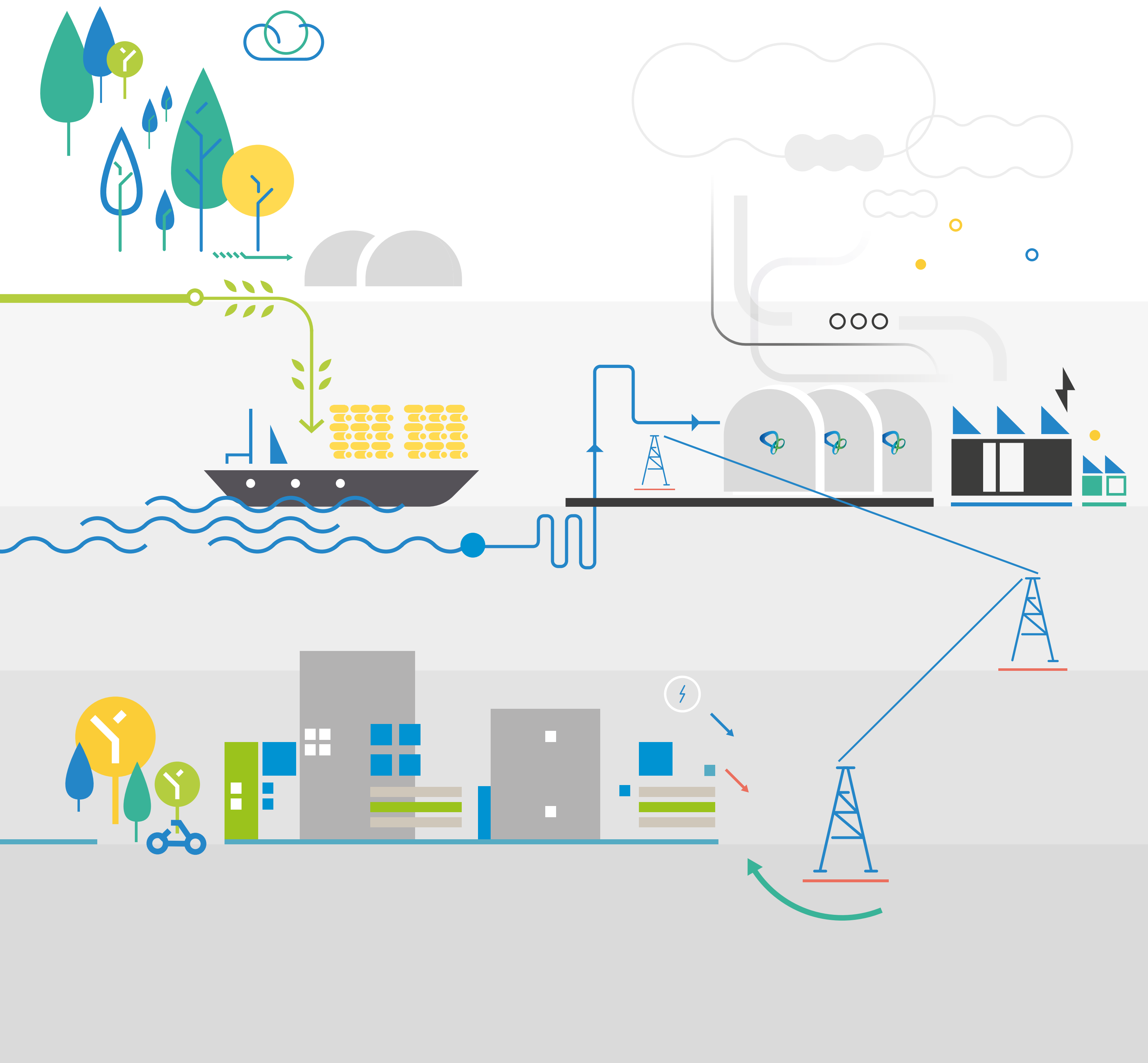
A reliable, renewable future, today

Drax Group plc
Annual report and accounts
2015



Drax Group plc is leading the way in the generation of reliable, renewable energy.

Responsible for some 8% of the UK's electricity it has, with the very latest developments in renewable energy technology, successfully transformed itself into a predominantly biomass fuelled generator.

Today it is one of the UK's largest producers of renewable power and Europe's single largest decarbonisation project.

It stands ready to do more.

2015 Highlights

£3,065m
Total revenue
(2014: £2,805 million)

£169m
EBITDA
(2014: £229 million)

£409m
Gross profit
(2014: £450 million)

11p
Underlying basic earnings per share
(2014: 24p)

£187m
Net debt
(2014: £99 million)

0.31
Total recordable injury rate
(2014: 0.33)

Strategic report

Governance

Financials

What's the challenge?

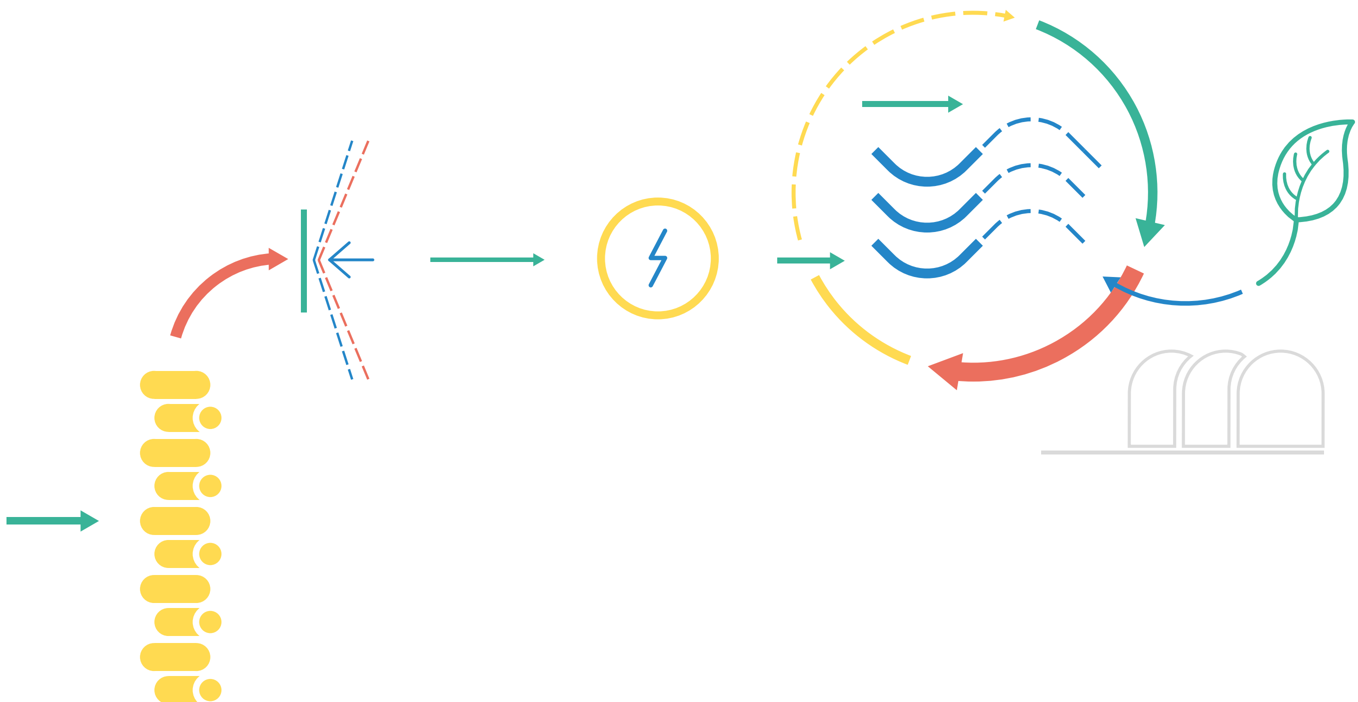
Coal is a fossil fuel and damaging to our environment. But it still provides around 25% of UK electricity and, across the world, there is ever-more demand for energy.

We need new sources of electricity, ones that do not cause climate change. But building new power stations can be a long and costly process.

There is an alternative: we can shift from coal to an innovative, renewable energy source without taking all the existing power stations off the grid and we can do this today.

For the last ten years Drax has been developing the capability to achieve this and today it is now optimised with the latest technology. With the right support we can further enhance and deploy to ultimately become a fully biomass-fuelled generator.

Yet, until we are able to fully upgrade to biomass, our coal units will remain a critical part of the UK generating infrastructure.



What's our solution?

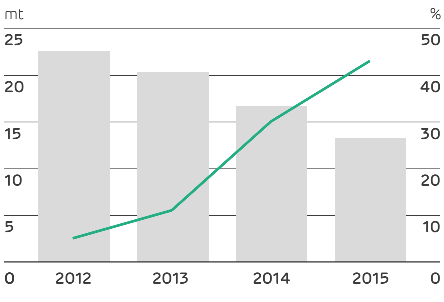
Our answer to the problem of coal is sustainable biomass

At Drax we have upgraded and converted half of our power station using the very latest in biomass technology to use compressed wood pellets instead of coal.

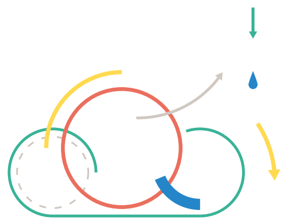
This has nearly halved our carbon emissions, making us Europe's single largest decarbonisation project. It has also dramatically reduced other air pollutants including nitrogen oxides.

And because we are reusing and upgrading existing infrastructure, our transition has been faster and more affordable than it would have been if we had to build expensive new power stations in new locations.

Our biomass journey



Carbon dioxide emissions (million tonnes)
Biomass generation (%)



80%

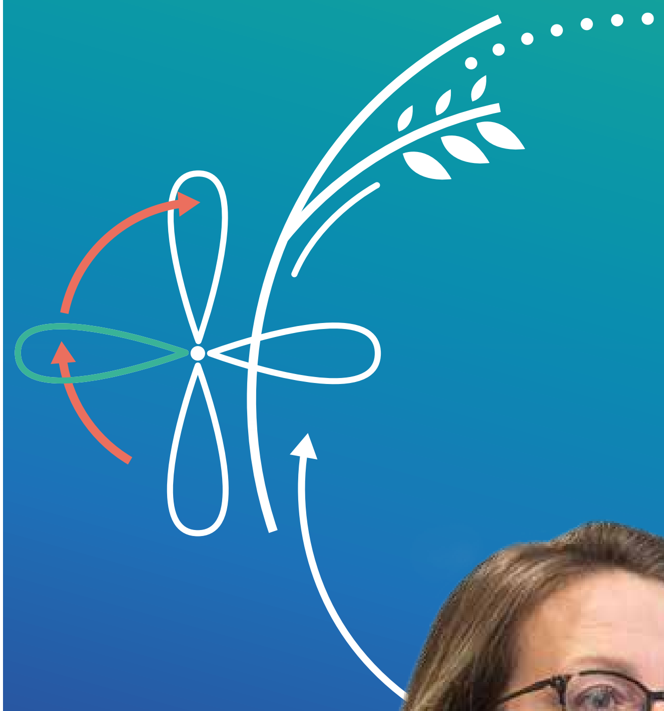
At Drax the use of biomass saves more than 80% of the carbon dioxide emitted when compared to the use of coal

3 units

We now have three generating units using sustainable biomass in place of coal

Rebecca worked on this

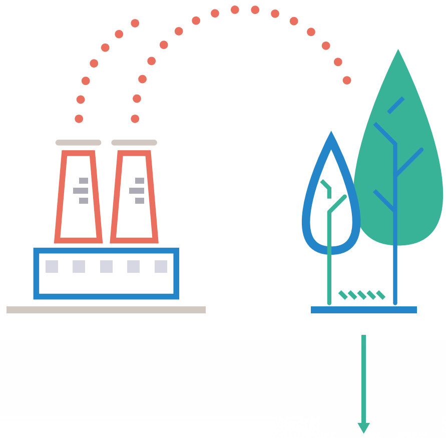
As Group Head of Sustainability, Rebecca makes sure that the biomass we source is sustainable and making significant reductions to our carbon emissions.



Rebecca Heaton
Head of Sustainability and Policy

What is biomass?

Biomass is material obtained from plants that can be used to generate electricity or heat. A key benefit of biomass is that it's renewable and if sourced correctly, both sustainable and low carbon. The bulk of the biomass we use at Drax is wood which we transform into high density, compressed wood pellets.



Why are our wood pellets low carbon?

When any form of biomass is combusted the carbon emitted is equal to that absorbed during its growth. Sourcing biomass from sustainably managed working forests helps maintain, and can increase, our planet's long-term carbon stocks. There are small amounts of emissions associated with the processing and transportation of our compressed wood pellets but even taking these into account the carbon savings at Drax are more than 80% compared to coal.

What's our solution?

Latest advanced technology

For more than a decade Drax has been leading the world in the development of new technology, techniques and processes to enable the sustainable sourcing, generation and supply of electricity from sustainable biomass.

From plant to plug our original design, development and implementation of an innovative and wholly new means to generate electricity, using our oldest renewable energy source, has made a significant contribution to the carbon reduction targets of the UK and with it the lives of people across the UK and beyond.

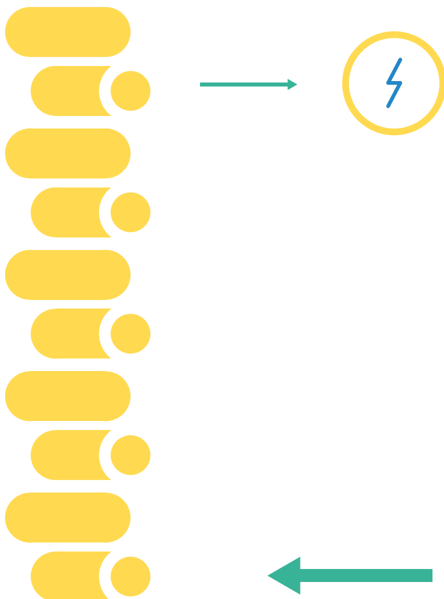
We take low-value wood and turn it into a higher density fuel that is easy to transport and which, in our upgraded and converted power station, is able to generate reliable, renewable energy precisely when it's needed.

Working with universities

We have partnered with some of the UK's leading universities on the many challenges we have had to overcome. One example is with the optimal use of additives to prevent fouling of the boilers.

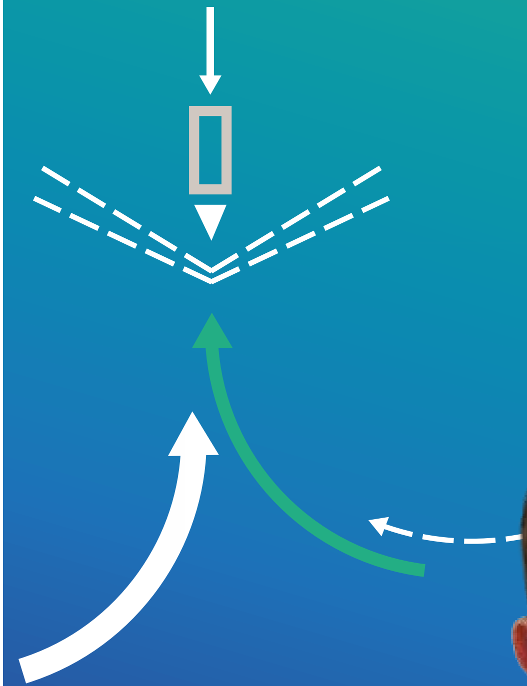
Manufacturing a strong pellet

Our US manufacturing sites make use of vertically-stacked mills to limit pellet handling prior to cooling. This results in a more durable pellet that is less likely to deteriorate as it is moved through our supply chain.

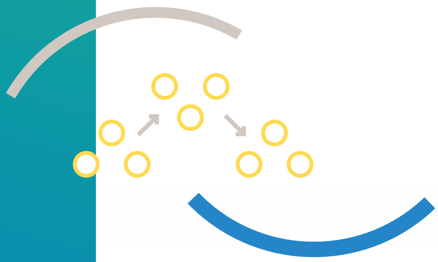


Jason helped design it

Using the very latest technology and process engineering thinking, Jason has played a critical role in redesigning our generating units, allowing them to be upgraded from coal to biomass.

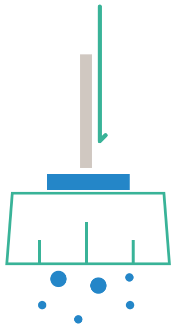


Jason Shipstone
Engineering Manager



Laser technology

We have deployed the very latest in laser scanning technology within our biomass boiler upgrades to achieve a superior understanding of how wood pellets combust. With this information we have been able to achieve incremental reductions in air pollutants throughout the generation process. This also helps us optimise our biomass units to achieve an efficiency similar to that of coal.



Reducing and reusing dust

Our US facilities are designed to reduce and recycle dust produced during the pellet manufacturing process. For example, dust containment systems limit employee exposure and mitigate potentially hazardous build-ups of dust. Our production sites also screen pellets at various stages of the manufacturing process to separate and recycle dust and fines.

Materials handling

To achieve the desired level of process safety we chose to pneumatically convey the pellets on a scale previously thought impossible. Our biomass storage domes are also the world's largest and the first time the technology has been used in the UK.

What's our solution?

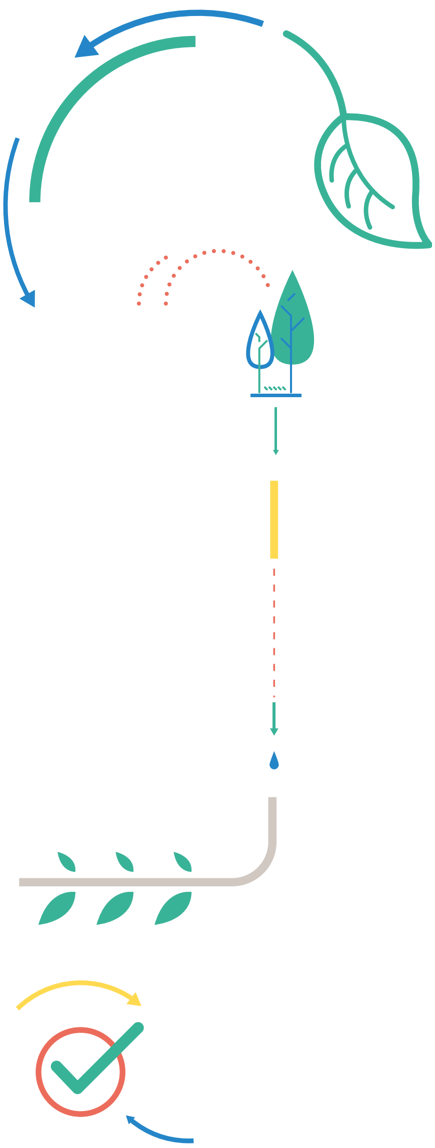
Sustainably sourced biomass

We only source from working forests that grow back and stay as forests.

Our biomass is precisely manufactured to a high density so it's easy to transport in bulk. Because of this, we can go outside Britain to the places that have huge, well established working forests and source low-grade and low-value material from forests that also supply local wood-based industries, such as construction, furniture and flooring.

Our biggest suppliers are in North America: until recently it would have been too expensive to make use of this surplus wood, now we can take it across the Atlantic for a remarkably low cost. Even including the small remaining carbon emissions in our supply chain, our conversion still cuts our carbon emissions by more than 80% overall compared to coal.

And, just as we can go to the places with lots of low-value wood because of our advanced technology, we can also choose who we don't want to work with.



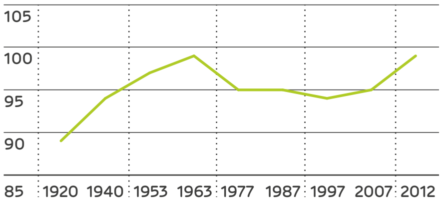
Our principles

1. We never work in countries that lack proper regulation.
2. We never cause deforestation or forest decline.
3. We never source from areas that are officially protected or where our activities harm endangered species.
4. We only take wood from working forests that grow back and stay as forests.
5. We require all our suppliers to pass tough screening and sustainability audits, conducted by independent auditors.

61%

Almost two thirds of the US South is forested

US South Forest Area (USDA)
Area Ha (million)

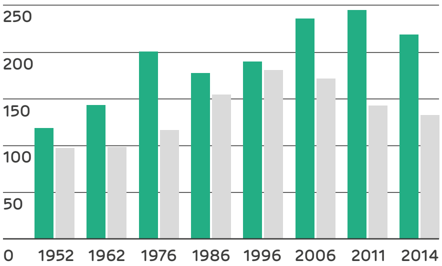


Source: USDA Forest Service

86m tonnes

In 2014, in working forests in the US South, 86 million tonnes more wood grew than was harvested

US South, growth vs removals
Million tonnes



Growth
Removals

Note:
Original data converted to dry tonnes using an assumed moisture content of 50%.

Source: USDA Forest Service

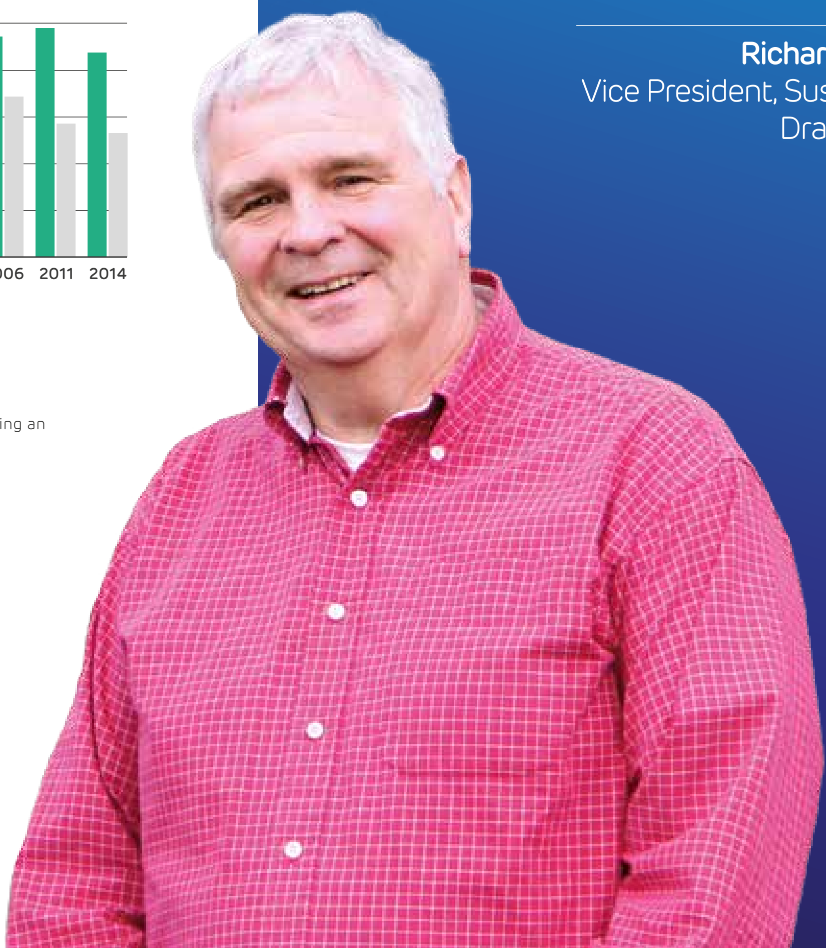
Richard helps source it

We devoted a great deal of time and effort to identifying the best locations for our two US pellet manufacturing facilities to ensure our sourcing would be sustainable. Our most important conditions included: access to low-grade wood; proximity to modern infrastructure; and availability of trained loggers, wood hauliers and other specialists to support our operations.

Our sites at Amite, Mississippi and Morehouse, Louisiana, with abundant pine resources, meet these conditions. Both catchments have suffered the recent departure of other forest products-based industries and were therefore in need of new markets to support their existing wood supply and workforce.

Having selected these sites, we met with local forest owners and other stakeholders to better understand their interests and to communicate our values. We firmly believe in ensuring that our core values and our commitments to sustainability, align with and support the communities in which we operate. We also partnered with third party organisations such as NatureServe, a conservation planning service, to ensure we avoid sourcing wood from areas of high conservation value.

As a result of these efforts, we now have a secure and reliable supply chain that meets all our sustainability requirements. We also maintain full chain-of-custody for all sourced material, a practice that is verified through independent audit.



Richard Peberdy
Vice President, Sustainability
Drax Biomass

What's our solution?

Certified renewable power products matching customer needs

Many UK businesses have made firm commitments to limit and reduce their impact on the environment. For all, their use of energy is a critical area to consider and address.

Our retail business, Haven, is a major supplier of renewable power to UK businesses.

With its most recent products "Biomass Renewable Energy" and "Reconciled Renewable Energy" Haven is able to supply our customers with on-demand and reliable, renewable power 100% of the time.

The Manchester Airport Group (MAG)

MAG have been a customer since 2011 and are supplied with Haven Power's Reconciled Renewable Electricity.

"We were initially attracted to Haven Power because of their renewable offering and commitment to supplying sustainable electricity. Haven made the switch from our incumbent supplier a smooth and easy process and the service we have enjoyed since has been in keeping with their reputation."

Tim Hooper
Head of Group Procurement and Contracts, Manchester Airport Group

Northumbrian Water

One of Haven Power's biggest customers, Northumbrian Water came on supply in 2013.

"Our focus was on sourcing a good power price for a five year supply period aligned to a supplier that could provide accurate billing and excellent levels of customer service. Haven were able to provide this and, in June 2014, we had no reservations in extending our contract to the end of March 2018."

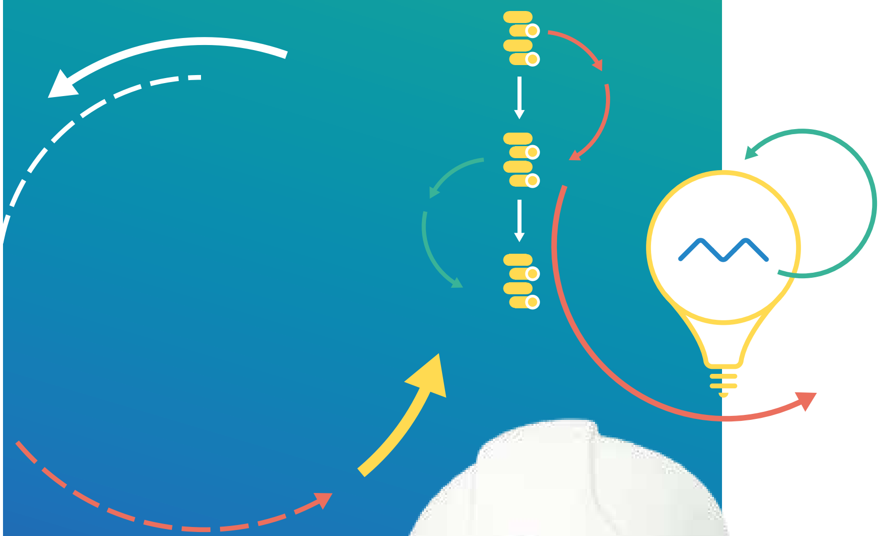
Phil Carvel
Category Manager,
Northumbrian Water Limited

100%

Our Biomass Renewable Energy product is the only offer in the market that guarantees to supply businesses with renewable energy, 100% of the time

Richard helps deliver it

From its early days as an energy start-up Richard and his team have continuously improved the product and service offering of Haven to UK businesses, establishing it as one of the leading players in the market.



Richard Robey
Sales and Marketing Director, Haven Power

Anglia Maltings

A leading food services company, Anglia Maltings has been a Haven customer since 2013, and recently extended its contract to 2017.

"We have found the customer service to be excellent and would definitely recommend them to other businesses. We have a named contact who handles our account and, as a Flex customer, we also have direct contact with the Trading Desk which makes the management of our electricity needs very easy."

Bob King
Commercial Director,
Anglia Maltings

Hope Construction Materials Limited

One of the UK's leading suppliers of construction materials including concrete, cement and aggregates, Hope Construction have been a Haven customer since the beginning of 2013.

"We found Haven Power to be both approachable and customer focused. In addition to offering a competitive proposition, Haven were keen to work with us to find solutions that worked for both parties. We also value the direct relationship we have with our dedicated Account and Service Managers who manage the day to day activities of our contract in an efficient and professional manner."

Emily Bates
Head of Procurement,
Hope Construction Materials Limited

What's our solution?

Bringing the UK closer to the European average for use of biomass

The use of wood for energy is nothing new – in fact it's our oldest form of renewable energy.

What is different today is how Drax is using the very latest technology to turn low-grade wood into a modern and highly efficient fuel. Today, Britain is well behind the European average in its use of wood for energy and much lower than Germany or Sweden for example, as shown in the chart below.

Taking steps to get closer to that European average is the fastest, most affordable and reliable way for the UK to move away from the fossil fuels of the past to the renewable energy sources of the future.

Sustainable Biomass Partnership (SBP)

This industry-led initiative formed in 2013, provides assurance that woody biomass is sourced from legal and sustainable sources. In 2015 Ofgem benchmarked SBP as being fully compliant with the UK's Renewables Obligation, which means that any wood pellets certified as SBP compliant meet the government's mandatory sustainability criteria for woody biomass.

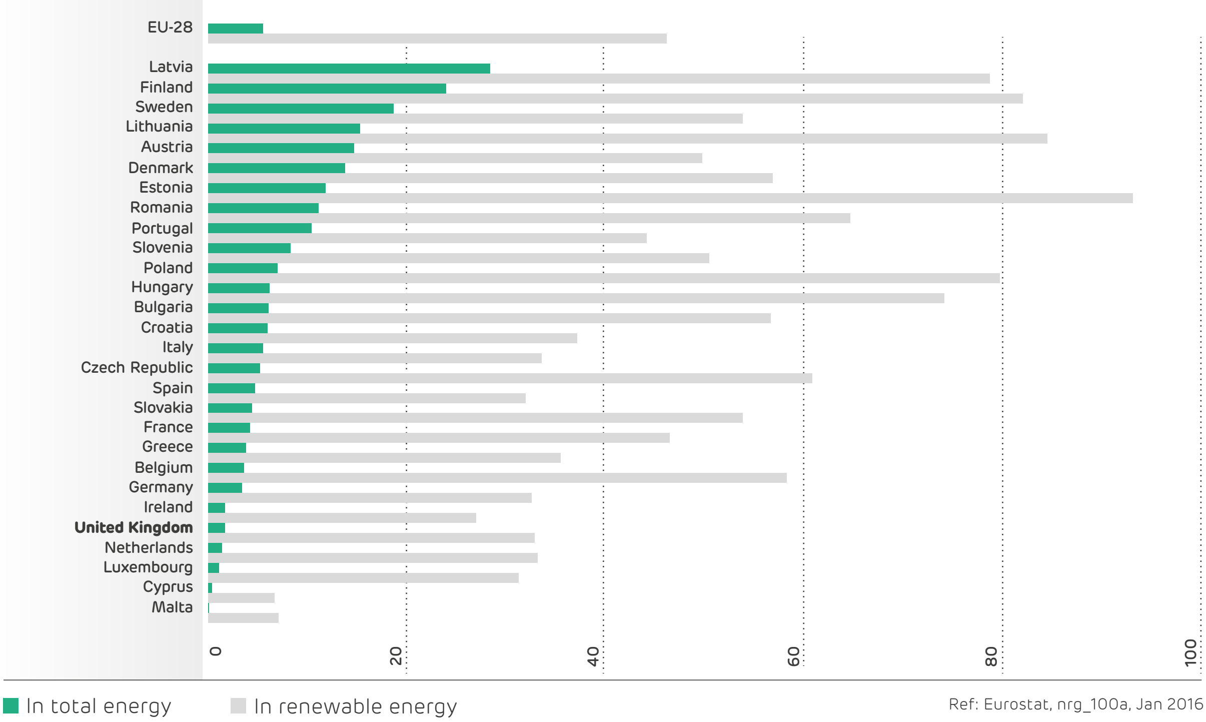
"As a founding member of the SBP, Drax has played a key role in developing the SBP Framework certification standards. The standards have been designed to provide assurance that feedstocks are derived only from forests which are legally harvested and sustainably managed."

Peter Wilson
Executive Director,
Sustainable Biomass Partnership

100%

Drax is aiming to have all its sourcing volume SBP certified

Wood as a source of energy, 2013
% share of wood and wood products in gross inland energy consumption, in Tonnes of Oil Equivalent

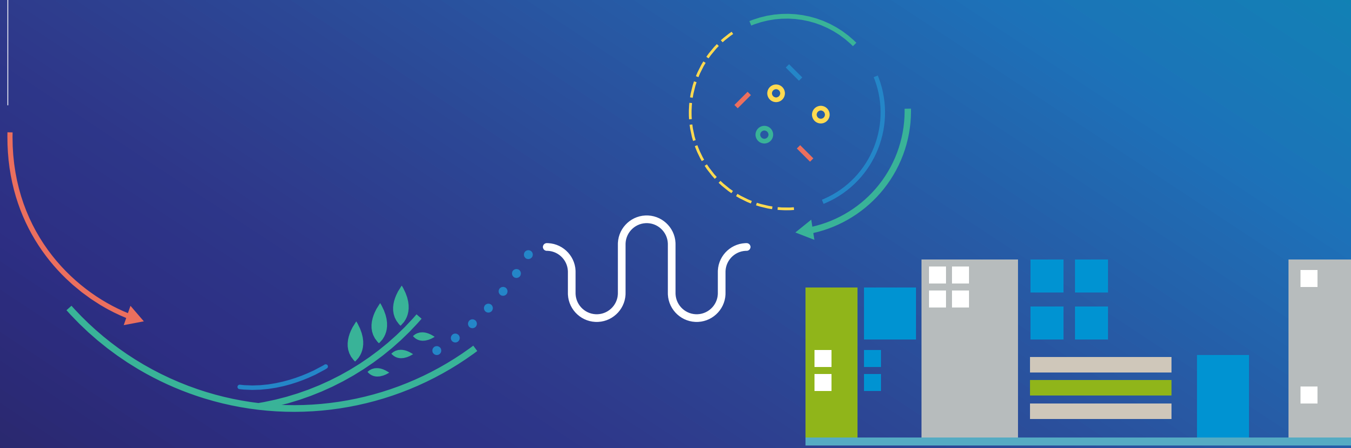


Ref: Eurostat, nrg_100a, Jan 2016

Our conclusion:

Biomass technology is the fastest, most affordable and reliable way to move away from the fossil fuels of the past to the renewable energy technology of the future.

With the right support Drax stands ready to do more.



Chairman's statement

Drax is the world leader in biomass technology and I am excited by the opportunities this will present the Group.

In my first year as Chairman it has certainly been challenging for the Group. However, the progress we made to complete our conversion to a predominantly biomass-fuelled generator was excellent and more than ever Drax showed the essential part it has to play in the UK's future energy mix.

The operational performance across the business was strong and in 2016 we will complete the transformation we began some 10 years ago. The business we have today is more diverse, built on a dedicated supply chain and backed by world-leading innovation and technology. It continues to deliver around 8% of the UK's electricity needs, while providing an excellent service to our retail customers.

Political and regulatory changes

During the year the government applied the Climate Change Levy ("CCL") to renewables and announced a potential timeline for the closure of coal generating plant. The former had a significant negative impact on our 2015 results, reducing EBITDA by an estimated £30 million, and this impact will be double for 2016.

Many years ago Drax recognised that to limit climate change would require an eventual end to the use of coal generation – that is why we embarked on our transformation to become a predominantly biomass fuelled generator.

In 2010 our power station burnt almost 10 million tonnes of coal. Because of our transformation by 2015 we had lowered this to six million tonnes.

But we don't want to keep burning coal and we don't have to. There are other options.

Greater use of sustainably sourced biomass is the fastest, safest and most affordable means by which the UK can move away from coal and support greater use of wind and solar in the future.

With the right policy frameworks we could become 100% renewable through the full conversion of our three remaining coal units and we could do this well before 2025. We will continue to work closely with the government to help them quickly reduce the UK's reliance on coal.

"More than ever Drax has demonstrated the essential role it can play in the UK's future energy mix."

4.0m

The reduction in annual coal use (in tonnes) since we started our biomass transformation

100%

Our renewable output if we upgrade the second half of our power station to biomass

Philip Cox CBE
Chairman

Critical infrastructure

Drax remains an essential part of the energy mix. Our ability to generate reliable, affordable, renewable power and deliver this to a broad range of customers places the Group at the heart of the UK's power generation. In turn, this creates long-term value for our shareholders – we remain focused on optimising this value as well as remaining alert to opportunities for growth. In this regard we await the outcome of the EU State aid decision during the year. Securing the Contract for Difference (CfD) is a key component of our investment case.

Results and dividend

Our earnings (EBITDA) for 2015 of £169 million were, as expected, below those of 2014 (£229 million). This result was adversely impacted by the dramatic fall in commodity prices and the loss of Levy Exempt Certificate ("LEC") income from August, but it is pleasing to note that the shortfall this created was partially offset by our self-help measures. Our capital investment programme (£174 million) was delivered on schedule, whilst we retained strong control over operating costs. The refinancing of our £400 million Revolving Credit Facility helped us maintain a robust balance sheet.

In accordance with our dividend policy, the Board proposes a final dividend in respect of 2015 of 0.6 pence per share, equivalent to £2 million. This would give total dividends for the year of £23 million (2014: £48 million).

Corporate governance

At Drax we are committed to excellent corporate governance and given the changes and challenges experienced during the year the Board and Committees remained very active. Details can be found in the Corporate Governance Report on page 56.

The year ended with a number of changes to the Board. My predecessor Charles Berry left after our AGM in April. Tony Quinlan left the Group in June and was replaced as CFO by Will Gardiner, who joined us in November. Paul Taylor and Peter Emery, both executive directors, resigned at the end of December, with Andy Koss appointed to the Board effective from 1 January 2016. I would like to thank Charles, Tony, Paul and Peter for their contribution over many years of service and welcome Will and Andy to the Board.

We have an effective Board with complementary skills, knowledge and experience. We will continue to look at how we can strengthen this mix during the year.

Our people

I have reflected on some of the challenges we faced during the year, but there were also many positives, several of which are described in this report. This is in large part down to the dedication and hard work of our people, in every part of the business. We are fortunate to employ a workforce with a diverse range of skills and experience, unified by their commitment to decarbonising the UK and in making Drax successful. I look forward to working with them over the year ahead.

Finally, I would like to say how delighted I am to be Chairman of Drax. The Company is at a pivotal point in its development, coinciding with a critically important time for UK energy policy. We are confident and determined that our reliable, renewable and affordable generation and supply will be at the heart of UK energy for the long term.

Philip Cox CBE
Chairman
22 February 2016

Investment case

1	Essential to the UK	– Generating up to 8% of the UK's electricity – Reliable and flexible contributions to the national grid – Significant contribution to UK decarbonisation targets
2	Expertise and innovation	– Leveraging world-leading biomass technology – Delivering high quality, fit for purpose infrastructure – Providing products tailored to customer needs
3	Industry leading operational performance	– Highly efficient and robust operating assets – Flexible units, able to be dispatched on demand – Well integrated, optimised supply chain – Well controlled cost base and targeted capital investment
4	Robust balance sheet	– Cash generative operations and well controlled working capital – Appropriate levels of credit and established debt facilities
5	Commitment to capital returns	– Dividend policy to distribute 50% of underlying profit

Q&A
In the spotlight

Dorothy Thompson answers some of the key questions raised by shareholders during the course of 2015 and addresses some of the important issues facing the Group.

Q. How would you describe the performance of Drax in 2015?

A. This was a poor year for our shareholders. Our financial performance disappointed due to a number of external factors, primarily the collapse in commodity prices, which affected most companies in the energy sector, and changes to established government policy. What made it especially frustrating for me was that operationally, the business performed as well as it has ever done. The Group took steps throughout the year to offset the financial challenges we face, not least in reviewing and reducing future operational and capital spend, optimising revenue from our coal units and introducing new customer products. I expect further progress on these and other areas in 2016.

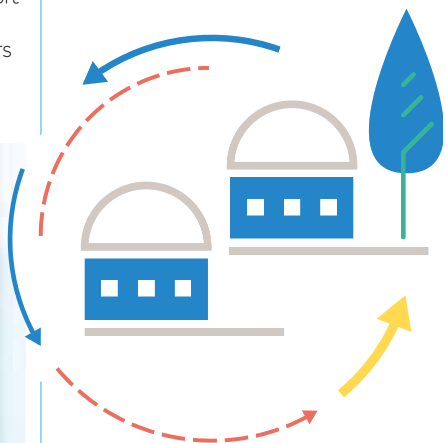
Q. It is widely acknowledged that Drax's biomass conversion was a bold step. In light of recent changes to government policy on renewable energy was it still the right thing for the Group to do?

A. Absolutely, both for us as a business and for the UK with the significant carbon reductions Drax is achieving. The UK government is fully committed to the current biomass generation capacity. We firmly believe that with the urgency to remove coal by 2025 and the need to support even greater intermittent generation, set against a backdrop of affordability, the case for more biomass generating capacity is strong.

We recently commissioned the economic consultancy NERA and Imperial College, London, to look at the whole system costs for a variety of renewable technologies. They found that biomass is £7–£35/MWh more affordable than other technologies and that if these new support levels were modelled in the government's planned renewable energy auctions, consumers could save in the region of £2 billion.

"The case for more biomass generating capacity is strong."

"Our biomass generation is significantly better than coal – 80% cleaner in terms of carbon emissions."



Dorothy Thompson CBE
Chief Executive

Q. You are in the middle of a State Aid investigation and have previously sued the government. Is this type of external activity just business as usual for Drax?

A. It was clear from the very beginning of the CfD process that any positive decision would need to go through a State Aid process, as do many projects that receive state support. Whilst of course we would have liked a somewhat speedier decision than is currently the case, we firmly believe it is right and proper that the European Commission conduct a thorough and detailed investigation. Now that we are in the second phase of the process we look forward to working with them closely over the coming months.

The removal of the CCL exemption was a surprise to all within the energy sector. Many believe that the notice period provided by the government was inappropriate and it is for that reason we, and other renewable operators, asked the courts to examine the decision.

Q. Given the significant political risk to which Drax is exposed, how can you be sure that any promised shareholder returns will be achieved over the short and medium term?

A. The fundamental question to ask is this: are we making a valuable contribution? If the answer is yes, which I am confident it is, and the business remains operationally strong, then shareholder value will accrue. Regrettably it is not within my gift to fully insulate the business from commodity price movements and abrupt changes to government policy, despite the good relations we have, and continuous engagement with officials in the UK, EU and USA.

Q. A significant amount of revenue is predicated on the sustainable sourcing of your biomass. How do you ensure compliance with all relevant sustainability legislation?

A. The UK Renewables Obligation (RO) has a range of legislative requirements to ensure biomass used for electricity generation is low carbon and sustainable including requirements to ensure that bio-diversity, productivity and sensitive habitats are protected and maintained. Drax is audited annually by independent auditors to ensure that all these requirements are met. Every pellet plant is audited and should have Chain of Custody certification. They must also be able to prove that the wood fibre they supply us is legal, sustainable and low carbon and that the criteria within the RO are being met. With Ofgem benchmarking SBP as being fully compliant with the UK's RO we and most of our suppliers, are transitioning our pellet production to sustainability certification under the SBP sustainability standards.

Q. Is burning biomass really cleaner than coal? What about those reports that say otherwise?

A. Our biomass generation is significantly better for the climate than coal - independently verified to be more than 80% lower in terms of carbon emissions. It also generates much less nitrogen oxides and sulphur dioxide. Reports with adverse conclusions are usually predicated on false assumptions – for instance that our demand is contributing to deforestation or that we take from forests that are in decline, which is simply not the case.

Q. Shouldn't wood be used for more valuable purposes?

A. The use of wood to replace fossil fuels for large scale electricity generation has a high economic, social and environmental value. A great many businesses and homes depend on the electricity generated from biomass in addition to revenue generated in the forest industry and supply chain. We source from regions with large working forests that can readily supply our needs whilst continuing to meet the demands of other wood-based industries. In fact by providing landowners with this additional source of revenue, we help them reinvest in their working forests to ensure this resource remains available for future generations.

Q. Do your suppliers use whole trees? Is that a sensible thing to do?

A. Our suppliers often use thinnings – small trees – that have been removed from working forests to maximise the growth of the remaining trees, as well as lower-value wood from final harvesting operations. In all cases, we ensure that this wood is sustainably sourced from forests that are maintained or increasing in size, thereby ensuring that our sourcing practices do not adversely impact long term carbon stocks.

Q. Why don't you source biomass from the UK?

A. Drax does source a very small proportion of biomass from the UK, predominantly heating pellets, agricultural residues, miscanthus and straw. With regard to wood, in world terms the UK has a relatively small forested area not capable of meeting the country's demand for wood products. As a consequence the UK is heavily reliant on imports for a range of wood products including sawn-wood, wood-based panels, and pulp and paper as well as wood pellets.

Q. How can shipping wood half way round the world ever be described as sustainable?

A. Due to the compressed nature and high density of the pellets, and the large ships used, we consistently show carbon savings of more than 80% compared to coal including emissions from our supply chain. Global sea borne trade is a very efficient way of moving bulk commodities such as compressed wood pellets. Indeed, it is more carbon efficient for us to transport them from across the Atlantic by sea than it would be to truck them several hundred miles. The UK has been a net importer of energy and, as outlined earlier, wood products for many years and our trade in compressed wood pellets is no different.

