26 February 2019

DRAX GROUP PLC (Symbol: DRX)

FULL YEAR RESULTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2018

Good financial performance, progression of strategy and successful completion of acquisition

	Adjusted[1]		Total	
Twelve months ended 31 December	**2018**	**2017 Restated[2]**	**2018**	**2017 Restated[2]**
Key financial performance measures				
Adjusted EBITDA (£ million)[3]	250	229		
Profit / (loss) before tax (£ million)	37	5	14	(204)
Basic earnings / (loss) per share (pence)	10.4	0.7	5.0	(41.3)

Good financial performance

- Group Adjusted EBITDA up 9% to £250 million
- Continued strong cash generation and balance sheet
  - 1.3x net debt to Adjusted EBITDA (2017: 1.6x net debt to Adjusted EBITDA)
  - Net cash from operating activities of £311 million (2017: £315 million)
  - Net debt[4] of £319 million (2017: £367 million)
- Dividend growth – 15% increase in dividend per share – 14.1 pence per share (2017: 12.3 pence per share)
- £50 million share buy back programme completed
- Total profit before tax of £14 million includes gains principally related to foreign currency hedging of £38 million (2017: Total loss before tax of £204 million including unrealised losses of £177 million)

Acquisition of ScottishPower Generation has accelerated strategy

- 2.6GW multi-site, multi-technology portfolio of pumped storage, hydro and gas
- Strong strategic fit with UK's need for flexible, low carbon and renewable generation
- High quality earnings with expected returns significantly in excess of weighted average cost of capital

Good progress with strategic initiatives

- Successful low-cost conversion of fourth biomass unit
- Third US biomass pellet plant commissioned and fully operational
- Progress with biomass cost reduction programme including sawmill co-location and rail spur development
- Commenced BECCS[5] pilot project and equity investment in C-Capture – technology proven with CO_2 captured
- Development of B2B Energy Supply customer and IT platform

Outlook

- Continued growth in Adjusted EBITDA, cash generation and dividend
- Integration of ScottishPower Generation
- Continue to expect Capacity Market to be reinstated on same or similar basis
- Attractive investment options for growth: biomass cost reduction, biomass capacity expansion and new gas

Will Gardiner, Chief Executive of Drax Group plc, said:

"Drax is now one of the leading generators of flexible, low carbon and renewable electricity in the UK. As the grid decarbonises, our ability to support intermittent renewables will become increasingly important as we strive to deliver our purpose of enabling a zero carbon, lower cost energy future.

"Drax performed well in 2018. Our commitment to operating safely and sustainably remains at our core. We commissioned our third pellet production plant, which contributed to our good results. After a difficult first quarter for our Power Generation business, we delivered strong availability and financial results. Whilst the year was challenging for our B2B Energy Supply business, we continued to grow our customer base and are investing in the significant opportunity created by smart meters.

"We are confident in our ability to continue growing our earnings and advancing our strategy through the year. We have attractive investment opportunities throughout our business, and while short-term uncertainty over the Capacity Market remains, we look forward to developing those opportunities in a disciplined fashion."

Operational review

Pellet Production – *Focus on good quality pellets at lowest cost*

- Adjusted EBITDA of £21 million (2017: £6 million)
  - 64% increase in production to 1.351 million tonnes (2017: 0.822 million tonnes)
  - LaSalle Bioenergy (LaSalle) commissioned and fully operational – 0.5Mt pellet capacity – performing well
  - 10% reduction in cost per tonne
- Biomass cost reduction initiatives – future benefits
  - Co-location and offtake agreement with Hunt Forest Products for low-cost sawmill residues at LaSalle
  - LaSalle rail spur – $10/tonne reduction in transport cost to Baton Rouge port facility – commissioning 2019
  - Relocation of administration from Atlanta to Monroe – greater operational focus and savings

Power Generation – *Optimisation of portfolio, system support services and development of decarbonisation projects*

- Adjusted EBITDA of £232 million (2017: £238 million)
  - Impact of rail unloading outage and generator outage on one ROC(6) unit in Q1 2018
  - Lower margins from coal generation – coal and carbon costs
  - System support revenue of £79 million (2017: £88 million) – specific Black Start contract in Q1 2017
  - Suspension of Capacity Market – £7 million of revenues not accrued in Q4 2018
  - Optimisation of ROC generation, biomass operations and procurement of third party biomass volumes
  - Biomass earnings benefited from conversion of fourth unit and insurance proceeds on historic outages
- Electricity output (net sales) down 8% to 18.3TWh (2017: 20.0TWh)
  - 75% of generation from biomass (2017: 65%)
- Strong biomass availability – 91% (2017: 79%)
  - Reduced biomass generation in Q1 2018 offset by strong unit availability Q2-Q4 2018

