoreham in the south of England, and Blackburn Mill in the north. DGE also owns SMW Ltd, a company operating a biomass-from-waste facility on the outskirts of Glasgow.

The new sites are complementary to the Group's existing generation activities, diversifying the Drax portfolio and widening the Group's UK footprint. The expanded portfolio of assets ensures the Group can support a power system with increasing intermittent renewable capacity by providing flexible generation and system support.

The acquired assets are expected to make a positive contributions to both Adjusted EBITDA and cash flows from 2019, as set out in the shareholder Circular recommending the acquisition, on 5 December 2018, and in the profit forecast referenced on page 41 of this Annual report.

The purchase consideration was £702 million, payable entirely in cash, subject to working capital adjustments customary for a transaction of this type. In addition, following the suspension of the UK Capacity Market on 15 November 2018, the Group announced it had agreed a risk-sharing mechanism with the vendor which will activate in the event the Group does not receive 100% of the contracted Capacity Market payments for the acquired assets in the period 1 January to 30 September 2019.

If 100% of Capacity Market payments are not received in this period, a further payment will be made either by the Group or by the vendor, the value and beneficiary of which is contingent upon the 2019 gross profit achieved by the acquired assets. The value of any further payment for both parties is capped at £26 million. Full details are set out on the Group's website. (**www.drax.com/cmrisk**). In the event Capacity Market payments remain suspended beyond 2019, the Group will be entitled to no further compensation.

Reflecting the Group's belief that the Capacity Market is likely to be reinstated during 2019, no value has been ascribed to the risk-sharing mechanism in determining the fair value of the consideration payable on the acquisition date.

In the event the Capacity Market restarts and the Group receives payments relating to the period following the Capacity Market suspension but prior to the acquisition date (1 October to 31 December 2018), these payments will be passed directly to the vendor and accordingly no amounts are recorded in the provisional fair values shown below.

The total consideration, after adjusting for estimated working capital values, was £687 million. The consideration remains provisional and is subject to a completion accounts process.

The consideration was paid on 2 January 2019, funded by a combination of existing cash reserves (£137 million) and the partial drawing of a £725 million acquisition bridge facility (£550 million). The Group expects to conclude a refinancing of the bridge facility during 2019, as described in note 4.3.

Acquisition-related costs, including stamp duty and advisers fees, amounted to £18.4 million and have been recognised in 2018. The Group incurred a further £2.6 million of costs in 2018 on activities to ensure operational readiness and initial integration activities at completion. The total costs of £21.0 million are reported as exceptional items and included in the acquisition and restructuring line in the income statement.

5.1 ACQUISITIONS continued

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

	£m
Property, plant and equipment	690.0
Financial assets	40.7
Financial liabilities	(41.0)
Pension surplus	3.8
Provisions	(13.5)
Intangible assets	0.6
Deferred tax liability	(68.5)
Total identifiable net assets	**612.1**
Goodwill	74.8
Fair value of consideration payable	**686.9**

Due to the acquisition completing at 23:59 on 31 December, there were no amounts recognised in the income statement in respect of the acquisition, other than the transaction and integration costs described above.

Provisional goodwill of £74.8 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.

The financial assets acquired include £35.8 million of receivables, the majority of which reflect trade receivables for ancillary services and balancing market activity. By virtue of their short tenor, the fair value of these receivables is considered to be the contractual amounts receivable less any provision for doubtful debts. The provision for doubtful debts as at the acquisition date was less than £0.1 million. Financial assets includes a net balance of £3.5 million in respect of amounts payable to and receivable from the vendor and its fellow group undertakings. The Group received an initial settlement in respect of these balances on 2 January 2019, which will be finalised as part of the completion accounts process.

Additional financial information

The consolidated results of the Group, assuming DGE had been acquired at the beginning of the year, would show Total revenue of £4,780.0 million (compared to reported Total revenue of £4,229.0 million) and a Total profit after taxation of £43.2 million (compared to the reported Total profit after taxation of £20.2 million). This information includes the revenue and profits made by DGE and its subsidiary undertaking between 1 January 2018 and 31 December 2018, extracted from the historical financial records of the acquired companies. Profit centre analysis was used to exclude the historic results and restructuring activities relating to assets not acquired by the Group; however no adjustment has been made for the alignment of accounting policies nor the impact of measuring acquired assets and liabilities at fair value. This information is not necessarily indicative of the results of the combined Group that would have been achieved had the acquisition actually occurred on 1 January 2018, nor is it indicative of the future results of the combined Group.

5.2 GOODWILL

Goodwill arises on the acquisition of a business when the consideration paid exceeds the fair value of the assets acquired.

Accounting policy

Goodwill is initially recognised and measured at the acquisition date. Goodwill is not amortised but reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the CGU to which it relates and the recoverable amount for that CGU assessed. The table below shows movements and balances:

	Goodwill £m
Cost and carrying amount:	
At 1 January 2017	14.5
Acquisition of Opus Energy	159.2
Disposal of Billington Bioenergy	(3.8)
At 31 December 2017	**169.9**
Acquisition of ScottishPower Generation Limited (see note 5.1)	74.8
At 31 December 2018	**244.7**

Total goodwill in the Consolidated balance sheet at 31 December 2018 was £244.7 million, with £10.7 million arising on the acquisition of Haven Power in 2009 attributed to the Haven Power CGU and £159.2 million arising on the acquisition of Opus Energy in 2017 attributed to the Opus Energy CGU.

5.2 GOODWILL continued

In addition, the Group recognised £74.8 million of provisional goodwill in respect of the ScottishPower transaction in 2018 (see note 5.1). Reflecting the timing of the acquisition, none of the provisional goodwill has been allocated to individual CGUs. This will be completed during 2019.

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 2018 was £40 million. The expected future cash flows of the CGU were discounted using a pre-tax discount rate of 8.1% (calculated based on independent analysis commissioned by the Group, adjusted to the specific circumstances and risk factors affecting the Group's B2B Energy Supply business). We believe that this rate reflects the prospects for a well-established B2B Energy Supply 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 2018 was £342 million, including intangible assets of £162 million. Following further integration of Opus Energy into the Group's existing B2B Energy Supply business during 2018, the discount rate was assessed as being in line with that of Haven Power at 8.1%. The value in use of the Opus Energy CGU, including the goodwill and intangible assets, was significantly in excess of its carrying amount. Reflecting the recent acquisition of Opus, the recoverable amount of the Opus CGU was tested using a range of discount rates up to the rate used in the acquisition valuation of intangible assets in 2017 (10.7%) – application of discount rates across the 8.1% to 10.7% range would not result in an impairment charge.

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

5.3 INTANGIBLE ASSETS

Intangible assets are not physical in nature but are identifiable and separable from other assets. Intangible assets can be acquired in business combinations (such as the acquisition of Opus Energy during 2017) or purchased separately. The Group routinely purchases computer software and carbon emissions allowances, which are considered intangible assets.

Accounting policy

Intangibles acquired in business combinations are measured at fair value on the acquisition date. Other intangible assets are measured at cost. Cost comprises the purchase price (net of any discount or rebate) and any directly attributable costs to bring the asset into the condition and location required for use as intended by management.

Intangible assets are amortised over their anticipated useful lives. Useful lives are reviewed at each balance sheet date. No changes to useful lives were made as at 31 December 2018. Amortisation calculations are specific to each category of assets and are explained in further detail below.

Carrying amounts are assessed for indicators of impairment at each balance sheet date. The customer-related assets and brand are attributed to the Opus Energy CGU and details of the impairment test relating to this CGU are included in note 5.2.

5.3 INTANGIBLE ASSETS continued

	Customer-related assets £m	Brand £m	Computer software £m	Development assets £m	Carbon £m	Total £m
Cost and carrying amount:						
At 1 January 2017	–	–	–	21.0	0.7	21.7
Transferred from Property, plant & equipment	–	–	39.4	–	–	39.4
Utilised in period	–	–	–	–	(0.7)	(0.7)
Additions at cost	–	–	16.0	–	–	16.0
Acquisition	211.0	11.3	2.6	–	–	224.9
At 31 December 2017	**211.0**	**11.3**	**58.0**	**21.0**	**–**	**301.3**
Additions at cost	–	–	28.9	–	3.7	32.6
Transferred from Property, plant & equipment	–	–	7.6	–	–	7.6
Acquisition (note 5.1)	–	–	0.6	–	0.6	1.2
At 31 December 2018	**211.0**	**11.3**	**95.1**	**21.0**	**4.3**	**342.7**
Accumulated amortisation						
At 1 January 2017	–	–	–	–	–	–
Transferred from Property, plant & equipment	–	–	25.0	–	–	25.0
Acquisition	–	–	0.7	–	–	0.7
Charge for period	35.6	1.1	6.9	–	–	43.6
At 1 January 2018	**35.6**	**1.1**	**32.6**	–	–	**69.3**
Charge for period	35.9	1.1	7.6	–	–	44.6
At 31 December 2018	**71.5**	**2.2**	**40.2**	–	–	**113.9**
Net book value						
At 31 December 2017	175.4	10.2	25.4	21.0	–	232.0
At 31 December 2018	**139.5**	**9.1**	**54.9**	**21.0**	**4.3**	**228.8**

Customer-related assets

Customer-related assets reflect the value of customer contracts acquired on the acquisition of Opus Energy in February 2017, which provided the Group with access to a broad customer base with contracted cash flows. The asset valuation of £211 million reflected the estimated value of the future cash flows associated with this customer base at the acquisition date and is dependent upon estimates of both current and expected future contract margins and assumed customer retention rates. The cash flows have been discounted using a pre-tax discount rate of 10.7%. The asset has an estimated useful life of 11 years, calculated based on customer churn-rate analysis, and is being amortised on a reducing balance basis to reflect the diminishing rate of contract renewals over time.

Opus Energy brand

The Opus Energy brand was acquired as part of the acquisition in February 2017 and valued at £11 million on a relief-from-royalty method. The brand is being amortised on a straight-line basis over its assumed 10 year useful life.

Computer software

Additions in the period include assets acquired in the Opus Energy acquisition in addition to those in the ordinary course of business, which principally reflect ongoing investment in business systems to support the B2B Energy Supply segment. Software assets are amortised on a straight-line basis over estimated useful lives ranging from three to five years.

As at 31 December 2018, computer software assets in the course of construction amounted to £24.5 million (2017: £11.1 million).

Development assets

The development assets arose on the acquisition of four Open Cycle Gas Turbine 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 2018, 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 Group's core planning assumption that the Capacity Market will be reinstated during 2019 and incorporated assumptions related to likely Capacity Market clearing prices, construction costs, the ongoing revenues to be derived from the projects once constructed and the direct costs of generating those revenues.

5.3 INTANGIBLE ASSETS continued

The expected future cash flows were discounted using a pre-tax rate of 9.1%, 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 discount rate applied. Increasing the pre-tax discount rate by approximately 1% would result in a recoverable amount below the current carrying value. In the event costs materially increase, or expected future revenue streams reduce from current estimates, 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 (or equivalent income if the Capacity Market is not reinstated in its previous form).

Carbon assets

Carbon assets arise on the purchase of CO_2 emissions allowances in excess of the amount allocated under the Emissions Trading Scheme and required for the current financial year, and are measured at cost, net of any impairment. Given their short tenor, carbon assets are not amortised. In the event of the UK exiting the EU without a deal, these allowances may no longer be required, as noted in the risks and viability statements on pages 42 to 49.

The charge to the income statement, within fuel costs, reflects the cost of emissions allowances required to satisfy the obligation for the current year and takes into account generation and market purchases allocated to the current financial year, and to the extent further purchases are required, is based on the market price at the balance sheet date.

5.4 PROVISIONS

We make provision for reinstatement to cover the estimated costs of decommissioning and demolishing our generation assets and remediating the sites at the end of the useful economic lives of the assets.

Accounting policy

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Specifically, provision is made for the estimated decommissioning costs at the end of the useful economic life of the Group's generating assets, when a legal or constructive obligation arises, on a discounted basis. The amount provided is calculated on a site-by-site basis and represents the present value of the expected costs. In view of the uncertainty of assessing the amount of any proceeds from the disposal of the assets at the decommissioning date, no reduction in the provision is made for any such proceeds. The discount rate used is a risk-free pre-tax rate that reflects the duration of the liability. The average discount rate used across the Group's decommissioning provisions is 1.8% (2017: 1.8%). The use of a risk-free rate reflects the fact that the estimated future cash flows have built-in risks specific to the liability. An amount equivalent to the discounted provision is capitalised within property, plant and equipment and is depreciated over the useful lives of the related assets. The unwinding of the discount is included in interest payable and similar charges.

Other provisions include a small provision in respect of dilapidation provisions for leased offices and other provisions recognised as part of the acquisition of ScottishPower Generation Limited (see note 5.1).

	Decommissioning provision £m	Other provisions £m	Total £m
Carrying amount:			
At 1 January 2018	36.0	0.3	36.3
Additions	–	**0.1**	**0.1**
Acquisitions	**12.3**	**1.2**	**13.5**
Adjustment for changes in assumptions	**0.3**	–	**0.3**
Unwinding of discount	**0.6**	–	**0.6**
At 31 December 2018	**49.2**	**1.6**	**50.8**

Decommissioning provisions are made in respect of the Group's thermal generating plants (Drax Power Station and CCGT power stations). The decommissioning provision is based on the assumption that the decommissioning and reinstatement will take place at the end of the expected useful life of each site (which varies between 2026 and 2039) and has been estimated using existing technology at current prices based on independent third-party advice, updated on a triennial basis. The most recent updates took place in December 2017 for Drax Power Station, and 2018 for other sites.

SECTION 6: OUR PEOPLE

The notes in this section relate to the remuneration of our directors and employees, including our obligations under retirement benefit schemes.

6.1 EMPLOYEES AND DIRECTORS

This note provides a more detailed breakdown of the cost of our employees, including executive directors. The average number of employees in Operations (staff based at production sites), B2B Energy Supply services (employees in our B2B Energy Supply segment) and Central and administrative functions are also provided.

Further information in relation to pay and remuneration of the executive directors can be found in the report of the Remuneration Committee, starting on page 75.

The Group acquired ScottishPower on the last day of the reporting period and as such no ScottishPower employee data has been included. The number of ScottishPower staff joining the Group as a result of the acquisition is 252.