Q. Where will you find opportunities for growth in the medium term?

A. Drax is the world leader in biomass technology and I am excited by the opportunities this will present the Group in both the medium and longer term. It is encouraging that in the longer term, as the biomass market matures, it should become competitive without subsidy support provided there is a robust carbon price and an equitable allocation of whole system costs.

Q. With so many long serving Board directors having left the Group in 2015 this could be described as the end of an era. What impact do you think it will have?

A. We have been fortunate to have such a stable and dedicated Board for such a long period of time. However, with the recent additions, we have brought fresh perspectives and skills which complement those we already have. Your Board is in good shape and focused on leading Drax through the next phase of its development.

Our three businesses

Drax has three principal activities:

– sourcing fuel
– generating electricity
– supplying power and wood pellets to customers

The principal activities define the structure of our business

We organise the business to align with the principal activities, operating through four business units.

Source

Drax Biomass is a supplier of compressed wood pellets manufactured from sustainable sources which are then used in the upgraded biomass boilers in our power station. We also secure additional biomass supplies through long term contracts with third parties. We source our coal in the international and domestic markets.

Generate

Drax Power generates electricity which is then sold in the wholesale and retail power markets.

Supply

Supply activities are delivered through three routes: Drax Power sells power to large customers in the wholesale markets; Haven Power supplies electricity to businesses; our newly acquired operating unit, Billington Bioenergy, supplies compressed wood pellets to commercial and domestic customers for heating.

The risks associated with each activity are managed within the business units, consolidated into the principal risks faced by the Group – and regularly reviewed by the Board.

Drax Biomass risks on page 33
Drax Power risks on page 35
Haven Power risks on page 37
Principal risks and uncertainties faced by the Group on page 52

source

More information on page 32

We source wood fibre from the US South and compressed wood pellets from suppliers around the world. Drax Biomass is a major manufacturer of wood pellets.

We have dedicated port facilities on the Humber, Tyne and Mersey estuaries, allowing both compressed wood pellets and coal to be imported from around the world.

Locations

Drax Biomass is headquartered in Atlanta, Georgia with operations in two US States: Mississippi and Louisiana. This places it at the heart of the US's largest working forest sector.

During 2015 we completed construction of two new pellet manufacturing plants facilities: at Amite BioEnergy in Gloster, Mississippi and Morehouse BioEnergy near Bastrop, Louisiana. We also completed on our port facility in Baton Rouge, Louisiana.

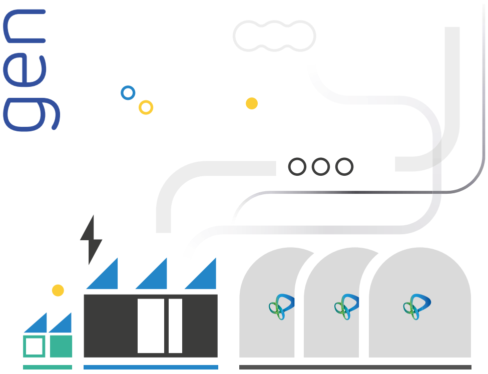
6

Drax Biomass shipments
Shipments made to the UK in 2015

0.3m

Drax Biomass production
Tonnes of own pellets produced

generate



More information on page 34

Six generating units at Drax Power generate up to 8% of the UK's electricity needs.

Continuous investment to improve operational performance makes these units highly efficient.

Locations

The Power Station is located near Selby, UK, connecting directly into the national distribution grid.

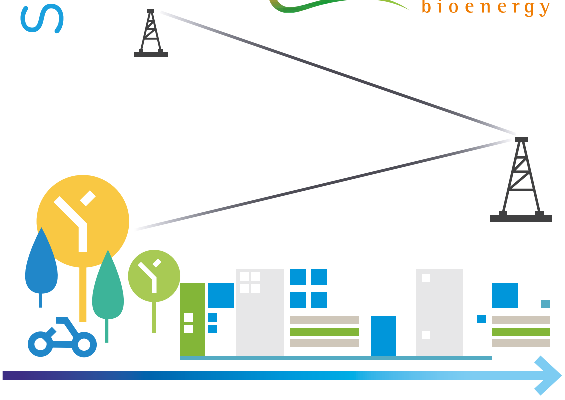
26.7TWh

Electricity generation
Generated during 2015

5.9m

Fuel usage
Tonnes of biomass used

supply



More information on page 36

Electricity is traded directly with wholesale customers or supplied through our retail business at Haven Power.

Billington Bioenergy supplies compressed wood pellets to domestic and commercial customers which are used in specialised boilers to generate heat.

Locations

Haven Power is based at Ipswich, UK.

Billington Bioenergy has depot locations across England, with a head office in Liverpool.

13.8TWh

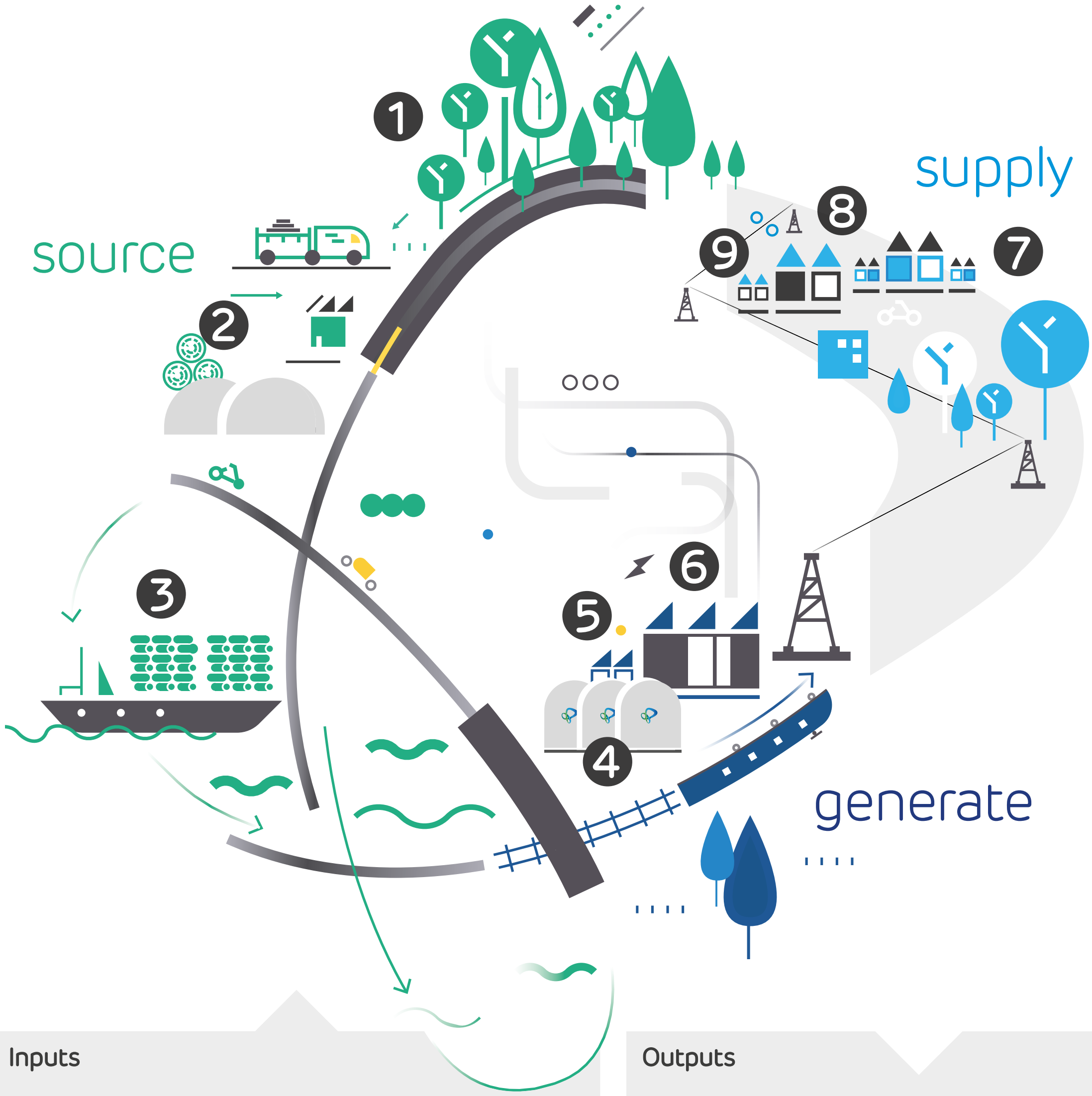
Electricity sales
Sold by Haven during the year

21Kt

Heating pellet sales
Sold by Billington Bioenergy

Our business model

Our business model is based on an integrated value chain.



Inputs

Financial capital – investment in biomass; emissions control and operational efficiency.

Natural capital – coal; sustainable biomass pellets.

Intellectual capital – expertise, innovation, research and development.

Human capital – employees, suppliers, logistics operators, regulators, customers, NGOs.

Manufacturing capital – world-leading technology and systems.

Outputs

Investors – transparency, strategy, dividends.

Community – local jobs, community engagement, environmental safeguards.

Employees – safety, expertise, personal development.

Customers – flexible, reliable, renewable power.

Government – delivering the green agenda, powering UK industry.

Suppliers – partnerships, payments, performance.

The context

We operate in regulated markets, which are influenced by government policy and commodity cycles.

Market review page 20
People & culture page 38
Risk page 52
Governance page 56

drax biomass

b – biomass / b&c – biomass and coal

❶ Source (b&c)

Biomass fibre is sourced from working forests where there is a surplus of available material.

Coal is purchased from global suppliers. We also use non-standard forms of coal, usually reclaimed as part of environmental clean up.

How we add value

Long-term biomass supply contracts provide certainty, whilst spot market activity secures competitive prices.

Use of non-standard sources of coal (for example pond fines) reduce total fuel costs.

❷ Process (b)

We have our own pellet manufacturing facilities in the southern United States.

How we add value

By developing our own facilities we increase security around biomass fuel supplies.

❸ Logistics (b&c)

Biomass and coal is transported in large volumes using sea and rail routes.

How we add value

Fuel is transported over long distances using specialist carriers through the most efficient routes.

Use of road transport is minimised, reducing the carbon emissions from transportation.

Dedicated storage facilities have been built and are operational at three UK ports and in the US at Baton Rouge, providing resilience in our biomass supply chain.

Dedicated rail facilities move coal and biomass from ports to the power station.

Long-term contracts secure prices and can be hedged to minimise financial risks.

drax power

❹ Storage

Compressed wood pellets are stored in climate controlled domes before delivery to the generation facilities.

How we add value

On site storage allows for the efficient delivery of fuel to the operating units on demand.

Each of our four domes can hold 75,000 tonnes of pellets.

On site coal stocks are blended to minimise environmental emissions, in particular oxides of nitrogen and sulphur.

❺ Power generation

We have six generating units, each with an output capacity of 645MW.

How we add value

Conversion to biomass has secured revenue streams and reduced carbon emissions, in turn reducing carbon costs.

Operational efficiency is a top priority. Appropriate investment and continuous process improvement maximise electricity output.

By-products from the generation process are reused, or sold. Sales of these to industry has reduced landfill levels.

❻ Trading

Trading takes place in the wholesale markets.

How we add value

Trading teams at Drax Power sell electricity, in medium and short-term markets.

Short-term balancing markets present flexible trading opportunities.

Sales are hedged by buying forward in the liquid market to minimise price and volume risks.

Each generating unit is kept under constant review, only dispatching to the market where demand and pricing create value.

Risks are reduced through well developed commodity, collateral and currency trading policies.

haven power

BILLINGTON bioenergy

❼ Sales

We have well established sales teams in each business unit, providing power and wood pellets to a wide range of customers across all business sectors.

How we add value

By understanding our markets well we are able to offer products aligned to customer needs.

Both conventional and renewable-backed power products are available.

The vertical integration of our business allows a high level of cooperation and collaboration between each unit, optimising the value available through the supply chain.

High quality, accredited, ENplusA1 compressed wood pellets are our core offering into the UK renewable heat market.

❽ Distribution & delivery

We have multiple routes to our customers.

How we add value

Haven Power provides a credit-efficient route to market for Drax's power and Renewable Obligation Certificates (ROCs).

Specialist vehicles deliver pellets to commercial and domestic heat-market customers.

❾ Customer service

Excellent customer service lies at the heart of each business.

How we add value

Dedicated teams ensure high-quality advice and support.

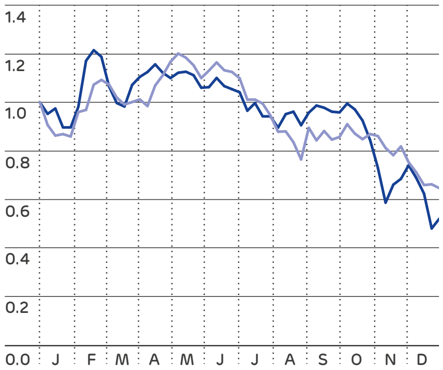
Complaint levels are minimised through proactive monitoring and issue resolution.

Issues are quickly escalated to senior management, if required.

Our marketplace

Unexpectedly severe declines in the global commodity markets made 2015 a challenging year.

Commodity price development
January 2015=100



Oil: Brent
Coal: UK Dark Green Spread (DGS)

2015 and current market conditions

Our markets were characterised by falling prices and spreads. The combination of a slowdown of growth in the Chinese economy and OPEC's shift to focus on market share in the oil market has meant that energy commodity prices have fallen significantly.

UK power market prices are to a large degree determined by gas prices which have fallen more than our wood pellet, coal and carbon prices. Our margins have thereby been reduced.

The spread between our input fuel and operating costs and our power revenue has narrowed as a result. In 2015 our production was hedged to off-set a large part of the falls in margins and a significant part of 2016 production was also locked in at a time with higher spreads.

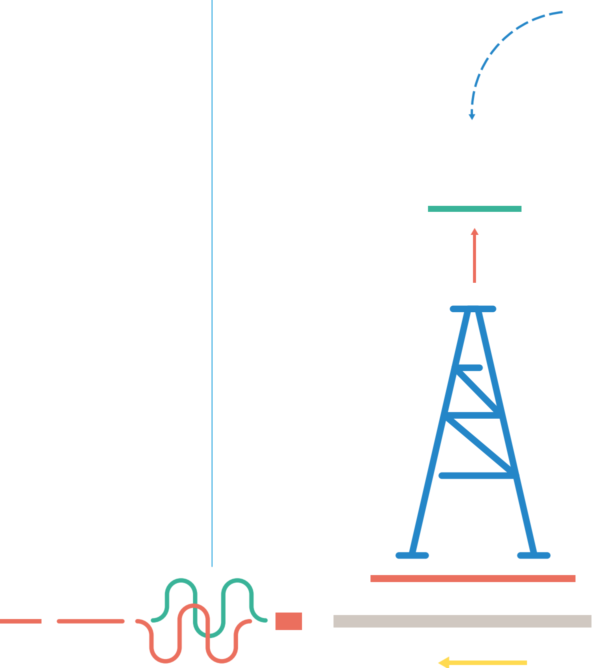
Future market drivers

In the near future we will see an increasing impact from the fall in spreads. We expect the depressed commodity markets to continue into 2016.

Commodity market recovery could happen as a result of a number of different scenarios: a rebound in growth in the world economy; a supply side reaction to lower prices; or, simply from a cut back of oil and gas production in OPEC and Russia. Drax does not take a position on when the markets will recover, but endeavours to protect earnings when the markets are low and to be prepared to take advantage of an increase in commodity prices when it happens.

UK power demand at peak times is getting close to the total available production capacity. We expect the supply margin to tighten further with recent announcements regarding the closure of five coal-fired power stations in 2016, which together have a generating capacity of 8GW.

The unusually warm and windy 2015/16 winter means that electricity prices have not reflected the tightness of the market, but if temperatures in the coming winter return to historic norms there is good chance that the lower available capacity will result in improved prices and spreads.

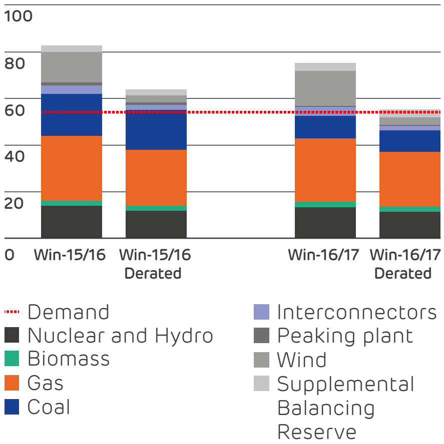


> "Our markets in 2015 were characterised by falling prices and spreads."

> "As more coal plants close there is a greater chance of tighter markets."

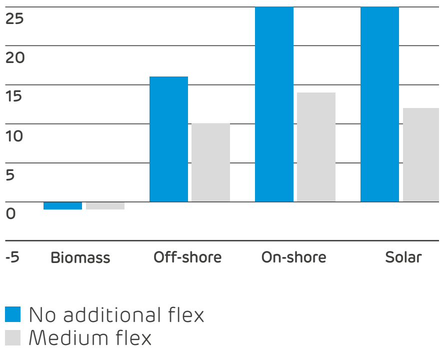
"The demand for system services is likely to increase as the level of intermittent generation on the system increases. We expect to play an increasingly critical role."

Generation capacity and margin
GW



Source: Demand – NG 2015 winter outlook (ACS demand)
Supply – TEC register, NG derating factors

System integration cost of renewables
£/MWh



Drax also expects to increase the amount of ancillary services it is able to provide in supporting the national grid. Last year, the system operator spent £800 million on maintaining a reliable system through the procurement of balancing, frequency response, reactive power and black start services. The demand for system services is likely to increase as the level of intermittent generation on the system increases. In addition to being a growing market opportunity it is also one where the number of players capable of serving it is reducing as more conventional power stations close. It is a market in which we expect to play an increasingly critical and valuable role.

Further biomass opportunities

With two units converted to biomass and a third unit ready for conversion when the investment contract receives State Aid approval, Drax has already taken a large step towards being part of the low carbon energy system of the future. The Paris 2015 agreement on climate change points toward a continued focus on measures to reduce greenhouse gas emissions and Drax plans to play an important part in achieving the targets set out.

The UK government has signalled a shift towards higher focus on security of supply and affordability in energy policy. Drax is well placed to provide the solutions required – through production of renewable heating fuel, further conversion from coal to compressed wood pellets or through increased flexibility in the running of our remaining coal units.

We believe there is a good case for further upgrades of our remaining coal units using our advanced biomass technology. The system needs plants that can provide energy when the wind is not blowing and the sun doesn't shine, as well as plants that can provide the ancillary services outlined above.

If the costs of providing backup and system services are taken into account, i.e. the comparison is based on whole system costs, then we believe that coal plants converted to wood pellets would reduce the cost of decarbonisation considerably.

A recent study by the economic consultancy NERA, in partnership with Imperial College, London, concluded that on a like for like generation basis, coal to biomass upgrades would result in system integration costs £11–25MWh lower than solar or wind. These costs are lower because of the flexible output of biomass generating units and their ability to provide ancillary services to the national grid.

Incremental upgrades of coal generating plant to biomass will support the continued expansion of solar and wind at a lower cost to the taxpayer as it will require less buildout of new backup capacity that would largely stand idle.

Drax has optimised its world leading biomass technology and with the right support stands ready to initiate further generating unit upgrades.

Chief Executive's review

For any business operating in the UK energy market, 2015 was a difficult year.

For Drax it was especially so. Yet operationally, it was a year of strong progress: we moved a step closer to the completion of our biomass transformation, upgrading our third unit to enhanced co-firing and the power station to a predominantly biomass fuelled generator; we began manufacturing and supplying compressed wood pellets from our mills in the USA; and Haven completed another year of record sales. The scale of these achievements cannot be underestimated, even more so when one recalls that at the start of our biomass journey we had neither a generation nor supply solution.

Sat alongside this strong operational achievement were some of the toughest commodity markets I have known in my career. These were then accompanied by a series of unexpected regulatory announcements, including the removal of the CCL exemption, which severely affected the renewables sector and caused many to question the UK government's commitment to decarbonisation.

In November the Secretary of State for Energy and Climate Change announced the government's proposal to consult on setting a clear end date for coal of March 2025. Given it still provides around 25% of the country's generating capacity, this is an ambitious target which could deliver significant carbon savings and secure electricity if carefully implemented. We stand ready to assist with this. Coal is high carbon and we need to urgently reduce our dependency on it. Part of the solution is new nuclear and gas. But, as a recent report by the Institute of Mechanical Engineers noted, the country will find it very difficult to build enough new facilities in time to replace the lost coal capacity.

The fastest, most affordable and safest way to end coal use is to further deploy the world leading low carbon technology Drax has pioneered to upgrade some of the UK's existing coal fired power stations to biomass. Our strategic priorities are aligned with this and, with the right support framework we stand ready to help make this happen.

"The fastest, most affordable and safest way to get off coal now is to further deploy the world leading low carbon technology Drax has pioneered."

2025

The government's target year for ending coal generation

Dorothy Thompson CBE
Chief Executive

"Our ability to respond in an ever more flexible way will help us better support the grid."

Affordability

The current administration has been clear – when it comes to new renewable generating capacity, affordability is a critical criterion. Recent work by the economic consultancy NERA and Imperial College has found that on a whole system cost basis biomass is £7–£35/ MWh more affordable than other technologies. If these support levels were then modelled in the government's planned renewable energy auctions for later this year, consumers could save in the region of £2 billion. At the same time it could take four years for a new build gas facility to come online, even if it can be shown that it could achieve an acceptable return on investment. It is because of these factors that we believe there to be a very strong case for further coal to biomass upgrades at Drax and we will continue to work closely with government to help the country achieve its goals.

Sustainability

It is important to note that Drax is on the journey from coal to sustainable biomass quickly and safely reducing the UK's carbon emissions whilst still generating reliable and affordable electricity.

Our biomass technology achieves a carbon saving of up to 80% vs coal – a figure independently audited by PwC and verified by our industry regulator, Ofgem. We are Europe's single largest decarbonisation project and if we were able to upgrade 100% of our power station to sustainable biomass, we would make an even larger contribution towards the decarbonisation of the UK.

On both a personal and professional level I was pleased with the continued progress being made by the SBP. In March it launched its framework which would allow companies in the biomass sector to demonstrate compliance with legal, regulatory and sustainability requirements relating to woody biomass. In December this framework was recognised by Ofgem as being fully compliant with the UK's RO legislation. This firmly established SBP as an effective certification scheme for biomass users to demonstrate compliance with regulatory requirements. It also adds to recognition in Denmark through the Danish Energy Agreement, and is undergoing evaluation in Belgium and The Netherlands.

Safety

Excellent safety management has always been at the centre of our management ethos and I am pleased to say that in the UK our performance remains industry-leading. In the US, we exceeded our safety targets for 2015 and have made great strides towards instilling a culture of safety through the implementation of various proactive safety protocols across our facilities. As has always been the case, the safety and well being of our employees and contractors will remain my primary operational priority.

Strategic priorities

1	Critical infrastructure	Continue our transformation from coal to biomass generation.
2	World leading biomass technology	Continue to develop our expertise and technology in the sourcing, manufacture, transportation and combustion of compressed wood pellets.
3	Improve operational efficiency	Laser sharp focus on controlling and where possible reducing operating costs whilst seeking continual operational improvements.
4	Grow revenues and improve margins	Across the Group focus on areas where we can exploit our differentiation and unique capabilities to create value, being agile and flexible to develop new markets.
5	Develop new markets	Use the expertise, knowledge and talents of our people across all geographies to identify and develop activities in new and existing markets, with a focus on diversifying risk.

Chief Executive's review continued

Commodities
As I have already stated, commodity markets have been challenging, driving the price of power to some of the lowest levels in the last 15 years. Unlike in previous cycles this fall was not offset by the drop in the price of coal, with dark green spreads being very weak. Our teams were incredibly proactive in limiting our exposure to volatility in the commodities markets and were able to limit the negative impact on earnings.

The year in question was one of the windiest in the last 20 years, which, when combined with increased wind generating capacity, led to an oversupply of ROCs. This will continue into 2016 but we are pleased to note that the UK government has taken action to address this for future years.

Regulation
Energy is a complex industry; the challenge of addressing climate change even more so. Both require effective policies that help meet the world's energy needs while significantly reducing carbon emissions. The need to tackle security of supply also requires effective policies to encourage long term investment in a diverse range of technologies. And above all, industry needs stability and surety so that it can secure shareholder support for long term investment decisions.

This has been a difficult transitional year for the renewable industry. As one of the UK's largest generators of renewable energy we have been impacted more than most, but it is important to stress that the UK government remains committed to, and supportive of, the current role of biomass.

Strong operational performance from our business units
Each business unit has performed strongly during the year, as described below.

Drax Power
Excellent availability and reliability throughout the year meant that once again our power station was able to prove its worth, providing flexible generation output and balancing services in support of system stability and security. As the amount of intermittency steadily increases we expect these services to become ever more valuable to the grid.

It was a record year for planned outages, with four taking place, including the successful completion of our first major overhaul of an upgraded biomass unit.

For the first time since the beginning of the last decade our coal units have started to two-shift, by which we mean they do not run in a continual, base load manner. We recognise that this is the future for these units, and our ability to respond in an ever more flexible way will help us better support the grid and, in being able to play a more active role in the prompt market, create incremental shareholder value.

Our use of non-standard sources of coal increased significantly over the year to 503Kt (2014: 257Kt). An example is the use of coal residues recovered from former coal mines as clean up operations take place. As well as providing a useful outlet for these residues and ensuring they do not end up in landfill, they are exempt from carbon tax. We expect to continue use of these fuel types in 2016.

Haven
Haven achieved a record 13.8TWh of sales (2014: 11.8TWh). Our customer proposition remains compelling as does our ability to deliver a service that consistently exceeds expectations. This means that we have very strong renewal rates. Over the period we were delighted to welcome Thames Water as a new customer (further demonstrating our strength in the utilities market), as well as many others.

The link between record sales and strong customer retention is people – at its core Haven is a people business. Our customers have named account managers; they deal with real people who take their business seriously. Our service is second to none.

In previous years I made it very clear that scale and therefore growth was our primary objective for Haven. This growth has delivered cash into the Group. In future years we will shift our focus to creating new sources of value.

The removal of the CCL exemption had a significant negative impact on the business, yet Haven was the first in the market to respond with a new product – Biomass Renewable Electricity. The market for renewable power is evolving but our renewable product has already been well received by some of our customers. As the only product to guarantee 100% renewable energy, 100% of the time, it is the strongest renewable offering currently available to business users.

In these uncertain economic times firms have to prioritise stretched resources. Many have clear, long-standing commitments to purchase and use only renewable electricity and we hope that

"We have developed and have already begun to implement a robust plan to identify and create incremental shareholder value."

£3,065m

Total revenue
(2014: £2,805m)

0.31

Group Total Reportable Injury Rate
(2014: 0.33)

"We believe there are many opportunities for us to develop and further exploit our biomass pellet technology and supply chain expertise."

despite the removal of the CCL exemption they will continue to live up to both the spirit and letter of their public commitments. Certainly we have been pleased to work with many of our customers, such as Santander, in this regard.

Drax Biomass

This year was a milestone for Drax Biomass, as our port facility became operational in April, followed closely by our manufacturing facilities in June and July. I am pleased with the performance of our new US business and I am encouraged by the potential for new business opportunities in the US, spurred on by the implementation of President Obama's Clean Power Plan amongst other external developments.

Outlook

This was a tough year for Drax and 2016 will be equally challenging. Your senior management team took decisive action to ameliorate the impacts of events outside of our direct control and will continue to do so.

We have developed and have already begun to implement a robust plan to identify and create incremental shareholder value. Core to this will be moving our power station from not only being a reliable and consistent generator to one that, in a new age of low commodity prices, is also dynamic and agile. The plan addresses three specific areas: a laser sharp focus on cost control including capital expenditure; revenue optimisation (especially in changing the way we manage our coal units to provide system support to the grid) and downstream development of the retail renewable power market. At the same time we continue to evaluate a range of longer-term strategic options.

Drax is a world leader in biomass technology – not just in our ability to upgrade existing plant, but also in how to source, process and improve its use as a fuel. We will continue to search for opportunities to create value from this expertise in the UK, US and elsewhere. In the UK this means we will continue to play a critical role in the transition away from coal and in further decarbonisation. More biomass conversions are the means by which this can be achieved quickly, safely and most importantly of all, at the fairest price to the tax/bill payer. We will continue to work closely with government to make the case for further unit conversions.

Dorothy Thompson CBE
Chief Executive

Sustainability biomass review

Sustainable biomass is fundamental to our success.

Drax's sustainability governance

It is fundamental to Drax that the biomass we consume is sustainable and legal. We have a dedicated sustainability team whose role is to ensure the biomass meets the requirements we have set ourselves in our Sustainability Policy and the criteria for sustainable biomass as established by the UK government.

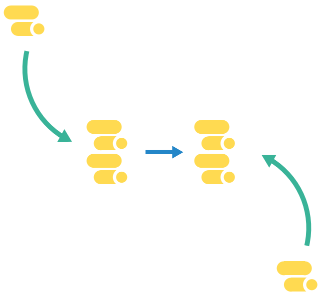
The sustainability team reports to the Director of Group Sustainability who has overall responsibility for delivering Drax's sustainability performance and ensuring that the biomass consumed to generate electricity meets the government's sustainability criteria. In doing so ROCs can be claimed on the electricity generated from compressed wood pellets in place of coal.

Drax's sustainability policy

As the sustainability of the biomass we use is a fundamental part of our business we make every effort to ensure that all our supplies comply with the following principles:

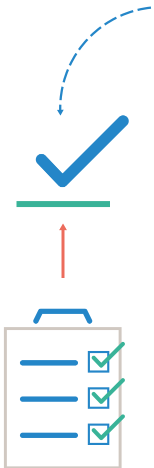
Our sustainability policy

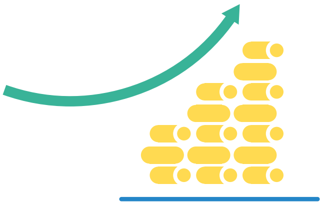
1. Significantly reduce greenhouse gas emissions compared to coal-fired generation
2. Not endanger food supply or communities where the use of biomass is essential for subsistence (for example heat, medicines and building materials)
3. Not adversely affect protected or vulnerable biodiversity and, where possible, give preference to biomass production that strengthens biodiversity
4. Deploy good practices to protect and/or improve soil, water (both ground and surface) and air quality
5. Contribute to local prosperity in the area of supply chain management and biomass production
6. Contribute to the social wellbeing of employees and the local population in the biomass producing areas
7. No net release of carbon from the vegetation and soil of either forests or agricultural land



100%

All our biomass sourcing is fully compliant with our regulator Ofgem's requirements





"As the sustainability of the biomass is a fundamental part of our business we ensure that all sourcing complies with our sustainability policy."

UK government's sustainability legislation criteria

In order to be able to claim ROCs for the electricity we generate from the biomass that we consume it is necessary that it meets the UK government's sustainability and Greenhouse Gas emissions savings criteria. The sustainability criteria can be summarised as follows:

- Management of the forest must ensure:
  - productivity of the forest is maintained
  - ecosystem health and vitality is maintained
  - biodiversity is maintained
  - harm to ecosystems is minimised
- The forest management organisation and any contractors must comply with local and national legal requirements relevant to labour and welfare, and health and safety.
- Management of the forest must have full regard to identification, documentation and respect of legal, customary and traditional tenure and use rights related to the forest; mechanisms for resolving grievances and disputes including those relating to tenure and use rights, to forest (or land) management practices and to work conditions; and safeguarding the basic labour rights and health and safety of forest workers.

What do we do to ensure biomass is sustainable?

We have a responsibility (environmental, social and economic) to ensure we constantly drive improvements along our supply chain, from forestry practices in the locations where the raw materials for the wood pellets are sourced to the point where they enter our boilers. A critical part of this is building close relationships with our suppliers so that we can openly discuss issues with them and support efforts to improve their working practices.

The biomass journey

Before we receive any wood pellets from a supplier our contract with them requires them to provide information through a sustainability declaration on the source of their materials, on the forest management practices in their region, and on the greenhouse gas characteristics of their pellet plant and supply chain.

This is followed by an independent third party audit of the supplier on the ground using the information in the declaration and regional analyses, checking these against our Sustainability Policy and UK regulatory criteria. These audits are held on a regular basis (normally a three year cycle, more frequently when considered necessary) and require the independent auditor to understand and examine the forest management practices in the supply base of each supplier.

Only once we are satisfied that supplies of wood pellets meet the necessary policy and regulatory requirements can the supplier be approved. Once a supplier has been approved they are obliged to update their sustainability declaration annually with current information and data, which then goes through a review and approval process.

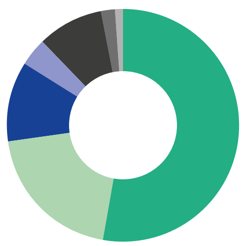
One way to demonstrate the sustainability of our wood pellets is for them to come with a Forest Stewardship Council® (FSC®), FSC® - C119787 - or Programme for the Endorsement of Forest Certification™ (PEFC) Forest Management or Chain of Custody certificate. These certificates provide evidence that sustainable forestry working practices are in place where the feedstocks originate and/or that the quality of the management systems of the suppliers concerned have been assessed by independent third parties.

Supplier audits

Each potential new pellet supplier is fully audited before any commercial agreement is put in place. Existing suppliers are audited at least once every three years. Every audit makes 107 detailed checks on the entire supply chain and manufacturing process of the pellet mill. Findings are subdivided into three categories of priority; high, medium and low. High priority issues mean that existing supply is ceased immediately. For issues of medium priority the supplier is given time to rectify the issue. Low priority issues are those our third party auditors believe are opportunities for improvements.

In 2015 we audited ten new pellet mills and two existing suppliers. We found no high priority issues, forty three improvement opportunities, and six medium priority issues. Five of these medium priority issues are in the process of being rectified, while the other resulted in us not contracting for supply with the pellet mill.

Biomass – Country of origin 2015



US 53%
Canada 20%
Latvia 11%
Portugal 4%
Estonia 9%
United Kingdom 2%
Lithuania 1%

Small quantities from Germany, Poland and Spain totalling less than 1%

Sustainability biomass review continued

Countries of origin and feedstocks of our biomass pellets

The following table shows the types of feedstocks we used in 2015 by weight (tonnes) and country of origin.

Country	Bark	Sawdust	Slabwood	Sawmill residues	Branches, tops and bark	Diseased wood and storm salvage	End of life timber	Thinnings	Tree stumps	Waste wood
USA	–	423,509	–	369,730	1,249,787	3,183	–	1,017,976	–	–
Germany	–	1,158	–	45	–	–	–	111	–	–
Poland	–	5,870	–	1,763	–	–	–	501	–	–
Latvia	–	219,313	–	199,019	142,095	–	–	100,806	–	–
Lithuania	–	19,874	–	25,303	526	–	–	902	–	–
Canada	9,297	73,445	–	1,003,808	52,767	1,281	–	18,520	–	–
Estonia	–	180,635	–	191,296	–	–	–	136,998	–	–
Portugal	–	29,191	508	7,902	139,521	21	–	56,302	–	–
Spain	–	62	1	4	–	–	–	108	–	–
UK	–	–	–	–	–	–	–	–	–	–

continued below

Country	Clear felled virgin forestry	Long rotation forestry conifer	Long rotation forestry broadleaf	Short rotation forestry	Short rotation coppice	Oat husks	Peanut husks	Miscanthus	Straw	Total
USA	–	10,844	5,426	–	–	–	54,991	–	–	3,135,445
Germany	–	–	–	–	–	–	–	–	–	1,314
Poland	–	–	–	–	–	–	–	–	–	8,134
Latvia	–	108	13	–	–	–	–	–	–	661,354
Lithuania	–	–	–	–	–	–	–	–	–	46,605
Canada	–	–	–	–	–	–	–	–	–	1,159,119
Estonia	–	2,591	324	–	–	–	–	–	–	511,844
Portugal	–	–	3,010	–	–	–	–	–	–	236,455
Spain	–	–	6	–	–	–	–	–	–	181
UK	–	–	–	–	10,020	35,595	–	39,223	47,431	132,267
Grand total										5,892,718

Note:
This table has been prepared according to the definitions used in Ofgem's Solid and Gaseous Biomass Carbon Calculator.
The grand total refers to all types of feedstocks from both tables.

Definitions:

Bark: The tough outer surface of trunks of trees and other woody plants.

Sawdust: Powdered particles of wood produced by sawing.

Slabwood: An outsize piece cut from a log when squaring it for lumber.

Sawmill residues: Wood residue in the form of chip, bark, sawdust, etc. that is produced at a sawmill.

Forestry residues: Branch wood, tops, bark and other resides (collected from forests at harvest, which can include low value roundwood).

Diseased wood and storm salvage: Timber that is diseased or has been damaged during a storm.

End of life non-timber plantations: Standing trees from plantations producing wood (for non-energy purposes) which have reached the end of their useful life.

Thinnings: Roundwood from a forest or plantation thinning, as long as this practice does not change the land use status of the area.

Tree stumps: The basal portion of a tree remaining after the rest has been removed.

Waste wood: Clean or treated (post-consumer) waste wood, chipboard, MDF, etc.

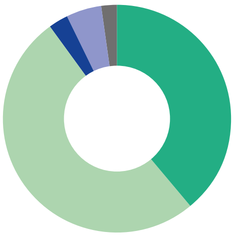
Clear-felled virgin forestry: An area lightly forested (i.e. 10–30% canopy cover) with non-plantation trees and clear-felled for biomass.

Long rotation forestry: Low quality fibre from conifer or broadleaf tree plantations felled after a growing period of several decades, and then replanted.

Short rotation forestry: Tree plantations with short harvest rotations.

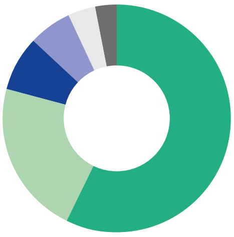
Short rotation coppice: Willow or poplar managed through coppicing.

Biomass – Country of origin 2013



- US 39%
- Canada 51%
- Latvia 3%
- Portugal 5%
- UK 2%

Biomass – Country of origin 2014



- US 58%
- Canada 22%
- Latvia 8%
- Portugal 6%
- Estonia 4%
- UK 3%

Small quantities from Germany, South Africa and Poland totalling less than 1%

The following table shows the weight (tonnes) of biomass pellets by country of origin used annually over the last three years.

	2013	2014	2015
US	619,045	2,380,347	3,135,445
Canada	813,305	882,758	1,159,119
Latvia	47,621	307,114	661,355
Portugal	83,838	234,287	236,455
Estonia	–	151,196	511,844
Germany	–	17,376	1,314
South Africa	–	5,304	–
UK	36,156	113,345	132,267
Poland	–	914	8,134
Lithuania	–	–	46,605
Spain	–	–	181
Total	1,599,965	4,092,643	5,892,718

Note:
Data is audited on the basis of compliance year (1 April to 31 March) as part of our reporting to the UK government. Data for 2013, 2014 and 1 January to 31 March 2015 has been audited. The data for 1 April to 31 December 2015 forms part of the audit for the current compliance year.

The only wood sourced from the UK in 2015 was just over 10,000 tonnes of short rotation willow coppice. As the forest area in the UK is small compared to other countries, it is heavily reliant on imports for a range of wood products including sawn wood, wood-based panels, pulp and paper and wood pellets. Drax does source a very small proportion of biomass from local suppliers, predominantly agricultural residues, miscanthus and straw.

To meet our demand for wood pellets we need to source from overseas regions with large working forests that produce wood in excess of the demands from other wood-based industries. However, these forestry activities need to be performed in such a way that they can be considered sustainable.

In 2015 we sourced more wood pellets than in previous years from the US South. This is a major region for timber production and there are large volumes of low value by-products which can be used to make compressed wood pellets, and the infrastructure is already in place to support a diverse wood based industry.

The US South is a very heavily forested region. As the table below illustrates, the total area of timberland (productive forest) is over 83 million hectares (ha), representing 61% of the total area. There is a substantial quantity of standing volume (growing stock), in excess of five billion tonnes. More importantly there is also a significant annual surplus with 218 million tonnes of annual growth set alongside only 132 million tonnes harvested.

US South forest data	Softwood	Hardwood & mixed	Total
Area of forest (ha)	29,275,332	53,920,224	83,195,556
Standing volume (tonnes)	2,061,710,663	3,162,233,825	5,223,944,487
Average annual growth (tonnes)(1)	138,034,621	79,615,219	217,649,840
Average annual removals (tonnes)(1)	87,604,351	44,378,568	131,982,919
Surplus (tonnes)	50,430,270	35,236,652	85,666,921

Note:
(1) The USDA has a range of sample plots randomly distributed across each State. Each year approximately one fifth are measured and used to update their forest inventory database. This data is used to calculate the average annual growth and removals from forests in the US south

Source: United States Department of Agriculture (USDA), FIA database, 2016. Numbers presented have been converted from m^3 to dry tonnes using an assumed moisture content of 50%

Sustainability biomass review continued

The surplus of growth over removals is well established. This has been influenced by a number of factors including improvements to how forests are managed.

One issue that is raised by stakeholders is that the biomass market has a distorting effect on traditional wood product markets. However, we believe that biomass markets complement, rather than compete with, traditional wood product markets. In the US South many pellet mills have located in areas where traditional wood product markets have reduced and consolidated due to global competition and decreasing demand for consumer products such as paper. It is advantageous for the wood pellet industry to build pellet mills in regions with a substantial surplus of fibre so as to avoid competition with higher-paying wood product industries.

What changed in 2015?

In December 2015 the latest version of the UK government's RO was released. It requires that from 1 December 2015 ROCs are only issued when feedstocks can demonstrate compliance with the UK government's mandatory sustainability criteria. We have already gone through two compliance years (1 April to 31 March) where our reported data has been assured to ISAE 3000[1] standards with no issues highlighted, which demonstrates our ability to meet the now mandatory compliance requirements. More information on the RO can be found on the Ofgem website.

Note:
(1) International Standard on Assurance Engagements 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information.

Sustainable Biomass Partnership

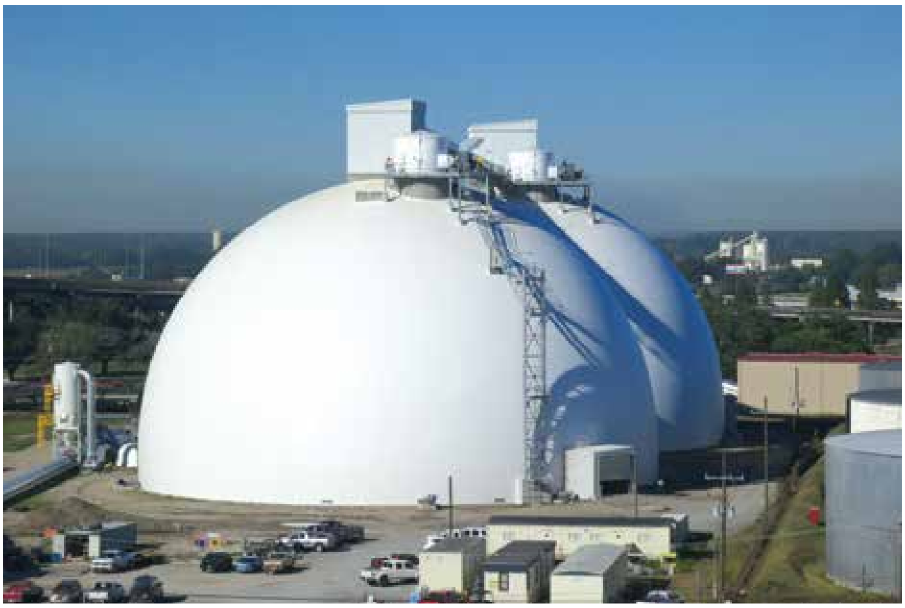
This industry-led initiative formed in 2013, provides assurance that woody biomass is sourced from legal and sustainable sources. We co-founded the SBP in 2013 with six other companies. Our Group Chief Executive, Dorothy Thompson, chairs the SBP Board.

The reason for implementing this scheme is that while the FSC and PEFC standards cover the sustainability of forest products, greenhouse gas (GHG) reporting is not covered in their scopes and uptake of them is low in some areas of the world. SBP aligns closely with FSC and PEFC, and there is an ongoing dialogue with both schemes as to how they could extend the scope of their requirements.

In 2015 Ofgem benchmarked SBP against the UK government's sustainability requirements for woody biomass and found it meets all the criteria.

31.6g
CO_2/MJ

Our average lifecycle emissions for 2015 – down from 34g in 2014 and well below Ofgem's current threshold



An Advisory Board was established in 2015 to ensure that stakeholders have the opportunity to influence and participate in the development of the standard. SBP has set the following objectives to the end of 2016:

- To provide an effective mechanism that enables producers and users of solid biomass for energy production to demonstrate compliance with European/ national regulatory, including sustainability, requirements.
- To promote enhanced sustainable forest management and greater uptake of existing efficient and internationally recognised, third party verified forest certification schemes in key forest source areas or wood baskets.
- To contribute to a strengthened scientific evidence base and a greater understanding of the issues associated with the use of solid biomass for energy production.
- To increase supply chain transparency by collecting and disseminating performance data.

We are pleased to see that the industry is taking up the challenge that SBP makes to demonstrating high standards in the wood pellet industry and three suppliers have to date gained certification, with many others in the process of gaining certification.

Greenhouse gas savings

To meet the GHG emissions savings criteria as set by the UK government, we measure and monitor our carbon emissions to assess our own performance and that of our suppliers.