B2B Energy Supply – *Profitable business, growth in customer meters, challenging market environment*

- Adjusted EBITDA of £28 million (2017: £29 million)
  - 5% increase in customer meters to 396,000 (2017: 376,000)
  - Increase in bad debt and provisioning reflecting challenging environment
  - Mutualisation of renewable costs associated with competitor failure
  - Higher gas costs due to weather and mutualisation
  - Benefit of full year of Opus Energy (2017: 10.5 months)
  - 22% growth in gross profit to £143 million (2017: £117 million)
- Development of flexibility and system support market
- Continued investment in next generation systems to support growth and operational efficiency

Group financial information

- Total basic earnings per share of 5.0 pence, includes write-off of coal-specific assets (£27 million) following fourth biomass unit conversion, costs associated with acquisition and on-boarding of ScottishPower Generation, restructuring costs in Opus Energy and Pellet Production (£28 million), and unrealised gains on derivative contracts (£38 million)
- Tax credit of £6 million includes benefit of Patent Box claims – corporation tax rate of 10% on profits arising from the use of biomass innovation
- Capital investment of £142 million
  - Maintaining operational performance (£55 million), enhancement (£40 million), strategic (£35 million) and other (£12 million)
- Net debt of £319 million, including cash and cash equivalents of £289 million (31 December 2017: £367 million)

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) 2017 restated to reflect adoption of IFRS 9.
(3) Earnings before interest, tax, depreciation, amortisation, excluding the impact of exceptional items and certain remeasurements.
(4) Borrowings less cash and cash equivalents.
(5) BioEnergy Carbon Capture and Storage.
(6) Renewable Obligation Certificate.

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

This announcement contains inside information for the purpose of Regulation (EU) No 596/2014.

Results presentation meeting and webcast arrangements

Management will host a presentation for analysts and investors at 9:00am (UK Time), Tuesday 26 February 2019, at **The Lincoln Centre, 18 Lincoln's Inn Fields, London, WC2A 3ED.**

Would anyone wishing to attend please confirm by e-mailing christopher.laing@fticonsulting.com or calling Christopher Laing at FTI Consulting on +44 (0)20 3727 1355.

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

A copy of the presentation will be made available from 7:00am (UK time) on Tuesday 26 February 2019 for download at: www.drax.com>>investors>>results-reports-agm>> #investor-relations-presentations or use the link https://www.drax.com/investors/results-reports-agm/#investor-relations-presentations

Event Title:	Drax Group plc: Full Year Results
Event Date:	Tuesday 26 February 2019
	9:00am (UK time)
Webcast Live Event Link	webcast.merchantcantoscdn.com/webcaster/dyn/4000/7464/16531/111250/Lobby/default.htm
Start Date:	Tuesday 26 February 2019
Delete Date:	Monday 24 February 2020
Archive Link:	webcast.merchantcantoscdn.com/webcaster/dyn/4000/7464/16531/111250/Lobby/default.htm

For further information please contact Christopher Laing on +44 (0)20 3727 1355.

Website:	www.drax.com

CHAIR'S STATEMENT

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.

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

CHIEF EXECUTIVE'S REVIEW

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.

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 1.3 x 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 1.35 million tonnes, 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 ignition 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 300MW Open Cycle Gas Turbine (OCGT) plants and up to 3.6GW of 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% (based on the year-on-year change to the number of SME customer meters on supply). 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 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 131kgCO2-eq/MWh of electricity, less than half the UK Government's 285 kgCO2-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 2018. 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

GROUP FINANCIAL REVIEW

	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.

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 18.

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.

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 8.

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 1,351k tonnes 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 note 2.

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.

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 6.

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.

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 8 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 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 6.

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 17 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.

The total carrying value of plant, property and equipment, including the effect of the acquisition from ScottishPower, was £2,292 million at 31 December (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 15.

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 buying ROCs through normal ROC sale and purchase arrangements, we can optimise the timing of cash flows over a proportion of these assets.

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 14.

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.

A gain of £92 million (2017: loss of £209 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 the 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.

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 17.

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 preliminary announcement, 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.

VIABILITY STATEMENT

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

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

ASSESSMENT PERIOD

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

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

REVIEW OF PRINCIPAL RISKS

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

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

The risks were evaluated, where possible, to assess the potential impact of each on the viability of the Group, should that risk arise in its unmitigated form. The potential inputs were included, where appropriate, as sensitivities to the Plan and considered by the Board as part of the approval process, in January 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 14 below. The Board expects these sources, along with stable cash flows generated by the Group from its normal operations, to provide adequate levels of funding to support the execution of the Group's Plan.

During the year the Group 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 above in the Group Financial Review, and in note 14.

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.

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.	v	• 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.	=	• 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.	=	• The legislative process for the Renewables Energy Directive has been completed and our current policy and approach satisfies it.