Staff costs (including executive directors)

	Years ended 31 December	
	2018 £m	2017 £m
Included in other operating and administrative expenses (note 2.3)		
Wages and salaries	**113.4**	103.7
Social security costs	**12.8**	11.9
Pension costs	**15.5**	15.4
Share-based payments (note 6.2)	**4.0**	6.1
	145.7	137.1

Average monthly number of people employed (including executive directors)

	Years ended 31 December	
	2018 (number)	2017 (number)
Power Generation operations	**818**	667
Pellet Production operations	**258**	186
B2B Energy Supply services	**1,402**	1,349
Central and administrative functions	**201**	305
	2,679	2,507

6.2 SHARE-BASED PAYMENTS

We operate two share option schemes for our employees; the Performance Share Plan (PSP) for directors and senior executives (which replaced the Bonus Matching Plan (BMP) from 2017) and incorporates the Deferred Share Plan (DSP); and the Savings-Related Share Option Plan (SAYE) for all qualifying employees. We incur a non-cash charge in respect of these schemes in our income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding.

Accounting policy

The PSP, BMP, DSP and SAYE share-based payments are equity settled. Equity-settled share-based payments are measured at the fair value of the equity instrument at the date of grant and are recognised in the income statement on a straight-line basis over the relevant vesting period, based on an estimate of the shares that will ultimately vest as a result of the effect of non-market-based vesting conditions, which is revised at each balance sheet date.

6.2 SHARE-BASED PAYMENTS continued

Costs recognised in the income statement in relation to share-based payments during the year were as follows:

	Years ended 31 December 2018 £m	2017 £m
Equity settled		
PSP (granted from 2017)	**1.3**	0.5
DSP (granted from 2017)	**0.2**	0.1
BMP (granted in periods prior to 2017)	**0.7**	1.5
SAYE	**1.8**	4.0
Total share-based payment expense (note 6.1)	**4.0**	6.1

Share Incentive Plan (SIP)

Between 2008 and 2010, qualifying employees could buy up to £1,500 worth of Partnership Shares in any one tax year. Matching shares were awarded to employees to match any shares they bought, in a ratio of one-to-one, with the cost of matching shares borne by the Group. There have been no awards under the SIP Partnership and Matching Share plan since 2010.

Shares in the Company held under trust and under the Company's control as a result of the SIP were as follows:

	Shares held at 1 January 2018 (number)	Shares acquired during year (number)	Shares transferred during year (number)	Shares held at 31 December 2018 (number)	Cost at 31 December 2018 £000	Nominal value at 31 December 2018 £000	Market value at 31 December 2018 £000
SIP	**123,282**	**–**	**(34,999)**	**88,283**	**–**	**10**	**317**

Performance Share Plan (PSP)

The PSP was introduced for directors and senior executives to replace the Bonus Matching Plan. Under the PSP, annual awards of performance and service-related shares are made for no consideration to executive directors and other senior executives up to a maximum of 175% of their annual bonus. Vesting of a proportion of shares is conditional upon whether the Group's Total Shareholder Return (TSR) matches or outperforms an index (determined in accordance with the scheme rules) over three years and vesting of a proportion of shares is conditional upon performance against the internal balanced corporate scorecard. 50% of the PSP options granted in 2018 will vest conditional on Group TSR relative to the TSR of a comparator group of companies, with the remaining 50% vesting conditional upon the internal balanced corporate scorecard.

The fair value of the 2018 PSP awards of £2.5 million (2017: £2.8 million) is being charged to the income statement on a straight-line basis over the three-year vesting period. The fair value of PSP awards is calculated using a Monte-Carlo valuation model, which takes into account the estimated probability of different levels of vesting. The key inputs to the valuation model for the 2018 awards are the share price at the grant date of 272 pence (2017: 325 pence), expected volatility of 41% (2017: 44%), and risk-free interest rate of 0.83% (2017: 0.13%).

Movements in the number of shares outstanding for the PSP awards are as follows:

	2018 (number)	2017 (number)
At 1 January	**1,289,762**	–
Granted	**1,560,757**	1,582,309
Forfeited	**(175,183)**	(292,547)
Exercised	**–**	–
Expired	**–**	–
At 31 December	**2,675,336**	1,289,762

The weighted average fair value of the options granted during the year was 160 pence (2017: 177 pence).

All of the PSP options outstanding at the end of the period had an exercise price of £nil (2017: £nil). The weighted average remaining contractual life was 22 months (2017: 28 months).

The number of options exercisable at the year end was nil (2017: nil).

6.2 SHARE-BASED PAYMENTS continued

Deferred Share Plan (DSP)

In addition, the Group operates the DSP, which was introduced as a vehicle for deferring 35% of the annual bonus of executive directors. DSP awards are granted at nil cost and vest after three years subject to continued employment or "good leaver" termination provisions. The share price on the grant date of DSP awards made in 2018 was 272 pence (2017: 325 pence) and the fair value of these awards of £0.4 million (2017: £0.6 million) is being charged to the income statement on a straight-line basis over the three-year vesting period.

The fair value of DSP awards is calculated using a Monte-Carlo valuation model, which takes into account the estimated probability of different levels of vesting. The key inputs to the valuation model for the 2018 awards are the share price at date of grant, expected volatility of 41% (2017: 44%), and risk-free interest rate of 0.83% (2017: 0.13%).

Movements in the number of share options outstanding for the DSP awards are as follows:

	2018 (number)	2017 (number)
At 1 January	**110,809**	–
Granted	**135,972**	170,227
Forfeited	**–**	(59,418)
Exercised	**(20,193)**	–
Expired	**–**	–
At 31 December	**226,588**	110,809

50% of the DSP options granted in 2018 will vest in three years conditional on Group TSR relative to the TSR of a comparator group of companies, with the remaining 50% vesting conditional upon the internal balanced corporate scorecard.

Bonus Matching Plan (BMP)

Under the BMP, annual awards of performance and service-related shares were made for no consideration to executive directors and other senior executives up to a maximum of 150% of their annual bonus up until 2016. The BMP was replaced in 2017 by the PSP. For awards prior to 2017, a proportion of the shares vesting under the BMP are conditional upon whether the Group's Total Shareholder Return (TSR) matches or outperforms an index (determined in accordance with the scheme rules) over three years and a proportion of the shares vesting is conditional upon performance against the internal balanced corporate scorecard. The fair value of the 2017 and 2016 BMP awards, £0.6 million and £2.6 million respectively, are being charged to the income statement on a straight-line basis over the corresponding three-year vesting periods.

The fair value of BMP awards is calculated using a Monte-Carlo valuation model, which takes into account the estimated probability of different levels of vesting. No BMP awards were made in 2018.

Movements in the number of share options outstanding for the BMP awards is as follows:

	2018 BMP (number)	2017 BMP (number)	2016 BMP (number)
At 1 January	**2,314,155**	3,193,932	3,411,792
Granted	**–**	–	1,686,095
Forfeited	**(26,436)**	(196,402)	(623,597)
Exercised	**(125,499)**	(131,952)	(337,146)
Expired	**(987,090)**	(551,423)	(943,212)
At 31 December	**1,175,130**	2,314,155	3,193,932

For the BMP options exercised during the period, the weighted average share price at the date of exercise was 270 pence (2017: 308 pence).

All of the BMP options outstanding at the end of the period had an exercise price of £nil (2017: £nil). The weighted average remaining contractual life was 2 months (2017: 9 months).

The number of options exercisable at the year end was nil (2017: nil).

6.2 SHARE-BASED PAYMENTS continued

Savings-Related Share Option Plan (SAYE)

In March 2018, participation in the SAYE plan was offered again to all qualifying employees. Options were granted for employees to acquire shares at a price of 211 pence (2017: 280 pence), representing a discount of 20% to the prevailing market price determined in accordance with the scheme rules. The options are exercisable at the end of three or five-year savings contracts. The fair value of the options granted in connection with the SAYE plan of £1.2 million (2017: £0.9 million) is being charged to the income statement over the term of the relevant contracts.

Movements in the number of share options outstanding for the SAYE plans are as follows:

	2018		2017	
	SAYE three-year (number)	SAYE five-year (number)	2017 SAYE three-year (number)	SAYE five-year (number)
At 1 January	3,622,469	1,007,289	3,286,906	996,709
Granted	**1,078,583**	**328,325**	752,414	140,974
Forfeited	**(79,515)**	**(6,295)**	(81,269)	(32,324)
Exercised	**(157,804)**	**(935)**	(34,525)	(6,526)
Expired	**(578,783)**	**(220,990)**	(301,057)	(91,544)
At 31 December	**3,884,950**	**1,107,394**	3,622,469	1,007,289

The fair value of SAYE awards is calculated using a Black-Scholes model, which compares exercise price to share price at the date of grant.

The fair value of SAYE options granted and the inputs to the option pricing model used in the current and previous year are set out in the table below:

Grant date	28 March 2018	28 March 2018	27 March 2017	27 March 2017
Share price at grant date (pence)	**275**	**275**	328	328
Vesting period	**3 years**	**5 years**	3 years	5 years
Exercise price (pence)	**211**	**211**	280	280
Dividend yield	**5.1%**	**3.0%**	1.8%	2.5%
Annual risk-free interest rate	**1.22%**	**1.35%**	0.73%	0.90%
Expected volatility	**40.9%**	**38.1%**	41.2%	37.3%
Fair value of options granted (pence)	**80**	**94**	106	103

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three and five years respectively. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

For the SAYE options exercised during the period, the weighted average share price at the date of exercise was 365 pence (2017: 305 pence).

The weighted average exercise price of SAYE options outstanding at the end of the period was 212 pence (2017: 224 pence). The weighted average remaining contractual life was 16 months (2017: 22 months).

The number of options exercisable at the year-end was 2,252 (2017: nil).

Additional information in relation to the Group's share-based incentive plans is included in the Remuneration Committee report on page 75.

6.3 RETIREMENT BENEFIT OBLIGATIONS

The Group operates one defined benefit and four defined contribution pension schemes.

The Drax Power Group (DPG) section of the Electricity Supply Pension Scheme (ESPS) is a defined benefit scheme: a pension arrangement under which participating members receive a pension benefit at retirement determined by the scheme rules. Members are typically entitled to an annual pension on retirement of 1/80th of final pensionable salary for each year of service plus a tax-free lump sum of three times pension.

The Drax Group Personal Pension Plan, Haven Power Personal Pension Plan, Opus Energy Group Personal Pension Plan and Drax Biomass Inc. 401(K) Plan are defined contribution schemes, which provide a retirement benefit that is dependent upon actual contributions made by the Group and members of the relevant scheme.

As part of the acquisition of Drax Generation Enterprise Limited (see note 5.1), employees with defined benefit pension rights were transferred to the Group. These employees continue to participate in the Scottish Power Pension Scheme whilst the Group is in the process of setting up a new scheme (the Drax 2019 Scheme) for the members to transfer into.

Accounting policy

Payments to defined contribution schemes are recognised as an expense when employees have rendered services that entitle them to the contributions. The income statement charge for the defined contribution scheme represents the contributions due to be paid by the Group in respect of the current period.

For the defined benefit pension scheme, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement of the obligation, comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest), is recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which it occurs. Defined benefit costs, including current service costs, past service costs and gains and losses on curtailments and settlements are recognised in the income statement as part of operating and administrative expenses in the period in which they occur. The net interest expense is recognised in finance costs.

Significant estimation uncertainty

Measurement of the defined benefit obligation using the projected unit credit method involves the use of key assumptions, including discount rates, inflation rates, salary and pension increases and mortality rates. These actuarial assumptions are reviewed annually and modified as appropriate. The Group believes that the assumptions utilised in measuring obligations under the scheme are reasonable based on prior experience, market conditions and the advice of scheme actuaries. However, actual results may differ from such assumptions.

The assumptions applied in 2018 have been prepared on a consistent basis with those in the previous period and in accordance with independent actuarial advice received.

Defined contribution schemes

The Group operates four defined contribution schemes, the Drax Group Personal Pension Plan, Haven Power Personal Pension Plan, Opus Energy Group Personal Pension Plan and Drax Biomass Inc. 401(K) Plan, for all qualifying employees. Pension costs for the defined contribution schemes are as follows:

	Years ended 31 December	
	2018 £m	2017 £m
Total included in staff costs	**8.1**	8.1

As at 31 December 2018, contributions of £1.1 million (2017: £nil) due in respect of the current reporting period had not been paid over to the schemes. The Group has no further payment obligations once the contributions have been paid.

6.3 RETIREMENT BENEFIT OBLIGATIONS continued

Defined benefit schemes

The breakdown of the defined benefit pension surplus is as follows:

	As at 31 December	
	2018 £m	2017 £m
Drax Power Group section of ESPS – net surplus/(liability)	**18.9**	(1.2)
Drax 2019 Scheme – net surplus	**3.8**	–
Total net surplus/(liability) recognised in the balance sheet	**22.7**	(1.2)

During 2018, application of the accounting assumptions used in relation to the Drax Power Group of the ESPS, which are described in further detail below, resulted in the scheme moving into a position of surplus assets over liabilities. The scheme rules allow the Group to benefit from any residual surplus upon winding up of the scheme. As a result, the surplus has been recognised in the balance sheet in full.

Drax Power Group (DPG) section of ESPS

The DPG section of the ESPS was closed to new members as of 1 January 2002 unless they qualify through being existing members of another part of the ESPS. Members who joined before this date continue to build up pension benefits as part of the scheme.

The DPG ESPS exposes the Group to actuarial and other risks, the most significant of which are considered to be:

Investment risk	The scheme liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The scheme holds a significant proportion of growth assets (diversified growth funds, direct lending and absolute return bonds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the scheme's long-term objectives.
Discount rate risk	A decrease in corporate bond yields will increase the value placed upon the scheme's liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.
Longevity risk	The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities of the scheme.
Inflation risk	The majority of the scheme's obligations to pay benefits are linked to inflation and, as such, higher inflation will lead to higher liabilities. The majority of the assets held by the scheme are either unaffected by or only loosely correlated with inflation, such that an increase in inflation will also increase the deficit. In most cases, caps on inflationary increases are in place to protect against extreme inflation. The scheme has a significant holding in liability-driven investments and a substantial proportion of this risk is hedged.

Other risks include operational risks (such as paying out the wrong benefits), legislative risks (such as the Government increasing the burden on pension schemes through new legislation) and other demographic risks (such as making a higher proportion of members with dependants eligible to receive pensions from the Group). The Trustees ensure certain benefits payable on death before retirement.

The most recent funding valuation of the DPG ESPS was carried out by Aon Hewitt, a qualified independent actuary, as at 31 March 2016. The actuarial review at 31 December 2018 is based on the same membership and other data as this funding valuation. The scheme board accepted the advice of the actuary and approved the use of these assumptions for the purpose of assessing the scheme cost. Future valuations are required by law at intervals of no more than three years.