We are obliged to use the DECC solid biomass and biogas carbon calculator to calculate the life cycle GHG emissions for all biomass consumed. GHG calculations are carried out for all material consumed by us and we report this data monthly to Ofgem. This data is also a key part of the third party audit for ROCs that we are required to have carried out annually on the information we report to Ofgem.

Lifecycle emissions

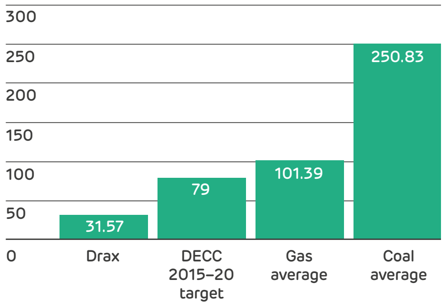
The following information shows the lifecycle emissions arising from the biomass we used in 2015 from three key worldwide regions.

Country	Metric tonnes	GHG gCO_2/MJ
Canada	1,159,119	26.52
USA	3,135,445	37.86
Other	1,598,154	23.37
Overall	5,892,718	31.57

Our lifecycle emissions reduced from 34gCO_2/MJ in 2014 to 31.57gCO_2/MJ in 2015. This is well below Ofgem's current threshold of 79gCO_2/MJ, but we continue to monitor our lifecycle emissions and compare these against the 2020 threshold of 55gCO_2/MJ in order to identify opportunities to improve our supply chains.

In 2016 we have set ourselves the target to work with the ten suppliers that have the highest lifecycle emissions to help them understand how changes in their processes could help them meet the 2020 threshold.

Life cycle emissions
Calculated using Ofgem's Solid and Gaseous Biomass Carbon Calculator



Source: DUKES/2015 (Digest of UK Energy Statistics).

INVESTING IN LOCAL COMMUNITIES

When International Paper closed its Louisiana Mill in 2009 after nearly a century of operations the shut-down hit the county of Morehouse, Louisiana hard. Unemployment jumped to 17% as more than 500 employees lost jobs. For Morehouse, with a population of around 12,000 it was the second mill closing in 26 years.

International Paper attributed the closure, announced in 2008, to "the continuing decline in pulp demand from customers worldwide coupled with a weak economy across the globe."

Since the late 1990s, economic conditions have led to numerous paper mill closings in communities throughout the Southeastern U.S.

According to a study by researchers at the U.S. Dept. of Agriculture (USDA) and Auburn University, "between 2000 and 2011… the southern region lost 17 pulp mills, a 6% drop in regional capacity." The pulp, paper, and paperboard industry lost 32,000 jobs, or approximately 14% of its workforce, between early 1997 and 2002. In addition a report from American Forest & Paper Association showed that 95 paper mills closed in America in the decade from 1991 to 2001.

The rise of the pellet mill

Drax and other pellet manufacturers are helping to reverse this decline by constructing new pellet plants in communities that have been impacted by industry consolidation yet maintain large areas of working forests.

A 2012 study by researchers at the University of Tennessee and USDA predicted "a number of bioenergy plants have been established or announced in the US South which could increase employment and economic activity considerably, at least in some locations."

With 2.4 million hectares of timberland found within a 50 mile radius of Morehouse, it is perhaps not surprising that Drax chose it as the location for one of its two pellet mills. We now employ around 50 full-time workers and according to Louisiana Economic Development support several hundred additional jobs within the region's logging, transportation and forestry sectors.

drax biomass

Performance review

2015 was an important year for Drax Biomass. We successfully commissioned our port facility and received, stored, loaded and shipped 243Kt of pellets.

Pete Madden
Chief Executive, Drax Biomass

Drax Biomass Inc., our pellet manufacturing and supply business, owns and operates two pellet mills and a port facility in the US South. The business manufactures high quality wood pellets from sustainably sourced feedstock for use as a low carbon, renewable fuel in power generation. Drax Biomass currently sells all of its output to Drax Power and is a key part of the Group's strategy to secure a robust and reliable supply chain of sustainable biomass for renewable generation.

Market

The US South offers a highly favourable business climate for Drax Biomass. The region has a long history of practising sustainable forestry for a variety of economic, environmental and recreational purposes, and the forest products industry remains one of the largest and most important contributors to the state economies. As such, the biomass industry enjoys strong support among local elected officials and their constituents. Drax Biomass also benefits from the region's ideal growing conditions and vast stands of working forests, which help to ensure that the business has access to ample supplies of low cost, sustainably sourced fibre. Infrastructure is another key differentiator for the US South, as the region boasts a network of well-maintained roads for delivery of raw fibre to our facilities, extensive rail networks to efficiently transport our pellets, and deep-water ports that can handle the world's largest shipping vessels.

Drax Biomass and the wood pellet industry are impacted by a wide range of market dynamics that shape fibre demand in the regions in which we operate. This demand is driven primarily by underlying demand for construction materials, paper-based consumer products and other wood-based products. These markets, in turn, are shaped by general economic conditions, demographic changes, residential construction activity, maintenance and other activities that impact plant-level production, as well as by competition from foreign suppliers.

Key performance indicators

279Kt
Pellets produced

243Kt
Shipped volumes

Changes in these market conditions can cause fluctuations in both the price and availability of feedstocks for the wood pellet industry.

Weather is another important variable that impacts the wood pellet industry and the broader forest products sector. Wet conditions can limit accessibility to harvesting sites and adversely impact the operability of heavy equipment within those sites. During extended periods of wet weather, pellet manufacturers and other wood-based industries may experience localised price spikes due to temporary disruptions in fibre supply.

Operational review

2015 was an important year for Drax Biomass. We successfully commissioned our port facility in April, and by year-end we had successfully manufactured, transported, received, stored, loaded and shipped 243Kt of wood pellets.

We also successfully commissioned our Amite and Morehouse BioEnergy facilities in August. Although we have made strong progress toward producing pellets of consistently high quality, our production levels were impacted by weather-related construction delays during the first half of the year. Poor weather continued to be a factor during the second half of the year, but our plant operators are growing more adept at maintaining stable and reliable operations under adverse weather conditions. The ramp up towards full capacity will continue during 2016.

Financial results

The financial results of the business are driven by the volume of pellets produced and shipped to Drax Power Station. The first shipment was successfully dispatched in April 2015.

Sales of pellets in the year ending 31 December 2015 totalled $43.3 million reflecting the volume of pellets sold intra-group to Drax Power on under an arms-length commercial agreement.

Raw fibre costs make up the majority of our costs of sale. Such costs have been higher than we expected as we progressed through the start-up and commissioning phase earlier in the year but, as forecasted, have begun to fall as the optimisation of operations progressed during the second half of the year.

Operating costs have increased year on year, reflecting the commencement of commercial operations across both of our sites. Despite the challenges we have faced during the year we have successfully managed to control our costs and as a result total spend was lower than originally anticipated.

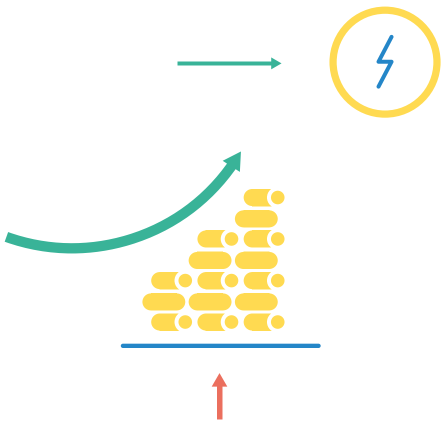
Looking ahead

Our objective is to become a high quality supplier of compressed wood pellets. We will continue to seek process efficiencies as well as work on enhancing pellet durability and quality. Certification from the SBP is also a critical objective for the team.

Recent developments in US energy policy, not least the publication of President Obama's Clean Power Plan, will, we hope, create opportunities for us to create further value within our operations.

Lastly, the year ahead will be defined by a continued focus on safety across all operations, as well as further civic and charitable engagement in our local communities.

Summary financial performance	2015 $m	2014 $m
Revenue	43.4	–
Cost of sales	(41.9)	(1.5)
Gross profit	1.5	(1.5)



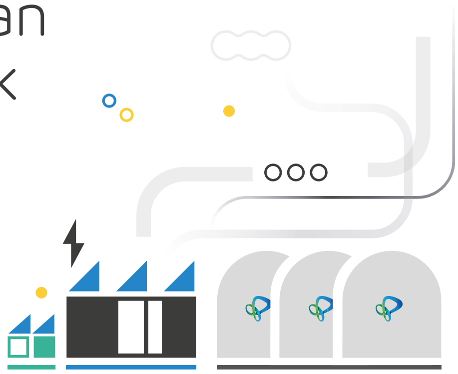
Risk

The principal risks of the business are considered to be:

Risk	Mitigating activities
Weather-related damage to facilities	We carry business interruption insurance to protect against significant losses
Fire/explosion hazard from combustible pellet dust	We employ advanced fire detection and suppression systems at both manufacturing sites and port facility
Disruption in fibre supply from increased competition	We enter into long-term contracts with our suppliers where possible, and we are implementing a portfolio-based approach to our fibre procurement strategy
Regulatory and political change	We actively engage with regulators and legislators at the state and federal levels to influence policy that impacts our markets

Performance review

We have delivered a strong operational performance but weak commodity markets and an uncertain regulatory framework remain a drag on our business.



Andy Koss
Chief Executive, Drax Power

Market context

Drax Power Station is the largest power station in the UK (almost twice the size of the next largest power station) and typically meets some 8% of the UK's electricity needs.

The key factors influencing our business are the regulatory framework, commodity markets, network generating capacity, and our operational performance.

Regulatory framework

As in previous years, the regulatory framework has had a material impact on our business.

Key developments during 2015 included the removal of the CCL exemption for renewable electricity generated after 1 August 2015, announced by the government on 8 July.

The impact of this change was a reduction in EBITDA in the region of £30 million in 2015 and £60 million in 2016. In later years the impact reduces, as the value of the exemption had been forecast to be negligible by the early 2020s.

The CfD investment contract for our third unit conversion was signed in April 2014, but is still subject to EU State Aid clearance.

Trials have continued during 2015 to develop solutions for compliance with new emission limits which came into effect on 1 January 2016 under the Industrial Emissions Directive (IED).

Commodity markets and generating capacity

Our profitability is primarily influenced by the bark spread (the difference between the power price and the cost of biomass net of renewable support) and the dark green spread (the difference between the power price and the cost of coal and carbon, including CO_2 allowances under the EU Emissions Trading Scheme and the UK Carbon Price Support (CPS) mechanism).

Bark and dark green spreads are driven by a number of factors, such as underlying commodity prices (e.g. oil, gas, power, biomass including exchange rates, coal and carbon), the availability of generating capacity on the electricity system, and the physical positions taken by individual market participants.

In addition, we also provide valuable support services to National Grid across both our biomass and coal units to help maintain system operability and security of supply, for which we receive income.

The growth of wind and solar (both near zero marginal cost generation) has created more volatile power prices which, in addition to NOx constraints, will likely lead to reduced load factors for our coal units.

Key performance indicators

11.5TWh
Biomass generation
(2014: 7.9TWh)

15.2TWh
Coal generation
(2014: 18.7TWh)

£49.4
Average achieved power price per MWh sold
(2014: £51.3/MWh)

Operational review

For those factors under our control, we have delivered a strong performance during 2015.

With the modification of one of our generating units in July 2015 to run predominantly on biomass, we are close to completing our plan to convert three of our six units to burn sustainable biomass in place of coal.

It was an unprecedented year for planned outages, with maintenance taking place on four of our six units. This included the successful completion of our first major outage on a biomass unit.

We successfully implemented flexible operations on our coal units during the year as a response to challenging market economics. Good availability was achieved across the power station, and excellent materials handling performance allowed the processing of more than 500Kt of non-standard sources of coal.

The capital investment in our UK biomass transformation is now largely complete and our IED investment programme is well advanced.

Financial results

In a year during which trading and regulatory conditions have been challenging, our results are broadly equivalent to our internal target which is an excellent performance, given the impact of the removal of the CCL exemption and the challenging market conditions that developed during 2015. The impact of these negative factors was mitigated by strong station availability, biomass purchasing performance and more active management of prompt market trading.

Gross profit for 2015 was £390 million compared to £433 million in 2014. This reduction includes the impact of lower power prices, and the removal of the CCL exemption. This was mitigated by running another unit predominantly on biomass.

Looking ahead

Our objective remains to run a reliable, flexible and profitable power station.

An important part of this is running the plant in a way that optimises value across the biomass and coal units; focusing on operating and capital expenditure decisions that allow us to maintain a reliable and flexible operation. 2016 will be underpinned by a relentless push on the consistent application and penetration of a five star safety system.

Two major outages are scheduled for 2016 (one biomass and one coal unit) together with extensive works to improve NOx performance and to allow further unit optimisation.

The year ahead will also be the first full year of burning biomass on three units, which will require smooth, integrated operations across the entire supply chain and procurement process.

Summary financial performance	2015 £m	2014 £m
Revenue		
Power sales	**2,163.4**	2,079.9
ROC and LEC sales	**451.8**	314.8
Other income	**23.0**	55.1
	2,638.2	2,449.8
Cost of sales		
Fuel costs in respect of generation	**(1,320.5)**	(1,223.8)
Cost of power purchases	**(843.5)**	(710.4)
Grid charges	**(84.1)**	(81.5)
	(2,248.1)	(2,016.7)
Gross profit	**390.1**	434.1

Risk

The principal risks of the business are considered to be:

Risk	Mitigating activities
Regulatory risk	We continue to engage with key regulatory stakeholders in government
Plant risk	We target investment to deliver plant reliability and flexibility
Biomass sourcing and delivery risk	We have long term contracting plans – but some of these are subject to State Aid approval. We have structures in place to access spot markets and expand our supplier base. Building stronger relationships with suppliers and robust position monitoring
Commodity market price risk	We have a progressive hedging strategy with forward power and ROC sales combined with purchases of fuels Approval of our application for conversion under the CfD regime would remove potential income volatility for unit 1
Capturing prompt market value and network services	We have flexible, reliable station operations and active engagement with National Grid to offer system services
Logistics	We use flexible contracts, continuous forward planning, regular inspections, relationship management and clear management policies

Performance review

We have continued to deliver strong growth across the retail market in a challenging environment.

Peter Bennell
Retail Director and Chief Executive, Haven Power

Haven Power (Haven) is a supplier of electricity to UK businesses, supplying electricity to both the Industrial and Commercial (I&C) and Small and Medium Enterprises (SME) markets.

Haven provides value for the Drax Group through the provision of an alternative credit efficient route to market for the power, ROCs and Renewable Energy Guarantees of Origin (REGOs) earned when Drax generates renewable power.

Billington Bioenergy (Billington) is the UK's second largest supplier of ENplusA1 biomass wood pellets to commercial and domestic customers for heat. The acquisition of Billington reflects the significant potential the Group sees for biomass within the UK market for heating purposes given the government's policy objective to decarbonise heat in the UK.

Market

The business sector of the electricity supply market has continued to be very competitive with our established competitors being joined by a number of new entrants. We have achieved growth by offering innovative and tailored contracts at competitive prices. By improving our service and providing the products and services UK business needs, we broaden and deepen existing relationships and increase the value that Haven provides to the Group.

The renewable heating market is very much in its infancy and has benefited from government support under the Renewable Heat Incentive (RHI). Billington focusses on reliability of supply, ensuring a secure supply of consistent quality heating pellets for our customers delivered through: a robust sustainable purchasing strategy; strategic stock holdings; our depot network; the latest delivery vehicle technology, driven by well trained and knowledgeable drivers; and excellent customer service.

Market growth has been driven primarily by the RHI. The government has confirmed that the RHI will continue to be supported through to 2021, encouraging consumers to adopt renewable forms of heating such as biomass and move away from fossil fuel heating systems, mainly heating oil and liquified petroleum gas.

Key performance indicators

13.8TWh

Retail power sales volumes, at customer meter (2014: 11.8TWh)

17%

Year on year retail power sales volume growth (2014: 46%)

99%

Monthly large customer billing performance (2014: 99%)

21Kt

Retail wood pellet sales volumes

Operational review

An excellent standard of customer service is central to our proposition across our retail business. This good service reputation has supported the achieved growth and at Haven has resulted in an excellent renewals performance in the I&C sector.

We actively manage credit risk by assessing the financial strength of customers and applying rigorous credit management processes. This is reflected in our low bad debt experience to date.

We have a strong focus on billing and cash collection which has resulted in the retail business being a net contributor of cash to the Group.

Financial results

Movements in key financial metrics are underpinned by continued growth in the retail business. For the period in question Haven delivered net sales volume growth of 17% this year to 13.8TWh (2014: 11.8TWh).

Much of the sales growth continues to be from the larger but more competitive I&C market. Many of our larger customers are signed up to flexible contracts where the customer decides when to fix the price of their power, or to leave it to day or month ahead prices. As a result, the declining wholesale power price in 2015 has impacted the average sales price.

Third Party costs (TPCs) include grid charges, the cost of meeting our obligations under the RO, small-scale Feed-in-Tariff schemes and the cost of Levy Exempt Certificates (LECs) required to deliver Renewable or Levy Exempt Power to our customers. Grid charges include distribution, transmission and system balancing costs. TPCs have continued to increase and now account for 44% of revenue, as shown in the table to the right.

The markets have been very competitive in both the current and prior period. This, combined with the change the Chancellor made in July when the exemption from CCL was removed for renewable source electricity, is reflected in the gross profit performance of the retail business.

Billington Bioenergy also delivered strong sales volume growth. Margins were in line with expectations of the business for this stage of its development.

Summary financial performance

	2015 £m	2014 £m
Revenue	1,290.0	1,090.4
Cost of power purchases	(710.2)	(629.0)
Grid charges	(285.4)	(253.1)
Other retail costs	(275.1)	(191.6)
Cost of sales	(1,270.7)	(1,073.7)
Gross profit	19.3	16.7

Drivers of gross profit

Haven average prices £/MWh	2015		2014	
Revenue	93	100%	92	100%
Cost of purchasing power	51	55%	53	58%
Third Party costs (TPCs)	41	44%	38	41%

Risk

The principal risks of the business are considered to be:

Risk	Mitigating activities
Regulatory and political risk	Where possible we seek to work closely with and influence regulatory and other bodies
Credit risk	We have well-developed credit checking and monitoring procedures
Commodity market price risk	We have well-developed hedging policies which are kept under review for market developments
Operating risk	We have business continuity plans in place which are regularly reviewed and tested

Sustainability review

People & Culture

Employment

The Group employed 1,451 people at the year end, an increase of 68 people, or 4.9%. The charts on the next page provide a breakdown of headcount across the Group's businesses. With very few exceptions, all our employees are on permanent contracts.

Gender split across the Group as a whole and the senior management team (Executive Committee Board and direct reports) is illustrated in the charts. The Board's policy on diversity is given in the Nominations Committee report on page 68.

Group Employment Charter

In 2015 the Board approved a Group Employment Charter (set out below) which establishes minimum standards of employment across the Group. An audit of employment practices against the standards in the Group Employment Charter resulted in the introduction of company paid healthcare for longer serving Haven Power employees, the provision of an Employee Assistance helpline at Haven, and an increase in holiday provision for a number of employees of Billington BioEnergy upon their transfer to Drax Group.

Our global employment standards:

- in accordance with applicable law, we uphold the four labour principles of the United Nations Global Compact on sustainability and corporate citizenship
- we encourage employees to report any concerns without fear of recrimination, internally or via an independent 'whistleblowing' freephone line
- we pay a fair wage to all employees, including interns
- we provide free access to an Employee Assistance Programme (EAP) including counselling

For our employees in the UK:

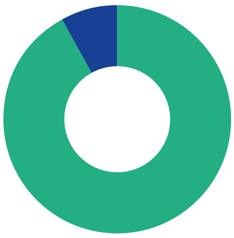
- our hourly pay rates are at or above the UK Living Wage
- we give at least 25 days paid annual leave plus public holidays
- we provide a company pension plan above UK statutory requirements
- we provide company-paid life insurance cover of at least £25,000 (pro-rata for part-time employees)
- we give all employees the opportunity to have an equity stake in the business through participation in 'all-employee' share plans as and when issued

For our employees in the US(1):

- our hourly pay rates are above the US national minimum wage
- we give at least 10 days paid time off, plus 10 company and four floating holidays
- we provide eligible employees with subsidised medical, dental and vision benefits, short and long term disability insurance, and (after 90 days service) a company sponsored 401k retirement savings plan.
- we provide free life insurance cover of at least one year's annual basic salary

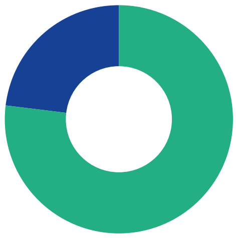
Note:
(1) Benefits apply to US eligible employees (weekly hours 30 hours or more)

Employment contracts



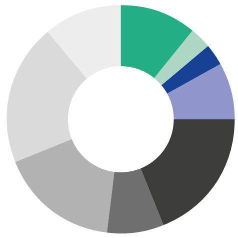
- Full time 92%
- Part time 8%

Employment gender



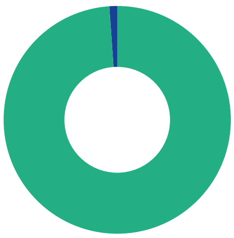
- Male 77%
- Female 23%

Senior management department distribution



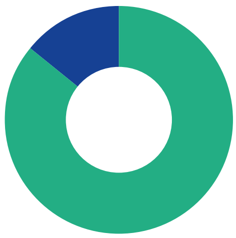
- Group Commercial 11%
- Group Company Secretariat 3%
- Drax Biomass 3%
- Drax Power 8%
- Excom 19%
- Group Finance 8%
- Haven Power 17%
- Group Operations 20%
- Group Sustainability 11%

Employment status



- Permanent 99%
- Temporary 1%

Senior management group gender diversity



- Male 86%
- Female 14%

Employee engagement

In October we conducted an engagement survey across all our UK employees, with a view to including our US employees in a Group-wide survey in 2016. The survey, designed and run in conjunction with Towers Watson, achieved an overall 76% participation rate. The results for all categories of question showed a positive variance with Towers Watson's Global Energy and Utilities norm. A programme of 'results-to-action' will be implemented across the UK business in 2016, with regular progress reports to management teams and the Board.

Employee representation

39% of the Group's workforce is covered by collective bargaining and for the remainder who are employed on individual employment contracts we have representative employee consultation and information arrangements in place.

We use a variety of communication channels to ensure that all colleagues are kept fully informed of developments in the Group's operations and provided with the opportunity to give feedback.

Employee policies and relations

We have a suite of policies designed to support our people at work, including those to assist, where appropriate, a variety of work/lifestyle preferences, procedures for raising grievance or safety concerns, and diversity and inclusion in the workplace. We make every effort to provide long-term employment security and we maintain high standards in employment practices.

Learning and development

Our personal and career development processes across the Group are designed to equip all our people with the technical skills, management and leadership competencies and personal behaviours needed to achieve our Business Plan. All employees receive annual performance and development reviews.

In support of the strategic objective to deliver excellent people leadership across our operations, we ran our first UK-wide leadership development programme, accredited by the Chartered Management Institute, for 47 participants at different stages of their leadership careers. The programme, delivered over 84 days in 2015 and continuing into 2016, included facilitated workshops, 1:1 coaching and action learning. The content, designed and delivered in conjunction with external partners, aimed to develop the participants' leadership behaviours – specifically the Drax Group behaviours of: communicates effectively; builds a great team; inspires others; creates trust and respect and makes decisions.

In 2015 Drax Power recruited six new apprentices for a four-year training programme covering power station operations and engineering maintenance.

We have a structured process of succession planning for senior roles, with an annual cycle culminating in a discussion at the Nominations Committee in November. The process identifies succession potential and gaps, which in turn inform individual development/recruitment planning. Where possible we seek to identify cross-Group moves to accelerate development and improve the future leadership pipeline.

Reward and recognition

We benchmark our reward packages at every level in the organisation against the industry sector and the market as a whole, nationally or locally, as appropriate to the role. Through a range of share plans we encourage all UK employees to build a personal stake in the ownership of the business.

Sustainability review continued

Environmental performance and compliance

Environmental compliance of our power station and associated landfill site is managed through an environmental management system. This system is externally certified to the international standard ISO 14001:2004 and is subject to external audit twice a year.

There were no major breaches of our environmental consents during 2015.

Emissions to air

In the table below, in accordance with the Companies Act 2006, we set out our carbon reporting information for direct emissions ("Scope 1") from activities such as fuel combustion and processing and also indirect emissions ("Scope 2") being the equivalent emissions created by the generation of the electricity, heat or steam we purchase. Scope 1 for Drax covers the emissions arising from burning fossil fuels, namely coal but also heavy fuel oil and propane, to generate electricity and the operation of some of our plant at the power station, for example, our flue-gas desulphurisation system. The Group's Scope 2 emissions arise mainly from electricity purchased to run operations across our various sites.

We are also required to disclose emissions from biologically sequestered carbon, which includes emissions released through burning biomass to generate electricity.

Through implementing our strategy to become a predominantly biomass-fuelled generator we aim to reduce our Scope 1 and 2 emissions. As a result there will be a rise in biologically sequestered carbon emissions.

We collate data on our carbon dioxide emissions from fuel combustion as part of our measurement and reporting plan under the EU ETS. This includes all Scope 1 and the biologically sequestered carbon figures. For Scope 2 reporting we use the Greenhouse Gas Protocol, A Corporate Accounting and Reporting Standard (revised edition) and the government's published GHG conversion factors to determine the level of carbon emissions.

The majority of our emissions arise through the combustion of fossil fuel for generating electricity. As this single figure can shadow smaller, but still important trends, we have set a materiality threshold of 100 thousand tonnes, to ensure we strike the right balance between demonstrating important trends and limiting data to a meaningful level.

Carbon dioxide emissions, calculated under the EU ETS, as a ratio of electricity generated, before deductions for that used on-site, is a principal performance indicator for the Group.

Activity	2015 Kt	2014 Kt	2013 Kt	2012 Kt
Scope 1				
Fossil fuel combustion	13,101	16,476	20,162	22,513
Operations	<100	119	157	180
Total Scope 1	13,101[(2)]	16,595[(1)]	20,320[(1)]	22,693[(1)]
Scope 2				
Purchased electricity	216	249	293	341
Total Scope 1 and 2	13.317	16,844	20,612	23,038
Biologically-sequestered carbon (biomass combustion)	10,238[(2)]	7,150[(1)]	2,799[(1)]	1,214[(1)]
Gross generation TWh	28.1	28.5	28.0	29.0
t/GWh of scope 1 & 2 CO_2e using gross generation including coal and biomass excluding biologically-sequestered carbon emissions	474[(3)]	591[(3)]	736[(3)]	794[(3)]

Notes:
(1) Externally verified by Lloyd's Register Quality Assurance.
(2) During 2015 data will be subject to the same audit as previous figures.
(3) Calculated using the gross generation
Figures may not add up due to rounding.

7.8Kt

Reduced emissions of nitrogen oxides (24.8%) since 2012

Beyond carbon dioxide we manage all our emissions effectively and have made high levels of investment in flue-gas desulphurisation and combustion control systems to ensure compliance with environmental limits. All emissions in 2015 were within the limits set by the Environment Agency.

Work continues to implement processes to comply with the emission limits which will be in force beyond 2016 under the IED.

Total emissions (Kt)	2015	2014	2013	2012
Sulphur dioxide	18.5	23.8	31.7	35.1
Nitrogen oxides	31.4	35.5	39.2	39.2
Dust	0.9	0.9	0.8	0.8

Discharges to water

Water is a key resource to Drax Power Station with the great majority of the cooling water abstracted from the River Ouse. Other minor sources include the Sherwood Sandstone Aquifer and town's mains. Procedures are in place to manage and monitor the drainage and water systems on-site so as to ensure all discharge consent limits are met. The water we abstract is principally used for cooling with some used within the steam system and other ancillary processes. From this we return in the region of half of the water abstracted back to the River Ouse, with procedures in place to manage and monitor the drainage and water systems on-site so as to ensure all discharge consent limits are met.

Water abstraction (Mt)	2015	2014	2013	2012
River Ouse water	60.6	62.5	56.9	56.7
Mains water	0.2	0.4	0.3	0.2
Borehole water	1.7	1.7	1.9	1.9
Water utilised on site and discharged to the River Ouse	35.2	34.1	31.5	30.8

Disposals to land

We have continued to invest in site infrastructure to maximise the sale of ash products into the construction industry and to reduce the disposal of surplus ash to landfill. In 2015, ash was sold in conformity with European construction product standards and in compliance with the Pulverised Fuel Ash Quality Protocol.

This has helped us to sell a million tonnes of ash produced in 2015 as replacement for virgin aggregates and as a cement replacement product.

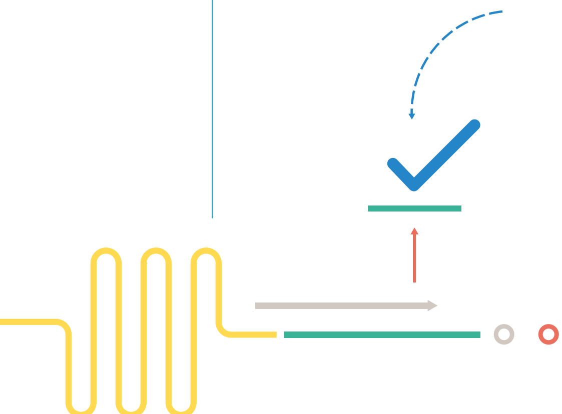
We pay landfill tax on ash disposed. Through the Landfill Communities Fund, we are able to claim a tax credit for our donations to recognised Environmental Bodies. We have worked with Groundwork North Yorkshire since 2001 on projects designed to help mitigate the effects of landfill upon our local community. During 2015, we contributed £30,771 towards local community-based projects designed to bring about sustainable environmental benefits and contribute to the social and economic regeneration of the area.

We continue to manage waste from our operations in a responsible manner. In 2015, we diverted 94% of non-ash waste from landfill.

Stakeholder engagement

Like most businesses, our stakeholders are many and diverse, including our shareholders, employees, customers, energy consultants, suppliers, the local community, government, non-governmental organisations, regulators, opinion formers and the media.

Communication with all our stakeholders is considered to be an essential part of our business and we aim to be open and transparent in all that we do.



Drax and shareholders:
- Reports and announcements
- Website
- Road shows
- Face-to-face meetings
- Visit programmes

Drax and employees:
- Briefing sessions
- Intranet
- Written Group briefs
- Open Forums and ToolBox talks

Drax and US and UK politicians:
- Briefing papers
- Face-to-face meetings
- Written and oral evidence
- Visit programmes

Drax and government departments:
- Face-to-face meetings
- Consultation responses
- Visit programmes
- Via trade associations

Drax and European Union:
- Briefing papers
- Face-to-face meetings
- Via trade associations

Drax and local government:
- Liaison meetings
- Annual consultative committee meetings
- Exhibitions

Drax and local community:
- Sponsorship
- Fundraising events
- Themed campaigns
- Visitor programme
- Exhibitions
- Newsletters

Drax and media:
- Press releases
- Face-to-face meetings
- Visit programme

Drax and government agents/regulators in the US and UK:
- Face-to-face meetings
- Correspondence and data submission
- Via trade associations

Drax and NGOs and opinion formers:
- Face-to-face meetings
- Briefing papers

Drax and suppliers and customers:
- Face-to-face meetings
- Conferences
- Contractor briefings
- Contractor safety conference

Drax and trading counterparties:
- Face-to-face meetings
- Industry events

Business conduct

We are committed to high ethical standards and to conducting our business with honesty and integrity and in accordance with applicable laws and regulations.

In order to prevent bribery and corruption we take responsibility for maintaining a culture within the Group in which bribery is never acceptable. In protecting fundamental human rights, Drax does not tolerate the use of underage workers or any concept of forced labour, at the same time ensuring our suppliers' activities have a minimal impact on the environment and local communities. Any supplier found to be complicit in a breach of such standards, either directly or indirectly, will be barred from further participation in our supply chain activities.

The Group's Code of Business Ethics establishes the rules and framework on which employees should base their decision making. Employees are expected to follow not only the letter of the Code, but the spirit.

The Group's whistleblowing policy provides a confidential means for our employees to speak up with confidence. The policy provides guidance on how to make a disclosure of information, in good faith, relating to safety, fraud or other illegal or unethical conduct that an employee may have witnessed or is concerned about.

The Group appreciates that public policy on taxation and the external tax environment are constantly evolving and this is reflected in our tax strategy. In 2015, the Group made a significant contribution to local and national communities in which it operates, with paid taxes in excess of £200 million, comprising taxes on profit, labour and payroll taxes, taxes on burning fossil fuels, and environmental taxes (but excluding VAT).

Supply chain

Non-fuel procurement

We take a balanced approach to our supply chain and we look to use suppliers and working partners from diverse backgrounds, in particular, small and medium-sized suppliers in the local community where possible.

We recognise that prompt payment is critical to the cash flow of our suppliers, particularly the smaller businesses, and as a signatory to the Prompt Payment Code, we commit to paying our suppliers on time.

Sustainability is an essential element of good procurement practice and takes account of wider social, economic and environmental factors in addition to the conventional criteria of price, quality and service. By applying these wider principles our procurement practices go beyond meeting simple tender requirements to delivering improved value and real cost savings throughout the supply chain.

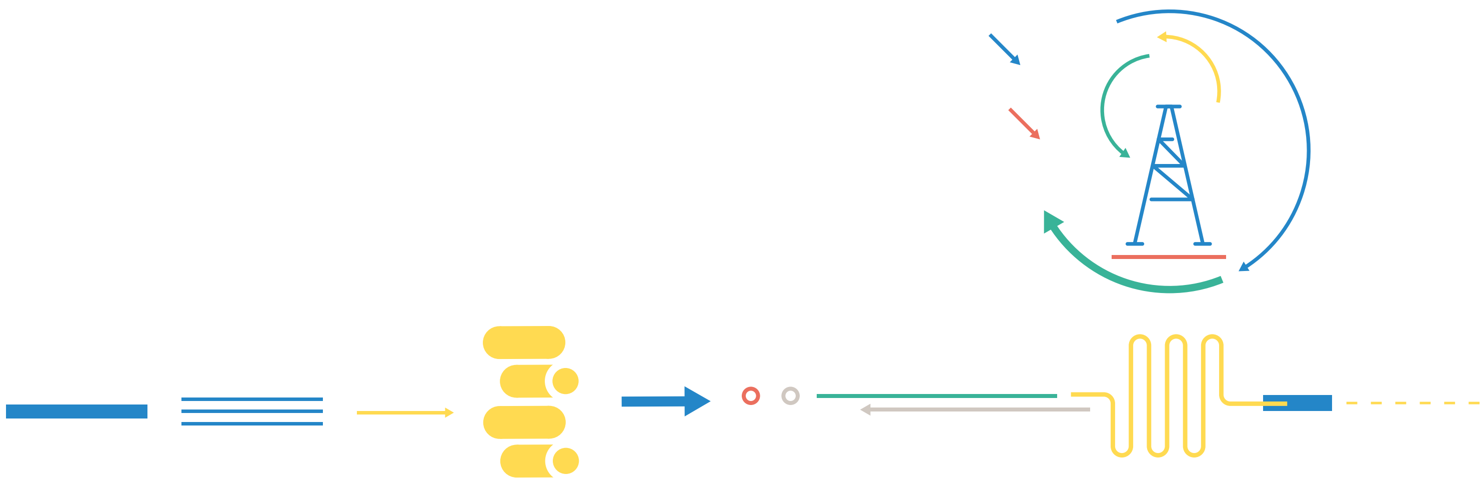
Coal procurement

We buy coal from a range of sources with the objectives of managing our commercial exposures, environmental obligations and diversity of supply. In 2015, 46% of the coal we burnt came from UK deep and surface mines with the remainder coming from major supply basins around the world, including the US, Colombia and Russia.

When buying from overseas we have continued to require, through our contracts, minimum standards with suppliers in respect of compliance with legislation, human rights, labour relations and health and safety arrangements. To this end Drax is an active member of an initiative called Bettercoal, a not-for-profit organisation founded by a number of major European coal generators.

The organisation encourages greater transparency throughout the supply chain. Through Bettercoal, Drax encourages mining companies to demonstrate that they operate in a socially responsible way.

Bettercoal assesses mines against a set of standards covering social, ethical and environmental issues. Bettercoal is based on human rights principles, International Labour Organisation conventions and environmental performance. Drax encourages all coal suppliers to gain Bettercoal certification.



Stakeholders engagement continued

Customer relations

Customers and their consultants are at the heart of our Retail business. All of our customers have named account managers who are responsible for the service that we deliver. We continue to build on our reputation for providing good service and this supports an ongoing good level of renewal at the end of customers' supply contracts.

We held a range of events throughout the year targeted at customers, prospective customers and their consultants to inform and educate them about our business and other industry developments. These events share information which is invaluable to customers and consultants and provide us with the opportunity to obtain direct feedback to better meet their needs. Events such as these complement the high level of service and account management we offer and this is reflected in our positive customer satisfaction results.

Our online portal community continues to grow and offers our larger customers 24/7 access to bills and statements as well as consumption data and flexible purchasing information.

Investor relations

We are committed to delivering shareholder value. We communicate our results and prospects to our shareholders in an accurate and timely manner using a variety of channels. In addition to the Annual General Meeting, we communicate through our Preliminary and Interim results announcements. Annual report and accounts and Trading updates. All of these documents are made available on our website at www.drax.com. Significant matters relating to trading and the development of the business are disseminated to the market by way of announcements via a regulatory information service and those announcements appear as soon as practicable on our website.

Announcements are frequently followed up with either conference calls or presentations to provide further detail and greater understanding. In addition, face-to-face meetings are held with our major institutional shareholders, and other potential investors in the Group, to assist them in their understanding of the announcements and also to ensure that the Board is aware of their views and concerns.

To aid our communication with private investors, the investor section of our website has been developed to be a readily accessible and transparent source of information to enhance understanding of the business.

Public affairs

The business maintains good working relationships with public affairs audiences in the UK, US and EU on issues with implications for our business. With energy policy high on the political agenda in 2015 we had significant engagement with elected representatives and officials at all levels on wide variety of sector related issues including forthcoming environmental legislation, renewables policy and market reform issues.

The form of engagement was varied and included both face-to-face and written briefings, participation in public consultations, written evidence to inquiries and visits by elected representatives and officials to Drax Power Station. As in the past, membership of a number of trade association proved helpful to the Group. The ability to meet with and discuss issues of the day with other interested parties has facilitated presentation of collective positions on energy policy matters.

No political donations were made in the UK or elsewhere during 2015 (2014: nil), and the Group's contact with those active in the political arena has been and will continue to be aimed solely at the promotion of the Group's business interests.

The definitions of EU political expenditure are broad and there is uncertainty about the extent to which normal business activities, which might not be thought to be political expenditure in the usual sense, could be considered to be political expenditure within the meaning of the legislation. The Company wishes to avoid any inadvertent infringement of the legislation and each year, through a resolution at the Annual General Meeting, seeks the authority of shareholders to incur expenditure for the Company and its subsidiaries for such purposes of £100,000.

£296k

Our financial support to local communities

12,500

Visitors to Drax Power Station

Community relations
We are committed to being a good neighbour to our local community and we are involved in a number of local and regional community initiatives. Our involvement takes the form of sponsoring a variety of local charities and fundraising events, promoting our own campaigns which focus on education and the environment. We also maintain open communication channels and good working relationships with the region's key opinion formers.

Sponsorship and fundraising
During 2015, the Group gave financial support of £296,000 (2014: £228,000) in total across a range of charitable and non-charitable community causes. Of that total, charitable donations amounted to £155,000 (2014: £154,000).

Education in the community
We provide a choice of educational experiences hosted by our team of power station guides and, at times, technical experts. A state-of-the-art visitor centre is of particular interest to students of all ages allowing them to explore the properties of electricity, discover how a power station works and consider the environmental issues related to electricity generation.

Another visitor opportunity exists at our nature reserve that lies at the heart of our ash disposal site. Established as a sanctuary for over 100 species of wildlife, it is specially designed to help schoolchildren understand more about the natural habitat and ecology of the area. Campaigns such as "Drax in the Classroom" and the "Community Pride Awards" are now firmly established in the annual calendar of local events and continue to prove popular.

Visitors to Drax
During 2015, we played host to more than 12,500 visitors through organised tours of the power station, and various activity days and charity events. The tours and activities have wide appeal attracting schools and colleges as well as business organisations, local and professional associations and members of our community.

Group financial review

Despite challenging market conditions our financial performance has been creditable, underpinned by continuing strength in our operations.

2015 was a difficult year for all of our businesses. We have seen the lowest market power prices for many years, weather conditions in the US south have not been ideal for pellet manufacturing and we continue to see rising third party costs for power retail.

Furthermore, the government's announcement of the cessation of the CCL exemption for renewable power in July removed £30 million of renewable support from our 2015 earnings and up to a further £60 million in 2016.

However, we have successfully taken actions to minimise the impact of these uncontrollable events on our financial results without compromising our operational capacity. Furthermore, matters within our control have gone well.

We have capitalised on the flexibility of our generation assets to capture value in the prompt power markets and have managed to add incremental margin through enhancements in our fuel sourcing activities.

In our Retail operations, we delivered another year of record sales in a very competitive marketplace. In Biomass Supply, we have a strong team in place and are making good progress optimising our pellet production operations.

Our EBITDA for 2015 was £169 million, £60 million lower than 2014 but only slightly behind our expectations at the start of the year, in spite of the numerous challenges faced. Underlying earnings of £46 million drive a total dividend of 5.7 pence per share.

Alongside this creditable financial performance, we achieved our long-stated aim of becoming a predominantly biomass-fuelled generator on time and on budget, with a third unit coming on line as an enhanced co-fired unit in July. Upstream, in the US, both our pellet plant and port assets were successfully commissioned at a total cost within initial projections.

I am confident we have a strong team, sound business model and robust balance sheet to capitalise on future opportunities for growth should they arise. At the same time, we are prepared for a variety of eventualities in an ever-changing and challenging environment.

£46m

Underlying earnings (2014: £96m)

Will Gardiner
Chief Financial Officer

Financial performance

Gross margin performance

Consolidated gross margin of £409 million (2014: £450 million) principally reflects another year of strong operations at Drax Power, our generation business.

As described above, commodity markets have been challenging in 2015 and we experienced lower profitability than in previous years as a result.

Our margins were further reduced from July onwards, following the removal of the CCL exemption, which removed a source of renewable subsidy for our Generation business and prompted a review of product offerings in our Retail business.

Despite these challenges, the factors within our control have gone well. Within Drax Power we delivered excellent availability and reliability and successfully implemented a two-shift regime on our coal units to maximise the available returns.

Supplementing this, Haven Power delivered another year of strong growth (13.8TWh compared to 11.8TWh in 2014) and our US pellet plants and port facility became operational during the year to make a small gross margin contribution.

Looking forward we are focused on improving retail margins and extracting value from the flexibility of our generation plant.

Operating costs

Consolidated operating costs of £240 million (2014: £220 million) have increased by £20 million from the previous year.

2015 saw the commencement of commercial operations within our US business following the commissioning of both pellet plants and the port facility. As a result, the operating costs of the Biomass Supply operation increased 177% to £24 million.

The remaining increase in our operating costs year-on-year reflects the very busy outage schedule at Drax Power, including the modifications required to enable our third biomass unit to operate on an enhanced co-fired basis and the write off of certain maintenance spare parts that are now obsolete as a result.

Looking ahead we are very focused on cost control and have already taken action to reduce our cost base for 2016 and beyond. This will be achieved by constantly driving efficiency throughout the business.

EBITDA

Consolidated EBITDA of £169 million (2014: £229 million) is £60 million lower than the previous year.

EBITDA is a function of the movements in gross margin and operating costs described above, and is the key measure we use to appraise our financial performance.

Underlying earnings

Underlying earnings measures our overall financial performance. It is calculated as our net profit (in accordance with international financial reporting standards) adjusted to exclude any unrealised gains or losses (such as those arising from the application of fair value accounting to our forward purchase and sale contracts as required by International Financial Reporting Standards (IFRS), one-off transactions that do not reflect the ongoing performance of the business, and the associated tax effect of both.

Underlying earnings of £46 million in 2015 (2014: £96 million) reflect the lower EBITDA described above and higher depreciation charges, as a result of our investments in biomass technology over the last three years, partially offset by the positive accounting effect of reductions in future corporation tax rates announced in the Summer Budget statement.

Financial instruments

A key component of the Group's risk management strategy is the use of forward contracts to secure and de-risk the future cash flows of the business.

We recognised unrealised gains of £124 million (2014: £66 million) within the income statement, below EBITDA and excluded from underlying earnings, in respect of outstanding contracts for future delivery. This predominantly reflects the impact of strengthening of the US dollar versus sterling on the value of our portfolio of foreign currency exchange contracts.

The accounting for these contracts is set out in further detail in note 7.2 to the consolidated financial statements.

Gross margin

£409m

(2014: £450m)

Operating costs

£240m

(2014: £220m)

EBITDA

£169m

(2014: £229m)

Underlying EPS

11p per share

(2014: 24p per share)

Group financial review continued

Financial position

Capital expenditure

Capital expenditure of £174 million, reduced from £201 million in 2014, reflects continued investment in biomass technology, both in developing our biomass pellet plants in the US and bringing a third unit on line at Drax Power Station as an enhanced co-fired biomass unit.