Risk	Mitigations	Movement	Changes in factors impacting risk in 2018
	• Developing and maintaining strong coalition with other utilities and those engaged in forest industries including using EU and US forestry expertise to brief Brussels.		
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 Bio Energy 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.	v	• 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	• 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	=	• TRIR continuing at better than the industry benchmark. • Commissioning of LaSalle Bio Energy 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
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.	events and implementation of any necessary changes in the management system and culture. • Timely identification of future legislation and appropriate investment to optimise performance.		
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. (https://www.drax.com/investors/acquisition agreement-amended-mitigate-risk-2019-capacity-payments/). 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	NEW	• This risk was not included in the previous annual report as the acquisition completed on 31 December 2018.

Risk	Mitigations	Movement	Changes in factors impacting risk in 2018
	of the Capacity Market mechanism itself.		

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December 2018			Year ended 31 December 2017 Restated[5]		
	Notes	**Adjusted Results[1] £m**	**Exceptional items and certain remeasure-ments £m**	**Total Results £m**	Adjusted Results [1] £m	Exceptional items and certain remeasure-ments £m	Total Results £m
Revenue	3	**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	4	**(320.0)**	**–**	**(320.0)**	(297.4)	–	(297.4)
Impairment losses on trade receivables		**(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	8	**–**	**(26.8)**	**(26.8)**	–	–	–
Losses on disposals		**(3.9)**	**–**	**(3.9)**	(15.4)	–	(15.4)
Other gains/(losses)		**4.1**	**–**	**4.1**	(0.4)	–	(0.4)
Acquisition and restructuring costs[3]	8	**–**	**(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)	6	**0.3**	**–**	**0.3**	(10.6)	–	(10.6)
Interest payable and similar charges [4]	6	**(40.4)**	**(7.2)**	**(47.6)**	(31.5)	(24.2)	(55.7)
Interest receivable	6	**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	7	**0.2**	**1.6**	**1.8**	3.2	38.3	41.5
– Prior year patent box credit	7	**4.8**	**–**	**4.8**	10.3	–	10.3
– Effect of changes in rate of tax	7	**(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	9	**10.4**		**5.0**	0.7		(41.3)
– Diluted	9	**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 8 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 18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Years ended 31 December 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		**15.9**	21.4
Deferred tax on actuarial gains on defined benefit pension scheme	7	**(3.0)**	(4.1)
Gain on equity investments		**0.2**	–
Net fair value gains on cost of hedging		**24.8**	19.5
Deferred tax on cost of hedging	7	**(4.7)**	(3.7)
Net fair value gains/(losses) on cash flow hedges		**164.3**	(137.3)
Deferred tax on cash flow hedges	7	**(31.2)**	25.0
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**7.2**	3.4
Net fair value gains on cash flow hedges		**21.4**	3.8
Deferred tax on cash flow hedges	7	**(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**	(240.5)

(1) Results from the year ended 31 December 2017 have been restated due to the initial application of IFRS 9, see note 18

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2018 £m	2017 Restated [1] £m
Assets			
Non-current assets			
Goodwill		**244.7**	169.9
Intangible assets		**228.8**	232.0
Property, plant and equipment		**2,292.3**	1,661.9
Other fixed asset investments		**2.4**	1.3
Retirement benefit surplus		**22.7**	–
Deferred tax assets	7	**31.8**	22.7
Derivative financial instruments		**295.2**	190.7
		3,117.9	2,278.5
Current assets			
Inventories		**222.5**	272.1
ROC assets		**216.7**	145.5
Trade and other receivables and contract-related assets		**468.8**	417.5
Derivative financial instruments		**215.4**	175.5
Current tax assets	7	**–**	6.2
Cash and cash equivalents		**289.0**	222.3
		1,412.4	1,239.1
Liabilities			
Current liabilities			
Trade and other payables and contract-related liabilities		**(938.5)**	(732.4)
Amounts payable in respect of acquisitions	17	**(686.9)**	(4.1)
Current tax liabilities	7	**(7.6)**	–
Borrowings	14	**(0.1)**	(18.6)
Derivative financial instruments		**(89.4)**	(109.6)
		(1,722.5)	(864.7)
Net current (liabilities)/assets		**(310.1)**	374.4
Non-current liabilities			
Borrowings	14	**(608.0)**	(571.1)
Derivative financial instruments		**(62.0)**	(94.2)
Provisions		**(50.8)**	(36.3)
Deferred tax liabilities	7	**(316.0)**	(230.0)
Retirement benefit obligations		**–**	(1.2)
		(1,036.8)	(932.8)
Net assets		**1,771.0**	1,720.1
Shareholders' equity			
Issued equity	16	**47.0**	47.0
Share premium	16	**424.7**	424.3
Treasury shares	16	**(47.1)**	–
Hedge reserve		**199.9**	126.1
Cost of hedging reserve		**(8.9)**	(40.7)
Other reserves	16	**712.7**	705.5
Retained profits	11	**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 18