The results of the latest funding valuation at 31 March 2016 have been adjusted to the balance sheet date, taking into account experience over the period since 31 March 2016, changes in market conditions and differences in financial and demographic assumptions. The present value of the defined benefit obligation and the related current service costs were measured using the projected unit credit method. The principal assumptions used, which reflect the nature and term of the scheme liabilities, are as follows:

	As at 31 December	
	2018 % p.a.	2017 % p.a.
Discount rate	**3.0**	2.6
Inflation (RPI)	**3.2**	3.2
Rate of increase in pensions in payment and deferred pensions	**3.1**	3.0
Rate of increase in pensionable salaries	**3.8**	3.8

6.3 RETIREMENT BENEFIT OBLIGATIONS continued

Mortality assumptions are based on recent actual mortality experience of scheme members and allow for expected future improvements in mortality rates. The assumptions are that a member aged 60 in 2018 will live, on average, for a further 26 years if they are male (2017: 26 years) and for a further 29 years if they are female (2017: 29 years). Life expectancy at age 60 for male and female non-pensioners currently aged 45 is assumed to be 27 and 30 years respectively (2017: 27 and 30 years respectively).

The net surplus recognised in the balance sheet in respect of the DPG section of the ESPS is the excess of the fair value of the plan assets over the present value of the defined benefit obligation, determined as follows:

	As at 31 December	
	2018 £m	2017 £m
Defined benefit obligation	**(275.6)**	(306.5)
Fair value of plan assets	**294.5**	305.3
Net surplus/(liability) recognised in the balance sheet	**18.9**	(1.2)

The amounts recognised in the income statement, within other operating and administrative expenses and finance costs, are as follows:

	Years ended 31 December	
	2018 £m	2017 £m
Included in staff costs (note 6.1):		
Current service cost	**6.8**	7.3
Past service cost	**0.6**	–
Included in finance costs (note 2.5):		
Interest on net defined benefit (surplus)/liability	**(0.1)**	0.5
Total amounts recognised in the income statement	**7.3**	7.8

On 26 October 2018, the High Court issued a judgement confirming that defined benefit schemes should be amended to equalise benefits in relation to guaranteed minimum pensions (GMP) for men and women. It is not yet agreed how benefits will be equalised in practice; however, on the grounds that implementation will not lead to any further obligations, the Group's actuarial advisers have initially estimated that the liabilities of the scheme will increase by £0.6m as at the date of the court ruling. This has been reflected as a past service cost in 2018.

Actuarial gains and losses are recognised in the statement of comprehensive income in full, as follows:

	Years ended 31 December	
	2018 £m	2017 £m
Cumulative actuarial losses on defined benefit pension scheme at 1 January	**(57.8)**	(79.2)
Actuarial gains on defined benefit pension scheme recognised in the year	**15.9**	21.4
Cumulative actuarial losses recognised in the statement of comprehensive income at 31 December	**(41.9)**	(57.8)

Changes in the present value of the defined benefit obligation are as follows:

	Years ended 31 December	
	2018 £m	2017 £m
Defined benefit obligation at 1 January	**306.5**	311.4
Current service cost	**6.8**	7.3
Past service cost	**0.6**	–
Employee contributions	**0.1**	0.1
Interest cost	**7.8**	8.5
Actuarial gains	**(23.0)**	(4.8)
Benefits paid	**(23.2)**	(16.0)
Defined benefit obligation at 31 December	**275.6**	306.5

6.3 RETIREMENT BENEFIT OBLIGATIONS continued

The actuarial gains of £23.0 million (2017: £4.8 million) reflect gains of £21.8 million arising from changes in financial assumptions (2017: gains of £5.5 million) and £1.8 million gains arising from changes in demographic assumptions (2017: losses of £4.5 million) offset by losses arising from scheme experience of £0.6 million (2017: gains of £3.8 million).

The gains due to changes in financial assumptions principally reflect the decrease in the present value of the scheme liabilities arising as a result of the change in discount rate assumption to 3.0% (2017: 2.6%) following increases in corporate bond yields.

Changes in the fair value of plan assets are as follows:

	Years ended 31 December	
	2018 £m	2017 £m
Fair value of plan assets at 1 January	**305.3**	281.3
Interest on plan assets	**8.0**	8.0
Remeasurement (losses)/gains	**(7.2)**	16.6
Employer contributions	**11.5**	15.3
Employee contributions	**0.1**	0.1
Benefits paid	**(23.2)**	(16.0)
Fair value of plan assets at 31 December	**294.5**	305.3

Employer contributions included payments totalling £5.0 million (2017: £7.5 million) to reduce the actuarial deficit. There were no contributions outstanding at the end of the year (2017: £0.8 million).

The actual return on plan assets in the period was £0.8 million (2017: £24.5 million).

The fair values of the major categories of plan assets were as follows:

	As at 31 December	
	2018 £m	2017 £m
Gilts	**83.6**	104.1
Equities(1)	**9.8**	76.6
Fixed interest bonds(2)	**50.2**	71.6
Property	**34.8**	32.2
Investment funds	**40.4**	–
Cash and other assets(3)	**75.7**	20.8
Fair value of total plan assets	**294.5**	305.3

Notes:
(1) At 31 December 2018 the scheme's long-term asset strategy was: diversified growth funds (35%), direct lending (5%), absolute return bonds (7%), corporate bonds (8%), liability driven investing (29%), long lease property (12%), and cash (5%)
(2) Fixed interest bonds include a mixture of corporate, Government and absolute return bonds. Approximately 10% of the bonds have a sub-investment grade credit rating (i.e. BB+ or lower)
(3) Other assets include £15.5 million of investments in direct lending, a type of private equity vehicle, which is not quoted in an active market (2017: £17.9 million)

The pension plan assets do not include any ordinary shares issued by Drax Group plc or any property occupied by the Group.

The Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class relative to the actual asset allocation for the scheme.

6.3 RETIREMENT BENEFIT OBLIGATIONS continued

The assumptions for discount rate, inflation rate, rate of increase in pensions paid and expected return on plan assets all have a potentially significant effect on the measurement of the scheme surplus. The following table provides an indication of the sensitivity of the pension surplus at 31 December 2018 to changes in these assumptions:

		%	Increase/ (decrease) in net surplus £m
Discount rate	– Increase	0.25	13.6
	– Decrease	0.25	(15.2)
Inflation rate[1]	– Increase	0.25	(13.1)
	– Decrease	0.25	12.3
Life expectancy	– Increase	1 year	(9.2)
	– Decrease	1 year	9.3

Note:
(1) The sensitivity of the scheme liabilities to salary and pension increases is closely correlated with inflation

The Group is exposed to investment and other experience risks, as described above, and may need to make additional contributions where it is estimated that the benefits will not be met from regular contributions and expected investment income.

The defined benefit obligation includes benefits for current employees of the Group (60%), former employees of the Group who are yet to retire (5%) and retired pensioners (35%). The weighted-average period over which benefit payments are expected to be made, or the duration of the scheme liabilities, was assessed at the 31 March 2016 funding valuation to be 21 years.

Future contributions

The Group expects to make regular contributions, in respect of service costs, of £10.1 million to the defined benefit pension plan during the 12 months ended 31 December 2019.

In addition to regular contributions, deficit contributions have been agreed with the Trustees based upon the Technical Provisions as at the 31 March 2016 valuation. The Technical Provisions indicate a deficit of £45 million including an estimate of the impact of future service costs, which do not meet the definition of a liability at 31 December 2018 for inclusion in the financial statements. This valuation has improved since 31 March 2016, in line with the accounting surplus, although this remains subject to a recovery plan.

The Group has agreed to make additional contributions over the period to 31 December 2025 to eliminate the deficit. At this point the scheme is expected to be self-sufficient, unless material adverse changes in economic conditions arise compared to those assumed in the valuation. The Group is confident that the additional contributions are manageable within the Group's business plan. The terms of the Trust Deed allow the Group to recover any surplus once the liabilities of the scheme have been settled. Accordingly the deficit contributions will not give rise to an unrecognised surplus.

Drax 2019 Defined Benefit Scheme

On 31 December 2018, the Group purchased a generation business from ScottishPower (see note 5.1). Under the terms of the sale and purchase agreement (SPA), a number of employees with defined benefit rights transferred to the Group. The employees in question continue to participate in the Scottish Power Pension Scheme whilst the Group is in the process of setting up a new scheme for the members to transfer into (the Drax 2019 Scheme).

The calculations set out below have been performed on the assumption that the transfer of members and assets into the Drax 2019 Scheme occurs during 2019, and will be in accordance with the terms set out in the SPA and the draft Trust Deed regarding the future operation of the new scheme.

The liabilities and asset values at 31 December 2018 have been calculated based on advice from PwC, an independent qualified actuary.

The liabilities have been calculated using full member by member data as at 16 October 2018, the date of the SPA. The valuation has been prepared at 31 December 2018 allowing for the accrual of benefits up to the year end date and based on the assumptions set out below. The valuation includes an allowance for the equalisation of GMP, calculated using an actuarial GMP benefit modelling tool.

The total asset value at 31 December 2018 has been estimated based on a share of funds mechanism agreed with ScottishPower in the SPA.

6.3 RETIREMENT BENEFIT OBLIGATIONS continued

Assumptions have been set using the best information currently available to the Group and based on the Group's expectations of events during 2019 in order to set up the new pension scheme. In the event that experience in 2019 differs from these estimates, retrospective adjustments may be required to the extent material.

The principal assumptions have been set with reference to the nature and term of the liabilities acquired and are as follows:

	As at 31 December	
	2018 % p.a.	2017 % p.a.
Discount rate	**3.1**	–
Inflation (RPI)	**3.1**	–
Rate of increase in pensions in payment and deferred pensions	**3.0**	–
Rate of increase in pensionable salaries	**3.7**	–

The net surplus recognised in the balance sheet in respect of the Drax 2019 Scheme is the excess of the estimated fair value of the assets to be transferred over the present value of the defined benefit obligation acquired:

	As at 31 December	
	2018 £m	2017 £m
Defined benefit obligation	**(50.7)**	–
Fair value of plan assets	**54.5**	–
Net surplus recognised in the balance sheet	**3.8**	–

The draft Trust Deed provides for any residual surplus on winding up of the scheme to be returned to the Group.

The assumptions for discount rate, inflation rate, rate of increase in pensions paid and expected return on plan assets all have a potentially significant effect on the measurement of the scheme surplus. The following table provides an indication of the sensitivity of the surplus at 31 December 2018 to changes in these assumptions:

		%	Increase/ (decrease) in net surplus £m
Discount rate	– Increase	0.1	1.2
	– Decrease	0.1	(1.2)
Inflation rate	– Increase	0.1	(1.0)
	– Decrease	0.1	1.0
Life expectancy	– Increase	1 year	(1.5)
	– Decrease	1 year	1.5

SECTION 7: RISK MANAGEMENT

This section provides disclosures around financial risk management, including the financial instruments we use to mitigate such risks.

7.1 FINANCIAL RISK MANAGEMENT

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

The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is overseen by the risk management committees as explained in principal risks and uncertainties (page 44) which identify, evaluate and hedge financial risks in close coordination with the Group's trading and treasury functions under policies approved by the Board of directors.

Commodity price risk

The Group is exposed to the effect of fluctuations in commodity prices, particularly the price of electricity, gas, the price of coal, sustainable wood fibre and pellets, other fuels and the price of CO_2 emissions allowances. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so.

The Group has a policy of securing forward power sales, purchases of fuel and CO_2 emissions allowances when profitable to do so and in line with specified limits under approved policies. All commitments to sell power under fixed price contracts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of electricity.

The Group purchases sustainable biomass, coal and other fuels under either fixed or variable priced contracts with different maturities principally from a number of international sources. The Group considers all such contracts to be economic hedges. The Group applies the own use exemption or hedge accounting in accordance with IFRS 9 as set out in the accounting policies in notes 7.2 and 7.4.

Where forward power curves are less liquid, the Group uses financially-settled gas sales as a proxy for power to mitigate the risk of power price fluctuations. The Group also purchases gas under fixed-price contracts to meet the demand of its B2B Energy Supply customers and, looking forward following the acquisition of Combined Cycle Gas Turbine (CCGT) assets at the end of 2018, as a fuel for its gas-fired generation portfolio.

The Group purchases CO_2 emissions allowances under fixed price contracts with different maturity dates from a range of domestic and international sources. All commitments to purchase CO_2 emissions allowances under fixed price contracts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of CO_2 emissions allowances.

Commodity price sensitivity

The sensitivity analysis below has been determined based on the exposure to commodity prices for outstanding monetary items at the balance sheet date. The analysis is based on the Group's commodity financial instruments held at each balance sheet date.

If commodity prices had been 5% higher/lower and all other variables were held constant, in the Group's Total Results:

- profit after tax for the year ended 31 December 2018 would increase/decrease by £6.6 million (2017: loss after tax would increase/decrease by £1.5 million). This is mainly attributable to the Group's exposure to oil derivatives; and
- the hedge reserve would increase/decrease by £18.9 million (2017: increase/decrease by £5.6 million) mainly as a result of the changes in the fair value of financial coal and power derivatives.

Foreign currency risk

The Group is exposed to the fluctuations in foreign currency rates resulting from committed and forecast transactions in foreign currencies, principally in relation to purchases of fuel for use in the Power Generation business. These purchases are typically denominated in US dollars, Canadian dollars or euros.

In addition, in order to optimise the cost of funding, the Group has issued foreign currency denominated debt in US dollars (see note 4.3). The Group utilises derivative contracts to manage exchange risk on foreign currency debt.

It is the Group's policy to hedge material transactional exposures using a variety of derivatives to fix the sterling value of foreign currency cash flows, except where there is an economic hedge inherent in the transaction. The Group enters into derivative contracts, including forwards and options, to manage its anticipated foreign currency requirements over a rolling five-year period.

The Group also has a limited exposure to translation risk in relation to its net investment in its US subsidiary, Drax Biomass Inc.

7.1 FINANCIAL RISK MANAGEMENT continued

Foreign currency sensitivity

If sterling exchange rates had been 5% stronger/weaker against other currencies and all other variables were held constant, in the Group's Total Results:

- profit after tax for the year ended 31 December 2018 would increase/decrease by £112.3 million/£124.7 million (2017: loss after tax would decrease/increase by £351.1 million/£285.5 million). This is attributable to the Group's exposure to foreign currency exchange contracts entered in relation to fuel purchase contracts; and
- other equity reserves would decrease/increase by £160.6 million/£183.6 million (2017: decrease/increase by £111.1 million/£122.8 million) as a result of the changes in the fair value of foreign currency exchange contracts.