We have also installed Selective Non-Catalytic Reduction (SNCR) technology on four of our generating units this year, at a cost of £33 million, in preparation for the requirements of the IED which come into force from 2016.

Total spend on our biomass transformation project, since we embarked on this strategy in 2012 (which includes the cost of IED compliance work) remains in line with original estimates at £640 million, with a relatively low level of expenditure expected in 2016-17 to conclude the conversion of the third unit and IED work.

Asset obsolescence charges

As we reach the conclusion of our biomass transformation plans, certain assets previously utilised in our coal generation operations at the power station are no longer required, predominantly comprised of FGD plant. The emissions characteristics of converted biomass units are such that FGD is not needed on these units.

Total income statement charges in respect of these assets were £109 million, which as one-off charges are not reflective of the underlying performance of the Group, have been excluded from underlying earnings and, thus, distributions.

Cash generated from operations

Cash generated from operations amounted to £167 million in 2015, a £40 million increase on the previous year, in part demonstrating the benefit of self-help actions.

Despite the reduction in profitability year on year our focus on efficient working capital management, including a controlled run-down of coal stocks, helped to release £95 million of cash, compared to an £84 million outflow in 2014.

This significant improvement was offset by an £86 million increase in our ROC assets (2014: £45 million) as our output from biomass-fired generation increased. Cash from ROCs is typically realised several months after the ROC is earned, driven by RO deadlines and commercial considerations. We have facilities in place to monetise a proportion of these assets and continue to explore options to accelerate these cash flows.

The overall net cash outflow for the year is £47 million (2014: net outflow of £86 million) and includes capital investments of £179 million (2014: £200 million) which is falling as we approach the end of our biomass transformation, and dividend payments of £50 million (2014: £55 million).

Net debt and funding

Net debt at 31 December 2015 is £187 million, compared to £99 million at the end of 2014, reflecting the cash outflow of £47 million described above and a reduction in short-term investments of £40 million.

Our primary funding platform has remained steady compared to the previous year, with £325 million of term loans drawn down. A small increase in borrowings reflects the unwinding of discounting on our index-linked facilities. The maturity profile of our loans extends to 2024.

In December 2015 we successfully concluded the refinancing of our revolving credit facility. The new £400 million facility matures in December 2019 and has a margin of 175 basis points over LIBOR. It replaces the existing £400 million facility which was due to mature in April 2017 and had a margin of 225 basis points over LIBOR.

Our funding package also includes a commodity trading line, also successfully renewed in December, which enables us to transact prescribed volumes of commodity trades without having to post collateral.

Further detail in relation to our funding arrangements is included in note 4 to the financial statements, on page 125.

Capital expenditure

£174m

(2014: £201m)

Cash generated from operations

£167m

(2014: £127m)

Net debt

£187m

(2014: £99m)

Other information

Taxation

The 2015 tax charge of £3 million compares to £37 million tax charge in 2014. The reduction principally reflects the reduction in profit before tax in 2015 versus 2014, and an £18 million impact of a 2% reduction in corporation tax rates.

The underlying effective rate of tax (excluding the post-tax impact of unrealised gains on derivatives contracts and one-off asset obsolescence charges, as described above) is less than the standard rate of corporation tax in the UK, the difference arising predominantly from the impact of the corporation tax rate changes described above. The comparable underlying rate in 2014 was 20%, which was more aligned with the UK standard rate of tax.

Cash taxes paid during the year were £6 million (2014: £16 million), principally reflecting lower underlying profit before tax. These payments were offset by tax refunds in settlement of prior years, bringing net taxes paid in 2015 to £4 million (2014: £14 million).

Acquisition of Billington Bioenergy

In March 2015 we welcomed Billington Bioenergy, the second largest operator in the UK's biomass heat market, to the Group. Consideration totalled £4 million paid in cash.

We are confident that the acquisition represents a good strategic fit for Drax. It is a natural extension to our core biomass business and a small but clear opportunity to more fully utilise our status as the world leader in biomass technology.

We are pleased with the performance at Billington in the short time it has been part of the Group, with total wood pellet deliveries of 21 Kt in the year, and turnover of £5 million.

Long-term value

We remain confident in the long term strategic value of the Group to the UK energy sector and accordingly believe there are many opportunities to deliver longer-term value for our shareholders.

2015 was characterised by low commodity markets and, significantly for Drax, the decision by the government to remove the CCL exemption for power generated from renewable sources, from August.

As a result of these two factors our share price has declined substantially during the year to the extent that our market capitalisation fell materially below the book value of our assets. Accordingly, we have undertaken a comprehensive and wide-ranging review of the value of our business, to ensure those assets are not impaired.

The review, which is further detailed in note 2.3 to the financial statements, reinforced our view that the Group is well placed to deliver future value and that the carrying value of our assets remains appropriate.

Looking forward, we expect 2016 to be characterised by continuing challenging commodity markets and, as set out in the Chief Executive's Review on page 22, we are meeting the challenge head-on with a firm focus on revenue development and cost control, whilst awaiting the outcome of the EU investigation into the award of a CfD for our third biomass conversion.

Distributions

We remain committed to our policy of distributing 50% of underlying earnings in each year. Underlying earnings for the year ended 31 December 2015 were £46 million (2014: £96 million).

A full reconciliation of net profit, calculcated in accordance with IFRS, to underlying earnings is provided within note 2.6 to the financial statements.

On 17 February 2015 the Board resolved, subject to approval by shareholders at the Annual General Meeting on 22 April 2015, to pay a final dividend for the year ended 31 December 2014 of 7.2 pence per share (£29 million). The final dividend was subsequently paid on 15 May 2015.

On 27 July 2015, the Board resolved to pay an interim dividend for the six months ending 30 June 2015 of 5.1 pence per share (£21 million), representing 50% of underlying earnings for the period. The interim dividend was paid on 9 October 2015.

At the forthcoming AGM the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2015 of 0.6 pence per share (£2 million), payable on or before 13 May 2016.

Shares will be marked ex-dividend on 21 April 2016.

Will Gardiner
Chief Financial Officer

Viability statement

Statement of viability

In accordance with provision C.2.2 of the 2014 version of 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.

In preparing this assessment of viability 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, which was selected for the following reasons:

– The Group's Business Plan (the "Plan"), which is reviewed and assessed on a quarterly basis and is used for strategic decision making, includes a range of financial forecasts and associated sensitivity analysis. This Plan covers a three-year period in detail.
– Within the three year period liquid commodity market curves are used for valuations. Typically these curves cover a two year window and beyond this horizon, given the lack of forward liquidity in power markets, commodity price assumptions are derived using publically available information and the Group's own estimates.
– The majority of the Group's financing facilities are available beyond the three year horizon.

In selecting this period the Board have assumed no material changes to the Group's mid-term regulatory environment and associated support regimes. This includes revenues from ROCs and CfD and the access of coal-generated electricity to the UK's grid.

Review of principal risks

The Group's principal risks and uncertainties, set out in detail on pages 54 to 55, have been considered over the period.

The Board considers that Commodity Market risk has the most influence upon the continued viability of the Group. A material downturn in commodity prices, adversely impacting spreads, could place stress upon the ability of the Group to meet its liabilities as they fall due. The prospects of the Group are also strongly influenced by government policy in relation to subsidies available for generation of renewable power. Failure to secure and retain sufficient subsidies could have a material impact on the viability of the Group.

The principal risks have been valued, where possible, to assess the potential impact of each on the viability of the Group, should that risk arise in its unmitigated form. The valuations have been included, where appropriate, as sensitivities to the Plan and considered by the Board as part of the approval process required before the Plan is adopted by the Group.

Review of financial forecasts

The Plan considers the Group's financial position, performance, cash flows, covenant compliance and other key financial ratios over the period and was most recently updated to reflect current market and environment conditions in December 2015.

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-backed renewable power. The Group continues to await the outcome of a State aid review by the EU of a CfD, providing a strike price for the sale of renewable power. The outcome of this review is expected during 2016 and the Plan includes an assumption that State aid clearance will be obtained during the year.

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

The Board considers the most significant scenario in the assessment period to be a combination of a failure to secure State aid clearance for the CfD during 2016 and a 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 its power generation activities. This has been considered in the Plan and the Board is satisfied that in such a scenario sufficient actions could be taken to preserve the viability of the Group.

Availability of adequate funding

The sources of funding available to the Group are set out in note 4.4 to the consolidated financial statements (see page 125). The Board expects these sources, along with 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 over the three-year period.

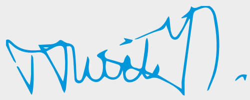
Expectations

The directors have considered all the factors in their assessment of viability over the next three years, including the latest Plan, scenario analysis, levels of funding, 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 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.

Strategic report

The strategic report is set out on pages 1–55 of this document and was approved by the Board of directors' on 22 February 2016.

Dorothy Thompson CBE
Chief Executive



Will Gardiner
Chief Financial Officer

Principal risks and uncertainties

Will Gardiner
Chief Financial Officer

Principal risks and uncertainties

The Group has a comprehensive system of governance controls in place to manage risks. Policies have been established in key areas of the business such as biomass sustainability, trading, treasury, production and health and safety to ensure that these risks are managed in a controlled manner and in accordance with the policies set by the Board.

Internal control and risk management

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. A process has been established for identifying, evaluating, determining risk appetite and managing the significant risks faced by the Group and this has been in place for the year under review up to the date of approval of the 2015 Annual report and accounts.

The process is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, not absolute, assurance against material misstatement or loss.

Risk management committees

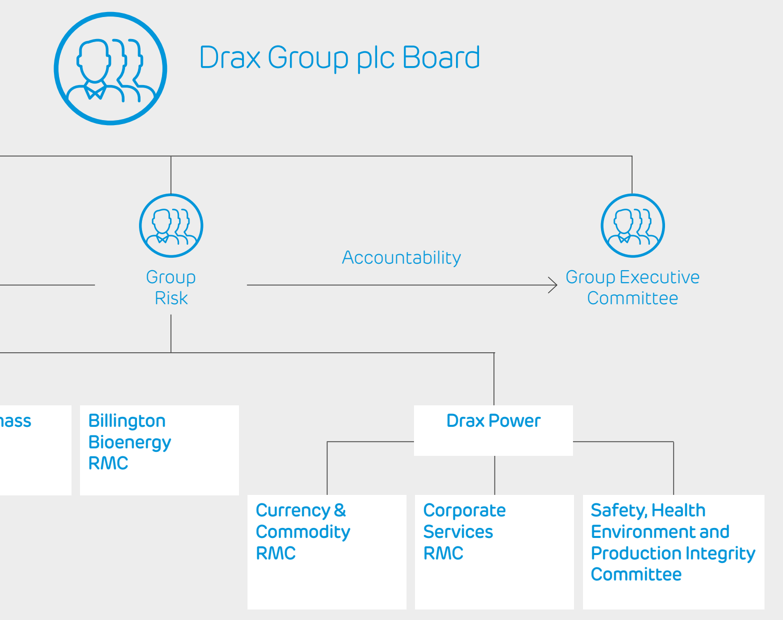
There are seven business risk management committees (RMCs):

1 Group corporate services risk management committee
2 Drax Power safety, health, environmental and production integrity committee
3 Drax Power currency and commodity risk management committee
4 Drax Power corporate services risk management committee
5 Haven Power risk management committee
6 Drax Biomass risk management committee
7 Billington Bioenergy risk management committee

Each committee is responsible for ensuring that all risks associated with its specific area of the business are identified, analysed and managed systematically and appropriately. Each committee has terms of reference that require systems and controls to be approved, implemented and monitored in order 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.

Risks identified and managed by the RMCs are regularly reviewed at the Executive Committee of the Group, as well as by the Drax Group plc Board.

Risk Management Committees



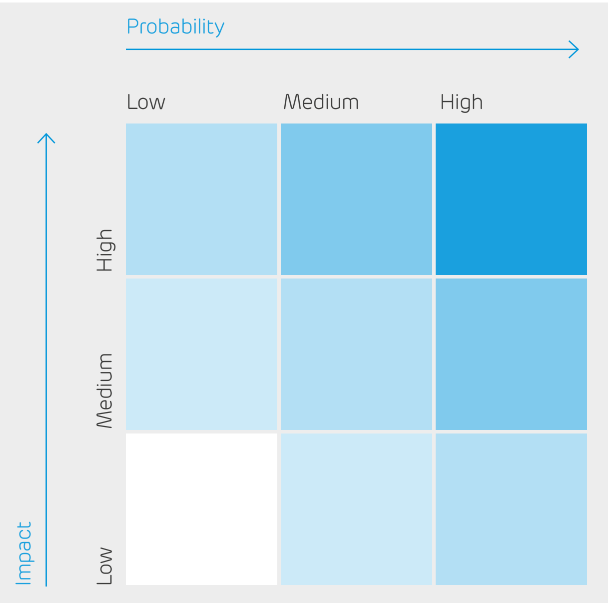
Risk management process

The key elements of the risk management process are as follows:

Risk identification – risks faced by the Group are identified during the formulation of the Business Plan. Senior management and risk owners, with the assistance of the risk management committees, periodically review the risks to ensure that the risk management processes and controls in their area are appropriate and effective, and that new risks are identified. A top down risk review is conducted at least annually.

Risk analysis – the basic causes of each risk are considered, and the impact and likelihood of it materialising is assessed. Risk registers are used to document the risks identified, level of severity and probability, ownership and mitigation measures for each risk. The risk registers are reviewed by the risk management committees on at least a quarterly basis.

Risks are then logged with reference to impact and probability as follows:



Risk appetite is identified by reference to the same criteria. The analysis enables decisions to be taken as to how that risk should be managed by applying mitigation measures to align the risk with the identified risk appetite.

Risk monitoring and assurance – the Board is ultimately responsible for this system of risk management and internal control. The Audit Committee reviews the suitability and effectiveness of risk management processes and controls on behalf of the Board. Risk management committees assist the executive directors in the operation and implementation of the risk management process, and provide a source of assurance to the Audit Committee that the process is operating effectively. Each risk committee reports to the Board at least annually.

Internal control

In addition, the Group has a comprehensive and well-defined internal control system with clear structures, delegated authority levels and accountabilities.

The Group has a system of planning and monitoring, which incorporates Board approval of a rolling five-year Business Plan and approval of operating and capital expenditure budgets. Performance against the budget is subsequently monitored and reported to the Board on a monthly basis. The Board also monitors overall Group performance against a Scorecard which shows progress against a set of financial, operating, safety and other targets set at the start of the year. Performance is reported formally to shareholders through the publication of Group results. Operational management makes frequent reports on performance to the executive directors.

The Group also has processes in place for business continuity and emergency planning.

Through the Audit Committee, the Board has implemented a programme of internal audit reviews of different aspects of the Group's activities. The programme, which is reviewed and updated annually, is designed so that, over time, all facets of the business are reviewed to ensure appropriate systems of control are in place and are working effectively or, where they are not, deficiencies are rectified by timely and appropriate action. In agreeing the actions to be taken in response to each report, the aim is always to embed internal controls, including measures intended effectively to identify and manage risk, within each area of the Group's operations. In parallel with its work in relation to internal audit, the Audit Committee also satisfies itself that an action plan for dealing with points raised by the external auditor in their yearly management letter is being properly addressed by management.

With the assistance of the Audit Committee, the Board has reviewed the effectiveness of the system of internal control. It has reviewed the reports of the Audit Committee, which has considered all significant aspects of internal control including financial, operational, trading, compliance, social, environmental and ethical risks in accordance with the "Internal Control: Guidance for Directors on the UK Corporate Governance Code".

Following its review, 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

There are five principal risks monitored by the Board: Regulatory and Political risk, Biomass risks, Generating Plant Operating risk, Trading and Commodity risk and Corporate risks.

During 2015, the perceived level of risk arising from three of these principal risks (Regulatory and Political, Biomass and Trading and Commodity) increased, with the other two remaining constant. Further details and the changes in 2015 driving this assessment are set out on pages 54 to 55.

Principal risks and uncertainties continued

Regulatory and Political Risk

Further commentary pages 34–35

Context

The energy sector is subject to detailed legislation and regulation. This complex structure is frequently changing and becoming ever more stringent, particularly in relation to environmental matters

Risk

- Changes to EU and UK policy may make it difficult for Drax to comply with new regulations and may prevent us undertaking future biomass unit conversions
- EC formal State Aid (phase 2) investigation may delay commissioning of the CfD unit or may impose terms and conditions which are unacceptable to Drax
- Changes to existing UK support mechanisms may put pressure on our financial results and cash flows
- Renewable support regime expires in 2027

Mitigations

- Taking a more prominent role in EU bodies in order to have our voice heard and try to influence policy makers
- Co-operating with DECC and EU to accelerate the phase 2 investigation where possible
- Open dialogue with DECC, Treasury and Ofgem on regulatory and political issues to highlight potential impact of new policies

Associated priorities:

Critical infrastructure
World-leading biomass technology

Movement

Changes in factors impacting risk in 2015

- Conservative party won the general election, increasing focus on affordability of energy policy rather than decarbonisation
- EC announced formal investigation into the Drax CfD contract awarded by UK
- Abolition of LEC's at short notice and without industry consultation indicates the risk of future similar policy changes
- Announcement by UK government that all coal fired power stations must close by 2025

Biomass Risks

Further commentary pages 32–33

Context

The biomass market is still relatively new, the supply chain requires further investment and public understanding of the benefits of the technology need to be improved

Risk

- Detractors and eNGOs operate in concert to try and influence policy makers against future biomass conversions
- We may fail to secure sufficient sustainable biomass due to the lack of new suppliers entering the market, financial failure of existing suppliers and/or increased competition for supply
- Most of the sustainable biomass that we can procure is priced in foreign currency which increases our exposure to fluctuations against sterling and poses a risk to profitability
- Failure to comply with sustainability certification requirements could put our ROC claims at risk

Mitigations

- Developing new communications plan to highlight the benefit of biomass
- Drax social media presence to respond to eNGOs
- Building market awareness of potential new biomass demand
- Contracting with suppliers where a robust operational plant and logistics infrastructure is already in place
- Investment in our own supply chain to ensure security and timing of supplies
- Supplementing supply with spot market purchases
- Hedging currency exposures
- Engagement with Ofgem and SBP on new sustainability standard requirements
- Engaging with equipment suppliers and other pellet producers to ascertain optimal maintenance strategy for our pellet plants

Associated priorities:

Critical infrastructure
World-leading biomass technology

Movement

Changes in factors impacting risk in 2015

- Negative coverage from eNGOs
- Reduced volumes delivered from some suppliers as they face financial and operational pressures
- Increased port storage capacity and logistics capability to accommodate increased fuel requirement
- Increased exchange rate volatility
- More stringent auditing requirements from SBP

Generating Plant Operating Risk

Further commentary pages 34–35

Context

The reliability of our generating plant is central to our ability to create value for the Group. There are inherent health and safety risks in our operations which make our strong safety standards and culture critically important. Compliance with laws and regulations could impact the cost of operation

Risk

- Single point failures on the plant could result in forced outages, impacting financial results and/or health and safety
- As we progress with our biomass unit conversions, we are exposed to new and emerging technical risks which could result in higher than forecast outage levels

Mitigations

- Comprehensive risk based plant investment and maintenance programme
- Maintaining a trained and competent workforce
- Strong health and safety culture
- Target to optimise holding of spare parts for use in the event of plant failure, particularly long lead time items
- Adequate insurance in place to cover losses from plant failure where possible
- Significant research and development undertaken on handling and burning biomass

Associated priorities:
Improve operational efficiency

Movement

Changes in factors impacting risk in 2015

- Low commodity prices have led to a reduction in load factor, with coal units operating only in peak periods. This places pressure on the units and can lead to higher forced outage rates
- Awarded maximum five stars in the British Safety Council's Health and Safety Audit
- Increased experience operating the converted biomass units
- Performed first biomass unit outage with no new concerns

Trading and Commodity Risk

Further commentary pages 34–35

Context

The margins of our generation business are influenced by commodity market movements, primarily gas prices which drive power prices, and are inherently volatile. The increasing level of our renewables generation exposes us to risk in relation to the ROC market

Risk

- Fluctuations in commodity prices, particularly gas and power, could lead to low bark and/or dark green spreads resulting in lower margins in our generation business and a reduction in cash flow
- Value of ROCs generated may be lower than forecast if the recycle value outturns below DECC's projections due to higher than anticipated renewable generation on the grid

Mitigations

- Hedging strategy to sell forward bark spread where it is economic to do so
- State aid process for CfD in progress, which if approved would remove the income volatility associated with that unit
- Ongoing analysis of UK ROC generation to adjust pricing forecasts
- Entering into fixed price ROC sales contracts where possible
- Selling through Haven Power provides a route to market for ROCs

Associated priorities:
Grow revenues and improve margins

Movement

Changes in factors impacting risk in 2015

- Low gas prices continue to depress the power markets, making it uneconomic for us to generate in certain off-peak periods
- Haven Power sales volumes continue to grow and offer a partial hedge to falling wholesale power prices
- DECC has increased assumptions around wind load factors in the RO setting calculation which should make it more accurate

Corporate Risks

Context

The Group depends on its ability to fund ongoing operations. Drax is reliant on a number of key IT systems to support operations and cash flow

Risk

- An inability to raise funds to finance the ongoing business and remain compliant with banking covenants could lead to a covenant breach, loan default or credit rating downgrade
- If the Haven Power billing system is unavailable for material invoicing, this could have a material impact upon cash flow
- A breach of IT security could result in the inability to operate systems or in the release of unauthorised information

Mitigations

- Safeguarding cash flow through improved working capital management
- Disaster recovery procedures in place at Haven Power along with a manual billing process to use as a contingency
- Group wide cyber policy
- Business Continuity Plan in place
- Seek to detect and investigate threats to IT security and apply several layers of control to mitigate entry

Associated priorities:
Improve operational efficiency
Grow revenues and improve margins

Movement

Changes in factors impacting risk in 2015

- Completed the refinancing of the £400 million revolving credit facilities in December 2015
- ROC monetisation facilities of £200 million in place with HSBC and Lloyds

Corporate governance

Letter from the Chairman

We continually work to ensure that our governance structures and processes are aligned with the requirements of the business and that good governance is embedded by management throughout the Group.

Dear Shareholder

Directorate changes

There have been some significant changes to the composition of the Board of your Company during 2015.

Charles Berry stepped down from the Board following the Annual General Meeting (AGM) in April after six years of excellent chairmanship. I am delighted to have the opportunity to take over from him. Charles left behind a strong governance framework that works well both at Board level and throughout the organisation. This framework has helped support the management transition and will be fundamental to our meeting the challenges ahead.

We have had a change of Chief Financial Officer following Tony Quinlan's resignation in May and the appointment of his replacement, Will Gardiner, in November 2015.

We have also seen changes amongst the other executive directorships at the end of the year with both Peter Emery and Paul Taylor stepping down from the Board. Peter's departure followed the completion of the transition to the new executive management structure introduced earlier in the year. On behalf of the Board, I would like to thank Peter for his great contribution over the last 11 years. He has been the key individual responsible for Drax's excellent operational and safety performance throughout its transformation to becoming a predominantly renewable power generator. In Paul's case, I want to thank him for his contribution, and I am delighted that we will still have the benefit of his experience and expertise as he will be helping us on a part-time basis.

Andy Koss, Chief Executive of Drax Power, the Company's power generation business, was appointed as a director of the Company with effect from 1 January 2016. Andy joined Drax in 2005, and has held a number of senior roles in finance and regulation. He brings substantial experience and expertise to the Board.

Finally, Melanie Gee will now be resigning from the Board immediately after the AGM in April 2016 and I would like to thank her for her valuable contribution over the past three years.

Succession planning and diversity

Andy Koss's appointment to the Board demonstrates the effectiveness of the Group's robust succession planning process, which the Board and I consider to be vitally important to the future success of the business. Refreshing the Board, and selecting the right individuals for the senior positions in the business from a diverse talent pool are key priorities for me and for the Board.

I believe that we have a strong Board with the right blend of skills and experience to take the Company forward. As the Group develops, we may need to add new expertise to the Board, and through the Nominations Committee, we will ensure that the skills and experience needed to lead the Company are continually reviewed.

At the date of this report, 25% of the Board members are women and this is broadly representative of the gender split across the whole organisation. Diversity in its widest sense, including gender diversity, will continue to be one of the factors that the Board will take into consideration in making any future appointments.

The UK Corporate Governance Code and governance at Drax

Our governance reporting is against the 2014 version of the UK Corporate Governance Code and with the exception of the provisions relating to tendering the appointment of auditors, which was reported on last year and which will be addressed in 2016, I am pleased to say that we complied with the remainder of the provisions of the Code throughout the reporting year and up to the date of approval of this report. More detail on our governance arrangements is set out on the following pages.

As a Board we recognise that there is always scope for improvement to make us better able to achieve our aspirations and deal with the challenges we face. To address this, we continually work to ensure that our governance structures and processes are aligned with the requirements of the business and that good governance is embedded by management throughout the Group. At Drax we believe that governance is not only about following the rules, but also about doing things in the right way. I believe that it is important for the Board to establish and lead a strong moral and ethical culture within an organisation. The values of the Group are expressed as, honest, energised, achieving and together, or "HEAT" as it is known within the business. These values have been established for several years, and are embedded throughout the organisation in the way our people go about their everyday business.

This section of the report describes our corporate governance structure and processes and how they have been applied throughout the year ended 31 December 2015.

My role as Chairman

I see that it is my role to ensure that your Company has a Board which works effectively under my leadership. One of my most important tasks in this regard is to maintain the right dynamics on the Board, which requires effective contributions and constructive challenge from individual directors. I am pleased to say that we have directors on our Board with a broad range of skills, experience and attributes, all of which contribute to our effectiveness. Communication and working relations between Board members is good, open and constructive.

My relationship with Dorothy Thompson, our Group Chief Executive, is positive and we are in frequent contact to discuss issues which the executive team deals with on a day-to-day basis and matters which need to be considered by the Board. As Chairman, I lead the setting of the Board agenda, ensuring we have adequate time to discuss all necessary items, particularly the development and implementation of strategy. Part of my role as Chairman is also to ensure that the Board is aware of the views of shareholders. The Company and its management benefit from the support of a stable group of major shareholders who have been supportive even in the challenging times that have been principally outside management's control. I have found this to be the case from the meetings I've had with some of our largest shareholders.

Board and committee evaluation

I see regular and appropriate board and committee evaluation as essential to improving board effectiveness. During my first year in office, I felt it important to understand how the Board, its committees and individual directors function and therefore decided to conduct the evaluation process internally. This will then provide me with a platform from which to launch an externally facilitated evaluation next year.

Our 2015 evaluation is built on the previous years' reviews of strategy, objectives, performance monitoring, succession, management development, process and governance. However, this year the review concentrated on a broader approach looking at the quality of the Board's work and addressing the manner in which the Board can operate most effectively to meet the challenges of the risks facing the Group. Later in this report, we detail the methodology and outcomes of that process.

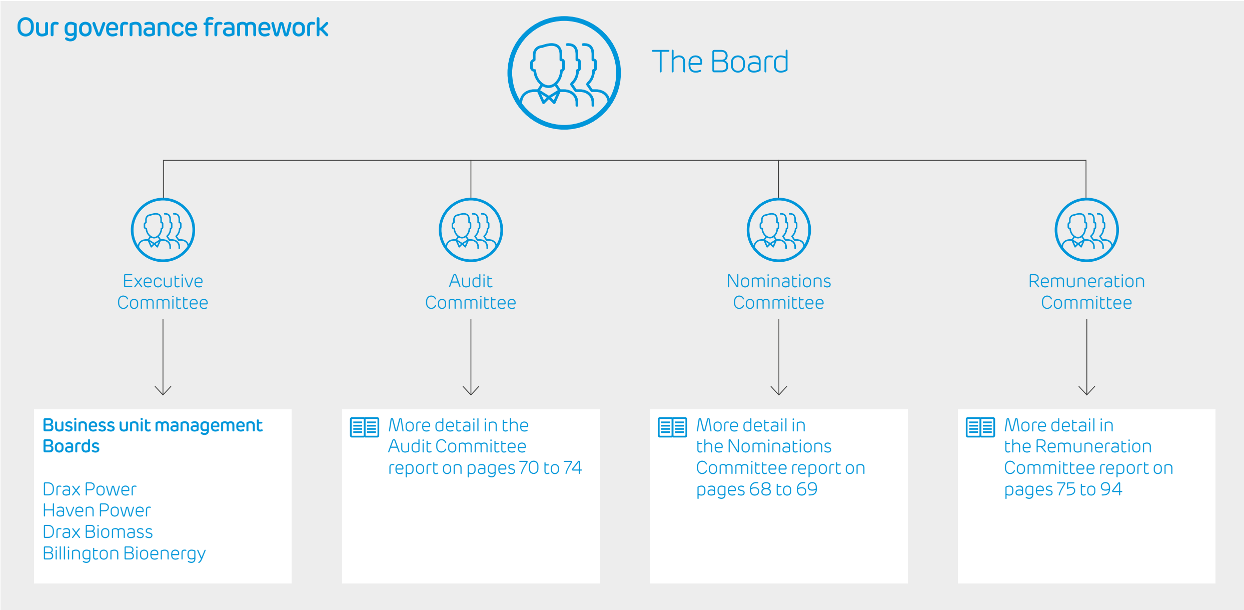
Key areas of focus

During 2015, much of the Board's attention has been directed to the two key objectives of maintaining cash flow and profitability in the face of the headwinds the business has faced, and ensuring that there is a proper process for the development of the Group's strategy. On the former, we took some important decisions including the decision not to invest the Group's capital in the development of the White Rose carbon capture and storage project. On the latter, the Board considered some excellent early work, identifying potential strategic development opportunities. Closely linked to this was the work that the Board did to ensure that the role biomass can play as a renewable fuel in the decarbonisation of energy is properly communicated and understood by stakeholders.

These will continue to be priorities in 2016. The Board will also continue to monitor the embedding of the new executive management structure so that it is well placed to deliver our objectives. We will also continue to review the composition of the Board to ensure that we have the right balance of skills and experience to meet the challenges we face.

Philip Cox CBE
Chairman

Corporate governance continued
The Board and its committees



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

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

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

How the Board functions
The Board receives regular reports on performance against the Business Plan and periodic business reports from senior management. It also receives industry, regulatory and topical updates from external experts and advisers, from time to time. Directors are briefed on matters to be discussed at meetings by papers distributed in advance of Board and committee meetings.

The Board has adopted a policy whereby directors may, in the furtherance of their duties, seek independent professional advice at the Company's expense. During 2015, no director sought independent professional advice pursuant to the policy.

The Company Secretary is responsible for advising the Board on all governance matters, ensuring good information flows within the Board, its committees, the Executive Committee and senior management, and ensuring that Board processes are complied with. He is also responsible for compliance with the Listing, Prospectus, Disclosure and Transparency Rules and the Companies Act.

The Company's Articles of Association (the Articles) give the directors power to authorise conflicts of interest. The Board has adopted a procedure that has operated effectively, by which situations giving rise to potential conflicts of interest are identified to the Board, considered for authorisation and recorded. The Articles also allow the Board to exercise voting rights in Group companies without restriction (e.g. so as to appoint a director to the Board of a Group company without this counting as a conflict requiring authorisation).

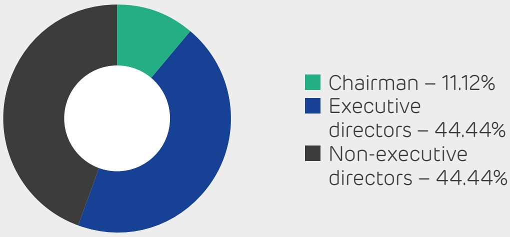
The Company has in place appropriate insurance cover in respect of legal action against directors of the Company and its subsidiaries.

Details of the selection, appointment, review and re-election of directors and of the performance review and directors' development is contained within the Nominations Committee report.

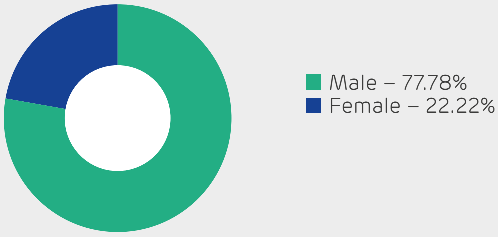
Composition
With the exception of Will Gardiner, Chief Financial Officer (who was appointed as a director on 16 November 2015) all of the directors listed on page 59 served throughout the year. Charles Berry served as a director until his retirement on 22 April 2015 and Tony Quinlan also served as a director until his resignation on 31 May 2015. Michael Scott acted as Interim Finance Director from 1 June until 15 November 2015 and attended meetings of the Board during that period, but was not appointed as a director of the Company. Each of those listed, with the exception of Peter Emery and Paul Taylor who ceased to be directors on 31 December 2015, continued to be directors as at the date of the approval of this report. Andy Koss was appointed as a director on 1 January 2016 and is still a director at the date of this report. Biographical details of the directors appear on pages 62 to 64.

2015

Board composition at 31 December 2015



Board diversity at 31 December 2015



Directors

Philip Cox CBE (Chairman)
Tim Cobbold (Independent non-executive director)
Peter Emery (Group Operations Director)
Will Gardiner (Chief Financial Officer)
Melanie Gee (Independent non-executive director)
David Lindsell (Senior independent non-executive director)
Paul Taylor (Group Commercial Director)
Dorothy Thompson CBE (Group Chief Executive)
Tony Thorne (Independent non-executive director)

The Group Company Secretary acts as Secretary to the Board.

Board diversity

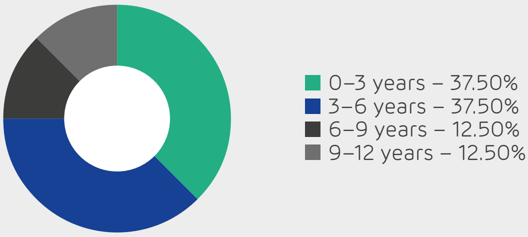
In 2015, there were seven male and two female directors on the Board.

Number of meetings held

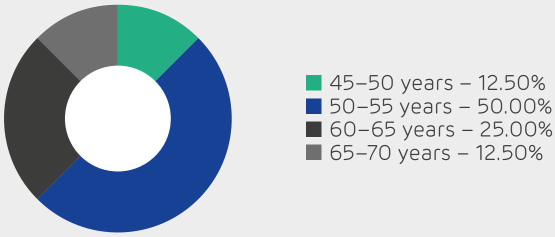
- The Board has eight scheduled meetings each year.
- In 2015, an additional meeting was held by telephone to address matters requiring formal decisions.
- In addition, the Board meets at least annually to consider strategy.

Current directors' tenure on the Board and age profile

Current directors' tenure on the Board



Directors' age profile



Board attendance 2015

The table below shows the number of meetings and attendance at them by directors of the Board during 2015.

	Date appointed as a director and member of the Board	Maximum possible meetings(1)	Number of meetings attended	% of meetings attended
Charles Berry (retired as a director on 22 April 2015)	15 December 2005	4	4	100%
Tim Cobbold	27 September 2010	9	8	89%
Philip Cox	1 January 2015	9	9	100%
Peter Emery	20 October 2005	9	9	100%
Melanie Gee	1 January 2013	9	9	100%
David Lindsell	1 December 2008	9	9	100%
Tony Quinlan (ceased to be a director on 31 May 2015)	1 September 2008	4	4	100%
Paul Taylor	1 September 2011	9	9	100%
Dorothy Thompson	20 October 2005	9	9	100%
Tony Thorne	29 June 2010	9	9	100%

Note:
(1) The maximum number of meetings that each individual was entitled to and had the opportunity to attend.

Will Gardiner was appointed a director on 16 November which was after the last scheduled Board meeting held in the year and he therefore did not attend any Board meetings in 2015.

Corporate governance continued

Committees of the Board in 2015

The table below details the standing committees established by the Board and the membership thereof:

	Audit Committee	Nominations Committee	Remuneration Committee	Executive Committee(1)
Charles Berry (retired as a director on 22 April 2015)	Invited to attend	Chairman	Member	–
Tim Cobbold	Member	Member	Member	–
Philip Cox	Invited to attend	Chairman	Member	–
Peter Emery	–	–	–	Member
Will Gardiner	Invited to attend	–	–	Member
Melanie Gee	Member	Member	Member	–
Philip Hudson(2)	Secretary	Secretary	Secretary	Secretary
David Lindsell	Chairman	Member	Member	
Tony Quinlan (ceased to be a director on 31 May 2015)	Invited to attend	–	–	Member
Paul Taylor	–	–	–	Member
Dorothy Thompson	Invited to attend	Invited to attend	Invited to attend	Chairman
Tony Thorne	Member	Member	Chairman	–

Notes:

(1) The Executive Committee is responsible for the day-to-day management of the Group. In addition to those named above, Peter Bennell (Chief Executive, Haven Power Limited), Andy Koss (Chief Executive, Drax Power Limited) and Matthew Rivers (Director of Sustainability) were also members in 2015, as was Michael Scott during the period he acted as Interim Finance Director.

(2) Philip Hudson is the Group Company Secretary.

Details of the work of the Nominations, Audit and Remuneration Committees are given in the respective reports of those committees set out on pages 68 to 94. The terms of reference for the committees are reviewed annually by each committee and then by the Board and are available on the Group's website at www.drax.com.

Time commitment

Under the terms of his letter of appointment, the Chairman is expected to commit between 50 and 70 full days a year to fulfil his role.

Under the non-executive directors' letters of appointment, the time commitment each is expected to give in respect of membership of the Board, is 12 to 15 full days a year. That includes attendance at Board meetings, the Annual General Meeting (AGM), one annual Board strategy day and at least one site visit per year. In addition, they are expected to devote appropriate preparation time ahead of each meeting. The time commitment expected in respect of their membership of committees of the Board, notably the Audit, Nominations and Remuneration Committees, is an additional three to four full days a year in each case. Non-executive directors also spend time with management in order to maintain their knowledge of the developing business and to understand the operational challenges being faced.

Corporate governance

The Group is committed to high standards of corporate governance, details of which are given in this report.

The various sections of this report contain in summary certain provisions of the Company's current Articles of Association and applicable English law concerning companies (the Companies Act 2006). This is a summary only and the relevant provisions of the Articles or the Companies Act should be consulted if further information is required.

Compliance with the UK Corporate Governance Code

It is the Board's view that throughout the period commencing on 1 January 2015, there has been full compliance with the principles of the UK Corporate Governance Code (the Code) issued in September 2014, except in respect of the requirement to put the external audit out to tender. This will be done during 2016. The manner in which we have complied is demonstrated in the details set out in this report. On the recommendation of the Audit Committee, the Board has taken the decision not to comply for the time being with provision C.3.7. of the Code, to put the external audit contract out to tender at least every 10 years. A detailed explanation is included within the Audit Committee report commencing on page 70.

Directors' interests, indemnity arrangements and other significant agreements

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

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

The Board has reviewed the independence of each non-executive director. None of the non-executive directors who have served during the year had any material business or other relationship with the Group, and there were no other matters that were likely to affect their independence of character and judgement. The Board therefore considers all of the non-executive directors to be independent, in accordance with Code provision B.1.1.

Relations with key stakeholder groups

Communication with all our stakeholders is an essential part of our business. Some specific information regarding communications with investors is provided below. Details of communications with other stakeholders are contained in the Stakeholder engagement section of this report commencing on page 42.

The Chairman is keen to ensure that he maintains an open relationship with the Group's major shareholders and communicates directly with them, offering the opportunity to meet any other directors in order that the Board can understand their views on the Group, be it corporate governance issues or any other points they might wish to raise.

The Board also reviews and discusses the investor feedback from post-results investor meetings conducted by the Group Chief Executive and the Chief Financial Officer in the UK, Europe and the US. These took place following both the preliminary and half year results announcements in 2015. Makinson Cowell, part of the KPMG Group, is engaged by the Group to advise and assist in relation to communications with shareholders.

The Company's private registered shareholders hold, in aggregate, approximately 0.78% of the issued share capital. The Board is as interested in their concerns as it is in the concerns of institutional and corporate shareholders. All shareholders are free to put questions to the Board at the AGM. Questions asked in person at the AGM will receive a verbal response whenever possible. Otherwise, a written response will be provided as soon as practicable after the AGM. Questions asked at other times will normally receive a written response. Shareholders attending the AGM will have an opportunity to meet informally with the directors immediately after the meeting.

All information reported to the market via a regulatory information service also appears as soon as practicable on the Group's website.

The directors consider that this Annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. Pages 1 to 55 provide an assessment of the Group's affairs. The Annual report and accounts is available to shareholders at least 20 working days before the AGM. Registered shareholders receive a Form of Proxy which provides for a shareholder to vote in favour or against, or to indicate abstention as an alternative on each separate resolution. Particulars of aggregate proxies lodged are announced to the London Stock Exchange and subsequently appear on the Group's website as soon as practicable after the conclusion of the AGM.

Chairman

Philip Cox CBE
Chairman

Responsibilities and skills:

Philip has significant board experience in both executive and non-executive capacities, and extensive experience in the power sector.

Appointment to the Board:

January 2015.

Appointment as Chairman:

April 2015.

Committee membership:

Nominations (Chair) and Remuneration Committees.

Current external appointments:

Talen, a US listed power generation company (Non-executive director and Chair of the Audit Committee).
CPG, a joint venture between the Kuwait Investment Authority and Gas Natural Fenosa – a power generation company focused on emerging markets (Non-executive Chairman).

Previous roles:

Executive
International Power plc (Chief Executive Officer).
Ivensys plc (Senior Vice President, Operational Planning).
Siebe PLC (Finance Director).

Non-executive
Meggitt PLC (Non-executive director).
PPL Corporation, a US-listed energy utility company (Non-executive director).
Wm Morrison Supermarkets PLC (Non-executive director, Senior Independent Director and Chairman of the Audit Committee).
Wincanton plc (Non-executive director and Chairman of the Audit Committee).

Qualifications:

MA in Geography.
Fellow of the Institute of Chartered Accountants in England and Wales (FCA).

Non-executive directors

Tim Cobbold
Independent non-executive director

Responsibilities and skills:

Tim's blend of financial and engineering experience means that he is well placed to contribute significantly to the Board and its committees. His role as a serving Chief Executive in a different sector provides an added dimension to his contribution.

Appointment to the Board:

September 2010.

Committee membership:

Audit, Nominations and Remuneration Committees.

Current external appointments:

UBM plc (Chief Executive).

Previous roles:

Executive
De La Rue plc (Chief Executive and an executive director).
Chloride Group plc (Chief Executive and following Emerson Electric's takeover of Chloride Tim held a senior position in Emerson, responsible for the Chloride Group of companies).
Smiths Group plc (formerly TI Group plc). Tim held a number of senior financial and operational management positions over an 18 year period. He originally trained as a mechanical engineer and qualified as a Chartered Accountant in 1987 before joining Smiths Group.

Non-executive
None.

Qualifications:

BSc (Hons) in Mechanical Engineering.
Fellow of the Institute of Chartered Accountants in England and Wales (FCA).

Melanie Gee
Independent non-executive director

Responsibilities and skills:

Melanie's blend of financial and corporate experience means that she is able to make a significant contribution to the Board and its committees. Her advisory role in a City financial institution brings added insight to the Board.

Appointment to the Board:

January 2013.

Committee membership:

Audit, Nominations and Remuneration Committees.

Current external appointments:

Lazard & Co. Limited (Senior adviser).
Standard Life plc (Non-executive director).
The Weir Group PLC (Non-executive director and Chairman of the Remuneration Committee).

Previous roles:

Executive
Lazard & Co. Limited (A Managing Director).
UBS Investment Bank (Various senior positions in Corporate Finance 1982 to 2007).

Non-executive
The Takeover Panel (Alternate member – 2006 to 2013).

Qualifications:

MA in Mathematics.

David Lindsell
Senior Independent non-executive director

Responsibilities and skills:
David's recent and relevant experience in the areas of finance and audit are a significant asset to the Board in his role as Chairman of the Audit Committee.

Appointment to the Board:
December 2008.

Committee membership:
Audit (Chair), Nominations and Remuneration Committees.

Current external appointments:
Premier Oil plc (Non-executive director and Chairman of the Audit and Risk Committee).
Cancer Research UK (Trustee and Chairman of the Audit Committee).
University of the Arts, London (Deputy Chair of Governors).

Previous roles:
Executive
Ernst & Young LLP (Partner).

Non-executive
Financial Reporting Review Panel (Deputy Chairman – 2008 to 2012).
HellermannTyton Group PLC (Non-executive director).

Qualifications:
Fellow of the Institute of Chartered Accountants in England and Wales (FCA).

Tony Thorne
Independent non-executive director

Responsibilities and skills:
Tony's experience of operating in different geographical territories is of great value to the Board as the Group's operations develop.

Appointment to the Board:
June 2010.

Committee membership:
Audit, Nominations and Remuneration (Chair) Committees.

Current external appointments:
South East Coast Ambulance Service (Chairman).

Previous roles:
Executive
DS Smith plc (Chief Executive and an executive director).
SCA Packaging Limited (President).
Shell International (Worked throughout the world in senior management roles, including strategic planning and President of the Shell companies in Mexico).

Non-executive
None.

Qualifications:
BSc (Hons) in Agricultural Economics.

Executive directors

Dorothy Thompson CBE
Group Chief Executive

Responsibilities and skills:

As Group Chief Executive, Dorothy is responsible for all aspects of the running of the Group's business, including developing an appropriate business strategy for Board approval and securing its timely and effective implementation. She provides leadership to the executive team and takes responsibility for the important external relationships with customers, suppliers, regulatory agencies and government bodies.