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 18)	–	–	–	–	(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 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 10)	–	–	–	–	–	–	(21.6)	(21.6)
Issue of share capital (note 16)	–	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	–	–	–	–	–	–	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	–	–	–	150.3	20.1	7.2	13.1	190.7
Total comprehensive income for the year	**–**	**–**	**–**	**150.3**	**20.1**	**7.2**	**33.3**	**210.9**
Equity dividends paid (note 10)	–	–	–	–	–	–	(52.5)	(52.5)
Issue of share capital (note 16)	–	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 16)[(i)]	–	–	(47.1)	–	–	–	–	(47.1)
Movement in equity associated with share-based payments	–	–	–	–	–	–	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

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Years ended 31 December 2018 £m	2017 £m
Cash generated from operations	15	**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	10	**(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	13	**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 15) 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 15.

1. GENERAL INFORMATION & BASIS OF PREPARATION

The consolidated financial information for Drax Group plc (the Company) and its subsidiaries (together, the Group) set out in this preliminary announcement has been derived from the audited consolidated financial statements of the Group for the year ended 31 December 2018 (the financial statements).

This preliminary announcement does not constitute the full financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements were approved by the Board of directors on 25 February 2018. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered in due course.

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

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

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

The principal accounting policies adopted in the preparation of the financial statements are set out in the 2017 Annual report and accounts, except for new standards applicable from 1 January 2018 which are described in note 18 of this preliminary announcement. These policies have been applied consistently to both years presented, except where newly applicable standards do not require retrospective restatement, or the impact of doing so is not material, as described in note 18.

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. The Group ceased to accrue capacity market income in Generation from 1 October 2018. 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.

2 SEGMENTAL REPORTING

The Group is organised into three businesses, with a dedicated management team for each and a central corporate office providing certain specialist and shared 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.

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

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 18):

	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 17.

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.

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.

3 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 18).

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. 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.

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.

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).

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

4. OPERATING EXPENSES

This note sets out the material components of Operating and administrative expenses in the Consolidated income statement and a detailed breakdown of the fees paid to 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	**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 18).

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.

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).

5. 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 17). 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.

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.

6. NET FINANCE COSTS

Finance costs reflect expenses incurred in managing the Group's 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 sites at the end of their useful lives and net interest charged on the Group's defined benefit pension scheme obligation. 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 8, 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 14.

	Years ended 31 December	
	2018	2017
	£m	£m
Interest payable and similar charges:		
Interest payable on borrowings	**(36.3)**	(25.6)
Unwinding of discount on provisions	**(0.9)**	(0.7)
Amortisation of deferred finance costs	**(3.1)**	(3.5)
Net finance cost in respect of defined benefit scheme	**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.

7. 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)

	Years ended 31 December	
	2018 **£m**	2017 Restated £m
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).

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)
(Charged)/credited 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)
Charged to other comprehensive income in respect of cash flow hedges	24.3	–	–	–	–	–	–	24.3
Charged to other comprehensive income in respect of 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)**
Charged 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.

8. 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.
- 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 18.

9. EARNINGS PER SHARE

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

	Years ended 31 December	
	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 16) 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 18.

10. 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.

11. 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	**15.9**	21.4
Deferred tax on actuarial gains on defined benefit pension scheme	**(3.0)**	(4.1)
Equity dividends paid	**(52.5)**	(21.6)
Gain on equity investment	**0.2**	–
Net movements in equity associated with share-based payments	**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 has 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 13 and the recent history of cash generation within note 15. The majority of these cash resources are held centrally within the Group by Drax Corporate Limited for treasury management purposes and are available for funding the working capital and other requirements of the Group.

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

12. RECONCILIATION OF NET DEBT

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

	Years ended 31 December	
	2018	2017
	£m	£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 below.

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 14.

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 14). 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.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash held in current and other deposit accounts that is accessible on demand. It is 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

14. BORROWINGS

Accounting policy

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. 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 an approved policy. 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 17). 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.

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 6)	**–**	**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 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 6)	–	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

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 15, 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).

15. CASH GENERATED FROM OPERATIONS
Cash generated from operations is the starting point of our cash flow statement. 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 18).

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.

16. 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.

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.

17. 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 contribution 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 above.

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. (https://www.drax.com/investors/acquisition-agreement-amended-mitigate-risk-2019-capacity-payments/). 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 14.

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.

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 include 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.

18 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.

Change 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.

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 Total results	Adoption of IFRS 9 £m a)	Representation of income statement £m b)	Year ended 31 December 2017 Restated £m 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)**

(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.