Interest rate risk

The Group has limited exposure to interest rate risk, principally in relation to cash and cash equivalents and floating rate debt instruments. At December 2018 the Group had no floating rate debt instruments drawn. The Group has taken out a fixed to fixed cross-currency interest rate swap to hedge the future cash flows associated with the USD $300 million 2025 fixed rate loan notes, effectively converting them to sterling fixed rate cash flows.

The return generated on the Group's cash balance, or on amounts drawn on the revolving credit facility, are also exposed to movements in short-term interest rates. The Group manages cash balances to protect against adverse changes in rates whilst retaining liquidity.

Information about the Group's instruments that are exposed to interest rate risk and their repayment schedules is provided in note 4.3.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's profit after tax and net assets for the year ended 31 December 2018 would decrease/increase by £1.0 million (2017: loss after tax would decrease/increase by £2.2 million) as a result of the changes in interest payable during the period.

Liquidity risk

The treasury function is responsible for liquidity, funding and settlement management under policies approved by the Board of directors. Liquidity needs are monitored using regular forecasting of operational cash flows and financing commitments. The Group maintains a mixture of cash and cash equivalents, committed facilities and uncommitted facilities in order to ensure sufficient funding for business requirements.

In managing liquidity risk, the Group has the ability to accelerate the cash flows associated with certain working capital items (principally those related to ROC sales and B2B Energy Supply power sales). In each case this is undertaken on a non-recourse basis and accordingly the ROCs and other items are derecognised from the balance sheet at the point of sale. As discussed in the financial review on page 34, the Group also utilises standard purchasing facilities to extend the working capital cycle, whilst still paying suppliers on time. The impact on the Group's cash flows is described in note 4.4.

The following tables set out details of the expected contractual maturity of non-derivative financial liabilities. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date.

	As at 31 December 2018			
	Within 3 months £m	3 months–1 year £m	>1 year £m	Total £m
Term loan, gross value	–	1.7	41.3	43.0
Loan notes, gross value	–	30.5	716.2	746.7
Finance lease liabilities, carrying value	–	0.2	0.4	0.6
Borrowings, contractual maturity	–	32.4	757.9	790.3
Trade and other payables	384.1	176.4	–	560.5
Acquisition consideration payable	686.9	–	–	686.9
	1,071.0	208.8	757.9	2,037.7

Trade and other payables of £560.5 million excludes non-financial liabilities such as the Group's obligation to deliver ROCs.

7.1 FINANCIAL RISK MANAGEMENT continued

	As at 31 December 2017			
	Within 3 months £m	3 months–1 year £m	>1 year £m	Total £m
Term loans, gross value	–	1.6	41.7	43.3
Revolving credit facilities, gross value	18.7	–	–	18.7
Loan notes, gross value	2.2	21.9	637.2	661.3
Finance lease liabilities, carrying value	–	0.1	0.8	0.9
Borrowings, contractual maturity	**20.9**	**23.6**	**679.7**	**724.2**
Trade and other payables	445.2	187.3	4.5	637.0
	466.1	**210.9**	**684.2**	**1,361.2**

Interest payments are calculated based on forward interest rates estimated at the balance sheet date using publicly available information.

The weighted average interest rate payable at the balance sheet date on the Group's borrowings was 4.56% (2017: 4.38%).

The following tables set out details of the expected contractual maturity of derivative financial instruments which are marked to market, based on the undiscounted cash flows. Where the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to projected commodity prices, or foreign currency exchange rates, as illustrated by the yield or other forward curves existing at the reporting date.

	As at 31 December 2018			
	Within 1 year £m	**1–2 years £m**	**>2 years £m**	**Total £m**
Commodity contracts	**14.5**	**190.8**	**68.6**	**273.9**
Financial contracts	**1,794.7**	**843.4**	**1,861.3**	**4,499.4**
Cross currency interest rate swap	**10.7**	**10.7**	**26.8**	**48.2**
	1,819.9	**1,044.9**	**1,956.7**	**4,821.5**

	As at 31 December 2017			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	161.9	69.4	16.6	247.9
Financial contracts	1,104.0	1,173.9	2,331.0	4,608.9
	1,265.9	1,243.3	2,347.6	4,856.8

Counterparty risk

As the Group relies on third party suppliers and counterparties for the delivery of currency, sustainable biomass and other goods and services, it is exposed to the risk of non-performance by these third-party suppliers. If a large supplier were to fall into financial difficulty and/or fail to deliver against its contract with the Group, there would be additional costs associated with securing the lost goods or services from other suppliers.

The Group enters into contracts for the sale of electricity to a number of counterparties. The failure of one or more of these counterparties to perform their contractual obligations may cause the Group financial distress or increase the risk profile of the Group.

7.1 FINANCIAL RISK MANAGEMENT continued

Credit risk

The Group's gross exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	As at 31 December 2018 £m	As at 31 December 2017 £m
Financial assets:		
Cash and cash equivalents	**289.0**	222.3
Trade and other receivables	**413.3**	409.3
Other fixed asset investments	**2.4**	1.3
Derivative financial instruments	**510.6**	366.2
	1,215.3	999.1

Trade and other receivables are stated gross of the provision for doubtful debts of £44.0 million (2017: £28.2 million) and exclude non-financial receivables such as prepayments.

Of the Group's three operating segments, two are exposed to different levels and concentrations of credit risk, largely reflecting the number, size and nature of their respective customers. The Pellet Production segment only trades intra-group.

The highest risk is in the B2B Energy Supply segment, with a high number of customers of varying sizes operating in a variety of markets. In particular, Opus Energy carries lower concentrations but higher levels of credit risk owing to a customer base comprised largely of smaller retail and commercial entities.

In the B2B Energy Supply segment, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. Credit risk is monitored and managed by business sector. In addition the B2B Energy Supply segment extended its trade credit insurance programme to increase its mitigation to credit risk.

For the Power Generation segment, the risk arises from treasury, trading and energy procurement activities, as well as sale of by-products from generation activities. Wholesale counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The Group uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist. In addition, the Group employs a variety of other methods to mitigate credit risk: margining, various forms of parent company guarantee, deed of charge, cash collateral and letters of credit. The majority of the Generation business's credit risk is with counterparties in related energy industries or with financial institutions. In addition, where deemed appropriate, the Group has historically purchased credit default swaps.

The investment of surplus cash is undertaken with the objective of that there is sufficient liquidity at all times, so that funds are available to meet liabilities as they fall due, whilst securing a return from invested funds and preserving the capital value of those funds within Board-approved policies. These policies manage credit risk exposure by setting out minimum rating requirements, maximum investment with any one counterparty and the maturity profile.

Capital management

The Group manages its capital to ensure it is able to continue as a going concern and maintain its credit rating while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of shareholders' equity (excluding the hedge and cost of hedging reserves), plus net debt. Net debt is comprised of borrowings disclosed in note 4.3 and cash and cash equivalents in note 4.2.

	As at 31 December 2018 £m	As at 31 December 2017 Restated £m
Borrowings	**608.1**	589.7
Cash and cash equivalents	**(289.0)**	(222.3)
Net debt	**319.1**	367.4
Total shareholders' equity, excluding hedge and cost of hedging reserves	**1,580.0**	1,634.7

7.2 DERIVATIVE FINANCIAL INSTRUMENTS

We enter into forward contracts for the purchase and sale of physical commodities (principally power, gas, coal, sustainable biomass and CO_2 emissions allowances) to secure market level bark and dark green spreads on future electricity sales, and also financial forward and option contracts (principally currency exchange contracts and financial coal and oil derivatives) to fix sterling cash flows.

We hold these contracts to manage key risks facing the business, including commodity price risk and foreign currency risk (see note 7.1).

A successful commercial hedging strategy is critical to the Group's business model. Our policy is to fix exposures to commodity price movements and changes in foreign exchange rates using derivative contracts such as those described above. This strategy aims to de-risk the business, providing security and certainty over cash flows into the future. As at 31 December 2018, the fair value of our forward derivative contracts, consisting largely of forward contracts for the purchase of foreign currencies (principally for the purpose of fixing the sterling cost of sustainable biomass purchases), increased to £359.0 million (2017: £160.0 million).

Accounting policy

At the balance sheet date all contracts (subject to certain exemptions described below) must be measured at fair value, which is in essence the difference between the price we have secured in the contract, and the price we could achieve in the market at that point in time.

Changes in fair value are recognised either within the income statement or the hedge reserve, dependent upon whether the contract in question qualifies as an effective hedge under IFRS (see note 7.4).

Where possible, the Group has taken advantage of the own-use exemption which allows qualifying contracts to be excluded from fair value mark-to-market accounting. This applies to certain contracts for physical commodities entered into and held for the Group's own purchase, sale or usage requirements, including forward contracts for the purchase of biomass, and coal from domestic sources.

Contracts which do not qualify for the own-use exemption – principally power, gas, financial oil, financial coal, CO_2 emissions allowances and forward foreign currency exchange contracts – are accounted for as derivatives in accordance with IFRS 9 and are recorded in the balance sheet at fair value, with changes in fair value reflected through the hedge reserve (note 7.4) to the extent that the contracts are designated as effective hedges in accordance with IFRS 9, or the income statement where the hedge accounting requirements are not met. The Group enters into forward contracts solely for the purpose of financial risk management and considers all of its contracts to be economic hedges, regardless of whether the specific criteria for hedge accounting are met. To ensure these derivatives are not reflected in the underlying performance of the Group, they are excluded from the Adjusted Results in the income statement.

Derivative financial instruments with a maturity date within 12 months from the balance sheet date are classified as current assets or liabilities. Instruments with a maturity date beyond 12 months are classified as non-current assets or liabilities.

The location in the consolidated financial statements of the changes in fair value of derivative contracts in the current and previous year is summarised in the table below:

Accounting for derivative contracts	Gains/(losses) on contracts in 2018 £m	Gains/(losses) on contracts in 2017 Restated £m	Accounting treatment for gains/(losses) in the consolidated financial statements
Commodity contracts			
Power	**16.3**	3.8	Hedge reserve
Coal from international sources	**(0.4)**	(0.8)	Income statement
Coal from domestic sources	**n/a**	n/a	Own-use exemption
Biomass	**n/a**	n/a	Own-use exemption
CO_2 emissions allowances	**6.9**	11.0	Hedge reserve
Gas	**(10.0)**	0.1	Income statement
Financial contracts			
Foreign currency exchange contracts	**35.0**	(255.4)	Income statement
	39.3	20.8	Cost of hedging
	79.7	(225.6)	Hedge reserve
Financial coal	**1.5**	12.9	Income statement
	(16.5)	1.5	Hedge reserve
Financial oil and other financial products	**12.3**	66.3	Income statement
Cross currency interest rate swap	**5.1**	–	Hedge reserve
Total net gains/(losses) in hedge reserve	**91.5**	(209.3)	
Total net gain in cost of hedging	**39.3**	20.8	
Total net gains/(losses) in income statement	**38.4**	(176.9)	

7.2 DERIVATIVE FINANCIAL INSTRUMENTS continued

Significant estimation uncertainty

The fair values of derivative instruments for commodities and foreign currency exchange contracts are determined using forward price curves. Forward price curves represent the Group's estimates of the prices at which a buyer or seller could contract today for delivery or settlement of a commodity or foreign exchange payment or receipt, at future dates. The Group generally bases forward price curves upon readily obtainable market price quotations, as the Group's commodity and forward foreign exchange contracts do not generally extend beyond the actively traded portion of these curves. However, the forward price curves used are only an estimate of how future prices will move and are, therefore, subjective. Where derivative financial instruments include options these are valued using an option pricing model. Inputs to the model include market commodity prices, forward price curves, the term of the option, discount rate and assumptions about volatility based on historical movements. The inputs include assumptions around future transactions and market movements, as well as credit risk and are, therefore, subjective.

Fair value accounting

Forward contracts for the sale of power, purchase of coal from international sources, purchase of CO_2 emissions allowances, financial coal, financial oil, gas (collectively "Commodity contracts") and foreign currency exchange contracts are recorded in the balance sheet at fair value as follows:

	As at 31 December 2018		As at 31 December 2017	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Commodity contracts:				
Less than one year	66.8	(72.7)	60.5	(79.3)
More than one year but not more than two years	24.2	(30.5)	8.4	(14.4)
More than two years	2.5	(2.5)	0.5	(1.1)
Financial contracts:				
Less than one year	148.6	(16.7)	115.0	(30.3)
More than one year but not more than two years	138.6	(9.2)	85.5	(20.0)
More than two years	101.9	(19.8)	96.3	(58.7)
Cross currency interest rate swap	27.9	–	–	–
Total	510.6	(151.4)	366.2	(203.8)
Less: non-current portion				
Commodity contracts	(26.8)	33.0	(8.9)	15.5
Financial contracts	(240.5)	29.0	(181.8)	78.7
Cross currency interest rate swap	(27.9)	–	–	–
Total non-current portion	(295.2)	62.0	(190.7)	94.2
Current portion	215.4	(89.4)	175.5	(109.6)

The total increase in the fair value of these contracts of £196.8 million (2017: £365.4 million reduction) is recognised in the income statement, cost of hedging or the hedge reserve, dependent upon whether the hedge accounting requirements of IFRS 9 are met, as follows:

	Years ended 31 December	
	2018 £m	2017 £m
Total net gains/(losses) income statement (note 7.2)	38.4	(176.9)
Total net gain in cost of hedging reserve (note 7.5)	39.3	20.8
Total net gains/(losses) in hedge reserve (note 7.4)	91.5	(209.3)
Other movements on derivative contracts recognised in arriving at total operating profit (note 7.4)	27.6	–
Total gains/(losses) on derivative contracts	196.8	(365.4)

The Group maintains a substantial foreign currency hedging programme to secure the sterling cost of future purchases of fuel in foreign currencies. The vast majority of fuel purchases, and therefore currency exchange contracts, are denominated in US dollars. The unrealised gains reflect the weakening of sterling against the US dollar in the year.

A material proportion of these contracts are not designated in hedge accounting relationships under IFRS 9 and thus the gains on these contracts were recognised in the income statement.

Unrealised gains or losses recognised in the hedge reserve principally reflect gains or losses on the portion of forward currency exchange contracts that are designated in effective hedge relationships in accordance with IFRS 9.