Appointment to the Board:

October 2005, having joined the Group in September 2005.

Committee membership:

Executive Committee (Chair).

Current external appointments:

Court of the Bank of England (Non-executive director).
Johnson Matthey Plc (Non-executive director and Chairman of the Remuneration Committee. Dorothy will retire from the Board of Johnson Matthey in July 2016).

Previous roles:

Executive
InterGen NV (Head of the European business and responsible for the management and operation of four gas-fired power plants, totalling some 3,160MW of capacity across the UK and the Netherlands).
Powergen plc (Assistant Group Treasurer).

Non-executive
None.

Qualifications:

BSc (Hons) and MSc in Economics.

Will Gardiner
Chief Financial Officer

Responsibilities and skills:

As Chief Financial Officer, Will is responsible for the financial management of the Group, and for relationships with the Group's bankers and financial advisers. He has responsibility for the Financial Control and Planning, Corporate Finance & Investor Relations, Strategy & New Business, Group IT and Group Risk and Internal Audit functions.

Appointment to the Board:

November 2015.

Committee membership:

Executive Committee.

Current external appointments:

Qardio plc (Non-executive director).

Previous roles:

Executive
CSR plc (Chief Financial Officer)
BSKYB (Divisional Finance Director)
Easynet Group plc (Chief Financial Officer)
JP Morgan (Senior roles in the investment banking division, specialising in the telecoms and technology sections).

Non-executive
None.

Qualifications:

BA Harvard College in Russian and Soviet Studies.
MA John Hopkins School of Advanced International Studies in International Relations.

Andy Koss
Chief Executive, Drax Power

Responsibilities and skills:

As Chief Executive of Drax Power, Andy is responsible for the operation of the power plant and equipment. This includes all aspects of safety management, plant integrity, plant operations, engineering support, maintenance and plant design. He provides leadership of the power generation business unit which maximises shareholder value by driving efficiency and profitability.

Appointment to the Board:

January 2016, having joined the Group in June 2005.

Committee membership:

Executive Committee and Drax Power Management Board (Chair).

Current external appointments:

None.

Previous roles:

Executive
Drax Group (Director of Strategy, Head of Investor Relations, Group Treasurer and Head of Risk)
Provident Financial plc (Deputy Group Treasurer)
UBS, Dresdner Kleinwort Benson, Lehman Brothers (Various investment banking roles)
Coopers & Lybrand (Chartered Accountant).

Non-executive
None.

Qualifications:

BSc (Hons) in Maths, Operational Research, Statistics and Economics.
Associate of the Institute of Chartered Accountants in England and Wales (ACA).
Member of the Association of Corporate Treasurers (MCT).

Executive Committee members

Peter Bennell
Retail Director and Chief Executive, Haven Power

Responsibilities and skills:
Peter founded Haven Power in 2006 and was instrumental in the company's entry into the Industrial and Commercial market, and the development of the business. As Chief Executive, Peter continues to drive the growth of Haven Power in the highly competitive electricity supply market, providing the Group with a credit-efficient route for its power and ROCs. On 1 January 2016, Peter was appointed Retail Director taking on responsibility for both Haven Power and Billington Bioenergy.

Appointment to the Executive Committee:
March 2015, having joined the Group in April 2009 following the acquisition of Haven Power.

Committee membership:
Executive Committee, Haven Power Management Board (Chair) and Billington Bioenergy (Chair).

Current external appointments:
None.

Previous roles:
Executive
Eastern Electricity (Head of Sales & Marketing).
TXU Europe (SVP Sales Operations, Head of Retail).

Non-executive
None.

Qualifications:
MA (Engineering), DipM, DMS.
Chartered Engineer, Member of the Institution of Engineering and Technology.
Member of the Chartered Institute of Marketing.

Matthew Rivers
Director of Group Sustainability and Chairman, Drax Biomass

Responsibilities and skills:
As Director of Group Sustainability, Matthew is responsible for the Group's sustainability policy strategy and delivery of our essential assurance in this area – as well as for the Communications, Public Affairs and the Regulation and Markets teams. Additionally, Matthew was Chairman of the US business, Drax Biomass Inc., ensuring good integration between the UK and US business operations.

Appointment to the Executive Committee:
October 2013 having joined the Group in November 2012.

Committee membership:
Executive Committee and Drax Biomass Inc. (Chair).

Current external appointments:
US Industrial Pellet Association (USIPA) (Member of the Board).

Previous roles:
Executive
UPM (Finland) (Director – Overseas Wood & Biomass Sourcing, Director – Energy Biomass).
UPM Tilhill (UK) (Managing Director – for the UK's largest private sector forest management and timber harvesting business).
Forestal Oriental (Uruguay) (Managing Director – responsible for plantation management and wood supply).

Non-executive
None.

Qualifications:
BSc. (For) Hons, Foresty Aberdeen.
M.B.A., Strathclyde.
Fellow Institute of Chartered Foresters.
Chartered Environmentalist.

Pete Madden
President and Chief Executive Officer, Drax Biomass

Responsibilities and skills:
As President and Chief Executive Officer of Drax Biomass, Pete guides the business strategy and oversees day-to-day operations at two pellet plants and a port facility in the South Eastern United States.

Appointment to the Executive Committee:
January 2016, having joined the Group in March 2015.

Committee membership:
Executive Committee and Drax Biomass Inc..

Current external appointments:
University of Georgia Center for Forest Business (Member, Advisory Board).

Previous roles:
Executive
Plum Creek (USA) Pete has held a number of roles including: Vice President, Renewable Energy and Supply Chain, Vice President, Operations Support and Director, Regional Marketing, Operations, Resource Management, Materials Management and Corporation Planning.

Non-executive
None.

Qualifications:
B.A. Marlboro College.
M.S. (Forestry) University of New Hampshire.
M.B.A University of New Hampshire.

The Executive Committee

Following the internal Group structural changes in March 2015, the Group is now made up of three principal business units: Drax Biomass, Drax Power and Haven Power. This structure is designed so that each business unit runs under its own management team and the shared services needed to support them is provided centrally through the Group Services function.

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

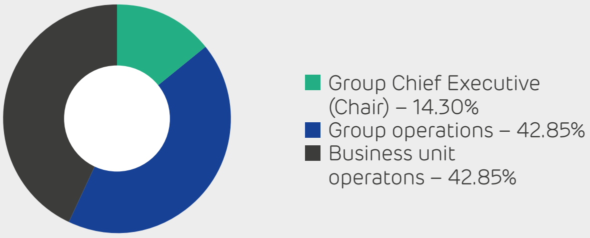
Composition

With the exception of Will Gardiner, Chief Financial Officer (who was appointed as a director on 16 November 2015) all of those listed below served on the Executive Committee throughout the year. Michael Scott held the position of Interim Group Finance Director from 1 June 2015 to 15 November 2015 and during that time he also served as an Executive Committee member.

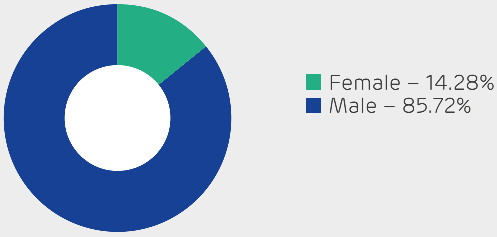
Each of those listed, with the exception of Peter Emery and Paul Taylor who both ceased to be Executive Committee members on 31 December 2015, continued to be members at the date of this report. Biographical details of Executive Committee members appear on page 64 (executive directors) and page 65 (senior management). Pete Madden, President and Chief Executive Officer of Drax Biomass Inc., became a member of the Executive Committee on 1 January 2016.

2015

Executive Committee composition at 31 December 2015



Executive Committee diversity at 31 December 2015



Executive Committee members

Peter Bennell
Peter Emery
Will Gardiner
Andy Koss
Matthew Rivers
Paul Taylor
Dorothy Thompson CBE

The Group Company Secretary acts as Secretary to the Executive Committee.

Executive Committee diversity

There are one female and six male members of the Executive Committee.

Number of meetings

The Executive Committee has 12 scheduled meetings each calendar year and arranges additional meetings if the need arises.

Executive Committee attendance 2015

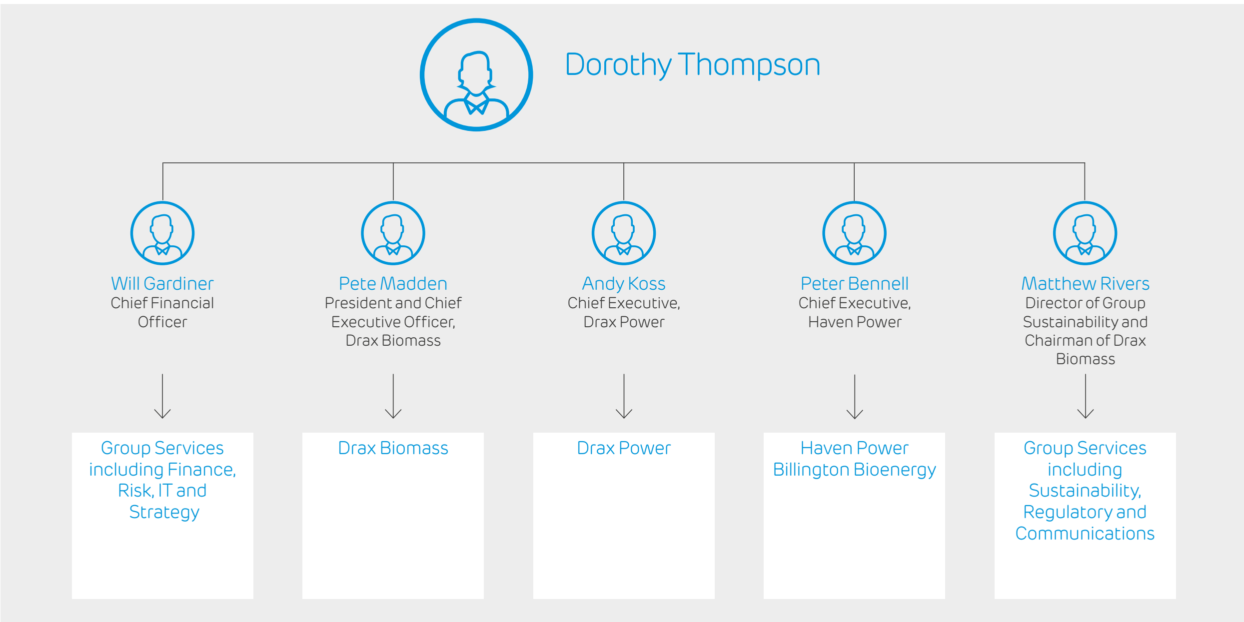
The table below shows the number of meetings and attendance at them by members of the newly structured Executive Committee during 2015.

	Date appointed as a member of the Executive Committee	Maximum possible meetings[1]	Number of meetings attended	% of meetings attended
Peter Bennell	1 March 2015	9	9	100%
Peter Emery (ceased to be a member on 31 December 2015)	1 March 2015	9	8	89%
Will Gardiner	16 November 2015	1	1	100%
Andy Koss	1 March 2015	9	9	100%
Tony Quinlan (ceased to be a member on 31 May 2015)	1 March 2015	3	3	100%
Matthew Rivers	1 March 2015	9	9	100%
Michael Scott (ceased to be a member on 15 November 2015)	1 June 2015	5	5	100%
Paul Taylor (ceased to be a member on 31 December 2015)	1 March 2015	9	9	100%
Dorothy Thompson CBE	1 March 2015	9	9	100%

Note:
(1) The maximum number of meetings that each individual was entitled to and had the opportunity to attend.

Roles and responsibilities of the Executive Committee

Peter Emery's and Paul Taylor's areas of responsibility have been redistributed and further realignment of functions have resulted in the following structure being in place from 1 January 2016.



How the Executive Committee functions

The Executive Committee receives regular reports on performance against the Business Plan and periodic business reports from each of the business units. Members are briefed on matters to be discussed at meetings by papers distributed in advance of meetings. They also receive presentations on various business issues by senior managers within the business units.

Nominations Committee report

The effectiveness of the Board is vital to the success of the Group. The Nominations Committee plays a key role in achieving this.

Role of the Committee

The principal duties of the Committee are to:

- keep under review the structure, size and composition of the Board (including the skills, knowledge and experience required by it);
- consider succession planning for the directors and other senior managers;
- identify and nominate candidates to fill vacancies among the directors; and
- review the time required from non-executive directors.

Chairman	Philip Cox CBE
Committee members	Tim Cobbold, Melanie Gee, David Lindsell, Tony Thorne
Attending by invitation	Group Chief Executive, Head of Human Resources.
Number of meetings held in 2015	3

The Group Company Secretary acts as Secretary to the Committee.

Terms of reference

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

Attendance in 2015

	Date appointed a member	Maximum possible meetings	Number of meetings attended	% of meetings attended
Charles Berry	15 December 2005	2	2	100%
Tim Cobbold	27 September 2010	3	3	100%
Philip Cox	22 April 2015	1	1	100%
Melanie Gee	1 January 2013	3	3	100%
David Lindsell	1 December 2008	3	3	100%
Tony Thorne	29 June 2010	3	3	100%

Note:
(1) Charles Berry retired as a director and Committee member on 22 April 2015.

The Chairman of the Committee reports on the Committee's proceedings to the following Board meeting.

The Committee has an annual programme of work which is designed to fulfil its principal duties. This programme reviews:

- **Re-election and appointment of directors** – The Committee met on 16 February 2016, following the completion of the 2015 Board evaluation process, and determined that all of the directors who are the subject of annual re-election will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. The evaluation of the Board described on page 69 concluded that the directors offering themselves for election and re-election continue to demonstrate commitment to their particular role and to perform effectively;
- **Size, structure and composition of the Board** – At its meeting in April 2015 the Committee reviewed the position of Finance Director following Tony Quinlan's intimation of his resignation. The Committee put in place a process which ultimately led to the appointment in November of Will Gardiner as Tony's successor. At the same meeting, the Committee concluded that the Board, constituted with four executive directors, four independent non-executive directors and a chairman who was independent on appointment, was appropriate for the Company at the time. The Board further considered the size, structure and composition of the Board at its meeting in November 2015 which followed the completion of changes to the Group's management structure. The Committee noted that Peter Emery and Paul Taylor were to leave the Board on 31 December 2015. It also agreed to recommend to the Board the appointment of Andy Koss, Chief Executive of Drax Power, as a director of the Company. The Committee concluded that this revised Board constitution with three executive directors was appropriate for the Company taking account of the changes to the Group's organisational and management structure. It also concluded that the Board collectively has the necessary balance of skills, experience, independence and knowledge to enable it to discharge its duties;
- **Membership of Board committees** – It is the Board's policy normally to invite all independent non-executive directors to join the Audit, Nominations and Remuneration Committees. The Committee reviewed this policy and considered that it continues to ensure that each of the Committees is constituted with the skills, experience, independence and knowledge to enable it to discharge its duties; and
- **Succession planning** – The Committee reviews the succession plan at least annually. The Group has a well-established and robust succession planning process which covers all Executive Committee members and their direct reports, as well as other individuals within the Group who have been identified as having longer-term potential for senior roles. In the Committee's opinion the plan is well prepared and appropriate for the size of the Group's business and management structure and there are considered to be a range of good candidates for senior roles.

In addition to the regular programme of work, the Committee also considered the question of Board diversity in its widest sense, and gender diversity in particular. The Company has actively engaged with initiatives promoted by the Department for Business Innovation and Skills to improve gender diversity at Board level. The Committee recognises the strength that can be achieved through diversity in the Group's management. In particular, it is the Board's policy to ensure that the proportion of women is one of the considerations for Board and senior management appointments. That policy is implemented as part of the recruitment and selection process. Further details of gender diversity in the Group are included in the Employees section of the Sustainability review on page 38.

Selection, appointment, review and re-election

Two new appointments to the Board were made during 2015. Philip Cox was appointed as a non-executive director on 1 January and was appointed as Chairman following Charles Berry's retirement from the Board following the 2015 AGM. Will Gardiner was appointed as a director and Chief Financial Officer on 16 November. Andy Koss was appointed as a director with effect from 1 January 2016.

The process to appoint Philip Cox was led by David Lindsell, the Senior Independent Director, and the process to appoint Will Gardiner was led by Dorothy Thompson, the Group Chief Executive. Russell Reynolds Associates and JCA Group respectively were engaged by the Committee in relation to the process to appoint the Chairman and the Chief Financial Officer. In both cases they assisted the Committee in developing role and candidate specifications, identification of candidates, preparing long and short lists of candidates, initial interviews and taking of references. The consultants presented detailed reports to the Committee. Members of the Committee met with each of the shortlisted candidates prior to making a recommendation to the Board.

The Committee did not engage search consultants or advertise in relation to the appointment of Andy Koss. The Committee reviewed the skills and experience required, taking particular account of Peter Emery's and Paul Taylor's resignations as directors. Andy has held a number of senior finance, regulatory and operational roles with the Company and had been identified through the succession planning process as having the necessary skills, experience and attributes to succeed to a Board role. The Committee recommended Andy's appointment in the best interests of the Company to ensure an appropriate level of continuity and consistency on the Board.

The Articles provide that one-third of directors shall retire by rotation each year and are eligible for re-election by shareholders at the AGM. In accordance with the UK Corporate Governance Code, the Company will continue to propose all directors for annual re-election. Accordingly, each of Tim Cobbold, Philip Cox, Melanie Gee, David Lindsell, Dorothy Thompson and Tony Thorne will retire at the forthcoming AGM and, being eligible, offer themselves for re-election.

The Articles also require that, following appointment to the Board, directors submit themselves for election by shareholders at the first AGM following their appointment. The appointments of Will Gardiner and Andy Koss were made since the last AGM and, therefore, they will retire and offer themselves for election by shareholders at the forthcoming AGM.

The evaluation of the Board described below concluded that the directors offering themselves for election or re-election continue to demonstrate commitment, management and industry expertise in their particular role and to perform effectively. The election or re-election of each director is recommended by the Board. Details of the service contracts for the executive directors and letters of appointment for the non-executive directors are set out in a table on page 90.

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

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

The Board is satisfied that all of the directors are able to devote sufficient time to their duties as directors and there have been no material matters arising during 2015 which would affect this.

Performance reviews and directors' development

The effectiveness of the Board is vital to the success of the Group. The Committee initiated a review of the effectiveness of the Board, its committees and individual directors during 2015. The review concluded that all directors have a positive view of the effectiveness of the Board and its committees and that all directors continue to perform effectively and to demonstrate commitment to their roles. There is clear alignment of the directors' views of the Group's priorities and agreement that the key decisions of the Board focus on those priorities. Steps have been identified to improve processes and operation of meetings to facilitate greater focus on priorities and strategic matters. Measures have also been identified that will improve the quality of information provided to the Board to enhance its consideration of risk impacts and mitigation measures.

During the year, the Chairman held a meeting with the non-executive directors in the absence of the executive directors, and the Senior Independent Director held a meeting with the non-executive directors without the Chairman being present, as required by provision A.4.2 of the UK Corporate Governance Code.

The Board is committed to the development of all employees and directors and has reviewed and will periodically continue to review each director's development requirements and make appropriate arrangements to address them. All new directors receive an induction, including being provided with information about the Group and their responsibilities, meetings with key managers and visits to the Group's sites.

In addition, each non-executive director visits operational sites both in the UK and the US. Periodically, they also meet with senior management to be briefed on the Group's business and specific Board training days are arranged, where appropriate, involving presentations on relevant topics.

This report was reviewed and approved by the Nominations Committee on 22 February 2016.

Subsequent to the Nominations Committee review and approval of the foregoing, on 29 February 2016, the Company announced the resignation of Melanie Gee from the Board with effect from the conclusion of the 2016 AGM. Accordingly she will not be seeking re-election to the Board at the AGM in April 2016.

Philip Cox CBE
Chairman of the Nominations Committee

Audit Committee report

Sound risk management and internal control systems are essential to enable the Group to achieve its objectives, while proper accountability to shareholders requires fair and balanced performance reporting.

Role of the Committee

The Committee assists the Board to fulfil its oversight responsibilities. Its primary functions are to:

– monitor the integrity of the financial statements and other information provided to shareholders;
– review significant financial reporting issues and judgements contained in the financial statements;
– advise the Board on whether the Committee believes the Annual report and accounts are fair, balanced and understandable;
– maintain an appropriate relationship with the Group's external auditor and review the effectiveness and objectivity of the external audit process;
– review the systems of internal control and risk management; and
– monitor and review the effectiveness of the internal audit function (which is provided by Grant Thornton UK LLP), review the internal audit plan, all internal audit reports and review and monitor management's responses to the findings and recommendations of the internal audit function.

Chairman David Lindsell

Committee members Tim Cobbold, Melanie Gee, Tony Thorne, all of whom are independent non-executive directors.

The Board is satisfied that the membership of the Committee has the recent and relevant financial experience required by the UK Corporate Governance Code.

Attending by invitation Chairman of the Board, Group Chief Executive, Chief Financial Officer, Group Financial Controller, Group Finance Manager, Head of Risk Management, External auditor (Deloitte), Internal auditor (Grant Thornton).

Number of meetings held in 2015

4

The Group Company Secretary acts as Secretary to the Committee.

Terms of reference

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

Following a review of the terms of reference in July 2015, minor changes were made to reflect the updated requirements of the UK Corporate Governance Code (September 2014).

Attendance in 2015

	Date appointed a member	Maximum possible meetings	Number of meetings attended	% of meetings attended
Tim Cobbold	27 September 2010	4	4	100%
Melanie Gee	1 January 2013	4	4	100%
David Lindsell	1 December 2008	4	4	100%
Tony Thorne	29 June 2010	4	4	100%

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

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

Main activities during the year

During the year, the Committee undertook its duties in accordance with an annual work plan, which is agreed in November for the following calendar year and reviewed at each meeting. The main areas of work undertaken by the Committee at each of its meetings during 2015 are set out in the table below.

Meeting	February	April	July	November
Item under review	– Year-end review of accounting issues and judgements (2014) – Consideration of the 2014 annual report, financial statements and preliminary results announcement – Review of the effectiveness of internal controls and consideration of fraud – Review of a report from Deloitte on their audit findings – Disclosure of information to auditors – Assessment of effectiveness of external audit process – Review of the Audit Committee's effectiveness	– Review of Senior Accounting Officer reporting – Review of a report from management covering the adoption and implementation of "new UK GAAP" – Review of oil and freight risk management – Progress report on biomass sustainability reporting and independent compliance reviews – Review of the auditor independence policy – Review of the whistleblowing reporting policy – Review of an update from the Ethics and Business Conduct Steering Committee	– Review of accounting issues and judgements impacting the 2015 interim financial statements – Consideration of the interim report, financial statements and results announcement – Review of a report from Deloitte on their interim review findings – Review of a report covering biomass sustainability controls – Consideration of the viability statement requirements for 2015 – Review of the Audit Committee terms of reference	– Review of a report from management concerning impairment – Review of other accounting issues and judgements impacting the 2015 financial statements – Review of systems of risk, internal control and consideration of fraud – Review of controls over capital expenditure and fixed asset management – Review of controls over stock management – Review of the composition and qualifications of the Group's finance teams – Review of IT key controls including cyber security – Review of the internal audit plan for 2016 – Review and approval of the external auditor's terms of engagement

In addition there are a number of routine items which are put to each meeting as follows:

- a review of the minutes and actions from previous meetings;
- reports from the external auditor;
- the Committee's rolling annual plan review; and
- reports from the internal audit function on the progress of their programme for the year including fee analysis and new internal audit reports.

The Committee continues to focus on specifically identified strategic risk areas, such as biomass sustainability reporting, as well as ensuring the provision of a core compliance assurance service. No significant weaknesses were identified in any of the internal audit reports although certain improvements in processes and procedures were made as a result of reviews. At its meeting in July 2015 the Committee received and reviewed an independent report concerning biomass sustainability controls. The report raised no material weaknesses in policy or approach but did highlight the key areas of judgement and risk within the process. Similar to routine internal audit reviews, certain improvements in processes and procedures were implemented as a result of recommendations raised in the report.

The Committee has a forward programme of specific review areas, with a focus on risk management processes and internal control systems, as well as financial reporting aspects. In addition, the Committee reviews the Group's general internal control environment on an annual basis, including risk management structures, policies and processes, the overall financial control framework, key operational controls including production integrity and environmental controls and procedures in relation to bribery, fraud and any non-compliance.

At meetings in February and July 2015, the Committee reviewed the Group's Preliminary results announcement, Annual report and accounts, and the half-year results announcement respectively. At these meetings, the Committee received reports from management and the external auditor on the application of accounting policies on significant estimates and judgements made in preparing the financial statements, and on the methods used to account for any significant or unusual transactions.

The Group's principal accounting policies and the accounting estimates, judgements and assumptions made in the process of applying them are set out in the notes to the accounts. In respect of all such matters, the external auditor concurred with the judgements made by management and the Committee was satisfied that the accounting policies were applied appropriately and the estimates and judgements made were appropriate. In addition, the Committee also satisfied itself of the independence and objectivity of the external auditor on the basis set out below under "Independence of the external audit".

Audit Committee report continued

Reviewing the 2015 Annual report and accounts

At its meeting in February 2016, the Committee reviewed the content of the 2015 Annual report and accounts, alongside a paper on accounting issues and judgements impacting the accounts and a report from Deloitte LLP setting out their audit findings. The significant issues and judgements considered were as follows:

Matter	Issue and nature of judgement	Factors considered and conclusions reached
Impairment – carrying value of assets	The fall in the Company's share price during the year has resulted in the carrying amount of the Group's net assets exceeding the Company's market capitalisation. This is an indication that assets may be impaired. As a result, in accordance with the requirements of IFRS, the directors conducted an impairment review in respect of the Group's assets. They did so by comparing the present value of future cash flows for each cash generating unit with the carrying value of its tangible and intangible assets. The assumptions that underpin such calculations are, by their nature, dependent upon application of judgement and are thus subject to uncertainty.	The Committee reviewed a report from management, supported by external advisers, in November 2015 that explained the impairment review methodology and how the cash flow forecasts utilised in the review had been prepared together with a critical analysis of the key assumptions that underpinned them, including market benchmarking analysis where appropriate. The report also included an analysis of reasonably possible sensitivities. The Committee reviewed an updated report at its meeting in February 2016 that considered refinements in assumptions and key judgements up to the present time, as described in note 2.3. After challenging management, particularly around the most material judgements relating to longer-term value namely levels of renewable support and future commodity prices, the Committee concluded that a reasonable, supportable and consistent approach had been taken in preparing the review and that there was no current indication of impairment.
Derivative Financial Instruments	The Group makes extensive use of derivative financial instruments in order to manage key risks facing the business and its balance sheet includes significant assets and liabilities arising from derivatives which are stated at their fair value. Changes in the fair value of such instruments are recognised in the income statement or the hedge reserve, when the specific criteria for hedge accounting are met. The fair values for derivative financial instruments are determined using forward price curves and, where an instrument incorporates an element of optionality, an option pricing model. The inputs to these calculations include assumptions regarding future transactions and market movements, as well as credit risk, and are therefore subjective.	The Committee reviewed the Group's derivative position in February, July and November 2015 having regard in particular to the critical judgemental areas described in note 7.2 and considered the position as at 31 December 2015 at its meeting in February 2016. Management explained the trends in market prices that underpinned changes in the fair value of the derivative portfolio and highlighted any new types of derivative instrument for the Committee's consideration. Further in April 2015 the Committee considered the processes and controls that govern the Group's trading activities in financial oil and freight products. The Committee concluded that the fair value calculations had been performed in a reasonable and consistent manner based on quoted market prices as explained in note 7.2 and that the system of controls in place was fit for purpose. Accordingly, it was concluded that the amounts included in the financial statements were appropriate.
ROC assets	The Group receives ROCs for generating electricity from sustainable biomass. The Group's balance sheet contains a material amount of such assets at the end of December 2015. ROC assets are initially valued at fair value and subsequently written to net realisable value where appropriate. These calculations require an element of judgement in considering probable future sales prices in the market.	The Committee reviewed papers presented by management at its meetings in February, July and November, which set out the current balance sheet valuation and the key underlying assumptions that drive the carrying value, including the assessment of likely future sales prices of ROCs. At its meeting in February 2016, the Committee reviewed the specific assumptions that directly impact the amounts recognised in the 2015 financial statements, as explained in note 3.2. The Committee concluded that the judgements made in valuing ROC assets were reasonable, supportable and consistent and that, accordingly, the values included the financial statements were appropriate.
Fuel inventories	The Group carries a material amount of fuel inventories (predominantly coal and biomass in the form of compressed wood pellets) which are measured at the lower of their weighted average cost and net realisable value. Whilst value is largely based on observable costs, the nature and characteristics of the inventories mean that determining the volume of inventory on-site at any given time is subject to a degree of estimation. Accordingly, while both coal and biomass stocks are measured using equipment regularly calibrated to industry standard levels of tolerance, as explained in note 3.3 the potential for actual results to vary from initial calculations remains. Stocks are surveyed at the balance sheet date by either an independent third party or electronic scanning equipment and provisions made where appropriate. However, both methods rely on assumptions regarding density of the fuel surveyed. In the case of biomass stocks, volumes are measured by reference to a heat based and two weight based systems. The three systems produced somewhat different results and the lowest of these volume measurements was applied to the price history in order to determine weighted average cost.	The Committee reviewed the processes, including judgements, estimates and assumptions made, in respect of fuel inventory valuation at its meetings in February, July and November in 2015. At its meeting in February 2016, the Committee reviewed the position and specific judgements made in respect of the 2015 financial statements. Having challenged management on the appropriateness of the measurements used in determining inventory volumes, the Committee concluded that the process and approach followed by management had been performed in a reasonable and prudent manner.

Explanation of the critical accounting judgements, estimates and assumptions is set out in detail throughout the notes to the consolidated financial statements, with a summary on pages 104 to 105.

The Committee also reviewed the underlying process, internal controls, forecasts and relevant assumptions made in preparing the new Viability Statement, disclosed on pages 50 to 51 of this Annual Report. Having challenged the assumptions made in this process and considered the appropriateness of the three-year period of assessment adopted, the Committee concluded that the process supporting the Viability Statement was robust.

In addition, other matters relating to the application of accounting policies or accounting treatment have been considered during the year at the February, July and November 2015 meetings, and again at the February 2016 meeting in relation to our financial statements. These included:

– the accounting judgements, estimates and assumptions in relation to revenue recognition, retirement benefit obligations and taxation. Further detail on these areas can be found in the consolidated financial statements; and
– other accounting issues, namely in relation to application of accounting policies or accounting treatment for capital expenditure and consumable parts. Where applicable our accounting policies are set out in the relevant note to the consolidated financial statements.

The Committee met twice in the absence of management with each of the external auditor (February and July) and internal auditor (April and November). No matters of concern were drawn to the Committee's attention at any of these meetings. The Committee's understanding with both the external and internal auditor is that, if they should at any time become aware of any matters giving them material concern, they will immediately draw it to the Committee's attention via the Chairman of the Committee. Nothing was subject to this procedure in the course of the year.

Review of Audit Committee effectiveness by members

In line with the Financial Reporting Council's Guidance on Audit Committees, the Committee undertook a review of its own effectiveness and concluded that the composition of its membership, the manner in which it operates and the reviews that it undertakes throughout the year all contribute to the continued effective functioning of the Committee.

Fair, balanced and understandable view

The Committee reviewed the content of this Annual report and accounts and advised the Board that, in its view, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

External auditor effectiveness

The Committee reviewed the effectiveness of the external auditor, Deloitte LLP. This process incorporated feedback from management and key individuals across the Group, as well as its own experience. The assessment considered the robustness of the audit process, the quality of delivery of the audit plan, the quality of reporting on findings and recommendations to the Committee and management, and the experience and expertise of the audit team and the quality of service provided.

Having reviewed Deloitte's performance during the year and satisfied itself of their continuing independence and objectivity within the context of applicable regulatory requirements and professional standards, the Committee has invited the Board to recommend the reappointment of Deloitte LLP as auditor at the next Annual General Meeting (AGM) and a resolution to that effect appears in the Notice of the AGM.

Independence of the external audit

The Group has an Auditor Independence Policy (the Policy), in accordance with which the Committee annually reviews the quality and cost-effectiveness of the external audit and the independence and objectivity of the external auditor. The Policy can be found on the Company's website at www.drax.com.

The provisions of the Policy include:

– seeking confirmation that the auditor is, in its professional judgement, independent of the Group and obtaining from it an account of all relationships which may affect the firm's independence and the objectivity of the audit partner and staff;
– a policy governing the engagement of the auditor to conduct non-audit work under which:
  • the auditor may not be engaged to provide certain categories of work, including those where they may be required to audit their own work or make management decisions, or where the auditor would act in an advocacy role for the Group;
  • there is a clear process of approval for engaging the auditor to conduct other categories of non-audit work, subject to financial limits;
  • all engagements of the auditor to conduct non-audit work are reported to the next meeting of the Committee;
  • the balance between the fees paid to the external auditor for audit and non-audit work is monitored by the Committee; and
– a policy on the employment by the Group of former employees of the external auditor, the essence of which is to require a period of two years to elapse between the cessation of an individual's association with the auditor and appointment to any financial reporting oversight role within the Group.

Audit Committee report continued

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

Details of the amounts paid to the external auditor during the year for audit and other services are set out in note 2.2 to the consolidated financial statements on page 114. The external auditor is required to rotate the audit partner responsible for the Group audit every five years and the current audit partner, James Leigh, is in his second year of tenure and took responsibility with effect from the 2014 audit.

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

Audit tendering

In accordance with the requirements of Regulation 537/2014 of the European Parliament and Council we will put the audit of the 2017 financial statements out to tender later this year, with a view to making a recommendation to shareholders at the 2017 AGM that the firm selected as a result of the tender is appointed to audit the 2017 financial statements.

Internal audit

During 2015, the Group's internal audit function was undertaken by Grant Thornton UK LLP.

The Committee receives reports at each meeting regarding the internal audit programme and reviews undertaken. Recommendations are made to management for process improvements as appropriate. Topics dealt with by internal audit reports reviewed by the Committee during 2015 included:

- Business continuity planning
- Key financial controls over expenditure, VAT and fixed assets
- Retail credit management
- Payroll taxes and Senior Accounting Officer controls

In addition, at the April and November meetings the Committee received reports detailing progress in implementing recommendations previously raised by internal audit. Following the most recent of these updates in November 2015, the Committee was satisfied that management is taking appropriate steps to deal with the recommendations raised.

The Committee periodically reviews whether the internal audit function is likely to be more effective or efficient if provided internally.

The Chairman of the Committee, independent of management, maintains regular and direct contact with both the internal and external auditor.

This report was reviewed and approved by the Audit Committee on 22 February 2016.

David Lindsell
Chairman of the Audit Committee

Remuneration Committee report

The management team, and indeed the staff as a whole, have continued to pursue resolutely the Company's biomass conversion strategy and to operate our three separate businesses well.

Role of the Committee

The Committee's principal responsibilities are:

- recommending to the Board the remuneration strategy and framework for the executive directors and members of the Executive Committee;
- determining, within that framework, the individual remuneration packages for the executive directors and members of the Executive Committee;
- approval of the design of annual and long-term incentive arrangements for executive directors and senior managers, including agreeing the annual targets and payments under such arrangements;
- determining and agreeing the general terms and conditions of service and the specific terms for any individual within the Committee's remit, either on recruitment or on termination;
- determining the policy for, and scope of, executive pension arrangements; and
- to oversee any major changes in employee benefit structures throughout the Group and review remuneration trends across the Group.

Chairman	Tony Thorne
Committee members	Tim Cobbold, Philip Cox, Melanie Gee, David Lindsell
Attending by invitation	Group Chief Executive, Head of Human Resources, external remuneration advisers.
Number of meetings held in 2015	6

The Group Company Secretary acts as Secretary to the Committee.

Terms of reference

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

Attendance in 2015

	Date appointed a member	Maximum possible meetings	Number of meetings attended	% of meetings attended
Charles Berry	15 December 2005	3	3	100%
Tim Cobbold	27 September 2010	6	5	83%
Philip Cox	22 April 2015	3	3	100%
Melanie Gee	1 January 2013	6	6	100%
David Lindsell	1 December 2008	6	6	100%
Tony Thorne	29 June 2010	6	6	100%

Note:
(1) Charles Berry retired as a director and Committee member on 22 April 2015.

Annual statement to shareholders from the Chairman of the Remuneration Committee

2015 has been a challenging year for the Company and for the management team. In particular, changes made by the government to the regulatory support for renewable generation and weak commodity markets have had an adverse impact on financial performance. Earlier sections of the Annual report set out in detail the operational and financial performance. The management team, and indeed the staff as a whole, have continued to pursue resolutely the Company's biomass conversion strategy and to operate our three separate business units well. It has therefore been a year in which there has been a high measure of achievement in aspects within management's control, but factors outside management's control have damaged financial performance and the value of the business. The Committee has sought to reflect this position in applying our remuneration policy with the aim of ensuring that management is fairly rewarded for their actions, but also taking proper account of the fact that our shareholders have suffered a significant fall in the value of their investment.

Base salaries

Base salaries were reviewed with effect from 1 April 2015. In line with policy, Dorothy Thompson's, Tony Quinlan's and Paul Taylor's salaries were reviewed and increased by 2%. This was below the average level of increases for other employees.

The policy allows exceptions where a higher increase is justified by particular circumstances. In line with this, Peter Emery's salary was increased by 5% to reflect the increasing scope of his Group-wide role.

Assessment of performance-related remuneration relating to 2015

There is a detailed review of performance against scorecard measures on page 85.

Financial performance was adversely affected by loss of Levy Exemption Certificate revenue and by further weakening in the commodity markets. Performance against quantitative measures which management can control has been generally good.

Remuneration Committee report continued

Strong safety performance is noteworthy given the large planned maintenance schedule at Drax Power and the first year of commercial operation at Drax Biomass. Although forced outage rates at Drax were higher than originally forecast this was largely because of the changes to the operating regime adopted in the lower margin environment. Drax Biomass made steady progress although it was hampered by adverse weather conditions in the southern United States.

Strong sustainability performance in the biomass supply chain is critical to the Group's strategy. We were therefore pleased at progress on certification processes and that there were no material audit discrepancies.

It has been a particularly difficult year in political and regulatory matters. The UK government's change of policy on exempting renewable energy from the CCL affected revenues at both Drax Power and Haven Power. In addition, one of the Scorecard measures was regulatory progress, including the outcome of the process to complete the award of the investment CfD allocated to one of Drax's generating units as part of the government's energy market reform measures. The European Commission confirmed in January 2016 that the State Aid application would be referred to a Phase 2 investigation. A score of zero has been attributed to this regulatory progress measure.

Components within the Scorecard can be scored between zero and 2.0. A score of 1.0 represents an on-target performance and the overall score in any year is capped at 1.5. For 2015 we assessed the overall performance score at 0.76.

The Board has a discretion to adjust the performance score in light of matters not reflected in the Scorecard. The Committee agreed that the score was a reasonable reflection of the Company's performance and we decided not to make a discretionary adjustment.

In considering directors' personal performance against objectives, we agreed that there were no individual circumstances of exceptional over or under performance, and that the usual policy approach of a single score was fair.

The directors' performance score can be between zero and 1.5 and in 2015 it was assessed at 1.2.

The Committee's application of the Scorecard and personal performance assessment resulted in annual bonus payments to executive directors of approximately 91.2% of target, or 45.6% of maximum.

Vesting of 2013 Bonus Matching Plan awards

The Committee has also considered the vesting of the Bonus Matching Plan (BMP) awards made in 2013, which were conditional upon performance over the three years from the start of 2013 to the end of 2015. The awards are 50% based on the Company's relative Total Shareholder Return (TSR) performance and 50% on the three-year average of the Balanced Corporate Scorecard. The Company's TSR over the period was below the median of the comparator group, and the Committee therefore confirmed that none of the TSR element of the award would vest. The Balanced average scorecard score over the same period was 1.17.

The Committee has a discretion to adjust the average to reflect achievement of strategic objectives over the three-year period. We considered this and decided not to exercise discretion to adjust the average score. The Committee determined that 43.33% of the Scorecard award element would vest. Therefore, based on the performance measures, the Committee determined that 21.66% of the executive directors' 2013 BMP awards will vest at or shortly after the third anniversary of their date of grant.

Board changes

The Committee also needed to consider remuneration matters arising from the appointments of Will Gardiner and Andy Koss, and the departures from the Board of Charles Berry, Peter Emery, Tony Quinlan and Paul Taylor.

Will Gardiner's remuneration is in line with the remuneration policy at an annual base salary of £390,000. The Committee considers that this is at the appropriate market level. Andy Koss has been appointed as a director with effect from 1 January 2016. The Committee determined his salary at £310,000, which we assessed to be below the market level, which is appropriate as this is Andy's first appointment at Board level.

Details of all payments made to directors who left the Board during 2015 have been included on the Company's website, and are disclosed in the later sections of this report.

No termination payments were made to Charles Berry or Tony Quinlan, although the Committee did exercise its discretion in favour of Tony Quinlan to allow the vesting of his deferred bonus awards on a pro-rata basis.

Peter Emery left the Company on 31 December 2015 having completed the process of implementation of Group-wide operational standards across the different businesses under the new management structure. The Committee reviewed and approved payments to be made to him in accordance with his service agreement. The Company elected to make a payment in lieu of notice, which will be phased, giving the Company the opportunity to offset future earnings. As the termination of his service followed from the Company's management reorganisation, the Committee agreed that he should be treated as a "good leaver" under the BMP.

Paul Taylor has relinquished his role as Retail and Trading Director but he remains with the Company in a part-time role. Awards previously made to him under the BMP will vest, or not as the case may be, subject to achievement of the conditions and at their normal vesting dates.

2016 targets and long-term incentives

The Committee also considered targets for 2016. These have been established to be at least as challenging as those for 2015. A description of the 2016 corporate targets is set out on page 92, with such detail as can be provided whilst safeguarding commercial confidentiality.

The Committee also agreed to the grant of 2016 BMP awards to the executive directors to the value of 150% of their 2015 annual bonus, and subject to the same performance conditions as described in the policy section of this report.

Directors' remuneration policy

This remuneration policy was approved by shareholders at the 2014 Annual General Meeting (AGM). It became effective from immediately after the AGM on 23 April 2014 and binding upon the Group until the close of the 2017 AGM. There are no planned changes to the policy over the three-year period to which it relates.

The core principles of the remuneration policy are to:
- give effect to existing remuneration commitments in accordance with directors' contracts of employment;
- pay market rates of total remuneration;
- ensure that there is an appropriate link between performance and reward;
- award annual bonuses which are linked to the delivery of the annual Business Plan targets including the achievement of strategic objectives and personal performance;
- ensure that long-term incentives are linked to TSR and to the delivery of Business Plan strategic objectives;
- ensure that payments on termination of employment are linked to performance and the exercise of good faith; and
- allow the Committee an element of discretion to enable recruitment or termination situations to be managed in the best interests of the Group.

This Directors' Remuneration Report has been prepared in accordance with Schedule 8 to the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations in 2013 (the Regulations) and the provisions of the 2012 UK Corporate Governance Code.

SECTION 1

Key components of remuneration

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

The following table sets out the policy relating to the key components of executive director remuneration:

Remuneration component	How this component relates to Group strategy	How this component operates in practice	Performance measures and maximum potential value
i) Base salary	Base salary helps to attract, reward and retain the right calibre of executive to deliver the leadership/management needed to execute the Group's vision and business plan.	Base salary reflects the role, the executive's skills and experience, and market level. To determine market level, the Committee reviews remuneration data on executive positions at companies which the Committee considers to be appropriate comparators. The comparator companies are selected, with advice from the Committee's remuneration advisers, taking into account relevant comparator factors such as, but not limited to, sector, size, and international presence. On appointment, an executive director's base salary is set at the market level, or below if the executive is not fully experienced at this level. Where base salary on appointment is below market level to reflect experience, it will over time, be increased to align with the market level, subject to performance. Base salaries of all executive directors are generally reviewed once each year. Reviews cover: individual performance; experience; development in role; and market comparisons.	The base salaries of executive directors in post at the start of the policy period and who remain in the same role throughout the policy period will not usually be increased by a higher percentage than the average annual percentage increase in salaries of all other employees in the Group. The only exceptions are where: (i) an executive director has been appointed at below market level to reflect experience. In this case, the maximum annual increase to base salary will be 5% over the normal maximum; or (ii) there is a particular reason for a higher increase, such as a change in the scope or nature of responsibilities. In the case of the Production Director and the Retail and Trading Director, some further adjustment is envisaged to reflect increasing scope of roles and increasing experience. The maximum increase to base salary in any year will be 5% over the normal maximum.

Remuneration Committee report continued

Remuneration component	How this component relates to Group strategy	How this component operates in practice	Performance measures and maximum potential value
ii) Annual bonus	The award of annual bonuses is directly linked to personal performance and to the achievement of the annual Business Plan targets. The multiplicative formula is designed to ensure that bonus payments for high personal performance are moderated where business performance is below target, or vice versa. **Clawback** The Committee may require a director to repay to the Company such amount of any annual bonus payment as it considers appropriate in circumstances of financial misstatement, misconduct or if assessment of a performance condition is found to have been based on an error, inaccuracy or misleading information, or in other circumstances that the Committee considers to justify the operation of the clawback provision. In these circumstances, Bonus Matching Plan (BMP) clawback provisions may also apply (see BMP below).	Strategic and Business plan targets are set by the Board as part of the Business Plan approval process. The Committee determines Group performance measures using a Scorecard. The Scorecard shows executive directors' annual targets and measures of performance (low, target and stretch), and weightings. Score is zero if performance is below the low measure. Maximum score is attributed to the stretch measure. The Scorecard is amended each year in line with business strategy and objectives. Summary Scorecard and performance results are published in the Annual report on remuneration. To determine the actual bonus awards, the following formula is used: **Chief Executive's bonus** Target bonus is 75% of base salary Actual bonus = basic salary x 75% x company score x personal score Bonus is capped at 150% of salary **Other directors' bonus** Target bonus is 70% of salary Bonus = basic salary x 70% x company score x personal score Bonus is capped at 140% of salary	Role – Maximum bonus potential (% of base salary) Chief Executive – 150% Finance Director – 140% Production Director – 140% Retail and Trading Director – 140% **Group performance measures** Group performance measures include financial, production, strategic and other Business Plan objectives. These measures and weightings are determined by the Board and adopted by the Committee. **Individual performance measures** The Remuneration Committee determines the personal objectives for the Chief Executive. The Chief Executive proposes personal objectives for the other executive directors, which are reviewed and approved by the Remuneration Committee. Generally, all executive directors will be awarded a single score based on their collective performance in providing effective day-to-day leadership of the Group as a unified leadership team. Personal scores may differ in circumstances of exceptional over or under performance.
iii) Deferred annual bonus	This is the deferred portion of annual bonus. The aim of deferral is to further align executives to the interests of shareholders, by linking share-based reward to long-term sustainable performance.	35% of any annual bonus is settled in shares deferred for three years. No performance conditions are used other than continued service. If the executive leaves the Group before the normal vesting day, the shares will vest (pro rated to the date of leaving) only if the termination is for a specified reason including redundancy, retirement or death in service, or, if for any other reason, at the discretion of the Committee. In any other circumstances the award is forfeited.	100% of the shares will vest subject to continued employment up to the date of vesting.

Remuneration component	How this component relates to Group strategy	How this component operates in practice	Performance measures and maximum potential value
iv) Bonus Matching Plan (BMP)	This is the long-term incentive plan for executives. It links long-term share-based incentives to Total Shareholder Return (TSR) and to the achievement of Business Plan strategic targets.	The Bonus Matching Plan (BMP) is a long-term performance share plan. Under the BMP, executive directors receive an annual grant of conditional shares to a value of up to 1.5 times the amount of the executive's annual bonus for the prior year. It is the Committee's policy to grant BMP awards to executive directors at 1.5 times the amount of the annual bonus unless the performance of the director or of the business makes an award at that level inappropriate. No payment is made for the shares. Vesting is conditional upon service and performance conditions, and shares vest on the third anniversary of the grant subject to the achievement of performance conditions determined by the Committee. To the extent that vesting is determined by reference to Company Scorecard performance, at the end of the three-year performance period, the Committee will review each of the annual results going into an average Scorecard calculation and has the discretion to adjust the final outcome based on events over the period to ensure that the result is consistent with the underlying performance progression of the business. In exercising its discretion the Committee will have particular regard to progress against the strategic objectives incorporated in the Scorecard. If the executive leaves the Group before the normal vesting day, the shares will vest (pro rated to the date of leaving and phased over the normal cycle of the performance periods) only if the termination is for a specified reason including redundancy, retirement or death in service, or, if for any other reason, at the discretion of the Committee. In any other circumstances the award is forfeited. **Performance condition override** The Committee will include an override provision in each grant under the BMP. This will give the Committee discretion to determine that no vesting shall occur or vesting shall be reduced if there are circumstances (relating to the Company's overall performance or otherwise) which make vesting as calculated by reference to the performance conditions alone inappropriate. **Clawback** If a repayment of bonus is required (see "annual bonus" above) the Committee shall also make an appropriate reduction in the number of shares that may vest under the BMP (in respect of an award made pursuant to the annual bonus payment subject to the clawback). The Committee may also reduce the number of shares under a BMP award in circumstances of financial misstatement, or if assessment of a performance condition is found to have been based on an error, inaccuracy or misleading information, or in other circumstances that the Committee considers to justify the operation of the clawback provision.	Maximum number of shares granted equals shares to the value of 1.5 times annual bonus for prior year. Maximum vesting of shares three years later is subject to performance. There are two vesting performance measures (vesting threshold is 15% in both measures): i) up to 50% of shares vest subject to TSR performance over three years relative to FTSE 51–150 as follows: Below median = 0% vesting At median = 15% vesting (threshold) Upper quartile = 100% vesting. ii) up to 50% of shares vest subject to Company Scorecard performance averaged over the three-year performance period, as follows: Score <1 = 0% vesting Score 1 = 15% vesting (threshold score) Score 1.5 = 100% vesting The three-year average Company performance score is capped at 1.5. Example: Year 1 Score 1.8 Year 2 Score 1.4 Year 3 score 1.4 Three-year BMP performance score = 1.5 For both the TSR and Scorecard conditions vesting between 15% and 100% is on a straight-line interpolation. In accordance with the rules of the BMP, Dividend Shares are awarded at the time and in the event that shares vest. They are calculated based on the dividends paid following the initial award until the award vests.
v) Pension	Pension provision is one of the components to attract, reward and retain the right calibre of executive in order to ensure delivery of the leadership and management needed to execute the Group's vision and Business Plan.	Executive directors are entitled to non-contributory membership of the Group's defined contribution pension plan. The employer's contribution for executive directors is 20% of base salary. Alternatively, at their option, executive directors may either have contributions of the same amounts made to their personal pension schemes or cash in lieu of pension at the stated rate and subject to normal statutory deductions; or a combination of pension contributions up to the HMRC Annual Allowance with the remainder as cash in lieu of pension.	Maximum is 20% of base salary.

Remuneration Committee report continued

Remuneration component	How this component relates to Group strategy	How this component operates in practice	Performance measures and maximum potential value
vi) Other benefits	In general, other benefits aim to align directors' total remuneration broadly with the market. In particular, all employee share plans incentivise sustained long-term performance and strengthen teamwork by enabling all employees to share in the success of the business. The plans are vehicles for aligning staff remuneration with TSR performance.	Executive directors receive a car allowance, life assurance (four times salary), the opportunity to participate in all-employee share plans on the same basis as other employees, annual private health assessment and annual private medical cover. Relocation expenses and/or second base expenses are paid where appropriate in individual cases. Directors' relocation expenses are determined on a case-by-case basis. The policy is designed to assist the director to relocate to a home of similar standing.	
vii) Share ownership	The Group's share ownership guidelines align the interests of executives with shareholders.	The share ownership guideline is that the Chief Executive should retain shares to the value of 175% of base salary and other directors should retain shares to the value of 125% of base salary. Until this level is reached, directors who receive shares by virtue of share plan awards or who receive deferred bonus shares must retain 50% of the shares received net (i.e. after income tax and national insurance contributions). Only shares that have actually vested count towards the threshold.	

Differences between the policy and that of the remuneration of employees generally

The following differences apply between the remuneration of directors and the policy on the remuneration of employees generally:

- executive directors and a number of senior employees are eligible for BMP. However, there are differences in terms of levels of grant;
- annual bonus levels vary across the workforce, and the requirement to defer a portion of annual bonus applies only to executive directors;
- employees in the collective bargaining unit have a contractual right to receive an annual bonus subject to Company performance and continued employment, whereas directors and all other UK-based employees participate in a discretionary bonus scheme; and
- hourly paid employees qualify for overtime payments.

Non-executive directors

Remuneration component	How this component operates in practice
Annual fee	The remuneration of the Chairman is determined by the Committee whilst that of the other non-executive directors is determined by the Chairman and the executive directors. These are determined in the light of: – fees of chairmen and non-executive directors of other listed companies selected for comparator purposes on the same basis as for executive directors; – the responsibilities and time commitment; and – the need to attract and retain individuals with the necessary skills and experience.
	The Chairman receives an annual fee.
	Non-executive directors receive an annual base fee.
	Additional annual fees are paid: – to the Senior Independent Director (which includes the fee for chairing a Board Committee other than the Audit Committee); – to the Chair of the Audit Committee; – to the Chair of the Remuneration Committee; and – to the Chair of any other Committee (this is not paid to the Chairman of the Nominations Committee if he or she is also the Chairman of the Board).
	Non-executive directors' fees are reviewed periodically against market comparators. They were last reviewed in 2014. Current fee levels are shown in the annual report on remuneration.
	Non-executive directors are not entitled to participate in any performance related remuneration arrangements.
Travel expenses	Reimbursement of reasonable travel and accommodation expenses as applicable.

Non-executive directors do not receive any benefits in kind, nor are they eligible for any annual performance bonus, pension or any of the share-based reward plans. The Chairman's notice period is six months whilst the other non-executive directors have a notice period of one month.

SECTION 2

Approach to recruitment remuneration

The Committee will apply the core principles on page 77 and the remuneration components set out in the table on pages 77 to 80 to determine the remuneration of newly appointed directors. Base salary will be set at a level appropriate to the role and the experience of the director being appointed. Where this is below the market level, it will be adjusted over time to align with the market level, subject to good performance. In relation to directors appointed from outside the Company, where the Committee considers it to be necessary to secure the appointment of the director, the Committee may:

- pay "sign-on" compensation for loss of benefits on resignation from a previous employer, such as loss of long-term share incentives (subject to the right to phase any payment to reflect performance, the requirement to mitigate loss and the right of the Company to clawback any amount which is subsequently paid to the executive by the former employer, and to clawback an appropriate proportion of the payment if the executive leaves soon after appointment); and
- make appropriate payments in circumstances where a director is relocated from outside the UK.

SECTION 3

Service agreements

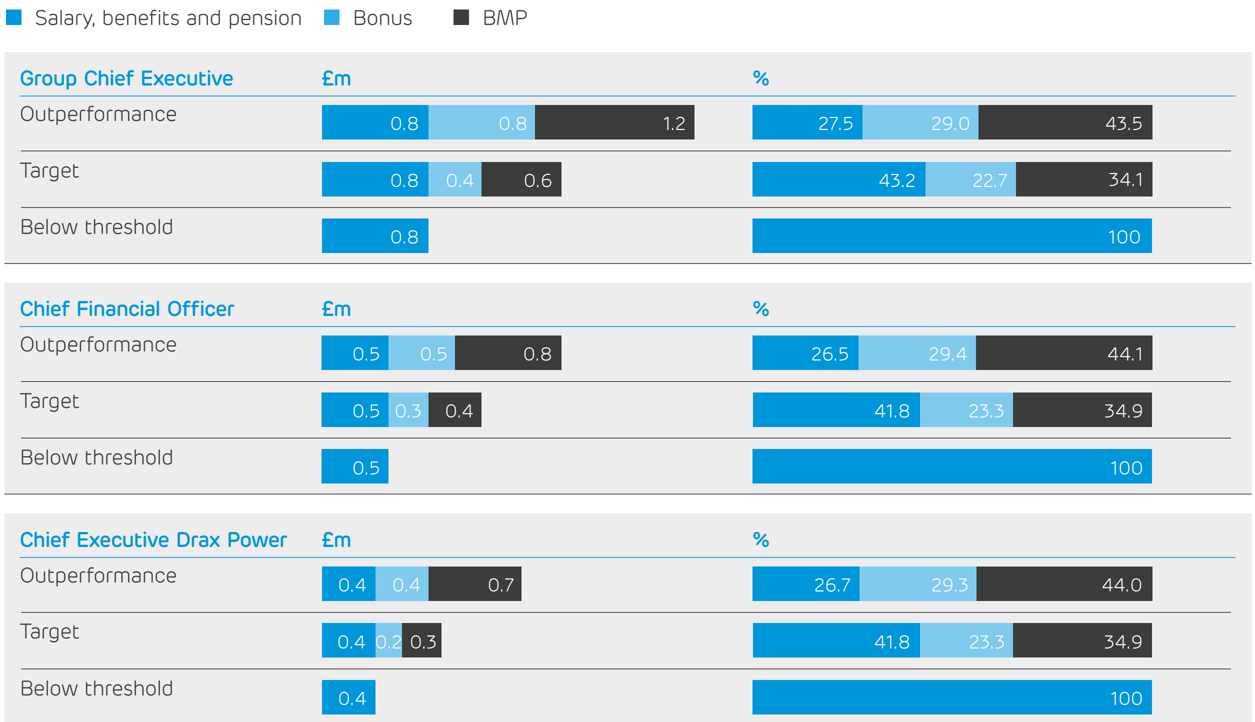
Executive directors' service agreements are of indefinite duration, terminable at any time by either party giving 12 months' prior notice.

Under each of the executive directors' service agreements the Company has the right to make a payment in lieu of notice of termination, the amount of that payment being the salary and benefits that would have accrued to the executive director during the contractual notice period.

SECTION 4

Remuneration scenarios

The composition and value of the executive directors' remuneration packages at below threshold, target and outperformance scenarios under the Drax Group remuneration policy are set out in the charts below:



Notes:
(1) Actual earnings are not used in these scenarios.
(2) Annual bonus threshold is assumed at 25% of maximum, target at 50% of maximum and outperformance at 100% of maximum bonus.
(3) The BMP award threshold is assumed at 15% of maximum award and outperformance 100% of maximum, with target representing the average of the two.
(4) The award of conditional shares under the BMP is 150% of the bonus award made under the assumptions shown at note 2.

Remuneration Committee report continued

SECTION 5

Policy on loss of office

If an executive director's employment is brought to an end by either party and if it is necessary to determine a termination payment, the Committee's policy, in the absence of a breach of the service agreement by the director, is to determine a director's termination payment in accordance with his/her service agreement. The termination payment will be calculated based on the value of base salary and contractual benefits that would have accrued to the director during the contractual notice period. The Committee will seek mitigation to reduce the amount of any termination payment to a leaving director when appropriate to do so, having regard to the circumstances and the law governing the agreement. It may, for example, be appropriate to consider mitigation if the director has secured another job at a similar level. Mitigation would not be applicable retrospectively to a contractual payment in lieu of notice.

In addition, the director may be entitled to a payment in respect of his/her statutory rights. No service agreement includes any provision for the payment of compensation upon termination. Any compensation payable in those circumstances would need to be determined at the time and in the light of the circumstances.

All bonus payments are discretionary benefits. The Committee will consider whether a departing director should receive an annual bonus in respect of the financial year in which, and/or immediately preceding which, the termination occurs, pro-rated to reflect the period of the performance year completed at the date of termination. The Committee will take into account performance; co-operation with succession; and any breach of goodwill and adherence to contractual obligations/restrictions. If the termination is by the Company on less than the specified notice in the director's service agreement, the Committee will also consider whether the director should receive an annual bonus in respect of any period of the financial year following termination for which the director has been deprived of the opportunity to earn annual bonus. If the employment ends in any of the following circumstances, the director will be treated as a "good leaver" and the director will be eligible for a bonus payment:

- redundancy;
- retirement;
- ill-health or disability proved to the satisfaction of the Company; and
- death.

If the termination is for any other reason a bonus payment will be at the discretion of the Committee. It is the Committee's policy to ensure that any such bonus payment properly reflects the departing director's performance and behaviour towards the Company. Therefore the amount of any such payment will be determined as described in the table on page 78, taking into account (i) the director's personal performance and behaviour towards the Company and (ii) the Group performance. If a bonus payment is made, it will normally be paid as soon as is reasonably practicable after the Group performance element has been determined for the relevant period. There may be circumstances in which the Committee considers it appropriate for the bonus payment to be made earlier, for example, on termination due to ill-health, in which case, on-target Group performance score shall be assumed.

No element of any such bonus payment shall be deferred.

The Committee will consider the extent to which deferred and conditional share awards held by the director under the BMP should lapse or vest. Any determination by the Committee will be in accordance with the rules of the BMP (as approved by shareholders). In summary, the rules of the BMP provide that awards will vest (pro-rated to the date of employment termination) if employment ends for any of the following reasons:

- redundancy;
- retirement;
- ill-health or disability proved to the satisfaction of the Company;
- change of ownership; and
- death.

If employment ends for any other reason, the rules of the BMP require the Committee to exercise its discretion. In doing so it will take account of all relevant circumstances, in particular the performance of the Company; the director's performance and behaviour towards the Company during the performance cycle of the relevant awards; as well as a range of other relevant factors, including the proximity of the award to its maturity date. The rules of the BMP also provide that in circumstances where awards vest, deferred bonus shares vest as soon as reasonably practicable following termination. Awards, which vest subject to satisfaction of the relevant performance conditions, will be (time) pro-rated and will be phased over the performance cycle of the relevant awards.

The Committee will consider whether the overall value of any benefits accruing to a leaving director is fair and appropriate taking account of all relevant circumstances. Examples of circumstances in which the Committee may be minded to award an annual bonus payment and/or permit the vesting of BMP awards include:

- the director's continued good performance up to and following the giving of notice; and
- the director accommodating the Company in the timing of his/her departure and handover arrangements.

Conversely, the Committee may be minded not to allow such payments if the reason for the departure is:

- poor performance; or
- the director does not continue to perform effectively following notice; or
- the director is departing to join a competitor.

SECTION 6

Context

Wider employee population

In determining executive remuneration, the Committee also takes into account the level of general pay increases within the Group.

It is the Committee's policy that annual salary increases for executive directors should not exceed the average annual salary increase for the wider employee population unless there is a particular reason for a higher increase, such as a change in the nature or scope of responsibilities.

Views taken from the employee population
In the course of discussions on pay with employee representatives, the Group discusses executive remuneration policy and provides details of the process by which the Committee establishes executive remuneration packages. The information provided includes details of the benchmarking of executive director remuneration as well as information benchmarking the pay of employees in the collective bargaining unit with pay elsewhere in the industry.

Environmental, social and governance issues
The Committee is able to consider corporate performance on environmental, social and governance issues when setting the remuneration of executive directors. Specific measures can be included in the balanced Corporate Scorecard. The Committee is able to consider those issues in considering whether to exercise its discretion to adjust the overall score, and in considering the performance conditions override under the BMP, as described on page 79.

Shareholder engagement
The Company holds regular meetings with its largest shareholders, and the Committee takes into account any views or representations of shareholders relating to executive remuneration. The Company has consulted its 10 largest shareholders in relation to the formulation of its directors' remuneration policy.

Annual report on remuneration
The relevant sections of this report have been audited as required by the Regulations.

Base salaries
The base salaries of the executive directors as at 31 December 2015 together with comparative figures as at 31 December 2014 are shown in the following table:

	Base salary As at 31 December 2015 (or date of leaving if earlier) £000	Base salary As at 31 December 2014 £000	Percentage increase
Peter Emery	347	330	5.0%
Will Gardiner (appointed a director 16 November 2015)	390	–	–
Tony Quinlan (ceased to be a director 31 May 2015)	390	383	2.0%
Paul Taylor	283	278	2.0%
Dorothy Thompson	574	563	2.0%

Annual fees
The Chairman's fees were determined by the Committee prior to Philip Cox taking over the role from Charles Berry and his annual fee was set at £250,000. Philip Cox became Chairman on 22 April 2015.

Non-executive directors' fees were last reviewed on 1 August 2015. Fee rates as at 31 December 2015 and 31 December 2014 are shown in the following table:

	Fees At 31 December 2015 £000	Fees At 31 December 2014 £000	Percentage increase
Chairman	250	230	4.5%
Non-Executive Director base fee	55	54	1.9%
Senior Independent Director(1)	10	10	0%
Audit Committee Chair	10	10	0%
Remuneration Committee Chair	10	10	0%
Nominations Committee Chair(2)	7.5	7.5	0%

Notes:
(1) This includes the fee for chairing a Board committee other than the Audit Committee.
(2) This is not paid if the Chairman of the Nominations Committee is also the Chairman of the Board.

Remuneration Committee report continued

Single total figure of remuneration for each director (Audited information)

The table below sets out the single figure of remuneration and breakdown for each executive director for 2015, together with comparative figures for 2014:

	Salary/Fees (£000)		Pension (£000)		Bonus[1] (£000)		BMP[2] (£000)		Other benefits (£000)		Total (£000)	
Name	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Peter Emery	343	324	69	63	144	339	47	255	20	19	623	1,000
Will Gardiner[3]	49	–	10	–	34	–	–	–	3	–	96	–
Tony Quinlan[4]	193	380	39	76	–	392	–	309	11	21	243	1,179
Paul Taylor	282	273	56	55	181	285	42	214	18	18	579	844
Dorothy Thompson	571	559	114	112	393	618	96	493	74	73	1,248	1,854

Notes:
(1) Bonus is the cash value of the annual bonus payable in respect of performance in the relevant year, including the value of bonus deferred and paid in shares after three years subject only to continued service with the exception of Peter Emery who did not receive the deferred element.
(2) BMP is the value of the BMP Matching Awards vesting in March 2016 together with the Dividend Shares in relation to those vested shares. The value is calculated based on the average share price over the last quarter of 2015.
(3) Will Gardiner was appointed as a director on 16 November 2015.
(4) Tony Quinlan resigned as a director on 31 May 2015 and his service agreement terminated on 30 June 2015. The figures disclosed are all payments up to 30 June 2015.

Full details of payments made on termination can be found on pages 88 to 89.

The table below sets out the single figure of remuneration and breakdown for each non-executive director for 2015 together with comparative figures for 2014:

	Board fee (£000)		Other fees (£000)		Total (£000)	
	2015	2014	2015	2014	2015	2014
Charles Berry[1] Chairman of Board Chairman of Nominations Committee	72	228	–	–	72	228
Philip Cox[2] Chairman of Board Chairman of Nominations Committee	190	–	–	–	190	–
Tim Cobbold	54	54	–	–	54	54
Melanie Gee	54	54	–	–	54	54
David Lindsell	54	54			74	74
Senior Independent Director			10	10		
Chairman of Audit Committee			10	10		
Tony Thorne	54	54			64	64
Chairman of Remuneration Committee			10	10		

Notes:
(1) Charles Berry retired as a director and Chairman of the Board at the conclusion of the Annual General Meeting on 22 April 2015. He received his annual fee, pro-rated to his date of leaving.
(2) Philip Cox was appointed as a director on 1 January 2015. His fee as a non-executive director was £54,000 per annum which was increased to £250,000 per annum upon his appointment as Chairman on 22 April 2015.

Details of performance against metrics for variable pay awards

Annual bonus plan outcome

A summary of the Committee's assessment in respect of the 2015 Scorecard is set out in the following table:

	Target weighting	Low target	Target	Stretch target	Outturn	Score
Group						
Safety						
Total recordable injury rate	5%	0.75	0.35	0.20	0.31	1.3
UK RIDDOR occurrences or equivalent	5%	15	8	4	2	2.0
Finance						
Group underlying earnings per share (pence per share)(1)	7.5%	3.1	9.8	15.8	11.0	1.2
Group underlying EBITDA (£m)	7.5%	150	180	210	169	0.6
Interest cover ratio	7.5%	4.0	6.31	8.0	9.0	2.0
Controllable costs (£m)	7.5%	216	211	206	219	0.0
Regulation						
Progress on critical regulatory matters	10%	Poor progress	Good, timely progress	Very good progress	0	0
Sustainability						
Improved understanding of biomass as a sustainable fuel and robust systems to verify sustainability	10%	No improvement, system defects	Improved, good systems.	Strong improvement, excellent systems	10%	1.5
Drax Biomass						
Pellet production compared to plant capacity, (000 tonnes) at year end(2)	10%	Below rated capacity	Rated capacity	Above rated capacity	Below rated capacity	0.0
Drax Power						
Coal winter forced outage rate	5%	7.6%	5%	2.4%	6.8%	0.3
Biomass unit gross margin gained/(lost) (£m)	10%	(7.3)	0.0	4.2	(6.0)	0.2
Biomass contracts secured and options exercisable 2015(3)	5%	Lower limit	At target	Stretch target	Between target and stretch target	1.6
Haven Power						
Sales for 2017–19 (TWh)	5%	12.0	16.0	20	16.0	1.0
Forecast wholesale equivalent discount to be retained (2016–19)	5%	10% below business plan	As business plan	10% above business plan	10% below business plan	0.0
Total weighting	100%					0.76

Notes:
(1) Calculated using underlying earnings, being profit attributable to equity shareholders adjusted to exclude the post-tax effect of unrealised gains on derivative contracts and asset obsolescence charges and the one-off settlement of CESP in 2014 (see note 2.6 to the consolidated financial statements).
(2) End year performance, target set at level commensurate with achieving both early end of construction and ahead of schedule ramp up to full capacity.
(3) Biomass performance, supply and development targets, and retail value added Business Plan are not disclosed because they are commercially confidential and disclosure may prejudice ongoing and future commercial negotiations.

Following this process, and based on the relative weightings and scores as set out in the table, the Committee assessed the corporate score for 2015 at 0.76. The Committee did not exercise its discretion to adjust the overall score.

Personal performance

The 2015 personal performance of the members of the Executive Committee, including the executive directors, was assessed relative to their individual performance in driving the performance of the business across the corporate scorecard categories. Key factors in the assessments were each individual's contribution to delivering the Group's strategy in the context of the Group's vision and values. In the view of the Remuneration Committee each of the members of the Executive Committee made a strong contribution in their specific areas of responsibility. This was notable both for those responsible for the operational business and those responsible for Group service functions.

The Remuneration Committee also assessed the performance of the Executive Committee as a team. It noted that there are a number of important areas where the team had made very good progress with self-help measures to mitigate the impact of the challenges from the severe weakening of the commodity markets and changes to regulation. These often entailed close co-operation between teams and businesses in different parts of the Group.

Remuneration Committee report continued

The Remuneration Committee concluded that, in light of the effective performance of the Executive Committee members as a team, it was appropriate to give the same personal performance score for all team members. A score of 1.2 was awarded representing a strong performance at an individual and team level.

Actual bonus awards for 2015

Executive director		Value of bonus[1] £000	2015 bonus payment (as a % of base salary)
Peter Emery	Group Operations Director	144	42
Will Gardiner[2]	Chief Financial Officer	34	9
Tony Quinlan[3]	Finance Director	–	–
Paul Taylor	Group Commercial Director	181	64
Dorothy Thompson	Group Chief Executive	393	68

Notes:
(1) The value of the bonus shown in the table above is made up of 65% paid in cash and 35% deferred into shares, except in the case of Peter Emery who does not qualify for deferred shares.
(2) Will Gardiner was appointed a director on 16 November 2015.
(3) Tony Quinlan resigned as a director on 31 May 2015.

Details of deferred bonus share awards (Audited information)

The following deferred bonus shares awarded in 2012 in respect of the 2011 annual bonus vested in 2015.

Executive director		Value of vesting[1] £000	Number of shares
Peter Emery	Group Operations Director	72	18,362
Tony Quinlan[2]	Finance Director	88	22,298
Paul Taylor	Group Commercial Director	61	15,431
Dorothy Thompson	Group Chief Executive	140	35,524

Notes:
(1) The value of the vesting is based on the share price (394 pence) at which the shares were subject to income tax and National Insurance Contributions on the vesting date.
(2) Tony Quinlan left the Company on 30 June 2015. He had Deferred Awards from 2013, 2014 and 2015 which vested upon leaving and were pro-rated from the date of the Award to the date of leaving. The total number of shares which vested from those Awards (including dividend shares) was 24,179 and the value of the vesting was £87,673, which was based on the share price (362.60 pence) which the shares were subject to income tax and National Insurance Contributions on the vesting date.

Detail of BMP incentive outcomes (Audited information)

Awards under the BMP which were subject to performance conditions which vested in 2015 were:

TSR performance condition: 0%	Scorecard performance condition: 80.16%

Directors' interests under the BMP

The table below shows the interests in the Company's BMP, as at 31 December 2015, of persons who were directors at the year end.

	As at 1 January 2015	Awards made during the year	Awards vesting during the year	Awards lapsing during the year	As at 31 December 2015	Face value of awards (£)
Peter Emery						
2012 Matching Award	99,937	–	40,624	59,313	–	–
2012 Deferred Award	16,656	–	16,656	–	–	–
Dividend shares awarded	–	5,871	5,871	–	–	–
2013 Matching Award	83,817	–	–	–	83,817	204,849
2013 Deferred Award	13,970	–	–	–	13,970	34,143
2014 Matching Award	67,936	–	–	–	67,936	166,036
2014 Deferred Award	11,322	–	–	–	11,322	27,671
2015 Matching Award	–	123,833	–	–	123,833	302,648
2015 Deferred Award	–	28,894	–	–	28,894	70,617
Total	**293,638**	**158,598**	**63,151**	**59,313**	**329,772**	805,964
Paul Taylor						
2012 Matching Award	83,981	–	34,138	49,843	–	–
2012 Deferred Award	13,996	–	13,996	–	–	–
Dividend shares awarded	–	4,934	4,934	–	–	–
2013 Matching Award	70,434	–	–	–	70,434	172,141
2013 Deferred Award	11,739	–	–	–	11,739	28,690
2014 Matching Award	57,089	–	–	–	57,089	139,526
2014 Deferred Award	9,514	–	–	–	9,514	23,252
2015 Matching Award	–	104,062	–	–	104,062	254,328
2015 Deferred Award	–	24,281	–	–	24,281	59,343
Total	**246,753**	**133,277**	**53,068**	**49,843**	**277,119**	677,280
Dorothy Thompson						
2012 Matching Award	193,332	–	78,589	114,743	–	–
2012 Deferred Award	32,222	–	32,222	–	–	–
Dividend shares awarded	–	11,362	11,362	–	–	–
2013 Matching Award	162,146	–	–	–	162,146	396,285
2013 Deferred Award	27,024	–	–	–	27,024	66,047
2014 Matching Award	131,425	–	–	–	131,425	321,203
2014 Deferred Award	21,904	–	–	–	21,904	53,533
2015 Matching Award	–	225,958	–	–	225,958	552,241
2015 Deferred Award	–	52,723	–	–	52,723	128,855
Total	**568,053**	**290,043**	**122,173**	**114,743**	**621,180**	1,518,164

Notes:
(1) In accordance with the BMP Rules, Dividend shares are only awarded, at the time and in the event that, awards actually vest. No Dividend shares are awarded where the initial awards lapse. The number of Dividend shares awarded is calculated based on the actual dividends paid to ordinary shareholders in the period following the initial award up until the award vests.
(2) The Deferred Awards referred to above are the share awards made in respect of the deferral of cash bonus awarded each year. Those share awards operate under the rules of the BMP.
(3) Details of the conditions subject to which the above awards will vest are given on page 79.
(4) The face value of the awards is calculated based on the share price on 31 December 2015, which was 244.4 pence per share.

Remuneration Committee report continued

The table below shows the interests in the Company's BMP, as at 31 December 2015, of persons who ceased to be directors during the course of the year.

	As at 1 January 2015	Awards made during the year	Awards vesting during the year	Awards lapsing during the year	As at 31 December 2015	Face value of awards (£)
Tony Quinlan						
2012 Matching Award	121,353	–	49,330	72,023	–	–
2012 Deferred Award	20,225	–	20,225	–	–	–
Dividend shares awarded	–	7,130	7,130	–	–	–
2013 Matching Award	101,778	–	–	101,778	–	–
2013 Deferred Award	16,963	–	13,214	3,749	–	–
Dividend shares awarded	–	926	926	–	–	–
2014 Matching Award	82,494	–	–	82,494	–	–
2014 Deferred Award	13,749	–	6,134	7,615	–	–
Dividend shares awarded	–	238	238	–	–	–
2015 Matching Award	–	143,408	–	143,408	–	–
2015 Deferred Award	–	33,461	3,602	29,859	–	–
Dividend shares awarded	–	65	65	–	–	–
Total	**356,562**	**185,228**	**100,864**	**440,926**	–	–

Notes:
(1) In accordance with the BMP Rules, Dividend shares are only awarded, at the time and in the event that, awards actually vest. No Dividend shares are awarded where the initial awards lapse. The number of Dividend shares awarded is calculated based on the actual dividends paid to ordinary shareholders in the period following the initial award up until the award vests.
(2) The Deferred Awards referred to above are the share awards made in respect of the deferral of cash bonus awarded each year. Those share awards operate under the rules of the BMP.
(3) Details of the conditions subject to which the above awards will vest are given on page 79.
(4) The face value of the awards is calculated based on the share price on 31 December 2015, which was 244.4 pence per share.
(5) Tony Quinlan left the Company on 30 June 2015. The Awards which vested were pro-rated from the date of the Award to the date of leaving. All other Awards lapsed.

Total pension entitlements for defined contribution schemes (Audited information)

Executive directors are entitled to non-contributory membership of the Group's defined contribution pension plan with either an employer contribution of 20% of base salary, or contributions to a personal pension, or cash in lieu of pension, or a combination of any of these up to a maximum contribution of 20% of base salary.

No director was a member of the defined benefit pension scheme.

Payments for loss of office

Charles Berry ceased to be a non-executive director and Chairman of the Board on 22 April 2015 following his retirement at the conclusion of the Company's Annual General Meeting. In 2015, he received his annual base fee of £230,000 as Chairman of the Board and a non-executive director, pro-rated for the period 1 January 2015 to his date of leaving. The actual fees received for the period are £71,556.

Peter Emery ceased to be a director of the Company on 31 December 2015 and his service agreement terminated on that date. Upon leaving the Company, he received the following payments, which were in line with the provisions of his service agreement and the Company's Remuneration Policy as set out in this report:

- Salary, pension payments and contractual benefits up to 31 December 2015 totalling £623,000.
- Payment in lieu of outstanding notice for the period 1 January 2016 to 10 November 2016 in respect of salary, pension payments and contractual benefits ("the PILON payment"). In accordance with the terms of his service agreement, the PILON payment (except that element which relates to bonus for the PILON period) will be made in instalments, with an initial payment of 50% of the PILON payment within 30 days of termination, a second instalment of 25% to be paid within six months of termination and a third instalment of 25% to be paid within nine months of termination. If he commences alternative employment before payment of any instalment, outstanding instalments will be reduced by the amount of the remuneration received in respect of the alternative employment.
- Annual bonus in respect of 2015 was determined in accordance with the Company's Remuneration Policy and is payable in March 2016 totalling £144,000.
- Annual bonus in respect of the PILON period (1 January 2016 to 10 November 2016) in accordance with his service agreement and determined in accordance with the Company's Remuneration Policy and payable in March 2017;
- Deferred Bonus Awards vesting in accordance with the leaver provisions of the BMP, pro-rated to 31 December 2015, the date on which he ceased to be an employee. On 6 January 2016, he received, in total, 30,081 shares (of which 14,189 shares were sold to meet income tax and National Insurance Contributions).
- Pro-rata vesting of performance related BMP Awards made in 2013, 2014 and 2015 to the extent that any such awards vest in accordance with the Rules of the BMP.

Tony Quinlan ceased to be a director of the Company on 31 May 2015 and his service agreement terminated on 30 June 2015, the date on which he left the Company. He received the following payments, which were in line with the provisions of his service agreement and the Company's Remuneration Policy as set out in this report:

- Salary, pension payments and contractual benefits up to 30 June 2015 totalling £243,000.
- The Committee exercised its discretion in accordance with the rules of the BMP and allowed outstanding Deferred Bonus Awards to vest in accordance with the BMP leaver provisions, pro-rated to the date on which he ceased to be an employee. On 2 July 2015, he received, in total, 24,179 shares (of which 11,162 shares were sold to meet income tax and National Insurance Contributions).

Paul Taylor ceased to be a director of the Company on 31 December 2015 and his service agreement terminated on that date. However, he will continue in employment on a part-time basis under new terms and conditions which are in line with the role. Upon ceasing to be a director he received the following payments, which were in line with the provisions of his service agreement and the Company's Remuneration Policy as set out in this report:

- Salary, pension payments and contractual benefits up to 31 December 2015.
- As Paul will continue as an employee, awards previously made to him under the BMP will continue and will vest, or not, as the case may be subject to the achievement of performance conditions at their future normal vesting dates. Paul will not be eligible for further BMP Award grants in his new role.

No other remuneration payment, or payment for loss of office has been or will be made to any of Charles Berry, Peter Emery, Tony Quinlan or Paul Taylor.

Shareholder voting

The table below shows the voting outcome for the Remuneration report at the Annual General Meeting held on 22 April 2015.

	For		Against		Votes withheld		Total	
	Shares	(%)	Shares	(%)	Shares	(%)	Shares	(%)
Approval of the annual report on remuneration	320,037,187	97.73	7,312,553	2.23	123,020	0.04	327,472,760	100.00

The Remuneration Policy is not due to be subject to a shareholder vote until the 2017 Annual General Meeting.

Statement of directors' shareholding and share interests (Audited information)

During the year, the shareholding guidelines required executive directors who receive shares by virtue of share plan awards or who receive deferred bonus shares to retain 50% of the shares received net (i.e. after income tax and National Insurance Contributions) until the value was equal to at least 175% and 125% of salary respectively for the Chief Executive and other executive directors. Only shares that have actually vested count towards the threshold.

In March 2015, immediately post the vesting of the 2012 BMP Awards, the shareholding guidelines were fully met to the extent that the value of the Chief Executive's shareholding was 207% of salary and each of the other executive directors held between 112% and 131% of salary. The following table shows the executive directors' shareholdings and share interests at 31 December 2015.

	Year ending 31 December 2015	Beneficial ownership of director or connected persons	Deferred Awards not subject to performance		BMP Awards subject to performance	Total
Name		Shares[2]	Share Awards[3]	Sharesave Options	BMP Share Awards	
Peter Emery	Number	101,657	54,186	–	275,586	431,429
	Value at year end[1]	£248,450	£132,431	–	£673,532	£1,054,413
Will Gardiner	Number	21,168	–	–	–	21,168
	Value at year end[1]	£51,735	–	–	–	£51,735
Paul Taylor	Number	77,953	45,534	–	231,585	355,072
	Value at year end[1]	£190,517	£111,285	–	£565,994	£867,796
Dorothy Thompson	Number	293,673	101,651	4,637	519,529	919,490
	Value at year end[1]	£717,737	£248,435	£11,333	£1,269,729	£2,247,234

Notes:
(1) Share price at 31 December 2015 was 244.4 pence per share.
(2) Includes, where applicable, shares held by the Trustee of the Drax Group plc Share Incentive Plan.
(3) The deferred share awards not subject to performance are the annual bonus deferred shares.

There is no shareholding requirement for non-executive directors. The table below shows the shareholding of the non-executive directors and their connected persons and the value as at 31 December 2015 when the share price was 244.4 pence per share.

Name	Number of shares	Value at year end
Tim Cobbold	1,000	£2,444
Philip Cox	60,000	£146,640
Melanie Gee	7,900	£19,308
David Lindsell	7,500	£18,330
Tony Thorne	7,500	£18,330

Remuneration Committee report continued

Service agreements

The following table shows for each person who was a director of the Company at 22 February 2016 or who served as a director of the Company at any time during the year ended 31 December 2015, the commencement date and term of the service agreement or contract for services, and details of the notice periods.

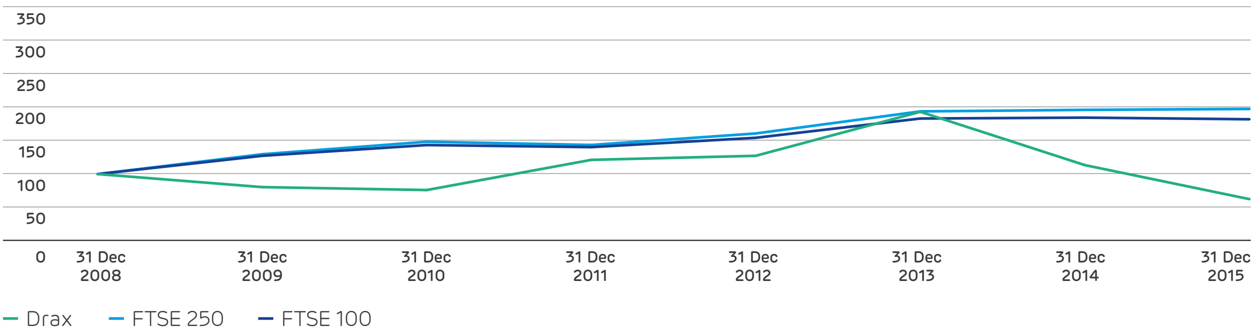
Director	Contract start date	Contract term (years)	Unexpired term at the date of publication (months)	Notice period by the Company (months)	Notice period by the director (months)
Charles Berry(1)	17 April 2014	3 years	Not applicable	6	6
Tim Cobbold	27 September 2013	3 years	7 months	1	1
Philip Cox	1 January 2015	3 years	1 year and 10 months	6	6
Peter Emery(2)	3 September 2013	Indefinite term	Not applicable	12	12
Will Gardiner(3)	16 November 2015	Indefinite term	Not applicable	12	12
Melanie Gee	1 January 2016	3 years	2 years and 10 months	1	1
Andy Koss(4)	1 January 2016	Indefinite term	Not applicable	12	12
David Lindsell	1 December 2014	3 years	1 year and 9 months	1	1
Tony Quinlan(5)	3 September 2013	Indefinite term	Not applicable	12	12
Paul Taylor(6)	3 September 2013	Indefinite term	Not applicable	12	12
Dorothy Thompson	3 September 2013	Indefinite term	Not applicable	12	12
Tony Thorne	29 June 2013	3 years	4 months	1	1

Notes:
(1) Charles Berry retired as Chairman and a director of the Company on 22 April 2015.
(2) Peter Emery ceased to be a director on 31 December 2015.
(3) Will Gardiner was appointed a director on 16 November 2015.
(4) Andy Koss was appointed a director on 1 January 2016.
(5) Tony Quinlan ceased to be a director on 31 May 2015.
(6) Paul Taylor ceased to be a director on 31 December 2015.

Value of £100 invested

The following graph shows how the value of £100 invested in the Company on 31 December 2008 has changed and compares that performance with the changing value of the same amount invested at the same time in the FTSE 100 and FTSE 250 indices. These indices have been chosen as suitable broad comparators against which the Company's shareholders may judge their relative returns given that, in recent years, the Company has been a member of both the FTSE 100 and FTSE 250 indices. The graph reflects the TSR (determined according to usual market practice) for the Company and each of the indices referred to on a cumulative basis over the period from 31 December 2008 to 31 December 2015.

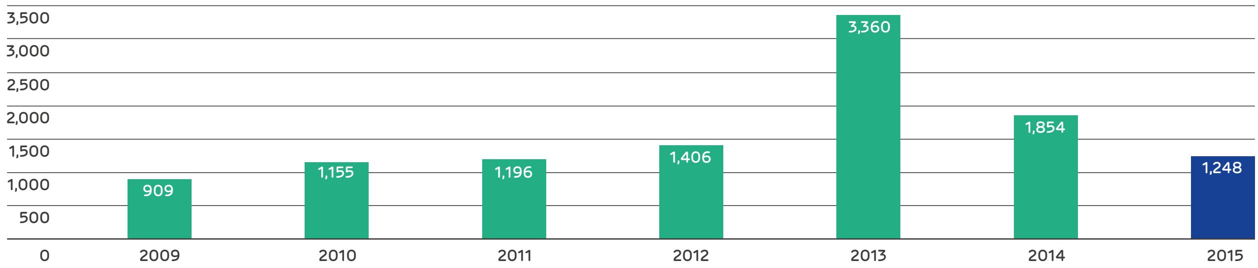
Drax seven year TSR data to 31 December 2015



Group Chief Executive's pay in last seven financial years

Year	2009	2010	2011	2012	2013	2014	2015
Dorothy Thompson's total single figure (£000)	903	1,155	1,196	1,406	3,360	1,854	**1,248**
Bonus % of maximum awarded	77.38%	100%	100%	100%	100%	73%	**45.6%**
BMP Matching Award % of maximum vesting	–	–	–	–	–	40.52%	**21.66%**

Group Chief Executive's total single figure in the last seven financial years (£000)



Percentage change in the Group Chief Executive's remuneration compared with the wider employee population

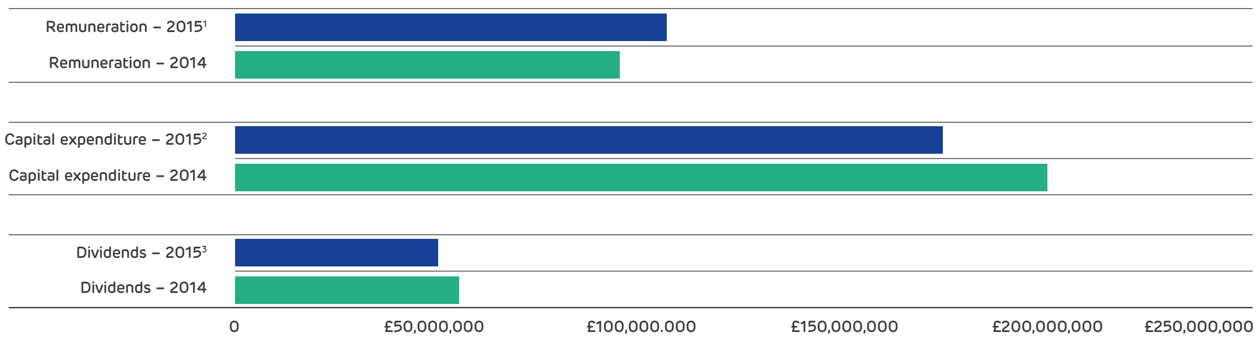
The table below shows how the percentage change in the Group Chief Executive's salary, benefits and bonus between 2014 and 2015 compares with the percentage change in the average of each of those components of pay for a group of employees. The Committee has selected all Group employees below executive director level based in the UK, as these are the vast majority of Group employees and provide the most appropriate comparator.