7.2 DERIVATIVE FINANCIAL INSTRUMENTS continued

Fair value measurement

- **Commodity contracts fair value** – The fair value of open commodity contracts that do not qualify for the own-use exemption is calculated by reference to forward market prices at the balance sheet date. As contracts are generally short-term, forward market price curves are available for the duration of the contracts. The quoted market price used for financial assets held by the Group is the current bid price; the quoted price for financial liabilities is the current ask price.
- **Forward foreign currency exchange contracts fair value** – The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the balance sheet date.
- **Other financial contracts fair value** – The fair value of other financial contracts that do not qualify for the own-use exemption, is calculated by reference to forward market prices at the balance sheet date. As contracts are generally short-term, forward market price curves are available for the duration of the contracts.

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

The Group has reviewed all significant contracts for the presence of embedded derivatives. Where contracts were found to contain embedded derivatives, they were considered to be closely related to the economic characteristics and risks of the host contract, and therefore do not require separate valuation from their host contracts.

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

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

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

The fair value of commodity contracts and forward foreign currency exchange contracts are largely determined by comparison between forward market prices and the contract price; therefore, these contracts are categorised as Level 2.

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

7.3 OTHER FINANCIAL INSTRUMENTS

The Group hold a variety of other non-derivative financial instruments, including cash and cash equivalents, borrowings, payables and receivables arising from operations.

Fair value

Cash and cash equivalents (note 4.2), trade and other receivables (note 3.5) and trade and other payables (note 3.7) generally have a short time to maturity. For this reason their carrying values, on the historical cost basis, approximate to their fair value. The Group's borrowings relate principally to the publicly traded high-yield loan notes and amounts drawn against term loans, see note 4.3.

The financial liabilities have been measured at amortised cost. The terms of the instruments have been reviewed for the existence of embedded derivatives. The 2022 fixed rate loan notes and the 2025 USD loan notes both contain an early repayment option that meets the definition of an embedded derivative. However, in both cases, these have not been separated as they are deemed to be closely related to the host contract. At 31 December 2018, the fair value of the loan notes was £4.6 million and in excess of the carrying value of £574.3 million (based on quoted market prices).

7.4 HEDGE RESERVE

The Group designates certain hedging instruments used to address commodity price risk and foreign exchange risk as cash flow hedges. At the inception of the hedge, the relationship between the hedging instrument and hedged item is documented, along with its risk management objectives. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Changes in fair value of contracts designated into such hedging relationships are recognised within the hedge reserve to the extent they are effective.

The cumulative gains and losses unwind and are released as the related contracts mature and we take delivery of the associated commodity or currency.

	Hedge reserve	
	2018 £m	2017 Restated £m
At 1 January	**126.1**	305.4
Gains/(losses) recognised:		
– Commodity contracts	**8.4**	1.5
– Financial contracts	**149.8**	(161.9)
– Cross currency interest rate swap	**27.9**	–
Released from equity:		
– Commodity contracts	**(1.9)**	14.8
– Financial contracts	**(69.9)**	(73.6)
– Cross currency interest rate swap	**(22.8)**	–
Related deferred tax, net (note 2.6)	**(17.7)**	39.9
At 31 December	**199.9**	126.1

Commodity contracts and financial contracts are released from equity to revenue or cost of sales in the income statement. Gains and losses on the cross currency interest rate swap are released to interest costs.

The Group's cash flow hedges relate to commodity contracts (principally commitments to sell power) and forward foreign currency exchange contracts. Amounts are recognised in the hedge reserve as the designated contracts are marked-to-market at each period end for the effective portion of the hedge, which is generally 100% of the relevant contract. Amounts held within the hedge reserve are then released as the related contract matures and the hedged transaction impacts profit or loss. For power sales contracts, this is when the underlying power is delivered. For currency contracts, this is when the associated foreign currency transaction is recognised. Further information about the Group's accounting for financial instruments is included in note 7.2.

Included in amounts released from equity are gains and losses on financial instruments that matured in a previous period, released to the income statement in the period the hedged transaction occurs. No ineffectiveness was recognised in the income statement in the year (2017: £Nil). Due to the nature of the hedge relationships, the movement in value for the hedged items and hedging instruments are comparable.

The expected release profile from equity of post-tax hedging gains and losses is as follows:

	As at 31 December 2018			
	Within 1 year £m	**1–2 years £m**	**>2 years £m**	**Total £m**
Commodity contracts	**2.7**	**3.6**	**0.5**	**6.8**
Financial contracts	**67.0**	**91.2**	**56.7**	**214.9**
Cross currency interest rate swap	**–**	**–**	**(21.8)**	**(21.8)**
	69.7	**94.8**	**35.4**	**199.9**

	As at 31 December 2017			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	2.3	(1.7)	–	0.6
Financial contracts	40.0	39.9	45.6	125.5
	42.3	38.2	45.6	126.1

7.5 COST OF HEDGING RESERVE

On transition to IFRS 9, the Group has elected to allocate unrealised gains and losses on the forward rate of foreign currency derivative contracts to a new cost of hedging reserve. The prior year amounts have been restated and a reconciliation is provided in note 8.3.

A large proportion of the derivative contracts relate to foreign exchange contracts, including forward contracts, options and swaps. Consistent with prior periods, the Group has continued to designate the change in fair value of the spot rate in the Group's cash flow hedge relationships. As part of the transition to IFRS 9, an election was made to designate the cost of hedging – being the change in fair value associated with forward points including currency basis – to equity. This change in policy has been applied retrospectively. As a result, the Group's loss on initial application has decreased and the corresponding increase was taken through equity to a new cost of hedging reserve.

The cumulative gains and losses unwind and are released as the related contracts mature and we take delivery of the associated currency.

	Cost of hedging	
	2018 £m	2017 Restated £m
At 1 January	**(40.7)**	(57.5)
Gains/(losses) recognised:		
– Forward foreign currency exchange contracts	**24.8**	19.8
Released from equity:		
– Forward foreign currency exchange contracts	**14.5**	1.0
Related deferred tax, net (note 2.6)	**(7.5)**	(4.0)
At 31 December	**(8.9)**	(40.7)

Forward foreign currency exchange contracts are released to cost of sales in the income statement.

The expected release profile from equity of post-tax cost of hedging gains and losses is as follows:

	As at 31 December 2018			
	Within 1 year £m	**1–2 years £m**	**>2 years £m**	**Total £m**
Financial contracts	3.0	11.9	(6.0)	8.9

7.6 CONTINGENT ASSETS AND LIABILITIES

Contingent liabilities are potential future outflows of cash that are dependent on a future event that is outside of the control of the Group. The amount or timing of any payment is uncertain and cannot be measured reliably.

Capacity market suspension

On 15 November 2018 the General Court of the Court of Justice of the European Union found in favour of a claim against the European Commission, annulling the Commission's State aid approval of the UK Capacity Market. This ruling imposed a standstill period on the Capacity Market, with payments under existing contracts and future capacity auctions suspended indefinitely until re-approval. Following this ruling, the Group ceased to accrue capacity market income in Power Generation. Any revenue up to 30 September was received, but from this date no amounts have been recognised.

The Department for Business, Energy, Innovation and Skills (BEIS) has indicated its intent, in a consultation document dated 19 December 2018, to work with the European Commission to achieve a reinstatement of the Capacity Market as soon as possible. Furthermore, BEIS has indicated that, upon reinstatement, it expects to make back payments to Generators who have complied with their capacity agreements during the standstill period. At the date of signing these accounts the Group has complied with its capacity obligations in full. However, reinstatement remains conditional upon EU State aid re-approval and accordingly at the date of these accounts remains uncertain.

If the capacity market is reinstated and payments are backdated, the Group will receive income of £7 million in respect of payments due to the Power Generation business which would become payable in respect of the year ended 31 December 2018.

As disclosed in note 5.1, should 100% of the contracted Capacity Market payments for the Acquired Generation Business not be received in respect of the period 1 January to 30 September 2019, a risk sharing mechanism may result in further payments being made either to or from the Group in respect of the acquisition.

7.6 CONTINGENT ASSETS AND LIABILITIES continued

Guarantees

In addition to the amount drawn down against the bank loans, certain members of the Group guarantee the obligations of a number of banks in respect of letters of credit issued by those banks to counterparties of the Group. As at 31 December 2018, the Group's contingent liability in respect of letters of credit issued under the revolving credit facility amounted to £31.8 million (2017: £35.7 million).

The Group also guarantees obligations in the form of surety bonds with a number of insurers amounting to £63.7 million (2017: £41.3 million).

Guaranteed Minimum Pension

The Group has previously disclosed a contingent liability in respect of the equalisation of Guaranteed Minimum Pension (GMP). On 26 October 2018, the High Court issued a judgement confirming that schemes should be amended to equalise benefits in relation to GMP for men and women.

Accordingly, the Group has included the estimated cost of equalisation (£0.6m) in calculating its defined benefit pension obligations at 31 December 2018 (see note 6.3).

7.7 COMMITMENTS

The Group has a number of financial commitments (i.e. a contractual requirement to make a cash payment in the future) that are not recorded in the balance sheet as the contract is not yet due for delivery. Such commitments include contracts for the future purchase of coal and biomass, operating leases for land and buildings, contracts for the construction of assets and contracts for the provision of services.

	As at 31 December	
	2018 £m	2017 £m
Contracts placed for future capital expenditure not provided in the financial statements	**74.9**	11.6
Future support contracts not provided in the financial statements	**6.5**	6.5
Future commitments to purchase ROCs	**159.7**	168.0
Future commitments to purchase fuel under fixed and variable priced contracts	**6,716.6**	5,803.5

The contractual maturities of the future commitments to purchase fuel are as follows:

	As at 31 December	
	2018 £m	2017 £m
Within one year	**1,084.2**	1,054.2
Within two to five years	**4,191.0**	2,885.5
After five years	**1,441.4**	1,863.8
	6,716.6	5,803.5

Commitments to purchase fuel reflect long-term forward purchase contracts with a variety of international suppliers, primarily for the delivery of sustainable wood pellets for use in electricity production at Drax Power Station over the period from 2019–2027. To the extent these contracts relate to the purchase of wood pellets, they are not reflected elsewhere in the financial statements owing to application of the "own-use" exemption from fair value accounting to such contracts (see note 7.2).

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2018 £m	2017 £m
Within one year	**6.1**	8.9
Within one to five years	**12.7**	25.5
After five years	**12.0**	9.1
	30.8	43.5

The operating lease commitments principally comprise a number of leases for the Group's office space.

SECTION 8: REFERENCE INFORMATION

This section details reference information relevant to the accounts. Here we describe the general information about the Group (e.g. operations and registered office). We also set out the basis of preparation of the accounts and general accounting policies that are not specific to any one note.

8.1 GENERAL INFORMATION

Drax Group plc (the Company) is incorporated in England and Wales under the Companies Act. The Company and its subsidiaries (together, the Group) have three principal activities:

- electricity generation;
- electricity supply to business customers; and
- manufacturing of sustainable compressed wood pellets for use in electricity production.

The Group's activities are principally based within the UK, with the wood pellet manufacturing activities situated in the US.

The address of the Company's registered office and principal establishment is Drax Power Station, Selby, North Yorkshire, YO8 8PH, United Kingdom. A full list of operating companies of the Group is disclosed in note 5 to the Company's separate financial statements, which follow these consolidated financial statements.

8.2 BASIS OF PREPARATION

Adoption of new and revised accounting standards

A number of new and amended standards became effective for the first time in 2018. The Group adopted the following from 1 January 2018:

IFRS 2 – Classification and Measurement of Share-based Payment Transactions – effective for annual periods beginning on or after 1 January 2018.

IFRS 9 – Financial Instruments – effective for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 (including clarifications issued on 12 April 2016) – Revenue from Contracts with Customers – effective for annual reporting periods beginning on or after 1 January 2018.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration – effective for annual reporting periods beginning on or after 1 January 2018.

Other than the adoption of IFRS 9, these updates and amendments have not had a material impact on the financial statements of the Group. The transition disclosures for IFRS 9 and IFRS 15 have been included in note 8.3.

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

IAS 40 (amended) – Investment Property – effective for annual reportings beginning on or after 1 July 2018.*

IFRIC 23 – Uncertainty over Income Tax Treatments – effective for annual reports beginning on or after 1 January 2019.*

IFRS 16 (amended) – Leases – effective for annual reports beginning on or after 1 January 2019.

IFRS 10 (amended) – Consolidated Financial Statements and IAS 28 (amended) – Investments in Associates and Joint Ventures (2011) – effective date deferred indefinitely.*

IAS 28 (amended) – Investments in Associates and Joint Ventures – effective from 1 January 2019.

IAS 19 (amended) – Employee Benefits – effective from 1 January 2019.

IFRS 3 (amended) – Business Combinations – effective from 1 January 2020.

Conceptual Framework for Financial Reporting (amended) – effective from 1 January 2020.

IAS 1 (amended) – Presentation of Financial Statements and IAS 8 (amended) Accounting Policies, Changes in Accounting Estimates and Errors – effective from 1 January 2020.

IFRS 17 Insurance contracts – effective from 1 January 2021.

8.2 BASIS OF PREPARATION continued

Adoption of the other standards in future periods is not expected to have a material impact on the financial statements of the Group, other than IFRS 16 as noted below.

IFRS 16 – Leases

The Group will adopt IFRS 16 from 1 January 2019 and has chosen to adopt the modified retrospective application. Consequently, comparative information in the financial statements for the year ending 31 December 2018 will not be restated.

The new requirements will impact the Group's accounting for lease contracts.

The Group's current operating 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, these leases will be brought onto the balance sheet as right-of-use assets, and the Group will recognise a corresponding liability for the amounts payable under the lease contracts.

On transition, the Group will make use of the practical expedient available not to reassess whether a contract is or contains a lease. 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 will apply the new definition of a lease to all contracts entered into or modified on or after 1 January 2019. We do not anticipate this change to have a significant impact on the assessment of contracts that are in scope of the definition of a lease.

For short-term leases (12 months or less) and leases of low value assets, the Group will elect to recognise a lease expense on a straight-line basis as permitted by IFRS 16. Short-term leases include those which end within 12 months of transition.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with our policy outlined in note 2.4. This will replace the previous requirement to recognise a provision for onerous lease contracts.

Impact on lease accounting

As at the reporting date, the Group has non-cancellable operating lease commitments of approximately £31 million.

A preliminary assessment has been concluded that indicates the Group will recognise a right-of-use asset and corresponding lease liability of approximately £20 million on transition to the new standard in 2019. This value is lower than the value of non-cancellable minimum lease payments owing to the existence of short-term and low-value leases, and the effect of discounting.

The preliminary assessment indicates that £18 million of the existing lease obligations relate to short-term and leases of low value assets. The effect of discounting has been estimated for the purpose of this analysis. The anticipated effect on profit or loss (compared to 2018 results for lease contracts in existence at the balance sheet date) is a reduction in administrative and operating expenses of approximately £5 million, offset by increases in depreciation of approximately £4 million and finance costs of approximately £1 million.

Actual values may differ from those in this preliminary assessment.

Due to the timing of the transaction the Group has not yet completed any detailed analysis of lease contracts acquired as part of the ScottishPower generation portfolio for this purpose. Initial investigations indicate the largest lease in the portfolio has a present value of approximately £5 million.

8.3 ADOPTION OF NEW ACCOUNTING STANDARDS AND CHANGE IN PRESENTATION OF INCOME STATEMENT

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. It applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. Adoption of IFRS 15 has not resulted in any changes to the amounts recognised in these financial statements compared to the previous requirements, nor any restatement of the prior period comparative information.

The adoption of IFRS 15 has not resulted in any changes to the amount or timing of revenue recognised in either period. In accordance with the transition provisions in IFRS 15, the Group has adopted the new requirements retrospectively and has reclassified certain balance sheet receivables and payables for the 2017 financial year. The Group has applied certain practical expedients on initial application including the exemption from the requirement to apply the standard to contracts that begin and end within the same annual reporting period and contracts completed before 1 January 2017. These practical expedients did not have a material effect on the financial statements.

The accounting policies, as disclosed in the Annual Report and Accounts for 31 December 2017, have not materially changed. Particular areas for consideration have been in respect of the growing B2B Energy Supply Segment which supplies to businesses ranging from micro-businesses to large Industrial & Commercial participants. Larger customers actively rather than passively renew their supply contracts. These contracts have been separated into two main categories; those with a fixed price for a contracted period of time, and those with a variable or flexible price where the contract price varies according to changes in the cost of supply.

For fixed price contracts, progress is measured with reference to the costs of supply incurred at the point the energy is delivered and revenue is accrued or deferred accordingly. For variable rate and flexible contracts, revenue is recognised at a point in time when the energy is supplied and is measured at the contracted price per unit supplied.

The B2B Energy Supply business accrues revenue based on estimated usage each period and this is recognised in the balance sheet as accrued income. Where the consideration received from the customer is in advance of supply, revenue is deferred on the balance sheet.

Generation revenue continues to be recognised at the point of delivery. Activities within the scope of IFRS 9 (see below) are outside the scope of IFRS 15.

IFRS 9 – Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for periods beginning on or after 1 January 2018, bringing together all three aspects of accounting for financial instruments: classification and measurement; impairment; and hedge accounting which has been fully adopted by the Group.

On transition to IFRS 9, the key change in the Group's accounting policy for financial instruments is to recognise the 'cost of hedging' (explained below) initially in a reserve, rather than the income statement. Amounts are subsequently reclassified from the cost of hedging reserve and recognised in cost of sales in the same period as the hedged item. This change in policy has been applied retrospectively with comparative information for the period beginning 1 January 2017 being adjusted as though the cost of hedging approach had always been applied for those derivatives that existed at or since 1 January 2017.

Unrealised fair value gains and losses on cash flow hedges are recognised in other comprehensive income. Gains and losses relating to fuel purchases, which will be recycled to inventory in the balance sheet, are released directly from the hedge reserve.

Prior year comparatives have not been restated for other aspects of IFRS 9, as the effect is not material.

In respect of accounting for trade and other receivables, the Group has applied IFRS 9's simplified approach to provisioning and has calculated this using lifetime expected losses. This calculation has had no material impact on the financial statements.

The transition to the new standard is complete; however, the Group will monitor emerging developments and interpretations of the new standard.

Changes in presentation of income statement

All gains and losses on derivative contracts that do not qualify for hedge accounting are included in revenue or cost of sales as and when they arise.

However, since the purpose of the derivative contracts concerned is to hedge certain risk exposures, principally commodity price and foreign currency risks, a columnar format has been adopted for the income statement in which adjusted results are presented, excluding certain gains and losses arising from remeasuring derivative contracts to fair value. The purpose of adjusted results is to reflect sales of electricity and purchases of fuel at the contracted price. This includes the effect of relevant financial derivatives (such as forward foreign currency contracts) used to secure the all-in sale or purchase price of the commodity concerned.

8.3 ADOPTION OF NEW ACCOUNTING STANDARDS AND CHANGE IN PRESENTATION OF INCOME STATEMENT continued

The adjusted results therefore in effect apply the accounting treatment that would have applied under IFRS 9 had the derivative contracts concerned qualified for hedge accounting. This is consistent with the practice followed by other major UK power generation companies. This change has been applied retrospectively but has not changed the prior year results, only their presentation.

The impact on the previously reported amounts in the income statement and statement of comprehensive income, due to changes in accounting policies, are set out in the tables below. There have been no changes to the balance sheet other than the creation of a cost of hedging reserve.

Impact on the income statement (increase/(decrease)) for:

	Year ended 31 December 2017 As previously reported £m	Adoption of IFRS 9 £m	Representation of income statement £m	Year ended 31 December 2017 Restated £m
	Total results	a)	b)	Total results
Revenue	3,685.2	–	(0.9)	3,684.3
Cost of sales	(3,140.2)	–	(176.0)	(3,316.2)
Gross profit	**545.0**	**–**	**(176.9)**	**368.1**
Operating and administrative expenses	(316.1)	18.7	–	(297.4)
Impairment losses on trade receivables	–	(18.7)	–	(18.7)
Depreciation	(122.7)	–	–	(122.7)
Amortisation	(43.6)	–	–	(43.6)
Loss on disposal	(15.4)	–	–	(15.4)
Other losses	(0.4)	–	–	(0.4)
Unrealised losses on derivative contracts	(156.1)	(20.8)	176.9	–
Acquisition and restructuring costs	(7.8)	–	–	(7.8)
Operating loss	**(117.1)**	**(20.8)**	**–**	**(137.9)**
Foreign exchange losses	(10.6)	–	–	(10.6)
Interest payable and similar charges	(55.7)	–	–	(55.7)
Interest receivable	0.2	–	–	0.2
Loss before tax	**(183.2)**	**(20.8)**	**–**	**(204.0)**
Total tax charge	32.1	4.0	–	36.1
Restated loss for the period	**(151.1)**	**(16.8)**	**–**	**(167.9)**
Loss per share				
– Basic	(37.2)			(41.3)
– Diluted	(36.8)			(40.9)

Impact on total comprehensive income (increase/(decrease)) for:

	Adjustments	Year ended 31 December 2017 £m
Total comprehensive expense – as disclosed		**(309.7)**
Net impact of cost of hedging reclassification	(a)	2.7
Fair value gains and losses on cash-flow hedges – released directly from reserves	(a)	85.7
Deferred tax on above items	(d)	(19.3)
Total comprehensive expense – restated		**(240.6)**

8.3 ADOPTION OF NEW ACCOUNTING STANDARDS AND CHANGE IN PRESENTATION OF INCOME STATEMENT continued

(a) Adoption of IFRS 9

A large proportion of our derivative contracts relate to foreign exchange contracts, including forward contracts, options and swaps. Consistent with prior periods, the Group has continued to designate the change in fair value of the spot rate in the Group's cash flow hedge relationships. As part of the transition, an election has been made to apply the cost of hedging approach resulting in the change in fair value associated with forward points, including currency basis, being initially recognised in equity and subsequently reclassified to profit or loss. This change in policy has been applied retrospectively. As a result, the Group reclassified £57.5 million of cumulative losses to the new cost of hedging reserve on initial application and restated the 2017 financial results to reflect £20.8 million of gains (plus associated tax of £4.0 million) in the cost of hedging reserve.

Fair value gains and losses on cash flow hedges of £85.7 million that relate to fuel purchases, which were recycled to inventory in the balance sheet, have been restated as though they were released directly from reserves and therefore are no longer recognised in Other comprehensive income. The related deferred tax of £(15.6) million has also been reallocated.

Impairment losses on trade receivables are now disclosed separately on the face of the income statement (previously included within operational and administrative expenses). Application of IFRS 9 has not had a material impact on the value of trade receivable impairment losses.

b) Representation of the income statement

Unrealised gains and losses on derivative contracts have been included in the line item to which they relate.

(c) Other losses

There were no material adjustments to the Group's classification and measurement of financial instruments.

The Group has changed its policy regarding the classification of listed equity investments from fair value through profit and loss to fair value through other comprehensive income (FVOCI).

(d) Tax charge

Upon adoption of IFRS 9, deferred tax and income tax values were adjusted accordingly.

8.4 RELATED PARTY TRANSACTIONS

A related party is either an individual or entity with control or significant influence over the Group, or a company that is linked to us by investment (such as an associated company or joint venture). Our primary related parties are our key management personnel.

Remuneration of key management personnel

The remuneration of the directors and Executive Committee members, who are considered to be the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors, together with the directors' interests in the share capital of Drax Group plc, is provided in the audited part of the Remuneration Committee report.

	Years ended 31 December	
	2018 £000	2017 £000
Salaries and short-term benefits	**4,891**	4,900
Aggregate amounts receivable under share-based incentive schemes	**1,004**	1,221
Company contributions to money purchase pension schemes	**74**	34
	5,969	6,155

Amounts included in the table above reflect the remuneration of the 15 (2017: 12) members of the Board and Executive Committee as described on pages 74 to 100, including those who have resigned during the year.

Amounts receivable under incentive schemes represents the expenses arising from share-based payments included in the Consolidated income statement, determined based on the fair value of the related awards at the date of grant (note 6.2), as adjusted for non-market-related vesting conditions.

There were no other transactions with directors for the periods covered by these consolidated financial statements.

8.5 UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

As required by the Listing Rules, the Group reproduces below the unaudited pro forma financial information included in Part VI on pages 51-55 of the Class 1 circular, published on 5 December 2018 in connection with acquisition of the Acquired Generation Business.

Capitalised terms on this note are defined within the Class I circular, available at **www.drax.com/circular2018**.

The unaudited pro forma income statement and unaudited pro forma net assets statement of the Enlarged Group (together the **"Unaudited Pro Forma Financial Information"**) set out below has been prepared on the basis of the notes below, and in accordance with Listing Rule 13.3.3R, to illustrate the impact of the Acquisition on the income statement of Drax Group plc for the year ended 31 December 2017, as if it had taken place on 1 January 2017, and on the net assets of Drax Group plc as at 31 December 2017, as if it had taken place at that date.

The Unaudited Pro Forma Financial Information has been prepared on a basis consistent with the accounting policies and presentation adopted by Drax Group plc in relation to its consolidated financial statements for the year ended 31 December 2017 and includes the combined income statement of the ScottishPower Generation Group for the year ended 31 December 2017 and net assets of the ScottishPower Generation Group as at 31 December 2017.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, by its nature, addresses a hypothetical situation and does not, therefore, represent the Enlarged Group's actual financial position or results. The Unaudited Pro Forma Financial Information does not purport to represent what the Enlarged Group's financial position and results of operations actually would have been if the Acquisition had been completed on the dates indicated, nor does it purport to represent the results of operations for any future period or the financial condition at any future date.

The Unaudited Pro Forma Financial Information does not constitute financial statements within the meaning of section 434 of the Companies Act 2006. Shareholders should read the whole of this Circular and not rely solely on the summarised financial information contained in this Part VI (*Unaudited Pro Forma Financial Information relating to the Enlarged Group*).

Part 1 Unaudited Pro Forma Statement of Net Assets

		Adjustments		
	Drax Group plc at 31 December 2017 £m (Note 1)	ScottishPower Generation Group at 31 December 2017 £m (Note 2)	Adjustments £m (Note 3)	Pro forma net assets at 31 December 2017 £m
Assets				
Non-current assets				
Goodwill and other intangible assets	401.9	1.0	–	402.9
Property, plant and equipment	1,661.9	274.2	456.8	2,392.9
Other fixed asset investments	1.3	–	–	1.3
Deferred tax assets	22.7	–	–	22.7
Derivative financial instruments	190.7	0.3	–	191.0
	2,278.5	275.5	456.8	3,010.8
Current assets				
Inventories	272.1	1.0	–	273.1
ROC and LEC assets	145.5	–	–	145.5
Trade and other receivables	417.5	20.7	–	438.2
Amounts receivable from Related Parties	–	117.0	(117.0)	–
Derivative financial instruments	175.5	–	–	175.5
Cash and cash equivalents	222.3	–	–	222.3
Current tax assets	6.2	1.3	–	7.5
	1,239.1	140.0	(117.0)	1,262.1
Total assets	3,517.6	415.5	339.8	4,272.9

8.5 UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP continued

		Adjustments		
	Drax Group plc at 31 December 2017 £m (Note 1)	ScottishPower Generation Group at 31 December 2017 £m (Note 2)	Adjustments £m (Note 3)	Pro forma net assets at 31 December 2017 £m
Liabilities				
Current liabilities				
Trade and other payables	736.5	29.2	–	765.7
Amounts payable to Related Parties	–	113.6	(113.6)	–
Borrowings	18.6	–	–	18.6
Borrowings from Related Parties		402.4	(402.4)	–
Derivative financial instruments	109.6	–	–	109.6
Provisions	–	0.4	–	0.4
	864.7	545.6	(516.0)	894.3
Net current assets / (liabilities)	374.4	(405.6)	399.0	367.8
Non-current liabilities				
Trade and other payables	–	0.3	–	0.3
Borrowings	571.1	–	723.2	1,294.3
Borrowings from Related Parties	–	100.0	(100.0)	–
Derivative financial instruments	94.2	–	–	94.2
Provisions	36.3	12.0	–	48.3
Deferred tax liabilities	230.0	4.8	–	234.8
Retirement benefit obligations	1.2	6.6	–	7.8
	932.8	123.7	623.2	1,679.7
Total liabilities	1,797.5	669.3	107.2	2,574.0
Net assets / (liabilities)	1,720.1	(253.8)	232.6	1,698.9

Notes
No adjustment has been made to reflect any synergies that may arise after the transaction has completed.
No adjustment has been made to reflect the financial results of Drax Group plc or the ScottishPower Generation Group since 31 December 2017.
(1) The net assets of Drax Group plc as at 31 December 2017 have been extracted without adjustment from the audited consolidated financial statements for the year ended 31 December 2017.
(2) The net assets of the ScottishPower Generation Group have been extracted without adjustment from the historical financial information included in Part V (Historical Financial Information relating to the ScottishPower Generation Group) of this Circular.
(3) The Unaudited Pro Forma Statement of Net Assets has been prepared on the basis that the Transaction will be treated as a business combination in accordance with IFRS 3. However, it does not reflect any fair value adjustments to the acquired assets and liabilities, as the fair value measurement of these items will only be performed at the date of Completion. The fair value adjustments, when finalised, may be material. For the purpose of the pro forma statement of net assets, the excess purchase consideration over the carrying amount of net assets of £456.8m has been attributed to property, plant & equipment.