	Salary	Taxable benefits	Bonus		
	Percentage increase	Percentage increase	£000		Percentage increase
			2014	2015	
Dorothy Thompson	2.0%	0.0%	617.9	**392.6**	(36.5)%
Average for UK employees	3.0%	(4.0)%	7.1	**4.5**	(36.6)%

Relative importance of spend on pay

The table below illustrates the relative importance of spend on pay compared to other disbursements from profit, i.e. distributions to shareholders and capital expenditure. These were the most significant outgoings from the Company in the last financial year, other than normal operating costs.

Relative importance of spend on pay



Notes:
(1) Remuneration 2015 see Note 6.1.
(2) Capital expenditure 2015 see Note 3.1.
(3) Dividends 2015 see Note 2.7.

Statement of implementation of the Remuneration Policy in 2016

The Remuneration Policy was implemented following its approval by shareholders at the AGM in April 2014 as follows:

Salaries will be reviewed by the Committee in accordance with the Policy and will take account of the increase in base pay of the collective bargaining group and other salary reviews in the Group.

Remuneration Committee report continued

Balanced Corporate Scorecard

The Scorecard measures and targets for 2016 have been established for the Group and for each Group business. Details of performance against the measures will be disclosed in the 2016 Annual Report on Remuneration so far as possible whilst maintaining commercial confidentiality. The following table sets out the categories and a description of the measures.

Group	
Safety – Total recordable injury rate	Low target and stretch have been set 0.05 lower than in 2015.
Finance – Group underlying earnings per share, profit, cash and Group operating costs	Targets take account of Business Plan targets, market expectations and the terms of the Group's finance agreements.
Regulation	Targets based on regulatory progress.
Biomass sustainability	Improved understanding and support for biomass as a renewable will be measured using external media analysis.
Drax Biomass	
Pellet plant availability	Low, target and stretch targets for plant availability.
Pellet quality	Low, target and stretch targets for calorific value, percentage of fines and durability of pellets.
Drax Power	
Value of flexibility	Financial target for additional value derived from flexible operation of generating units.
Biomass conversion potential	Target based on potential for further biomass conversions by Drax Power in the UK.
Haven Power	
Renewable electricity sales	Target for development of renewable electricity sales.
Retail value added	A target for earnings enhancement.

Performance measures for Bonus Matching Plan

The performance measures to be used in 2016 BMP Awards are as described on page 79 in the Remuneration Policy report.

Non-executive directors' fees

Non-executive directors' fees will be reviewed by the Chairman and executive directors in July 2016.

Committee activity and key decisions in 2015

Matters considered and decisions reached by the Committee in 2015 are shown in the table below:

February	– Considered the 2014 Balanced Corporate Scorecard and decided not to exercise its discretion to adjust the score, and adopted the score for the purpose of determining relevant aspects of 2014 remuneration. – Adopted the 2015 Balanced Corporate Scorecard for the purpose of determining relevant aspects of 2015 remuneration. – Approved executive director and senior staff personal scores and annual bonus awards for 2014. – Approved the vesting of the 2012 Bonus Matching Plan Awards, which was reported in the 2015 Annual Report on Remuneration. – Approved the executive directors' 2015 objectives. – Approval of rule amendments to the BMP and supported proposals for a replacement Sharesave Plan and a new US Employee Stock Purchase Plan to be put to the 2015 AGM. – Considered and approved the 2014 Annual Remuneration report. – Approved awards under the Bonus Matching Plan and all-employee Sharesave Share Plan. – Agreed the terms of remuneration on the appointment of the President, Drax Biomass and revised terms for the Group Company Secretary, both members of senior staff.
March	– Received the adviser's review of developments in executive remuneration policy and best practice, including recent investor guidance from the UK Corporate Governance Code. – Reviewed senior staff salaries, including executive directors. – Benchmarked and determined remuneration for the role of Chief Executive for Drax Power.
April	– Agreed the remuneration terms on the appointment of the Interim Finance Director. – Considered payment on termination of the outgoing Finance Director.
June	– Agreed the timetable and process for the remuneration adviser review. – Agreed remuneration terms upon which to commence a search for the Chief Operating Officer of Haven Power.
September	– Agreed the appointment terms for the new Chief Financial Officer. – Agreed the remuneration terms for the Chief Operating Officer, Haven Power Limited.
November	– Reviewed and proposed amendments to the Committee's Terms of Reference. – Agreed a timetable and process for the review of remuneration policy to be proposed to the 2017 AGM. – Determined the payments to be paid to Peter Emery in connection with the termination of his employment. – Determined the remuneration to be paid to Andy Koss on his appointment as a director of the Company. – Noted the performance status of outstanding share plans and approved in principle the operation of share plans in 2016. – Reviewed the fees paid to PwC, the Committee's remuneration adviser, together with fees paid by the Group to PwC for other matters and reviewing the independence of PwC.

In 2015, the Remuneration Committee comprised Tony Thorne, Chairman of the Committee; Charles Berry, Chairman of the Company (until 22 April 2015); Tim Cobbold; Philip Cox (from 22 April 2015); David Lindsell; and Melanie Gee, all of whom are independent non-executive directors. The Group Company Secretary acted as Secretary to the Committee.

The Group Chief Executive was invited to attend meetings of the Committee except when her own remuneration was discussed.

The Committee met on six occasions during the year and its members' attendance record is set out on page 75 along with details of other attendees.

Remuneration Committee report continued

Adviser to the Committee

The adviser to the Committee for the year was PricewaterhouseCoopers LLP (PwC). PwC is an independent adviser appointed by the Committee in October 2010, following a competitive tender process, to advise on market practice and remuneration of executive and non-executive directors.

From time to time the Group engages PwC to provide financial, taxation and related advice on specific matters. The Committee will continue to monitor such engagements in order to be satisfied that they do not affect PwC's independence as an adviser to the Committee.

PwC was paid £44,000 during 2015 in respect of advice given to the Committee.

In the second half of 2015, the Committee undertook a review of the remuneration adviser. Members of the Committee, assisted by the Head of Human Resources, received presentations from three shortlisted firms and assessed them against objective criteria including their knowledge and experience of the market and the sector. PwC was reappointed as adviser to the Committee.

The Committee also considers the views of the Group Chief Executive regarding the performance and remuneration of the other executive directors and senior staff.

The Committee is also advised by Philip Hudson, the Group Company Secretary, and by Richard Neville, the Head of Human Resources.

Other matters

Wider employee population

The average pensionable pay of an executive director is 9.6 times the average of pensionable pay for all UK employees within the Group.

Remuneration received from external appointments

Remuneration received by executive directors for service as a non-executive director elsewhere is retained by the director. Detailed below is the remuneration they received.

		Fees received	
Name	External organisation	2015	2014
Peter Emery	NG Bailey Limited	£39,000	£39,000
Tony Quinlan[1]	Port of London Authority	£17,287	£31,725
Will Gardiner	Qardio plc	–	–
Dorothy Thompson	Johnson Matthey Plc	£75,833	£63,455
	Court of the Bank of England	£15,000	£6,250

Note:
(1) Tony Quinlan's fees for this appointment are for the period to 30 June 2015, i.e. for the time that he was employed by Drax.

This report was reviewed and approved by the Remuneration Committee on 22 February 2016.

Tony Thorne
Chairman of the Remuneration Committee

Directors' report

This report contains information which the Company is obliged to disclose and which cannot be found in other sections (i.e. strategic, financial, sustainability or corporate governance reports) of this document.

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report for the year ended 31 December 2015. The Corporate governance section, Audit, Nominations and Remuneration Committee reports set out on pages 56 to 94 forms part of this report.

No significant events since the balance sheet date have arisen. An indication of likely future developments in the business of the Company and details of research and development activities are included in the Strategic report on pages 1 to 55.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 7.2 to the consolidated financial statements.

Annual General Meeting (AGM)

The AGM will be held at 11.30am on Wednesday 20 April 2016 at The Grocers' Hall, Princes Street, London EC2R 8AD. A separate document contains the notice convening the AGM and includes an explanation of the business to be conducted at the meeting.

Dividends

An interim dividend of 5.1 pence per share was paid on 9 October 2015, to shareholders on the register on 25 September 2015.

The directors propose a final dividend of 0.6 pence per share, which will, subject to approval by shareholders at the AGM, be paid on 13 May 2016, to shareholders on the register on 22 April 2016.

Details of past dividends can be found on the Company's website at http://www.drax.com/investors/shareholder-information/dividend-history/.

No shareholder has waived or agreed to waive dividends payable in the year or in future years.

Share capital

The Company has only one class of equity shares, which are ordinary shares of $11^{16}/_{29}$ pence each. There are no restrictions on the voting rights of the ordinary shares.

Drax Group plc has a Premium Listing on the London Stock Exchange and currently trades as part of the FTSE250 Index under the symbol DRX and with the ISIN number GB00B1VNSX38.

Shares in issue

At 1 January 2015	**404,821,561**
Issued in period through the Bonus Matching Plan(1)	1,059,920
Issued in period through the Sharesave Plan(2)	435,681
At 31 December 2015	**406,317,162**
Issued between 1 January and 22 February 2016 through the BMP(3)	30,081
At 22 February 2016	**406,347,243**

Notes:
(1) 96 members of the Bonus Matching Plan had shares vest at the third anniversary following the Award, three members had non-performance Awards vest upon their retirement and one employee had Deferred Awards vest upon leaving the Company.
(2) 122 members of the Sharesave Plan exercised options at the maturity of their 2012 three-year grant, and one member exercised an option upon retirement.
(3) One employee had Deferred Awards vest in January 2016 upon leaving the Company.

No other ordinary shares were issued during the year and the Company held no treasury shares during 2015. The position remains the same at the date of this report.

Directors' report continued

Interests in voting rights

Information provided to the Company in accordance with the Financial Conduct Authority's Disclosure and Transparency Rules (DTR) is published in a timely manner on the London Stock Exchange's Regulatory News Service – a Regulatory Information Service and also on the Company's website.

As at 22 February 2016, the following information had been received in accordance with DTR5 from holders of notifiable interests in the voting rights of the Company. The information provided below was correct at the date of notification. However, investors are only obliged to notify the Company when a notifiable threshold is crossed and therefore it should be noted that the holdings below may have changed but without crossing a threshold.

	Date last notification made	Number of voting rights directly held	Number of voting rights indirectly held	Number of voting rights in qualifying financial instruments	Total number of voting rights held	% of the issued share capital held(1)
Invesco plc	06.01.2016	–	114,268,314	–	114,268,314	28.12%
Schroders plc	25.01.2016	–	57,318,965	–	57,318,965	14.11%
Orbis Holdings Limited	31.07.2015	–	24,454,140	–	24,454,140	6.02%
Deutsche Bank AG	05.02.2016	12,220,977	29,602	11,588,007	23,838,586	5.87%
Woodford Investment Management LLP	19.08.2014	–	21,703,125	–	21,703,125	5.36%
Artemis Investment Management LLP	10.02.2014	19,257,920	1,959,839	–	21,217,759	5.27%
Investec Asset Management Limited	10.07.2015	–	–	–	20,526,217	5.05%
The Goldman Sachs Group Inc.	19.02.2016	–	266,591	15,418,523	15,685,114	3.86%

Note: Ordinary shares of 11 $^{16}/_{29}$ pence each
(1) As at the date of the last notification made to the Company by the investor, in compliance with DTR.

Authority to purchase own shares

At the AGM held on 22 April 2015, shareholders resolved to authorise the Company to make market purchases of up to 10% of the issued ordinary share capital. At the forthcoming AGM, shareholders will be asked to renew this authority.

The Company did not purchase any of its own shares during 2015, nor has it done so from 31 December 2015 up to the date of this report.

Rights and obligations attaching to shares

There are various rights and obligations attaching to the ordinary shares which are set out in the Articles. A copy of the Articles can be accessed on the Company's website at http://www.drax.com/about-us/corporate-governance/board/

Attention should be given to the following sections within the Articles covering the rights and obligations attaching to shares:

Variation of rights – which covers that rights attached to any class of shares that may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate General Meeting of the holders of those shares.

Transfer of shares – provides detail of how transfers of shares in certified and uncertified form may be undertaken. It also sets out the rights of refusal of directors to effect a transfer and the action that directors must take following such refusal. It should be noted that a shareholder does not need to obtain the approval of the Company, or of other shareholders of shares in the Company, for a transfer of shares to take place.

Voting and deadlines for exercising voting rights – these sections of the Articles deal with voting on a show of hands and on a poll. They also cover the appointment of a proxy or corporate representative. In respect of voting deadlines, the Articles provide for the submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting. It has been the Company's practice since incorporation to hold a poll on every resolution at Annual General Meetings and Extraordinary General Meetings.

A trustee holds shares on behalf of employees in respect of the Group's Share Incentive Plan. The voting rights attached to such shares are not directly exercisable by the employees. The employee may direct the trustee on how to vote at a General Meeting and the trustee may only cast its vote in respect of shares over which it has received a valid direction from employees.

Changes to the Articles – the Articles may only be changed by shareholders by special resolution.

Other significant agreements

In its financing agreements, as detailed below, on a change of control, if any lender requires, it may by giving notice to the relevant Group entity within 30 days of receiving notice from such Group entity that a change of control has occurred, cancel its commitments and require the repayment of its share of any outstanding amounts within three business days of such cancellation notice being given.

The financing agreements comprise:

- £100 million amortising term loan facility agreement dated 20 December 2012 (as amended and restated on 8 December 2015) between, amongst others, Drax Finance Limited and the Prudential M&G UK Companies Financing Fund.
- The £50 million amortising term loan facility agreement dated 20 December 2012 (as amended and restated on 8 December 2015) between, amongst others, Drax Finance Limited and the Green Investment Bank.
- The £400 million revolving credit facility agreement dated 20 December 2012 (as amended and restated on 8 December 2015) between, amongst others, Drax Power Limited and Barclays Bank PLC (as facility agent).
- The £75 million guarantee and reimbursement arrangement issued by The Lords Commissioners of Her Majesty's Treasury dated 23 April 2013 (as amended and restated on 8 December 2015) in respect of a £75 million guaranteed loan note instrument issued by Drax Finance Limited to Friends Life Limited.
- Two note purchase agreements dated 8 May 2014 (as amended and restated on 8 December 2015) of £100 million in aggregate, in each case between Drax Finance Limited and various funds managed by M&G Investments.

Under the terms of the above financing agreements, a "change of control" occurs if any person or group of persons acting in concert gains control of Drax Group plc.

There are no other significant agreements to which the Group is a party that take effect, alter or terminate upon a change of control of the Group following a takeover bid.

Auditors and the disclosure of information to the auditor

So far as each person serving as a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing the report, of which the auditor is unaware. Having made enquiries of fellow directors, each director has taken all steps that he/she ought to have taken as a director to ascertain any relevant audit information and to establish that the auditor is aware of that information. This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act.

Resolutions will be proposed at the AGM for (i) the reappointment of Deloitte LLP as the auditor of the Group; and (ii) authorising the directors to determine the auditor's remuneration. The Audit Committee reviews the appointment of the auditor, the auditor's effectiveness and relationship with the Group, including the level of audit and non-audit fees paid to the auditor. Further details on the work of the auditor and the Audit Committee are set out in the Audit Committee report on pages 70 to 74.

The Directors' report was approved by the Board on 22 February 2016 and is signed on its behalf by:

Philip Hudson
Group Company Secretary

Registered office:
Drax Power Station, Selby
North Yorkshire YO8 8PH
Registered in England and Wales No. 5562053

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 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 22 February 2016 and is signed on its behalf by:

Dorothy Thompson CBE
Chief Executive

Will Gardiner
Chief Financial Officer

Independent auditor's report to the members of Drax Group plc

Opinion on financial statements of Drax Group plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, set out in FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated and Parent Company Statement of Changes in Equity, the related Group notes 2.1 to 8.4 and the related Parent Company notes 1 to 8. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), set out in FRS 101 "Reduced Disclosure Framework".

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained on page 104 to the financial statements and the directors' statement on the longer-term viability of the group contained within the strategic report on pages 50 and 51.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 53 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 54, 55 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement on page 104 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the director's explanation 50, 51 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Independent auditor's report to the members of Drax Group plc
continued

Risk	How the scope of our audit responded to the risk
Asset impairment On 1 August 2015, the UK government announced the withdrawal of support under the CCL resulting in a significant loss of income and a reduction in market value, below the net asset value. Earnings have also been impacted by low market prices resulting in reductions in underlying profits. Management has therefore performed an impairment review in the current year. As noted in the Group's critical accounting judgements, estimates and assumptions in note 2.3 and the Audit Committee report on page 72, asset impairment has been considered a key risk. The impairment testing is subject to the application of management judgement in identifying Cash Generating Units (CGUs) and various assumptions underlying the calculation of value in use for each CGU identified. These assumptions include the achievability of the long term business plan and related modelling assumptions underlying the valuation process.	We carried out testing of the design and implementation of key controls related to asset impairment. The significant judgements have been disclosed by management in note 2.3 and include: – The award of a CfD for the third biomass unit with an assumed price of £100/MWh; – Some form of support in place after the current ROC regime ends in 2027 with a value to incentivise profitable generation; – Forecast biomass prices in the long term, given that biomass is not a standardised commodity traded openly on exchanges. We utilised our valuation specialists to benchmark key market related assumptions including commodity prices, current and future government support mechanisms and discount rates against external data where available. For example, we have compared the estimated strike price of £100/MWh assumed by management to the EC approved strike price of £105/MWh for the conversion of Lynemouth power station in December 2015. We have considered the expected government support that biomass could receive after the end of the current ROC regime in 2027 relative to other renewable technologies to determine whether management's assumptions are reasonable. We have considered the liquidity of the biomass market and the impact that Drax could have on that market relating to the volumes of biomass required in the future. We have also challenged the underlying assumptions and significant judgements used in management's impairment model by: – Running a range of sensitivities to assess whether an impairment would be required if a range of more conservative assumptions were adopted. – Assessing the historical accuracy of management's budgets and forecasts by comparing them to actual performance and verifying the mathematical accuracy of the cash flow models. – Assessing whether the disclosures in note 2.3 of the financial statements appropriately disclose the key judgements taken so that the reader of the accounts is aware of the impact of the financial statement of changes to key assumptions that may lead to impairment.
Valuation of commodity and foreign exchange contracts Unrealised gains on derivative contracts recognised in the income statement are £123.7 million (2014: £65.8 million), with derivative financial statement assets of £330.8 million (2014: £139.1 million) and derivative financial statement liabilities of £274.3 million (2014 £130.7 million) on the balance sheet. The valuation of commodity and foreign exchange contracts is complex and requires judgement in areas such as estimates of future prices, market movements, and assumptions of credit risk. The accounting standards governing the availability and application of hedge accounting are complex, and require judgement in their applications. Further detail of the key judgements are disclosed in the Group's critical accounting judgements, estimates and assumptions in section 7 and the Audit Committee report on page 72.	We carried out testing of the design and implementation of key controls related to the valuation of commodity and foreign exchange contracts. We used our financial instruments specialists to test management's key judgements and calculations, including testing a sample of trades undertaken to supporting trade tickets confirming key information such as volumes and market price. We challenged the assumptions involved in determining valuation, hedge effectiveness and credit risk, including analysis of the forward price curves used and hedge effectiveness documentation maintained.

Risk	How the scope of our audit responded to the risk
Valuation of biomass and coal stocks Biomass stocks of £119 million and coal stocks of £89 million (2014: £81 million and £145 million respectively) are held on the balance sheet at year end. The valuation of biomass and coal stocks is dependent upon the estimation or measurement respectively of the tonnage held, the calorific value, its purchase price and its net realisable value. The weighted average cost calculation is complex for both coal and biomass and this results in increasing risk of management error or bias and therefore an increased risk of material misstatement. Further details of the key accounting policy judgements are included in note 3.3.	We carried out testing of the design and implementation of key controls related to the valuation of biomass and coal stocks. Our audit procedures include testing the underlying weighted average cost calculation for both coal and biomass to source data such as purchase invoice for amounts delivered in the year. Our procedures also included sample testing of the calorific value to third party laboratory reports or purchase invoice. We evaluated the results of external surveys completed on the coal pile at the year end and attended the survey to assess the controls over the accuracy of the survey. We assessed biomass deliveries and usage associated with the calculation of biomass volumes held at the year end. On a sample basis we also requested and received external stock confirmation for stocks held off site and agreed these to the underlying records.
Valuation and recoverability of ROCs £266 million of ROCs are held on the balance sheet at the year end (2014: £174 million). ROCs are recognised as they are earned through generating electricity from burning biomass. They are initially recognised at fair value (reducing the cost of biomass in the income statement) and subsequently written down to the net realisable value as appropriate. Judgement is required from management in estimating both the initial fair value and estimated net realisable value, including the value of any recycling fund element. Further detail is explained in the Group's critical accounting judgements, estimates and assumptions in note 3.2 and the Audit Committee report on page 72.	We carried out testing of the design and implementation of key controls related to the valuation and recoverability of ROCs. We gained assurance over the ROCs generated in the year by agreement to Ofgem confirmation certificates and available burn data. We have assessed the initial fair value of ROCs by agreement of the buy-out price to available third party supporting information and external sales agreements. We have also challenged the estimation by management of the recycling fund element which impacts the estimated net realisable value of the ROCs held in the balance sheet at year end. This included comparison to other available third party estimates.

Independent auditor's report to the members of Drax Group plc
continued

Last year our report included one risk which is not included this year relating to the useful economic life and carrying value of property, plant and equipment. This risk has been considered as part of our asset impairment work by considering the consistency of asset impairment assumptions with estimated useful economic lives.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 72.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

When determining materiality, we considered the decline in earnings this year and at present do not consider that this decline is likely to reflect a long-term reduction in the size and scale of the business.

We therefore determined materiality by considering a range of possible benchmarks and the figures derived from those, then selecting a materiality within that range that we considered appropriate. We determined materiality for the Group on a blended basis to be £6.1 million (2014: £6.1 million).

This materiality equates to 0.4% of net assets and 13.3% of underlying profit before tax, before unrealised gains or losses on derivative contracts and one-off asset obsolescence charges. Last year we used a benchmark of 5% of underlying profit before tax, before unrealised gains or losses on derivative contracts and the one-off CESP settlement.

In determining materiality at £6.1 million, we concluded that as the scale of the business has not changed, we would apply an appropriately conservative approach and ensure that materiality did not exceed the materiality set in the prior year.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.1 million (2014: £0.1 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements. We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope primarily on the audit work at three locations (2014: the same three locations), being Drax Power, Haven Power and Drax Biomass. All of these were subject to a full audit. These three locations represent the principal business units and account for all of the group's net assets, revenue and profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the 3 locations was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £3.0 million to £4.8 million (2014: £2.9 million to £5.5 million).

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The group audit team continued to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor visits each of the locations where the group audit scope was focused at least once every two years and the most significant locations several times a year. During 2015, the senior statutory auditor visited each significant location.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement
Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:
- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

James Leigh, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
22 February 2016

Financial statements

Introduction

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

The notes to the financial statements provide additional information on the items in the Consolidated income statement, Consolidated balance sheet and Consolidated cash flow statement. The notes include explanations of the information presented. In general, the additional information in the notes to the financial statements is required by law, IFRS or other regulations to facilitate increased understanding of the primary statements set out on pages 107 to 111.

Where relevant, we have set out key elements of our business model (see pages 16 to 19) and how this has affected our financial results.

This year we have changed the way our financial statements and the associated notes are presented. The notes are grouped by function together, with related information, including accounting policies, areas involving significant judgement and related explanations.

Basis of preparation

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

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

Going concern

The Group's business activities, along with future developments that may affect its financial performance, position and cash flows, are set out within the Strategic report on pages 1 to 55 of this document.

In the viability statement on page 50 the Directors state that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years.

Consequently, the Directors also have a reasonable expectation that the Group will continue in existence for the next 12 months and, therefore, have adopted the going concern basis in preparing these financial statements.

Basis of consolidation

These consolidated financial statements incorporate the financial results of the Company and of all entities controlled by the Company, (its subsidiaries) made up to 31 December each year. The Company owns 100% of the equity of all subsidiaries.

The impact of all intra-Group transactions is eliminated on consolidation.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date the Group gained control.

Accounting policies

Those accounting policies that are material to our financial statements are described in note 8.3 to the financial statements or, where specific to an individual component of the financial statements, in the relevant note (see contents on page 106).

We have not changed any of our accounting policies in the period.

A full listing of new standards, interpretations and pronouncements under IFRS applicable to these financial statements is presented in note 8.2. The application of these new requirements has not had a material effect on the financial statements.

Judgements, estimates and uncertainties

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

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity are set out below and in more detail in the related notes.

Critical accounting judgements, estimates and assumptions

The judgements that carry the most significant risk of an outcome that differs from the amount recognised in the financial statements are as follows:

Property, plant and equipment – property, plant and equipment is depreciated on a straight line basis over its useful economic life. Estimated useful lives are based on past experience, future replacement cycles and other available evidence, however, a degree of judgement is required.
More information: note 3.1 on page 120

Impairment – an impairment review is conducted annually for goodwill and for other assets where an indicator of possible impairment exists. The assessment of future cash flows that underpins such a review is based up management's best estimate of future prices, volumes and economic conditions. The calculations are particularly sensitive to judgement given the long time period covered by the assessment.

More information: note 2.3 on page 114

Derivatives – derivative financial instruments are recorded in the Group's balance sheet at fair value. The assessment of fair value depends upon assuming a market price for the instrument in question. The Group bases its assessment of market prices upon forward curves that are largely derived from readily attainable quotations and third party sources. However, any forward curve is based at least in part upon assumptions around future transactions and market movements. Where such instruments extend beyond the liquid portion of the forward curve, the level of judgement increases as the number of observable transactions decreases.

More information: note 7.2 on page 138

Inventories – fuel inventories are valued at weighted average cost based on purchase price, or net realisable value where lower. Valuation is largely based on observable data (such as invoiced costs and automated weigher readings). However, given the bulk nature of fuels an element of judgement is required to assess the volume of stock held at the balance sheet date.

More information: note 3.3 on page 123

ROCs – the carrying amount of ROCs in the Group's balance sheet are stated at their expected realisable value. This assessment is based on an estimated future sales price.

More information: note 3.2 on page 122

Other accounting judgements, estimates and assumptions

Pensions – the Group records a liability in its balance sheet for its obligation to provide benefits under an approved defined benefit pension scheme less the fair value of assets held by the pension scheme. The actuarial valuation of the scheme assets and liabilities is performed annually and depends on assumptions regarding interest rates, inflation, future salary and pension increases, mortality and other factors.

More information: note 6.3 on page 131

Taxation – in accounting for tax liabilities the Group makes assumptions regarding the likely treatment of items of income and expenditure for tax purposes. These assumptions are based on interpretation of relevant legislation and, where required, consultation with external advisors.

More information: note 2.5 on page 116

Revenue recognition – the nature of some of the Group's activities, particularly within the Retail segment, result in revenue being based on the estimated volumes of power supplied to customers at an estimated average price per unit. Assumptions that underpin these estimates are applied consistently and comparison of past estimates to final settlements suggests a high degree of accuracy. However, given the level of judgement involved, actual outcomes may vary from initial estimates.

More information: note 8.3 on page 144

Non-statutory measures of financial performance

We present two non-statutory measures on the face of our income statement. Our non-statutory measures exclude certain items, including any transactions considered to be one-off in nature, to provide a measure of the underlying trading and operational performance of the Group.

EBITDA is the primary measure we use to assess our financial performance. EBITDA is defined as profit before interest, tax, depreciation (including asset obsolescence charges and gains or losses on asset disposals), amortisation and unrealised gains on derivative contracts. In 2014, it also excluded the one-off settlement of CESP (see note 2.2 for further details).

Underlying measures, including underlying profit before and after tax and underlying earnings per share (EPS) exclude the impact of unrealised gains on derivative contracts, asset obsolescence charges and the one-off settlement of CESP in 2014. Underlying profit after tax and EPS exclude the post-tax effect of these items.

Under our current distribution policy, dividends are calculated based upon 50% of underlying profit after tax. A reconciliation from profit for the year attributable to equity holders to underlying profit after tax is provided in note 2.6.

Contents

Section 1: Consolidated Financial Statements
Consolidated income statement

	Notes	Years ended 31 December 2015 £m	2014 £m
Revenue	8.3	3,065.0	2,805.0
Fuel costs in respect of generation		(1,309.9)	(1,224.8)
Cost of power purchases		(851.3)	(715.4)
Grid charges		(369.5)	(334.6)
Other retail costs		(125.5)	(80.4)
Total cost of sales		(2,656.2)	(2,355.2)
Gross profit		408.8	449.8
Operating and administrative expenses	2.2	(239.8)	(220.4)
EBITDA(1)	2.2	169.0	229.4
CESP settlement		–	(20.0)
Depreciation and amortisation	3.1	(100.4)	(80.7)
Asset obsolescence charges	2.3	(109.2)	–
Loss on disposal		(7.1)	–
Unrealised gains on derivative contracts	7.2	123.7	65.8
Operating profit		76.0	194.5
Interest payable and similar charges	2.4	(18.4)	(29.9)
Interest receivable	2.4	1.4	1.3
Profit before tax		59.0	165.9
Tax:			
– Before effect of changes in rate of corporation tax	2.5	(20.5)	(37.2)
– Effect of changes in rate of corporation tax	2.5	17.8	–
Total tax charge		(2.7)	(37.2)
Profit for the year attributable to equity holders		56.3	128.7
Underlying profit for the year(2)	2.6	46.0	96.0
Earnings per share		pence	pence
– Basic and diluted	2.6	14	32

All results relate to continuing operations.

(1) EBITDA is defined as profit before interest, tax, depreciation (including asset obsolescence charges and losses on disposal), amortisation, unrealised gains on derivative contracts and the one off CESP settlement in 2014.
(2) Underlying profit for the year is profit for the year excluding the post-tax effect of unrealised gains on derivative contracts, asset obsolescence charges and the one-off settlement of CESP in 2014. A full reconciliation of underlying earnings is provided in note 2.6.

Non-statutory measures are described fully on page 105.

Section 1: Consolidated Financial Statements continued

Consolidated statement of comprehensive income

	Notes	Years ended 31 December 2015 £m	2014 £m
Profit for the year		**56.3**	128.7
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains on defined benefit pension scheme	6.3	**1.2**	3.4
Deferred tax on actuarial gains on defined benefit pension scheme	2.5	**(0.2)**	(0.7)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(2.9)**	(0.2)
Fair value gains on cash flow hedges	7.2	**23.4**	100.4
Deferred tax on cash flow hedges before corporation tax rate change	2.5	**(4.7)**	(20.1)
Impact of corporation tax rate change on deferred tax on cash flow hedges	2.5	**(0.2)**	–
Other comprehensive income		**16.6**	82.8
Total comprehensive income for the year attributable to equity holders		**72.9**	211.5

Consolidated balance sheet

	Notes	As at 31 December 2015 £m	2014 £m
Assets			
Non-current assets			
Goodwill and other intangible assets	5.2	26.3	10.7
Property, plant and equipment	3.1	1,653.8	1,697.2
Derivative financial instruments	7.2	278.4	111.2
		1,958.5	1,819.1
Current assets			
Inventories	3.3	224.0	242.4
ROC and LEC assets	3.2	270.1	184.5
Trade and other receivables	3.4	319.3	368.7
Derivative financial instruments	7.2	330.8	139.1
Short-term investments	4.3	–	40.1
Cash and cash equivalents	4.2	133.8	180.9
Current tax assets		0.6	–
		1,278.6	1,155.7
Liabilities			
Current liabilities			
Trade and other payables	3.5	488.0	468.3
Current tax liabilities		–	1.4
Borrowings	4.4	0.3	0.6
Derivative financial instruments	7.2	274.3	130.7
		762.6	601.0
Net current assets		516.0	554.7
Non-current liabilities			
Borrowings	4.4	320.1	319.0
Derivative financial instruments	7.2	300.1	232.2
Provisions	5.3	30.5	29.8
Deferred tax liabilities	2.5	191.9	185.9
Retirement benefit obligations	6.3	29.5	34.3
		872.1	801.2
Net assets		1,602.4	1,572.6
Shareholders' equity			
Issued equity	4.6	46.9	46.8
Capital redemption reserve	4.6	1.5	1.5
Share premium	4.6	424.2	422.8
Merger reserve	4.6	710.8	710.8
Hedge reserve	7.4	34.9	16.4
Retained profits	2.8	384.1	374.3
Total shareholders' equity		1,602.4	1,572.6

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 22 February 2016.

Signed on behalf of the Board of directors:

Dorothy Thompson CBE
Chief Executive

Will Gardiner
Chief Financial Officer

Section 1: Consolidated Financial Statements continued

Consolidated statement of changes in equity

	Issued equity £m	Capital redemption reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Retained profits £m	Total £m
At 1 January 2014	46.5	1.5	422.5	710.8	(63.9)	292.5	1,409.9
Profit for the year	–	–	–	–	–	128.7	128.7
Other comprehensive income	–	–	–	–	80.3	2.5	82.8
Total comprehensive income for the year	–	–	–	–	80.3	131.2	211.5
Equity dividends paid (note 2.7)	–	–	–	–	–	(55.0)	(55.0)
Issue of share capital (note 4.6)	0.3	–	0.3	–	–	–	0.6
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	5.6	5.6
At 1 January 2015	**46.8**	**1.5**	**422.8**	**710.8**	**16.4**	**374.3**	**1,572.6**
Profit for the year	–	–	–	–	–	56.3	56.3
Other comprehensive income/(expense)	–	–	–	–	18.5	(1.9)	16.6
Total comprehensive income for the year	–	–	–	–	18.5	54.4	72.9
Equity dividends paid (note 2.7)	–	–	–	–	–	(49.9)	(49.9)
Issue of share capital (note 4.6)	0.1	–	1.4	–	–	–	1.5
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	5.3	5.3
At 31 December 2015	**46.9**	**1.5**	**424.2**	**710.8**	**34.9**	**384.1**	**1,602.4**

Consolidated cash flow statement

	Notes	Years ended 31 December 2015 £m	2014 £m
Cash generated from operations	4.5	167.3	127.3
Income taxes paid		(3.8)	(14.2)
Other losses		(3.1)	(0.4)
Interest paid		(11.9)	(23.2)
Interest received		1.5	0.2
Net cash from operating activities		150.0	89.7
Cash flows from investing activities			
Purchases of property, plant and equipment		(179.1)	(200.1)
Acquisition of subsidiary		(4.0)	–
Redemption of/(cash invested in) short-term investments		40.1	(20.1)
Net cash used in investing activities		(143.0)	(220.2)
Cash flows from financing activities			
Equity dividends paid	2.7	(49.9)	(55.0)
Proceeds from issue of share capital		1.5	0.6
Repayment of borrowings		–	(0.3)
New borrowings	4.4	–	100.0
Other financing costs paid		(5.7)	(1.2)
Net cash (absorbed by)/generated from financing activities		(54.1)	44.1
Net decrease in cash and cash equivalents		(47.1)	(86.4)
Cash and cash equivalents at 1 January		180.9	267.3
Cash and cash equivalents at 31 December	4.2	133.8	180.9

Section 2: Financial Performance

The financial performance section gives further detail on the information in the Consolidated income statement. It includes a summary of financial performance by business unit (2.1), analysis of certain income statement items (2.2–2.5) and information regarding underlying earnings, distributable profits and dividends (2.6–2.8). Further commentary regarding our trading and operational performance during the year, which is predominantly reflected within EBITDA, can be found within the Strategic report on pages 1 to 55, with particular reference to key achievements and market conditions that have impacted our results.

2.1 Segmental reporting

On 1 March 2015 the Group reorganised into three businesses with a dedicated management team for each: Generation: the generation of electricity at Drax Power Station; Biomass Supply: production of sustainable compressed wood pellets at our processing facilities in the US; and Retail: the supply of power to business customers and wood pellets to the domestic heat market. Each business is an operating segment for the purpose of segmental reporting. Following the reorganisation, information reported to the Board for the purposes of assessing performance and making investment decisions is organised into these three operating segments. The measure of profit or loss for each reportable segment presented to the Board on a regular basis is EBITDA.

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

Prior period comparatives have been restated to the extent the information is available. Costs were entirely allocated to segments in previous periods.

Segment revenues and results

The following is an analysis of the Group's revenues and results by reporting segment for the year ended 31 December 2015:

	Year ended 31 December 2015				
	Generation £m	Retail £m	Biomass Supply £m	Adjustments(1) £m	Consolidated £m
Revenue					
External sales	1,775.0	1,290.0	–	–	3,065.0
Inter-segment sales	863.2	–	28.4	(891.6)	–
Total revenue	2,638.2	1,290.0	28.4	(891.6)	3,065.0
Segment gross profit	390.1	19.3	1.0	(1.6)	408.8
Segment EBITDA	214.6	(6.3)	(14.8)		193.5
Central operating costs					(24.5)
Consolidated EBITDA					169.0
Depreciation and amortisation					(100.4)
Asset obsolescence charges(2)					(109.2)
Losses on disposal					(7.1)
Unrealised gains on derivative contracts					123.7
Operating profit					76.0
Net finance costs					(17.0)
Profit before tax					59.0

Notes:
(1) Adjustments represent the elimination of intra-group transactions.
(2) Asset obsolescence charges are analysed by segment in note 2.3.

2.1 Segmental reporting continued

The following is an analysis of the Group's revenues and results by reporting segment for the year ended 31 December 2014:

	Year ended 31 December 2014				
	Generation £m	Retail £m	Biomass Supply £m	Adjustments(1) £m	Consolidated £m
Revenue					
External sales	1,714.6	1,090.4	–	–	2,805.0
Inter-segment sales	735.2	–	–	(735.2)	–
Total revenue	2,449.8	1,090.4	–	(735.2)	2,805.0
Segment gross profit	434.1	16.7	(1.0)	–	449.8
Segment EBITDA	244.8	(5.5)	(9.9)	–	229.4
CESP settlement					(20.0)
Depreciation and amortisation					(80.7)
Unrealised gains on derivative contracts					65.8
Operating profit					194.5
Net finance costs					(28.6)
Profit before tax					165.9

Notes:
(1) Adjustments represent the elimination of intra-group transactions.

Assets and working capital are monitored on a Group basis, with no separate disclosure of asset by segment made in the management accounts. However, spend on key capital projects is monitored. Total spend on the biomass transformation project during 2015 was £90 million (2014: £125 million), of which £22 million (2014: £85 million) relates to construction of assets within the Biomass Supply segment.

The accounting policies of the reportable segments are the same as the Group's accounting policies. The revenue and results of all of our reporting segments are subject to seasonality with higher despatch and prices in the winter months, compared to summer months.

Intra-group trading

Intra-group transactions are carried out on arms-length, commercial terms that where possible equate to market prices at the time of the transaction. During 2015, the Biomass Supply segment sold wood pellets with a total value of £28.4 million (2014: £nil) to the Generation segment and the Generation segment sold power, ROCs and LECs with a total value of £863.2 million (2014: £735.2 million) to the Retail segment.

The impact of all intra-group transactions, including any unrealised profit arising (£1.6 million at 31 December 2015), is eliminated on consolidation.

Major customers

Total revenue for the year ended 31 December 2015 includes amounts of £597.7 million and £468.0 million (2014: £320.6 million and £288.7 million) derived from two customers (2014: two customers), each representing 10% or more of the Group's revenue for the year. These revenues arose in the Generation segment.

2.2 Operating expenses and EBITDA

This note sets out the material components of "Operating and administrative expenses" in our Consolidated income statement, page 107, and a detailed breakdown of the fees we paid to our auditor, Deloitte LLP, in respect of services they provided to us during the year.

	Years ended 31 December	
	2015 £m	2014 £m
Gross profit	**408.8**	449.8
The following expenditure has been charged in arriving at operating profit/EBITDA:		
Staff costs (note 6.1)	**106.8**	94.5
Repairs and maintenance expenditure on property, plant and equipment	**59.6**	47.1
Other operating and administrative expenses	**73.4**	78.8
Total operating and administrative expenses	**239.8**	220.4
EBITDA	**169.0**	229.4

EBITDA is defined as profit before interest, tax, depreciation (including asset obsolescence charges and losses on disposal), amortisation, unrealised gains on derivative contracts and the one-off settlement of CESP in 2014.

Section 2: Financial Performance continued

2.2 Operating expenses and EBITDA continued

Auditor's remuneration

	Years ended 31 December 2015 £000	2014 £000
Audit fees:		
Fees payable for the audit of the Group's consolidated financial statements	361	338
Fees payable for the audit of the Company's subsidiaries pursuant to legislation	74	60
	435	398
Other fees:		
Pursuant to legislation – interim review	70	62
Other services	2	52
Total audit related fees	507	512
Taxation services	7	7
Other assurance services	36	–
Total non-audit fees	43	7
Total auditor's remuneration	550	519

2.3 Impairment review and asset obsolescence charges

Accounting policy

The Group reviews its fixed assets (or, where appropriate, groups of assets known as cash-generating units) whenever there is an indication that an impairment loss may have been suffered. The Group considers the smallest collections of assets that generate independent cash flows to be its operating entities (Drax Power, Haven Power, Drax Biomass and Billington Bioenergy) and accordingly considers the Group to be comprised of four cash-generating units (CGUs).

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 cash-generating unit (value in use) or the expected price that would be received to sell the asset to another market participant (fair value).

Whilst IFRS requires estimates of future cash flows to be discounted using a pre-tax rate, market rates are generally more widely available on a post-tax basis. In utilising a post-tax discount rate, the Group takes account of its specific tax characteristics to ensure the impairment calculations are not affected.

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

Goodwill balances are assessed for impairment annually (see note 5.2). Impairment charges, as one-off items that are typically not reflective of the underlying performance of the Group in a given period, are excluded from underlying earnings (see note 2.6).

Critical judgement areas

During 2015, weak commodity markets and the removal of LEC income for the Generation business contributed to a substantial and sustained reduction in the Group's share price. As a result, the market capitalisation of the Group fell materially below the carrying value of the Group's net assets, an indicator of possible impairment. Accordingly a full impairment review was undertaken at the balance sheet date.

The assessment of the present value of future cash flows on which such a review is based is dependent upon a number of assumptions. In particular, expected future cash flows are based upon management's reasonable estimates of future prices, output, costs and economic support for renewable energy generation.

The impairment methodology, calculations and the supporting assumptions were reviewed by the Audit Committee (see page 72). The key assumptions were benchmarked and calculation methodology assessed by an independent expert with relevant industry experience. The most critical of these assumptions are discussed below.

2.3 Impairment review and asset obsolescence charges continued

Impairment review

The value in use of the Drax Power CGU was tested using a broad range of assumptions, including the expected economic life of its six power generating units, their fuel type and the regulatory regime under which they might operate. This included key assumptions that each generating unit will be available for operation until 2039 (consistent with the estimated asset life of the Drax Power Station), that the outcome of the ongoing EU State aid investigation into the CfD for the third unit conversion would be favourable with a strike price consistent with the initial decision published in January 2015 (£100/MWh) and that, where required to support future renewable generation upon expiry of the current support mechanisms in 2027, a suitable level of economic incentive would be available to maintain commercially acceptable returns.

When making these assumptions the enhancement value available from converting three of the generating units from their current coal fuel source to biomass was not included in the value in use results. As a result, the majority of the CGU's longer term revenues are delivered by the biomass units.

Where available, estimates of future prices were based on signed contracts for purchases and sales with third parties. Transactions beyond contracted positions were valued using forward price curves and, beyond the liquid portion of observable market curves, these were constructed internally. A benchmarking exercise confirmed that management's constructed curves were in line with market consensus.

The calculations were discounted using a post-tax nominal rate of 8%. This indicated that the recoverable amount of each of the Group's CGUs exceeded its carrying value and therefore that no provisions for impairment were required.

The calculations for each CGU are sensitive to the key assumptions described above. Material adverse changes to these assumptions, particularly a delay in the EU State aid approval process or reduction in strike price for the CfD, the loss of existing economic support, the lack of adequate economic support for renewable generation post-2027 or any other evidence that the useful lives of assets may be materially shorter than assumed, could result in significant impairment charges in future periods.

Asset obsolescence charges

Obsolescence charges have been recognised in 2015, in respect of specific assets as described below:

	Years ended 31 December	
	2015 £000	2014 £000
Generation:		
Property, plant and equipment	102.6	–
Biomass Supply:		
Property, plant and equipment	6.6	–
Total asset obsolescence charges recognised in the income statement	**109.2**	–

Following an internal review and extensive testing, during 2015 it was concluded that Flue Gas Desulphurisation (FGD) technology was no longer required on converted biomass units within the Generation business and the assets were decommissioned. The recoverable amount of these assets was determined to be zero and accordingly the full carrying amount of £92.6 million has been recognised as an asset obsolescence charge in the year.

During 2015 we began to install Selective Non-Catalytic Reduction technology across our generating units as part of our strategy to ensure compliance with the requirements of the IED. As a result, development costs associated with a competing solution were determined to have a recoverable amount of zero, as the project would not be progressed. The full carrying amount of £10.0 million has therefore been recognised as an asset obsolescence charge in the year.

Within the Biomass Supply business, following a decision not to proceed with a third pellet plant project in the US Gulf, the recoverable amount of the associated assets was determined to be zero and the full carrying amount of £6.6 million recognised as an asset obsolescence charge.