8.5 UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP continued

The preliminary uplift in the value of property, plant & equipment has been calculated as follows:

	£m	£m
Total consideration paid		702.0
Net liabilities of the ScottishPower Generation Group		(253.8)
Purchase consideration in excess of net liabilities		955.8
Adjustments for Related Party balances to be settled as part of the transaction:		
– Amounts receivable from Related Parties	117.0	
– Amounts payable to Related Parties	(113.6)	
– Related Party borrowings	(502.4)	
Preliminary uplift in value of Property, plant & equipment		456.8

Upon completion of the acquisition, the Drax Group will draw down on an acquisition bridge facility with a maximum value of £725m. For the purpose of the unaudited pro forma statement of net assets, the entire purchase price of £702m plus estimated acquisition-related costs of £23m have been funded by the acquisition bridge facility. Drax may use available cash reserves to reduce the amount drawn on completion.

The acquisition-related costs are not included in the calculation of the preliminary uplift as they will be expensed as transaction costs or capitalised as borrowing costs, as required by IFRS.

£18m of the acquisition-related costs are expected to be directly attributable to the purchase of the ScottishPower Generation Group. These costs will be expensed in the income statement.

£5m of the acquisition-related costs are expected to be directly attributable to the acquisition bridge facility. These costs will be capitalised and offset against total borrowings and are expected to be amortised over the 19-month term of the bridge facility as required by IFRS. This increases interest payable by £3.2m (being 12/19 months' amortisation of these costs) and reducing borrowings by £1.8m in the unaudited pro forma statements.

8.5 UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP continued

Part 2 Unaudited Pro Forma Income Statement of the Enlarged Group

		Adjustments		
	Drax Group plc for the year ended 31 December 2017 £m (Note 1)	ScottishPower Generation Group for the year ended 31 December 2017 £m (Note 2)	Adjustments £m (Note 3)	Pro forma Enlarged Group £m
Revenue	3,685.2	641.3	–	4,326.5
Fuel costs in respect of generation	(1,356.8)	(294.8)	–	(1,651.6)
Cost of power purchases	(974.6)	–	–	(974.6)
Grid Charges	(498.7)	(36.7)	–	(535.4)
Other energy supply costs	(310.1)	(201.8)	–	(511.9)
Total cost of sales	(3,140.2)	(533.3)	–	(3,673.5)
Gross profit	545.0	108.0	–	653.0
Operating and administrative expenses	(316.1)	(52.7)	–	(368.8)
Overheads allocated by Related Parties	–	(19.2)	–	(19.2)
EBITDA	228.9	36.1	–	265.0
Depreciation and amortisation	(166.3)	(17.4)	–	(183.7)
Asset obsolescence charges	–	(0.8)	–	(0.8)
Other losses	(0.4)	–	–	(0.4)
Acquisition–related costs	(7.8)	–	(18.0)	(25.8)
(Loss)/gain on disposal	(15.4)	1.6	–	(13.8)
Unrealised gains on derivative contracts	(156.1)	–	–	(156.1)
Operating (loss)/profit	(117.1)	19.5	(18.0)	(115.6)
Interest payable and similar charges	(66.3)	(6.8)	(29.8)	(102.9)
Interest receivable	0.2	0.1	–	0.3
(Loss)/Profit before tax	(183.2)	12.8	(47.8)	(218.2)
Taxation	32.1	1.0	9.2	42.3
(Loss)/Profit for the year attributable to equity holders	(151.1)	13.8	(38.6)	(175.9)

Notes

No adjustment has been made to reflect any synergies that may arise after the transaction has completed.

No adjustment has been made to reflect the financial results of Drax Group plc or the ScottishPower Generation Group since 31 December 2017.

(1) Drax Group plc's income statement for the year ended 31 December 2017 has been extracted without adjustment from the audited consolidated financial statements for the year ended 31 December 2017.

(2) The ScottishPower Generation Group's income statement for the year ended 31 December 2017 has been extracted without adjustment from the historical financial information included in Part V (Historical Financial Information relating to the ScottishPower Generation Group) of this Circular.

(3) The adjustments reflect:
- The estimated transaction costs of £18m in 'acquisition-related costs', which will be charged to the income statement as a non-recurring item.
- Interest costs of £26.6m on the acquisition debt raised in 'interest payable and similar charges' which is expected to be a recurring item, plus a further £3.2m of interest costs relating to the amortisation of transaction costs relating to the bridge facility.
- The estimated tax credit of £9.2m arising from these costs using the standard rate of tax that applied in the year ended 31 December 2017 of 19.25%.

COMPANY FINANCIAL STATEMENTS

COMPANY BALANCE SHEET

	Notes	As at 31 December 2018 £000	2017 £000
Fixed assets			
Investment in subsidiaries	5	**717,044**	712,955
Current assets			
Other debtors		**57**	18
Amounts due from other Group companies		**760**	771
Cash at bank and in hand		**1,666**	1,565
		2,483	2,354
Current liabilities			
Amounts due to other Group companies		**(12,481)**	(12,729)
Other creditors		**(134)**	–
Net current liabilities		**(10,132)**	(10,375)
Net assets		**706,912**	702,580
Capital and reserves			
Called-up share capital	6	**47,038**	46,989
Share premium account		**424,742**	424,325
Treasury shares		**(47,143)**	–
Capital redemption reserve		**1,502**	1,502
Profit and loss account		**280,773**	229,764
Total equity shareholders' funds		**706,912**	702,580

The Company reported a profit for the financial year ended 31 December 2018 of £99,399k (2017: £16,688k).

These financial statements were approved by the Board of directors on 25 February 2019.

Signed on behalf of the Board of directors:

Will Gardiner
Chief Executive
25 February 2019

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Treasury shares £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 1 January 2017	46,951	424,244	–	1,502	228,579	701,276
Share capital issued (note 6)	38	81	–	–	–	119
Profit and total comprehensive income for the year	–	–	–	–	16,688	16,688
Credited to equity for share-based payments	–	–	–	–	6,061	6,061
Equity dividends paid (note 8)	–	–	–	–	(21,564)	(21,564)
At 1 January 2018	**46,989**	**424,325**	**–**	**1,502**	**229,764**	**702,580**
Share capital issued (note 6)	**49**	**417**	**–**	**–**	**–**	**466**
Own shares purchased	**–**	**–**	**(47,143)**	**–**	**–**	**(47,143)**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**99,399**	**99,399**
Credited to equity for share-based payments	**–**	**–**	**–**	**–**	**4,089**	**4,089**
Equity dividends paid (note 8)	**–**	**–**	**–**	**–**	**(52,479)**	**(52,479)**
At 31 December 2018	**47,038**	**424,742**	**(47,143)**	**1,502**	**280,773**	**706,912**

On 20 April 2018, the Company announced the commencement of a share buy-back programme. As at 31 December 2018, the Group had repurchased 13,023,639 shares at a total cost, including transaction fees, of £47,143k. The nominal value of the Company's own shares, held in the Treasury share reserve, is £1,504k. See page 146 of the consolidated financial statements for full details.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The separate financial statements of the Company are presented as required by the Companies Act 2006.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council (FRC).

The financial statements have been prepared in accordance with FRS 101 (incorporating the amendments to FRS 101 issued by the FRC in July 2015 and July 2016 and the amendments to company law made by the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015).

The Company applied certain new and amended standards for the first time in 2018, including IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers). The full list of standards adopted is set out in the consolidated accounts on page 173. These updates and amendments have not had a material impact on the financial statements of the Company.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, financial instruments, share-based payments, capital risk management, standards not yet effective and certain related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are summarised below, and have been consistently applied to both years presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Fixed asset investments

Fixed asset investments in subsidiaries are stated at cost less, where relevant, provision for impairment.

(B) Financial instruments

Issued equity – Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting all of 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. The share premium account records amounts by which the proceeds from issuing shares exceeds the nominal value of the shares issued unless merger relief criteria within the Companies Act 2006 are met, in which case the difference is recorded in retained earnings.

Cash and cash equivalents – Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

3. CRITICAL ACCOUNTING JUDGEMENTS

(A) Critical judgements in applying the Company's accounting policies

The critical accounting judgements, to the extent they apply to the Company, are consistent with those of the Group described on page 115.

(B) Impairment of fixed asset investments

Determining whether the Company's investments in subsidiaries have been impaired requires estimates of the investment's values in use. The methodology for calculation of value in use is consistent with that of the Group, as described in note 2.4.

4. PROFIT AND LOSS ACCOUNT

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company's profit and loss account was approved by the Board on 25 February 2019. The profit attributable to the Company is disclosed in the statement of changes in equity.

The Company received dividend income from its subsidiary undertakings totalling £102.6 million in 2018 (2017: £19.9 million).

The Company has no employees other than the directors, whose remuneration was paid by a subsidiary undertaking and a proportion was recharged to the Company.

The auditor's remuneration for audit services provided to the Company for the year ended 31 December 2018 was £21,000 (2017: £20,500).

5. FIXED ASSET INVESTMENTS

	Years ended 31 December 2018 £000	2017 £000
Carrying amount:		
At 1 January	**712,955**	706,894
Capital contribution	**4,089**	6,061
At 31 December	**717,044**	712,955

Investments in subsidiary undertakings

The capital contribution relates to the share-based payment charge associated with the Savings-Related Share Option Plan and Bonus Matching Plan schemes, which arises because the beneficiaries of the scheme are employed by subsidiary companies. For more information see note 6.2 to the consolidated financial statements.

Full list of subsidiary undertakings

The table below lists the Company's direct and indirect subsidiary undertakings as at 31 December 2018:

Name and nature of business		Country of incorporation and registration	Type of share	Group effective shareholding
Drax Group plc	Ultimate parent (holding) company	England and Wales	Ordinary	100%
Abergelli Power Limited	Power generation	England and Wales	Ordinary	100%
Abbott Debt Recovery Limited	Debt recovery services	England and Wales	Ordinary	100%
Amite BioEnergy LLC	Trading company, fuel supply	Delaware, USA	Common	100%
Baton Rouge transit LLC	Trading company, fuel supply	Delaware, USA	Common	100%
DBI O&M Company LLC	Non-trading company	Delaware, USA	Common	100%
Donnington Energy Limited	Dormant	England and Wales	Ordinary	100%
Drax Biomass Inc.	Wood pellet manufacturing	Delaware, USA	Common	100%
Drax Biomass Holdings Limited	Dormant	England and Wales	Ordinary	100%
Drax Biomass Holdings LLC	Dormant	Delaware, USA	Common	100%
Drax Biomass International Holdings LLC	Holding company	Delaware, USA	Common	100%
Drax Biomass Transit LLC	Holding company	Delaware, USA	Common	100%
Drax CCS Limited	Holding company	England and Wales	Ordinary	100%
Drax Corporate Limited	Group-wide Corporate Services	England and Wales	Ordinary	100%
Drax Corporate Developments Limited	Development company	England and Wales	Ordinary	100%
Drax Finco plc	Finance company	England and Wales	Ordinary	100%
Drax Fuel Supply Limited	Non-trading company	England and Wales	Ordinary	100%
Drax GCo Limited	In liquidation	England and Wales	Limited by Guarantee	100%
Drax Generation Developments Limited	Development company	England and Wales	Ordinary	100%
Drax Generation (Selby) Limited	Dormant	England and Wales	Ordinary	100%
Drax Group Holdings Limited	Holding company	England and Wales	Ordinary	100%
Drax Innovation Limited	Development company	England and Wales	Ordinary	100%
Drax Ouse	In liquidation	England and Wales	Ordinary	100%
Drax Pension Trustees Limited	Dormant	England and Wales	Ordinary	100%
Drax Power Limited	Trading company, power generation	England and Wales	Ordinary	100%
Drax Retail Developments Limited	Development company	England and Wales	Ordinary	100%
Drax Research and Innovation Holdco Limited	Holding company	England and Wales	Ordinary	100%
Drax Smart Generation Holdco Limited	Holding company	England and Wales	Ordinary	100%
Drax Holdings Limited	Holding company	Cayman Islands	Ordinary	100%
Drax Smart Sourcing Holdco Limited	Holding company	England and Wales	Ordinary	100%
Drax Smart Supply Holdco Limited	Holding company	England and Wales	Ordinary	100%
Farmoor Energy Limited	Trading company, power retail	England and Wales	Ordinary	100%
Haven Heat Limited	Dormant	England and Wales	Ordinary	100%
Haven Power Limited	Trading company, power retail	England and Wales	Ordinary	100%

5. FIXED ASSET INVESTMENTS continued

Name and nature of business		Country of incorporation and registration	Type of share	Group effective shareholding
Haven Power Nominees Limited	Non-trading company	England and Wales	Ordinary	100%
Hirwaun Power Limited	Power generation	England and Wales	Ordinary	100%
Jefferson Transit LLC	Dormant	Delaware, USA	Common	100%
LaSalle Bioenergy LLC	Trading company, fuel supply	Delaware, USA	Common	100%
Millbrook Power Limited	Power generation	England and Wales	Ordinary	100%
Morehouse BioEnergy LLC	Trading company, fuel supply	Delaware, USA	Common	100%
Progress Power Limited	Power generation	England and Wales	Ordinary	100%
Opus Energy Limited	Trading company, power retail	England and Wales	Ordinary	100%
Opus Energy Group Limited	Holding company, power retail	England and Wales	Ordinary	100%
Opus Energy (Corporate) Limited	Trading company, power retail	England and Wales	Ordinary	100%
Opus Gas Supply Limited	Trading company, power retail	England and Wales	Ordinary	100%
Opus Energy Renewables Limited	Trading company, power retail	England and Wales	Ordinary	100%
Domus Energy Limited	Dormant	England and Wales	Ordinary	100%
Opus Energy Marketing Limited	Dormant	England and Wales	Ordinary	100%
Opus Water Limited	Dormant	England and Wales	Ordinary	100%
Select Energy Limited	Dormant	England and Wales	Ordinary	100%
Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited)	Trading company, power generation	Scotland	Ordinary	100%
SMW Limited	Trading company, fuel supply	Scotland	Ordinary	100%
Sunflower Energy Supply Limited	Dormant	England and Wales	Ordinary	100%
Tyler Bioenergy LLC	Dormant	Delaware, USA	Common	100%

Drax Group plc directly holds 100% of the equity of Drax Group Holdings Limited. All other investments are held indirectly.

All subsidiary undertakings operate in their country of incorporation. All subsidiary undertakings incorporated in England and Wales have their registered office at Drax Power Station, Selby, North Yorkshire, YO8 8PH. The registered office for Drax Generation Enterprise Limited and SMW Limited is 13 Queen's Road, Aberdeen, Scotland, AB15 4YL. The registered office for Drax Holdings Limited is c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The principal business address for all subsidiaries incorporated in the USA is 2571 Tower Drive, Suite 7, Monroe, LA 71201.

All subsidiary undertakings have 31 December year ends.

6. CALLED-UP SHARE CAPITAL

	As at 31 December 2018 £000	As at 31 December 2017 £000
Authorised:		
865,238,823 ordinary shares of 11 16/29 pence each	**99,950**	99,950
Issued and fully paid:		
2018: 407,193,168 ordinary shares of 11 16/29 pence each	**47,038**	46,989
	47,038	46,989

6. CALLED-UP SHARE CAPITAL continued

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

	Years ended 31 December	
	2018 (number)	2017 (number)
At 1 January	407,034,429	406,700,321
Issued under employee share schemes	158,739	334,108
At 31 December	407,193,168	407,034,429

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

Issued under employee share schemes

From January to December 2018 a total of 158,739 shares were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan. Of the shares issued, 42,874 were issued to individuals who have left the Group where discretion was used to vest the shares.

The total cash received, split between nominal value and share premium, is shown in the statement of changes in equity on page 183.

Full details of share options outstanding are included in note 6.2 to the consolidated financial statements.

7. DISTRIBUTABLE RESERVES

Note 8 sets out the proposed final dividend of £33.6 million in respect of 2018.

The Company considers its distributable reserves to be comprised of the profit and loss account less treasury shares, with a total value of £233.6 million. Accordingly, the Company considers itself to have sufficient distributable profits from which to pay the current year final dividend. Based on a total dividend for 2018 of £56.0 million, the Company has sufficient distributable reserves to pay four years of dividend at the current level without generating further distributable profits. In addition to its own reserves, the Company has access to the distributable reserves of its subsidiary undertakings with which future dividend payments can be funded (see note 2.10 to the consolidated accounts for additional information).

The Company is dependent upon its subsidiaries for the provision of cash with which to make dividend payments. As shown in note 4.2 to the consolidated financial statements, the Group has sufficient cash resources with which to meet the proposed dividend.

8. DIVIDENDS

	Years ended 31 December	
	2018 £m	2017 £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 2018 of 5.5 pence per share paid on 12 October 2018 (2017: 4.9 pence per share paid on 6 October 2017)	22.4	20.0
Final dividend for the year ended 31 December 2017 of 7.4 pence per share paid on 11 May 2018 (2017: 0.4 pence per share paid on 12 May 2017)	30.1	1.6
	52.5	21.6

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 2018 of 8.5 pence per share (equivalent to approximately £33.6 million) payable on or before 11 May 2019. The final dividend has not been included as a liability as at 31 December 2018.

9. CONTINGENT LIABILITIES

The Company has provided unsecured guarantees to third parties in respect of contracts held by a subsidiary company. The guarantees have been issued for nil consideration and the Company has not charged the subsidiary for the guarantees.

The Company has granted a charge over the assets of certain of its subsidiaries, in respect of the Group's debt (detailed in note 4.3 to the consolidated financial statements), which is guaranteed and secured directly by each of the subsidiary undertakings of the Company that is party to the security arrangement. The Company itself is not a guarantor of the Group's debt.

SHAREHOLDER INFORMATION

KEY DATES FOR 2019

At the date of publication of this document, the following are the proposed key dates in the 2019 financial calendar:

Annual General Meeting	17 April
Ordinary shares marked ex-dividend	18 April
Record date for entitlement to the final dividend	23 April
Payment of final dividend	10 May
Financial half year end	30 June
Announcement of half year results	24 July
Financial year end	31 December

Other significant dates, or amendments to the proposed dates above, will be posted on the Company's website as and when they become available.

RESULTS ANNOUNCEMENTS

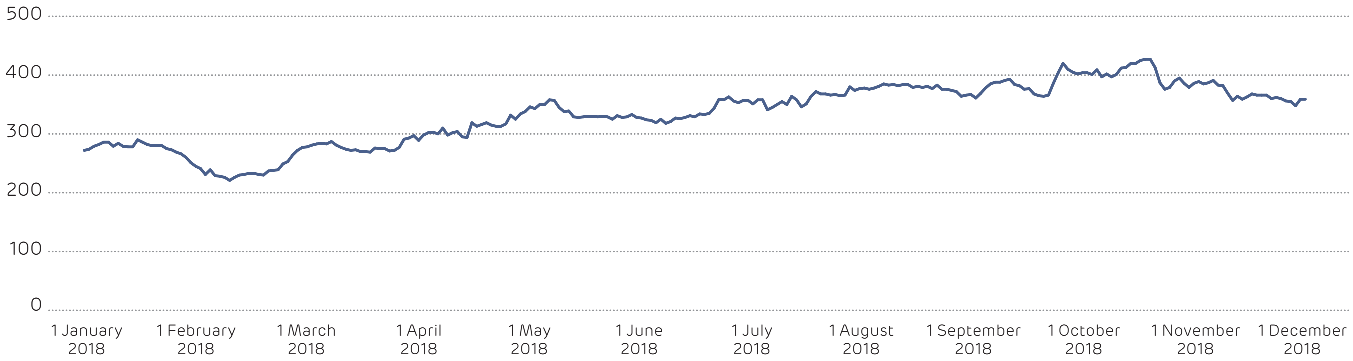
Results announcements are issued to the London Stock Exchange and are available on its news service. Shortly afterwards, they are available under "Regulatory news" within the Investor section on the Company's website.

SHARE PRICE

Shareholders can access the current share price of Drax Group plc ordinary shares on our website at **www.drax.com**. During London Stock Exchange trading hours the price shown on the website is subject to a delay of approximately 15 minutes and outside trading hours it is the last available price.

The table below provides an indication of the fluctuations in the Drax Group plc share price during the course of 2018, and the graph provides an indication of the trend of the share price throughout the year.

Closing price on 31 December 2017	Low during the year (13 February 2018)	High during the year (12 November 2018)	Closing price on 31 December 2018
270.6 pence	221.4	427.2	358.8 pence



Note:
The share prices given are the middle market closing prices as derived from the London Stock Exchange Daily Official List

MARKET CAPITALISATION

The market capitalisation, based on the number of shares in issue and the closing price at 31 December 2018, was approximately £1,461 million (2017: £1,101 million).

FINANCIAL REPORTS

Copies of all financial reports we publish are available from the date of publication and can be downloaded from our website. Printed copies of reports can be requested by writing to the Company Secretary at the registered office, by clicking on "Contact Us" on our website, or direct by e-mail to **Drax.Enq@drax.com**.

DRAX SHAREHOLDER QUERIES

The Company's share register is maintained by Equiniti Limited ("Equiniti"), who is primarily responsible for updating the share register and for dividend payments.

Shareholders should contact Equiniti directly if they have a query relating to their Drax shareholding, in particular queries regarding:

- transfer of shares;
- change of name or address;
- lost share certificates;
- lost or out-of-date dividend cheques;
- payment of dividends direct to a bank or building society account; and
- death of a registered shareholder.

Equiniti can be contacted as follows:

- Call Equiniti on 0371 384 2030 from within the UK. Lines are open from 8.30am to 5.30pm, Monday to Friday, excluding Bank Holidays); or +44 121 415 7047 from outside the UK.
- Write to Equiniti at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

When contacting Equiniti by telephone or in writing it is advisable to have your shareholder reference to hand and quote Drax Group plc, as well as the name and address in which the shares are held.

ONLINE COMMUNICATIONS

Registering for online communications allows you to have more control over the administration of your shareholding. The registration process is easy via Equiniti's secure website **www.shareview.co.uk**.

Once registered with Shareview you are able to:

- elect how Drax communicates with you;
- amend some of your personal details;
- amend the way you receive dividends; and
- buy or sell shares online.

Registering for electronic communications does not mean that you can no longer receive paper copies of documents. We are able to offer a range of services and tailor the communications to meet your needs.

A range of frequently asked shareholder questions can also be found on our website at **www.drax.com/investors/faq**.

TAX ON DIVIDENDS

In the 2017 Budget, the Chancellor announced changes in the way that dividends would be taxed in the future. Below is a brief summary of the guidance provided by HMRC. If you are in any doubt as to the impact on your personal circumstances, you are recommended to seek your own financial advice from a professional adviser authorised under the Financial Services and Markets Act 2000.

The tax-free Dividend Allowance of £5,000 per annum was reduced to £2,000 effective April 2018. This means that there is no tax to pay on the first £2,000 of dividend income, no matter what non-dividend income a shareholder may have. Dividends paid on shares held within pensions and ISAs will be unaffected, remaining tax-free.

Non-taxpayers and basic rate taxpayers who receive dividend income between £2,001 and £10,000 will need to make a declaration (to HMRC) for the first time. Individuals with dividend income of more than £10,000 are already required to be in HMRC's Self-Assessment regime. The impact on Share Incentive Plan participants receiving cash dividends on their plan shares align with those for Shareholders. Further information and updates on tax on dividends can be found on the HMRC website at **www.gov.uk/tax-on-dividends**

SHAREHOLDER INFORMATION continued

BENEFICIAL OWNERS AND "INFORMATION RIGHTS"

If your shares are registered in the name of a third party (i.e. an ISA provider or other nominee company) you may, if you wish, receive information rights under Section 146 of the Companies Act 2006. In order for this to happen, you must contact the third party registered holder, who will then nominate you. All communications by beneficial owners of shares where the shares are held by third party registered holders must be directed to that registered holder and not to Drax or Equiniti.

SHAREGIFT

ShareGift (registered charity No. 1052686) is an independent charity which provides a free service for shareholders wishing to dispose charitably of small parcels of shares, which would most likely cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is possible to obtain income tax relief. Further information can be obtained directly from the charity at **www.sharegift.org**.

SHARE FRAUDS ("BOILER ROOM SCAMS")

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence offering to purchase their shares at apparently inflated prices. It is often the case that the caller, or message in the correspondence claims that they represent a majority shareholder who is looking to take over the Company. At the time of this report, the Company was not the subject of a take-over attempt, hostile or otherwise, and approaches such as those outlined are usually made by unauthorised companies and individuals. Shareholders should be very wary of any unsolicited advice, offers to buy shares at a premium or offers of free reports into the Company. Below is the advice from the Financial Conduct Authority (the "FCA").

BEWARE OF SHARE FRAUD

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud:

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register from **www.fca.org.uk** to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at **www.fca.org.uk/scams**.
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.

Remember, if it sounds too good to be true, it probably is!

REPORT A SCAM

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at **www.fca.org.uk/scams**, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

COMPANY INFORMATION

DRAX GROUP PLC
Registered office and trading address
Drax Power Station
Selby
North Yorkshire YO8 8PH
Telephone +44 (0)1757 618381
www.drax.com

REGISTRATION DETAILS
Registered in England and Wales
Company Number: 5562053

COMPANY SECRETARY
Brett Gladden

ENQUIRY E-MAIL ADDRESS
Drax.Enq@drax.com

PROFESSIONAL ADVISERS AND SERVICE PROVIDERS

AUDITOR
Deloitte LLP
2 New Street Square, London EC4A 3BZ

BANKERS
Barclays Bank PLC
1 Churchill Place, Canary Wharf, London E14 5HP

BANKERS
Royal Bank of Canada
2 Swan Lane , London EC4R 3BF

BROKERS
J.P. Morgan Cazenove
25 Bank Street, Canary Wharf, London E14 5JP

FINANCIAL PR
FTI Consulting LLP
200 Aldersgate, Aldersgate Street, London EC1A 4HD

REGISTRARS
Equiniti Limited
Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA

REMUNERATION ADVISERS
PricewaterhouseCoopers LLP
1 Embankment Place, London WC2N 6RH

SOLICITORS
Slaughter and May
One Bunhill Row, London EC1Y 8YY

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.

APM
Alternative Performance Measure.

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.

BARK SPREAD
The difference between the power price and the cost of biomass, net of renewable support.

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 MECHANISM (OR CARBON PRICE FLOOR OR CARBON TAX)
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.

DARK GREEN SPREAD
The difference between the power price and the cost of coal and carbon, including CO_2 allowances under the EU Emissions Trading Scheme and the UK Carbon Price Support (CPS) Mechanism.

DEPARTMENT FOR BUSINESS, ENERGY AND INDUSTRIAL STRATEGY (BEIS)
The Government department bringing together the responsibilities for business, industrial strategy, science, innovation, energy and climate change (formerly DECC).

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

FEED-IN TARIFF
A long-term contract set at a fixed level where variable payments are made to ensure the generator receives an agreed tariff. The feed-in tariff payment would be made in addition to the generator's revenues from selling in the market.

FORCED OUTAGE
Any reduction in plant availability, excluding planned outages.

FORCED OUTAGE RATE
The capacity which is not available due to forced outages or restrictions expressed as a percentage of the maximum theoretical capacity, less planned outage capacity.

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

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.

LEVY CONTROL FRAMEWORK
A control framework for BEIS levy-funded spending intended to make sure that BEIS achieves its fuel poverty, energy and climate change goals in a way that is consistent with economic recovery and minimising the impact on consumer bills.

LOAD FACTOR
Net sent out generation as a percentage of maximum sales.

LOST TIME INJURY RATE (LTIR)
The frequency rate is calculated on the following basis: 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.

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

PROSUMER
An individual, business or institution that consumes and produces a product, such as electricity.

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.

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 INJURY RATE (TRIR)
The frequency rate is calculated on the following basis: (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
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.

MIX
Paper from responsible sources
FSC® C022913
www.fsc.org

The report is printed on UPM Fine SC. This paper is made from virgin wood fibre from well-managed forest independently certified according to the rules of the Forest Stewardship Council® (FSC®) and other controlled sources. It is manufactured at a mill that is that is certified to ISO14001 and EMAS environmental standards. The mill uses pulps that are totally chlorine free (TCF), and some pulp is bleached using an elemental chlorine free (ECF) process. The inks in printing this report are all vegetable-based.

Printed in the UK by Pureprint Group, a CarbonNeutral® company, certificated to Environmental Management System ISO14001 and holders of FSC® chain of custody certification.

Design and production
CONRAN DESIGN GROUP

www.drax.com

Drax Group plc
Drax Power Station,
Selby,
North Yorkshire
YO8 8PH

T +44(0)1757 618381