Section 2: Financial Performance continued

2.4 Net finance costs

Finance costs reflect expenses incurred in managing our debt structure (such as interest payable on our bank loans) as well as foreign exchange gains and losses, the unwinding of discounting on provisions for reinstatement of our sites at the end of their useful lives (see note 5.3) and net interest charged on the Group's defined benefit pension scheme obligation (see note 6.3). These are offset by interest income that we generate through efficient use of short-term cash surpluses – for example through investment in money market funds.

	Years ended 31 December	
	2015 £m	2014 £m
Interest payable and similar charges:		
Interest payable on bank borrowings	(18.0)	(16.8)
Foreign exchange gains/(losses)	5.9	(5.5)
Unwinding of discount on provisions (note 5.3)	(0.7)	(1.1)
Amortisation of deferred finance costs	(3.7)	(3.0)
Net finance cost in respect of defined benefit scheme (note 6.3)	(1.1)	(1.5)
Other financing charges	(0.8)	(2.0)
Total interest payable and similar charges	(18.4)	(29.9)
Interest receivable:		
Interest income on bank deposits	1.4	1.3
Total interest receivable	1.4	1.3

Amortisation of deferred finance costs includes £0.7 million of costs (2014: £nil) relating to the previous revolving credit facility for which amortisation was accelerated following the successful renegotiation of a replacement facility in December 2015 (see note 4.4 for further details).

2.5 Current and deferred taxation

The tax charge includes both current and deferred tax. Current tax is the estimated amount payable on this year's taxable profits (which are adjusted for items upon which we are not required to pay tax or, in some cases, for items which are not allowable for tax purposes and therefore on which we are required to pay additional tax). 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 (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 charge reflects the estimated effective tax rate on profit before tax for the Group for the year ended 31 December 2015 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 taxable profit for the year in the relevant jurisdiction. Taxable profit differs from profit before tax as reported in the income statement because it excludes items income or expense 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, and is accounted for using the balance sheet liability method. 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.

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 tax laws and rates that have been enacted or substantively enacted at the balance sheet date. In the Summer Budget 2015, the UK corporation tax main rate has been set by the Finance Act at 19% for the years starting 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. These rates have therefore been reflected in the deferred tax balances shown below.

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 also recognised in other comprehensive income or directly in equity respectively.

Significant judgement areas

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 those with a history of losses, the Group seeks evidence other than its own internal forecasts to support recognition of the related deferred tax asset.

2.5 Current and deferred taxation continued

	Years ended 31 December 2015 £m	2014 £m
Tax charge comprises:		
Current tax	1.8	5.9
Deferred tax		
– Before impact of corporation tax rate change	18.7	31.3
– Impact of corporation tax rate change	(17.8)	–
Tax charge	2.7	37.2

	Years ended 31 December 2015 £m	2014 £m
Tax charged on items recognised in other comprehensive income:		
Deferred tax on actuarial gains on defined benefit pension scheme (note 6.3)	0.2	0.7
Deferred tax on cash flow hedges (note 7.2)	4.9	20.1
	5.1	20.8

UK corporation tax is calculated at 20.25% (2014: 21.5%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The charge for the year can be reconciled to the profit per the income statement as follows:

	Years ended 31 December 2015 £m	2014 £m
Profit before tax	59.0	165.9
Profit before tax multiplied by the rate of corporation tax in the UK of 20.25% (2014: 21.5%)	11.9	35.7
Effects of:		
Adjustments in respect of prior periods	1.5	(1.6)
Expenses not deductible for tax purposes	0.9	5.4
Impact of change to corporation tax rate	(17.8)	–
Other	6.2	(2.3)
Total tax charge	2.7	37.2

The movements in deferred tax assets and liabilities during each year are shown below. Deferred tax assets and liabilities are offset as there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax (liabilities)/assets

	Financial instruments £m	Accelerated capital allowances £m	Non-trade losses £m	Other liabilities £m	Other assets £m	Total £m
At 1 January 2014	55.8	(194.3)	14.7	(22.9)	12.9	(133.8)
Charged to the income statement	(13.2)	(4.1)	(7.1)	(3.7)	(3.2)	(31.3)
Charged to equity in respect of actuarial gains	–	–	–	–	(0.7)	(0.7)
Charged to equity in respect of cash flow hedges	(20.1)	–	–	–	–	(20.1)
At 1 January 2015	22.5	(198.4)	7.6	(26.6)	9.0	(185.9)
Charged to the income statement	(24.9)	35.9	(6.1)	(4.3)	(1.5)	(0.9)
Charged to equity in respect of actuarial gains	–	–	–	–	(0.2)	(0.2)
Charged to equity in respect of cash flow hedges	(4.9)	–	–	–	–	(4.9)
At 31 December 2015	(7.3)	(162.5)	1.5	(30.9)	7.3	(191.9)

Section 2: Financial Performance continued

2.5 Current and deferred taxation continued

The Group has not recognised deferred tax assets with an estimated value of £19 million at 31 December 2015 (2014: £10 million) in respect of UK and US losses that are carried forward against future taxable income. In both cases the business units involved have a history of making losses and until sufficient operational performance is established and maintained to give suitable confidence in future profitability, taxable income against which to utilise the benefit of the accumulated losses is not considered to be probable.

2.6 Earnings per share and underlying earnings per share

Earnings per share (EPS) represents the amount of our earnings (post-tax profits) that are attributable to each ordinary share we have in issue. Basic EPS is calculated by dividing our earnings 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 (such as those to be issued under our employee share schemes – see note 6.2), that are currently expected to vest on their future maturity dates, were exercised and treated as ordinary shares as at the balance sheet date.

In addition to EPS, we calculate underlying EPS as it reflects the figures upon which our annual dividends are calculated (note 2.7). Underlying EPS removes the post-tax effect of unrealised gains on derivative contracts, asset obsolescence charges and the one-off settlement of CESP in 2014 from earnings. Multiplying underlying basic EPS by 50% will give the total dividends per share for the period.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	Years ended 31 December	
	2015 £m	2014 £m
Earnings:		
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	56.3	128.7
Adjusted for:		
Unrealised gains on derivative contracts	(123.7)	(65.8)
CESP settlement	–	20.0
Asset obsolescence charges	109.2	–
Tax impact of the above	4.2	13.1
Underlying earnings attributable to equity holders of the Company	46.0	96.0

	Years ended 31 December	
	2015	2014
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	406.0	404.4
Effect of dilutive potential ordinary shares under share plans	1.3	2.9
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	407.3	407.3

Earnings per share – basic (pence)	14	32
Earnings per share – diluted (pence)	14	32
Underlying earnings per share – basic (pence)	11	24
Underlying earnings per share – diluted (pence)	11	24

2.7 Dividends

Dividends are amounts we return to our shareholders and are paid as an amount per ordinary share held. Our current dividend policy is to return 50% of underlying earnings (see note 2.6) to our shareholders each year. The remaining 50% is retained for reinvestment in the business.

	Years ended 31 December 2015 £m	2014 £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 2015 of 5.1 pence per share paid on 9 October 2015 (2014: 4.7 pence per share paid on 10 October 2014)	20.7	19.0
Final dividend for the year ended 31 December 2014 of 7.2 pence per share paid on 15 May 2015 (2014: 8.9 pence per share paid on 14 May 2014)	29.2	36.0
	49.9	55.0

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 2015 of 0.6 pence per share (equivalent to approximately £2.3 million) payable on or before 13 May 2016. The final dividend has not been included as a liability as at 31 December 2015.

2.8 Retained profits

Retained profits are a component of our equity reserves. The overall balance reflects the total profits we have generated over our lifetime, reduced by the amount of that profit we have distributed back to our shareholders. The table below reconciles the movements in our retained profits during the year.

	Years ended 31 December 2015 £m	2014 £m
At 1 January	374.3	292.5
Profit for the year	56.3	128.7
Actuarial gains on defined benefit pension scheme (note 6.3)	1.2	3.4
Deferred tax on actuarial gains on defined benefit pension scheme (note 2.5)	(0.2)	(0.7)
Exchange differences on translation of foreign operations	(2.9)	(0.2)
Equity dividends paid (note 2.7)	(49.9)	(55.0)
Net movements in equity associated with share-based payments (note 6.2)	5.3	5.6
At 31 December	384.1	374.3

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 immediate cash resources of the Group are set out in note 4.2 and the recent history of cash generation within note 4.5. The majority of these cash resources are held by the principal operating subsidiaries of the Group, in particular Drax Power Limited.

The Parent Company financial statements, set out on pages 146 to 151 of this report, disclose the Parent Company's distributable reserves of £222 million. Following a reorganisation of the subsidiary companies undertaken during the year (described in note 4 to the Parent Company financial statements) the wider Group has, relative to previous dividend payments (note 2.7), sufficient retained profits available for future distributions in accordance with the Group divided policy.

Section 3: Operating Assets and Working Capital

This section gives further information on the operating assets we use to generate revenue and the short-term liquid assets and liabilities, managed during day-to-day operations, that comprise our working capital balances.

3.1 Property, plant and equipment

This note shows the cost, depreciation and net book value of the physical assets controlled by us that we use in our businesses to generate revenue. The cost of an asset is what we paid to purchase or construct the asset. Depreciation reflects the usage of the asset over time and is calculated by taking the cost of the asset, net of any residual value, to the income statement evenly over the useful economic life of the asset. An asset's net book value is its cost less any depreciation (including impairment, if required) charged to date.

Additions in 2015 include a further £90 million (2014: £125 million) on our biomass transformation project, which is now largely complete and in line with initial expectations on timing and overall cost. At Drax Power Station we now have two fully converted units running on biomass fuel with a third operating as an enhanced co-fired unit burning up to 90% biomass. Upstream, in our US-based wood pellet manufacturing business, both pellet plant facilities and the port facility commenced commercial operations during the year.

Accounting policy

Property, plant and equipment are initially measured at cost. Cost comprises the purchase price (after deducting trade discounts and rebates), any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the estimate of the present value of the costs of dismantling and removing the item and restoring the site. Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment in value.

We construct many of our assets ourselves as part of long-term development projects. Assets that are in the course of construction are not depreciated until they are ready for us to use in the way intended.

Depreciation is provided on a straight-line basis to write down assets to their residual value evenly over the estimated useful lives of the assets from the date of acquisition (where relevant, limited to the expected decommissioning date of the power station). The table below shows the range of useful lives and the average useful life of an asset in the main categories of asset we own in years:

	UEL (range)
Freehold buildings	14–32
Plant and machinery	
Electricity generation plant	2–32
Pellet production plant	5–25
Other plant	2–30
Decommissioning asset	35
Plant spare parts	Up to 35

Freehold land, held at cost, is considered to have an unlimited useful life and is not depreciated.

Within the plant and machinery categories shorter lives are attributed to assets that are overhauled and upgraded as part of rolling outage cycles. Within the Electricity generation plant category the majority of the remaining net book value relates to assets with UELs greater than 25 years. Within the pellet production plant category the majority of the remaining net book value relates to assets with UELs greater than 20 years.

Plant spare parts are depreciated over the remaining useful life of the power station.

Estimated useful lives and residual values are reviewed annually, taking into account regulatory change and commercial and technological obsolescence as well as normal wear and tear. Residual values are based on prices prevailing at each balance sheet date.

Costs relating to major inspections, overhauls and upgrades to the power station are included in the asset's carrying amount or recognised as a separate asset, as appropriate, if the recognition criteria are met; namely, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

Critical judgement areas

Estimated useful lives and residual values are reviewed annually, taking into account prices prevailing at each balance sheet date. The carrying values of property, plant and equipment are also reviewed for impairment (see note 2.3) where there has been a trigger event (that is, an event which may have resulted in impairment) by assessing the present value of estimated future cash flows and net realisable value compared with net book value. The calculation of estimated future cash flows and residual values is based on management's reasonable estimates of future prices, output and costs, and is therefore subjective. Estimated useful lives are based on past experience, future replacement cycles and other available evidence; however an inherent degree of judgement remains.

3.1 Property, plant and equipment continued

Impairment

At each balance sheet date the Group reviews its property, plant and equipment to determine whether there is any indication that these assets may be impaired. Accounting policies in respect of impairment, along with full details of the impairment reviews conducted during 2015, are set out in note 2.3.

	Freehold land and buildings £m	Plant and equipment £m	Plant spare parts £m	Total £m
Cost:				
At 1 January 2014	183.0	1,936.3	54.9	2,174.2
Additions at cost	5.8	181.2	13.6	200.6
Disposals	–	(9.8)	–	(9.8)
Issues/transfers	60.0	(47.9)	(12.7)	(0.6)
At 1 January 2015	248.8	2,059.8	55.8	2,364.4
Additions at cost	**90.7**	**69.4**	**13.7**	**173.8**
Disposals	**(11.9)**	**(38.5)**	**–**	**(50.4)**
Issues/transfers	**(9.5)**	**20.6**	**(11.0)**	**0.1**
At 31 December 2015	**318.1**	**2,111.3**	**58.5**	**2,487.9**
Accumulated depreciation and impairment:				
At 1 January 2014	52.0	526.6	14.2	592.8
Charge for the year	5.9	73.5	1.3	80.7
Disposals	–	(5.8)	(0.5)	(6.3)
At 1 January 2015	57.9	594.3	15.0	667.2
Obsolescence loss	**0.1**	**109.1**	**–**	**109.2**
Charge for the year	**8.1**	**90.8**	**1.5**	**100.4**
Disposals	**(11.7)**	**(31.4)**	**0.4**	**(42.7)**
At 31 December 2015	**54.4**	**762.8**	**16.9**	**834.1**
Net book amount at 31 December 2014	190.9	1,465.5	40.8	1,697.2
Net book amount at 31 December 2015	**263.7**	**1,348.5**	**41.6**	**1,653.8**

Assets in the course of construction amounted to £217.0 million at 31 December 2015 (2014: £403.8 million).

Plant and equipment includes assets held under finance lease agreements with a carrying value at 31 December 2015 of £1.6 million (2014: £1.3 million).

Additions during the year include £1.9 million (2014: £3.4 million) of capitalised borrowing costs directly attributable to the construction of specific assets.

Section 3: Operating Assets and Working Capital continued

3.2 ROC and LEC assets

We earn ROC and LEC assets, which are accredited by the Office for Gas and Electricity Markets ("Ofgem"), as a result of burning renewable biomass to generate electricity. This note sets out the value of such assets we have earned but not yet sold.

As we generate more of our electricity by burning renewable biomass, the volume and therefore the total value of ROC assets we generate will increase. Haven Power provides us with a credit-efficient and timely route to market for these ROCs.

Following the government's decision to remove the CCL exemption for power generated from renewable sources, as of 1 August 2015 we no longer earn LECs for electricity generated from renewable biomass. The remaining balance sheet value of LECs represents LECs earned before 1 August 2015 which are yet to be sold to customers. We expect to recover the carrying amount of these LECs in full in 2016.

Accounting policy

ROCs and LECs are recognised as current assets in the period they are generated and are initially measured at fair value based on anticipated sales prices. The value of ROCs and LECs earned is recognised in the income statement as a reduction in fuel costs in that period.

Where our retail activities incur an obligation to deliver ROCs to Ofgem, that obligation is provided for in the period incurred.

At each reporting date the Group reviews the fair value of ROC and LEC assets generated but not sold against updated anticipated sales prices including, where relevant, agreed forward sale contracts and taking into account likely utilisation of ROCs generated to settle our own ROC obligations. Any impairments required are recognised in the income statement in the period incurred.

Critical judgement areas

The fair values and net realisable values of ROCs and LECs referred to above are calculated with reference to assumptions regarding future sales prices in the market, taking into account agreed forward sale contracts where appropriate. Historic experience indicates that the assumptions used in the valuation are reasonable; however actual sales prices may differ.

ROC valuations also include an estimate of the future benefit that may be obtained from the recycle fund at the end of the compliance period, where Supplier buy out charges (incurred by Suppliers who do not procure sufficient ROCs to satisfy their obligations) are returned to renewable generators on a pro-rata basis. Such estimates are subject to assumptions about likely levels of renewable generation and supply over the compliance period and thus subject to some uncertainty. The Group utilises external sources of information in addition to its own forecasts in calculating these estimates. Past experience indicates the values arrived at are reasonable but remain subject to possible variation.

	ROCs £m	LECs £m	Total £m
Fair value and carrying amount:			
At 1 January 2014	129.4	10.1	139.5
Generated	322.0	32.7	354.7
Purchased	–	5.7	5.7
Utilised/sold	(277.6)	(37.8)	(315.4)
At 1 January 2015	173.8	10.7	184.5
Generated	**482.1**	**34.0**	**516.1**
Purchased	**16.4**	**3.8**	**20.2**
Utilised/sold	**(406.6)**	**(44.1)**	**(450.7)**
At 31 December 2015	**265.7**	**4.4**	**270.1**

Recognition of revenue from sales of ROCs and LECs is described in further detail on page 144.

3.3 Inventories

We hold stocks of fuels and other consumable items that we use in the process of generating electricity, and raw materials used in the production of compressed wood pellets. This note shows the cost of coal, biomass, other fuels and plant consumables that we held at the end of the year, including items at Drax Power Station, our facilities in the US and those owned by us but stored in off-site locations.

Accounting policy

Our fuel stocks are valued at the lower of the weighted average cost to purchase and net realisable value.

The cost of fuel stocks includes all direct costs and overheads incurred in bringing the fuel to its present location and condition, including the purchase price, import duties and other taxes (including amounts levied on coal under the UK carbon price support mechanism) and transport/handling costs.

Critical judgement areas

Whilst value is largely based on observable costs, given the storage and handling characteristics of coal and biomass, an element of judgement is inherent in calculating the volume of fuel stocks on site at any given time.

Both coal and biomass stocks are weighed when entering, moving around or exiting sites using technology regularly calibrated to industry standards. Fuel burn in the electricity generation process is calculated using a combination of weights and thermal efficiency calculations to provide closing stock volumes, with the most prudent valuation adopted in preparing financial statements. Both calibrated weighers and efficiency calculations are subject to a range of tolerable error.

Coal stocks are verified by an independent stock survey carried out by a suitably trained specialist, with a provision made where the survey indicates a lower level of stock than indicated by the methods described above. Despite being an independent process, the survey depends on estimates and assumptions and as a result actual values may differ.

The characteristics of biomass require specialist handling and storage. On-site biomass is stored in sealed domes with a carefully controlled atmosphere for fire prevention purposes. Biomass stock is surveyed using regularly calibrated state-of-the-art RADAR scanning technology. However, this survey remains subject to a tolerable error range.

Experience indicates that the estimates and assumptions made by management in calculating stock volumes are reasonable. However, the level of judgement and tolerable error range involved means that actual values may differ from initial calculations.

	As at 31 December	
	2015 £m	2014 £m
Coal	89.4	144.6
Biomass	118.7	81.0
Other fuels and consumables	15.9	16.8
	224.0	242.4

The cost of inventories recognised as an expense in the year ended 31 December 2015 was £1,306.9 million (2014: £1,224.8 million).

3.4 Trade and other receivables

Trade receivables represent amounts owed to us by our customers for goods or services we have provided but not yet been paid for. Other receivables include accrued income, which is income earned in the period but not yet invoiced, largely in respect of power delivered that will be invoiced the following month, and prepayments, which are amounts paid by the Group for which we are yet to receive the relevant goods or services in return (e.g. insurance premiums we have paid for in advance that will be utilised within the year).

Accounting policy

Trade and other receivables, given their short tenor, are measured at cost. A provision for impairment of trade receivables is established subsequently where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

Section 3: Operating Assets and Working Capital continued

3.4 Trade and other receivables continued

	As at 31 December 2015 £m	2014 £m
Amounts falling due within one year:		
Trade receivables	99.5	163.4
Accrued income	157.0	134.0
Prepayments and other receivables	62.8	71.3
	319.3	368.7

Trade receivables principally represent sales of electricity to a number of counterparties within both our generation and retail businesses. At 31 December 2015, the Group had amounts receivable from two (2014: four) significant counterparties within the generation business, representing 41% (2014: 68%) of trade receivables, both of which paid within 15 days of receipt of invoice in line with agreed terms.

Of total trade receivables at 31 December 2015, £41 million (2014: £34 million) relates to retail power sales. The risk profile of retail debt is different from that of the generation business with a larger volume of counterparties, and hence a lower concentration of credit risk, with different payment terms. All past-due receivables are assessed against the Group's credit risk policies for indicators of impairment and provisions made where appropriate. The value of retail debts that are past-due and not provided against, in accordance with this assessment, is not material.

Accordingly, management does not consider there to be any requirement for further provisions in excess of the normal provision for doubtful debts of £4.9 million (2014: £6.8 million). This provision, which largely relates to retail receivables, has been determined with reference to past default experiences in line with our policies. Credit and counterparty risk are both discussed in further detail in note 7.1.

The movement in the allowance for doubtful debts is laid out in the following table:

	Years ended 31 December 2015 £m	2014 £m
At 1 January	6.8	5.6
Receivables written off	(5.0)	(0.9)
Provision for receivables impairment	3.1	2.1
At 31 December	4.9	6.8

3.5 Trade and other payables

Trade and other payables represent amounts we owe to our suppliers (for goods and services provided), tax authorities and other creditors that are due to be paid in the ordinary course of business. We make accruals for amounts that will fall due for payment in the future as a result of our activities in the current year (e.g. fuel we have received but for which we have not yet been invoiced).

Accounting policy

Trade and other payables, given their short tenor, are measured at cost.

	As at 31 December 2015 £m	2014 £m
Amounts falling due within one year:		
Trade payables	41.7	49.1
Fuel accruals	131.4	135.8
Other accruals	260.8	234.3
Other payables	54.1	49.1
	488.0	468.3

The Group recognises a liability in respect of its unsettled obligations to deliver emissions allowances under the EU ETS. Accruals at 31 December 2015 include £10.0 million (2014: £12.2 million) with respect to the Group's estimated net liability to deliver CO_2 emissions allowances. Allowances are purchased in the market and are recorded at cost.

Section 4: Financing and Capital Structure

This section gives further information regarding the Group's capital structure (equity and debt financing) and cash generated from operations during the year.

4.1 Reconciliation of net debt

Net debt is calculated by taking our borrowings (note 4.4) and subtracting cash and cash equivalents (note 4.2) and short-term investments (note 4.3). The table below reconciles net debt in terms of changes in these balances across the year.

	Years ended 31 December	
	2015 £m	2014 £m
Net (debt)/cash at 1 January	**(98.6)**	71.2
Decrease in cash and cash equivalents	**(47.1)**	(86.4)
(Decrease)/increase in short-term investments	**(40.1)**	20.1
Increase in borrowings	**(0.8)**	(103.5)
Net debt at 31 December	**(186.6)**	(98.6)

4.2 Cash and cash equivalents

Cash and cash equivalents include cash held in current and other bank accounts that are accessible on demand. It is our policy to invest available cash on hand in short-term, low risk bank or building society deposits.

	As at 31 December	
	2015 £m	2014 £m
Cash and cash equivalents	**133.8**	180.9

4.3 Short-term investments

Short-term investments represent cash held on deposit with financial institutions with a maturity of greater than three months at inception.

	As at 31 December	
	2015 £m	2014 £m
Short-term investments	**–**	40.1

4.4 Borrowings

Our financing structure includes £325 million of term loans, comprised of a private placement of £100 million with various funds managed by M&G Investments, a £75 million amortising loan facility with Friends Life, underpinned by a guarantee from HM Treasury under the Infrastructure UK Guarantee Scheme, a £50 million amortising term loan with Green Investment Bank and a £100 million amortising term loan facility with M&G UK Companies Financing Fund. The loans have varying maturity profiles ranging from 2017 to 2025. All of the term loans were fully drawn down at 31 December 2015 and 31 December 2014.

In December 2015 we successfully refinanced our £400 million revolving credit facility. The new facility matures in December 2019 and has a margin of 175 basis points over LIBOR. At 31 December 2015 this facility had been utilised to draw down letters of credit with a total value of £37.9 million (see note 7.5).

At the same time we also renewed our commodity trading facility, which allows us to transact prescribed volumes of commodity trades without the requirement to post collateral.

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 through the income statement 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.

Analysis of borrowings

Borrowings at 31 December 2015 and 31 December 2014 consisted principally of amounts drawn down against bank loans.

Section 4: Financing and Capital Structure continued

4.4 Borrowings continued

	As at 31 December 2015		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Term loans	328.4	(8.9)	319.5
Finance lease liabilities	0.9	–	0.9
Total borrowings	329.3	(8.9)	320.4
Less current portion	(0.3)	–	(0.3)
Non-current borrowings	329.0	(8.9)	320.1

	As at 31 December 2014		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Term loans	326.1	(7.1)	319.0
Finance lease liabilities	0.6	–	0.6
Total borrowings	326.7	(7.1)	319.6
Less current portion	(0.6)	–	(0.6)
Non-current borrowings	326.1	(7.1)	319.0

4.5 Cash generated from operations

Cash generated from operations is the starting point of our cash flow statement on page 111. This table 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	
	2015 £m	2014 £m
Profit for the year	56.3	128.7
Adjustments for:		
Interest payable and similar charges	18.4	29.9
Interest receivable	(1.4)	(1.3)
CESP settlement	–	20.0
Tax charge	2.7	37.2
Depreciation and amortisation	100.4	80.7
Asset obsolescence charges	109.2	–
Losses on disposal	7.1	–
Unrealised gains on derivative contracts	(123.7)	(65.8)
Defined benefit pension scheme current service cost	6.4	6.2
Non-cash charge for share-based payments	5.3	5.9
Operating cash flows before movement in working capital	180.7	241.5
Changes in working capital:		
Decrease/(increase) in inventories	18.4	(45.9)
Decrease/(increase) in receivables	49.3	(116.3)
Increase in payables	27.3	78.3
Total decrease/(increase) in working capital	95.0	(83.9)
(Increase)/decrease in carbon assets	(11.8)	26.5
Increase in ROC and LEC assets	(85.6)	(45.0)
Defined benefit pension scheme contributions	(11.0)	(11.8)
Cash generated from operations	167.3	127.3

4.6 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 all of its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	As at 31 December	
	2015 £m	2014 £m
Authorised:		
865,238,823 ordinary shares of $11^{16}/_{29}$ pence each	100.0	100.0
Issued and fully paid:		
2014 – 404,821,561 ordinary shares of $11^{16}/_{29}$ pence each	–	46.8
2015 – 406,317,162 ordinary shares of $11^{16}/_{29}$ pence each	46.9	–
	46.9	46.8

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

	Years ended 31 December	
	2015 (number)	2014 (number)
At 1 January	404,821,561	402,566,332
Issued under employee share schemes	1,495,601	2,255,229
At 31 December	406,317,162	404,821,561

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

On 26 January, 13 February and 24 February a total of 12,893 shares were issued on early vesting of the Group's Bonus Matching Plan by three individuals whose employment had terminated due to retirement. On 9 March 1,022,848 shares were issued in satisfaction of shares vesting in accordance with the rules of the Group's Bonus Matching Plan. Throughout March to June a total of 435,681 shares were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan. On 2 July 24,179 shares were issued on early vesting of the Group's Bonus Matching Plan by one individual whose employment terminated and discretion was used to vest the shares.

Other reserves

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

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

	Capital redemption reserve		Share premium		Merger reserve	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
At 1 January	1.5	1.5	422.8	422.5	710.8	710.8
Issue of share capital	–	–	1.4	0.3	–	–
At 31 December	1.5	1.5	424.2	422.8	710.8	710.8

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

The share premium and the merger reserve arose on the financial restructuring of the Group which took place in 2005.

Movements in share premium during 2015 reflect amounts received from the issue of shares under the Group's employee share schemes.

Section 5: Other Assets and Liabilities

This section includes all other assets and liabilities in the consolidated balance sheet, not covered in other sections, including goodwill, other intangible assets and the provision for reinstatement.

5.1 Acquisitions

On 4 March 2015, the Group acquired 100% of the issued share capital of Billington Bioenergy Limited (Billington Bioenergy), obtaining control of the company. Billington Bioenergy is a wood pellet distributor in the UK renewable-fuelled heating market. It gives us an important opportunity to work with the UK heat sector to ensure that the many benefits of biomass are fully understood. We hope to drive substantial growth in this market over the coming years.

Accounting policy

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred and the assets and liabilities acquired are measured at fair value. Acquisition-related costs are recognised in the income statement as incurred. Goodwill is measured as the excess of the fair value of the consideration transferred over the fair value of the identifiable net assets acquired.

The provisional amounts recognised in respect of the identifiable assets acquired and liabilities assumed in the acquisition of Billington Bioenergy are as set out in the table below:

	£m
Financial assets	0.6
Inventory	0.3
Property, plant and equipment	0.9
Financial liabilities	(1.6)
Total identifiable net assets	**0.2**
Goodwill	3.8
Total consideration paid in cash	**4.0**

The acquisition consideration of £4.0 million was settled entirely in cash, with no deferred or contingent consideration payable. No cash or cash equivalents were acquired, therefore the net cash outflow on acquisition was £4.0 million.

Billington Bioenergy contributed revenues of £4.7 million and EBITDA of £nil to the results of the Group in the period between the acquisition date and the balance sheet date.

5.2 Goodwill and other intangible assets

Goodwill arises on the acquisition of a business, when the consideration paid exceeds the fair value of the assets acquired. Our goodwill relates to the acquisition of Haven Power in 2009 and Billington Bioenergy in 2015. Other intangibles include any amounts paid in respect of carbon emission allowances for future years.

Accounting policy

Goodwill is initially recognised and measured as set out above. Goodwill is not amortised but reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the cash-generating unit to which it relates and the recoverable amount for that cash-generating unit assessed.

	Goodwill £m	Carbon £m	Total £m
Cost and carrying amount:			
At 1 January 2014	10.7	26.5	37.2
Utilisation	–	(26.5)	(26.5)
Additions at cost	–	–	–
At 1 January 2015	10.7	–	10.7
Additions at cost	**3.8**	**11.8**	**15.6**
At 31 December 2015	**14.5**	**11.8**	**26.3**

Goodwill

Total goodwill in the consolidated balance sheet at 31 December 2015 was £14.5 million, with £10.7 million arising on the acquisition of Haven Power attributed to Haven Power and £3.8 million arising on the acquisition of Billington Bioenergy in the period (31 December 2014: £10.7 million entirely attributable to Haven Power Limited).

At 31 December 2015, the fair value of goodwill was significantly in excess of its book value reflecting the economic benefits from Haven Power's cash generative profile.

5.2 Goodwill and other intangible assets continued

The recoverable amount of Haven Power is calculated annually, based on a value in use calculation. The key assumptions in this calculation are the same as those used for the wider asset impairment review conducted by the Group as at 31 December 2015 and are disclosed in note 2.3.

Given the short time since the acquisition, management consider the fair value of Billington Bioenergy to be equivalent to the purchase price, which was supported by an independent valuation.

Carbon assets

Carbon assets arise on the purchase of CO_2 emissions allowances in excess of the amount allocated and required for the current financial year and are recognised at cost, net of any impairment.

The charge to the income statement, within fuel costs, reflects the cost of emissions allowances required to satisfy the obligation for the current year and takes into account generation and market purchases allocated to the current financial year, and to the extent further purchases are required, the market price at the balance sheet date.

5.3 Provisions

We make a provision for reinstatement to cover the estimated costs of decommissioning and demolishing our generation assets and remediating the site at the end of the useful economic lives of the assets. The amount represents the present value (i.e. it is discounted to reflect the time value of money) of the expected costs. Provisions are for liabilities of uncertain timing and/or amount, and as such by their nature are estimated.

Accounting policy

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Specifically, provision is made for the estimated decommissioning costs at the end of the useful economic life of the Group's generating assets, when a legal or constructive obligation arises, on a discounted basis. The amount provided represents the present value of the expected costs. No allowance is made within the provision for expected proceeds on disposal of scrap or assets to third parties, as the uncertainty over market prices at the estimated decommissioning date mean such an asset would not be virtually certain at the balance sheet date. The discount rate used is a risk free pre-tax rate, reflecting the fact that the estimated future cash flows have built in risks specific to the liability. An amount equivalent to the discounted provision is capitalised within property, plant and equipment and is depreciated over the useful lives of the related assets. The unwinding of the discount is included in interest payable and similar charges.

	Reinstatement £m
Carrying amount:	
At 1 January 2014	32.4
Impact of triennial revaluation (see below)	(3.7)
Unwinding of discount	1.1
At 1 January 2015	29.8
Unwinding of discount	**0.7**
At 31 December 2015	**30.5**

The initial provision and subsequent estimation changes are capitalised within property, plant and equipment and are being depreciated over the useful lives of the related assets. The unwinding of the discount is included in finance costs (note 2.4).

The provision is estimated using the assumption that the reinstatement will take place between 2039 and 2045, and has been estimated using existing technology at current prices based on independent third party advice, updated on a triennial basis. The most recent update took place in 2014.

Section 6: Our People

The notes in this section relate to the remuneration of our directors and employees, including disclosures relating to our obligations under retirement benefit schemes.

6.1 Employees and directors

This note provides a more detailed breakdown of the cost of our employees, including executive directors. The average number of employees in Operations (staff based at production sites), Retail services (employees in our Retail segment) and Business services (those working in central functions) is also provided.

Further information in relation to pay and remuneration can be found in the report of the Remuneration Committee, starting on page 75.

Staff costs (including executive directors)

	Years ended 31 December	
	2015 £m	2014 £m
Included in other operating and administrative expenses (note 2.2)		
Wages and salaries	79.8	69.1
Social security costs	9.4	8.4
Other pension costs	12.3	11.1
Share-based payments (note 6.2)	5.3	5.9
	106.8	94.5

Average monthly number of people employed (including executive directors)

	Years ended 31 December	
	2015 (number)	2014 (number)
Operations	788	725
Retail services	353	346
Business services	301	253
	1,442	1,324

6.2 Share-based payments

We operate two share option schemes for our employees – the Bonus Matching Plan (BMP) for directors and senior executives, and the Savings-Related Share Option (SAYE) Plan for all qualifying employees. We incur a non-cash charge in respect of these schemes in our income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding.

Accounting policy

All of the Group's share-based payments are equity-settled. Equity-settled share-based payments are measured at fair value of the equity instrument at the date of grant and expensed on a straight-line basis over the relevant vesting period, based on an estimate of the shares that will ultimately vest as a result of the effect of non-market based vesting conditions, which is revised at each balance sheet date.

Costs recognised in the income statement in relation to share-based payments during the year were as follows:

	Years ended 31 December	
	2015 £m	2014 £m
BMP	3.7	5.2
SAYE	1.6	0.7
	5.3	5.9

Share Incentive Plan (SIP)

Between 2008 and 2010, qualifying employees could buy up to £1,500 worth of Partnership Shares in any one tax year. Matching shares were awarded to employees to match any shares they bought, in a ratio of one-to-one, with the cost of matching shares borne by the Group. There have been no awards under the SIP Partnership and Matching Share plan since 2010.

Shares in the Company held under trust and under the Company's control as a result of the SIP were as follows:

	Shares held at 1 January 2015 (number)	Shares acquired during year (number)	Shares transferred during year (number)	Shares held at 31 December 2015 (number)	Cost at 31 December 2015 £000	Nominal value at 31 December 2015 £000	Market value at 31 December 2015 £000
SIP	218,543	–	30,078	188,465	1,768	22	460

6.2 Share-based payments continued

Bonus Matching Plan (BMP)

Under the BMP, annual awards of performance and service-related shares are made for no consideration to executive directors and other senior executives up to a maximum of 150% of their annual bonus. A proportion of the shares vesting is conditional upon whether the Group's TSR matches or outperforms an index (determined in accordance with the scheme rules) over three years and a proportion of the shares vesting is conditional upon performance against the internal Balanced Corporate Scorecard. The fair value of the 2015, 2014 and 2013 BMP awards, of £3.3 million, £5.4 million and £6.1 million respectively, are being charged to the income statement on a straight-line basis over the corresponding three year vesting periods.

Movements in the number of share options outstanding for the BMP awards is as follows:

	2015 BMP (number)	2014 BMP (number)
At 1 January	4,053,414	5,187,230
Granted	1,560,552	908,346
Forfeited	(505,781)	(182,160)
Exercised	(958,566)	(1,840,190)
Expired	(737,827)	(19,812)
At 31 December	3,411,792	4,053,414

Savings-Related Share Option Plan (SAYE)

In April 2015, participation in the SAYE Plan was offered again to all qualifying employees. Options were granted for employees to acquire shares at a price of 319 pence (2014: 530 pence), representing a discount of 20% to the prevailing market price determined in accordance with the scheme rules. The options are exercisable at the end of three or five year savings contracts. The fair value of the options granted in connection with the SAYE Plan of £4.4 million (2014: £1.5 million) is being charged to the income statement over the life of the relevant contracts.

Movements in the number of share options outstanding for the SAYE plans are as follows:

	2015		2014	
	SAYE three-year (number)	SAYE five-year (number)	SAYE three-year (number)	SAYE five-year (number)
At 1 January	963,911	1,107,420	647,431	926,140
Granted	2,127,867	862,670	534,832	237,809
Forfeited	(16,683)	(5,440)	(100,078)	(45,255)
Exercised	(2,414)	(437,976)	(117,181)	(6,917)
Expired	(1,124,472)	(592,633)	(1,093)	(4,357)
At 31 December	1,948,209	934,041	963,911	1,107,420

Fair value of share-based payment awards

The fair value of share-based payment awards was determined as follows:

SIP – based on price paid at award dates;
BMP – Monte-Carlo valuation model, which takes into account the estimated probability of different levels of vesting; and
SAYE – Black-Scholes model which compares exercise price to share price at the date of grant.

Additional information in relation to the Group's share-based incentive plans is included in the Remuneration Committee report.

6.3 Retirement benefit obligations

We operate a defined benefit and three defined contribution pension schemes.

The Drax Power Group section of the Electricity Supply Pension Scheme is a defined benefit scheme; a pension arrangement under which participating members receive a pension benefit at retirement determined by the scheme rules. Members are typically entitled to an annual pension on retirement of 1/80th of final pensionable salary for each year of service plus a tax-free lump sum of three times pension.

The Drax Power Limited Pension Plan, Haven Power Personal Pension Plan and Drax Biomass Inc. 401(K) Plan are defined contribution schemes, which provide a retirement benefit that is dependent upon actual contributions made by the Group and members of the scheme.

Section 6: Our People continued

6.3 Retirement benefit obligations continued

Accounting policy

Payments to defined contribution schemes are recognised as an expense when employees have rendered services that entitle them to the contributions.

For the defined benefit pension scheme, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement of the obligation, comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest), is recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which it occurs. Defined benefit costs, including current service costs, past service costs and gains and losses on curtailments and settlements are recognised within the income statement as part of operating and administrative expenses in the period in which they occur. The net interest expense is recognised within finance costs.

The income statement charge for the defined contribution scheme represents the contributions due to be paid by the Group in respect of the current period.

Significant judgement areas

Measurement of the defined benefit obligation using the projected unit credit method involves the use of key assumptions, including discount rates, inflation rates, salary and pension increases, and mortality rates. These actuarial assumptions are reviewed annually and modified as appropriate. The Group believes that the assumptions utilised in measuring obligations under the scheme are reasonable based on prior experience, market conditions and the advice of scheme actuaries. However, actual results may differ from such assumptions.

The assumptions used in 2015 have been prepared on a consistent basis with those in the previous period and in accordance with independent actuarial advice received.

Defined contribution schemes

The Group operates three defined contribution schemes, The Drax Power Limited Pension Plan, Haven Power Personal Pension Plan and Drax Biomass inc. 401(K) Plan, for all qualifying employees. Pension costs for the defined contribution schemes are as follows:

	Years ended 31 December	
	2015 £m	2014 £m
Total included in staff costs (note 6.1)	5.9	4.9

As at 31 December 2015, contributions of £0.4 million (2014: £0.4 million) due in respect of the current reporting period had not been paid over to the schemes. The Group has no further payment obligations once the contributions have been paid.

Defined benefit scheme

The Drax Power Group (DPG) section of the Electricity Supply Pension Scheme (ESPS) was closed to new members as from 1 January 2002 unless they qualify through being existing members of another part of the ESPS. Members who joined before this date continue to build up pension benefits as part of the scheme.

The DPG ESPS exposes the Group to actuarial and other risks, the most significant of which are considered to be:

Investment risk	The scheme liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The scheme holds a significant proportion of growth assets (equities, property and direct lending) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the scheme's long-term objectives.
Interest rate risk	A decrease in corporate bond yields will increase the value placed upon the scheme's liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.
Longevity risk	The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities of the scheme.
Inflation risk	The majority of the scheme's obligations to pay benefits are linked to inflation, and as such higher inflation will lead to higher liabilities. The majority of the assets held by the scheme are either unaffected by or only loosely correlated with inflation, such that an increase in inflation will also increase the deficit. In most cases, caps on inflationary increases are in place, to protect against extreme inflation.

Other risks include operational risks (such as paying out the wrong benefits), legislative risks (such as the government increasing the burden on pension schemes through new legislation) and other demographic risks (such as making a higher proportion of members with dependants eligible to receive pensions from the Group). The Trustees insure certain benefits payable on death before retirement.

A contingent liability exists in relation to the equalisation of Guaranteed Minimum Pension. See note 7.5 for details.

6.3 Retirement benefit obligations continued

The last funding valuation of the DPG ESPS was carried out by Aon Hewitt, a qualified independent actuary, as at 31 March 2013. Future valuations are required by law at intervals of no more than three years. The next valuation will therefore take place on or before 31 March 2016.

The results of the latest funding valuation at 31 March 2013 have been adjusted to 31 December 2015, taking into account experience over the period since 31 March 2013, changes in market conditions and differences in financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service cost were measured using the projected unit credit method. The principal assumptions used, which reflect the nature and term of the scheme liabilities, are as follows:

	As at 31 December	
	2015 % p.a.	2014 % p.a.
Discount rate	3.9	3.7
Inflation (RPI)	3.1	3.0
Rate of increase in pensions in payment and deferred pensions	3.0	2.8
Rate of increase in pensionable salaries	3.7	3.6

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retired in 2015 at age 60 will live on average for a further 27 years (2014: 27 years) after retirement if they are male and for a further 29 years (2014: 29 years) after retirement if they are female. Similarly life expectancy at age 60 for male and female non-pensioners currently aged 45 is assumed to be 28 years and 31 years respectively (2014: 28 years and 31 years respectively).

The net liability recognised in the balance sheet is the excess of the present value of the defined benefit obligation over the fair value of the plan assets, determined as follows:

	As at 31 December	
	2015 £m	2014 £m
Defined benefit obligation	244.6	242.1
Fair value of plan assets	(215.1)	(207.8)
Net liability recognised in the balance sheet	**29.5**	34.3

The amounts recognised in the income statement, within other operating and administrative expenses and finance costs, are as follows:

	Years ended 31 December	
	2015 £m	2014 £m
Included in staff costs (note 6.1):		
Current service cost	6.4	6.2
Past service cost	–	–
Total included in other operating and administrative expenses	6.4	6.2
Included in finance costs (note 2.4):		
Interest on net defined benefit liability	1.1	1.5
Total included in finance costs	1.1	1.5
Total amounts recognised in the income statement	**7.5**	7.7

Actuarial gains and losses are recognised in the statement of comprehensive income in full, as follows:

	Years ended 31 December	
	2015 £m	2014 £m
Cumulative actuarial losses on defined benefit pension scheme at 1 January	(72.0)	(75.4)
Actuarial gains on defined benefit pension scheme recognised in the year	1.2	3.4
Cumulative losses recognised in the statement of comprehensive income at 31 December	**(70.8)**	(72.0)

Section 6: Our People continued

6.3 Retirement benefit obligations continued

Changes in the present value of the defined benefit obligation are as follows:

	Years ended 31 December 2015 £m	2014 £m
Defined benefit obligation at 1 January	**242.1**	220.9
Current and past service cost	6.4	6.2
Employee contributions	0.2	0.2
Interest cost	8.9	9.8
Actuarial (gains)/losses	(5.8)	10.2
Benefits paid	(7.2)	(5.2)
Defined benefit obligation at 31 December	**244.6**	242.1

The actuarial gains of £5.8 million (2014: £10.2 million losses) reflect £2.3 million (2014: losses of £12.3 million) gains arising from changes in financial assumptions, £1.8 million gains arising from changes in demographic assumptions and scheme experience of £1.7 million (2014: gains of £0.5 million and £1.6 million respectively).

Changes in the fair value of plan assets are as follows:

	Years ended 31 December 2015 £m	2014 £m
Fair value of plan assets at 1 January	**207.8**	179.2
Interest income on plan assets	7.8	8.3
Remeasurement (losses)/gains	(4.6)	13.6
Employer contributions	11.1	11.7
Employee contributions	0.2	0.2
Benefits paid	(7.2)	(5.2)
Fair value of plan assets at 31 December	**215.1**	207.8

Employer contributions included payments totalling £5.1 million (2014: £5.8 million) to reduce the actuarial deficit.

The actual return on plan assets in the period was £3.2 million (2014: £21.9 million).

The fair values of the major categories of plan assets were as follows:

	As at 31 December 2015 £m	2014 £m
Equities(1)	64.6	77.8
Fixed interest bonds(2)	113.9	100.5
Property	27.9	25.9
Hedge funds	0.0	0.4
Cash and other assets(3)	8.7	3.2
Fair value of total plan assets	**215.1**	207.8

Notes:
(1) Under the Group's long-term asset strategy, 50% of assets are invested in return generating asset classes – of which 5% is invested in emerging market equity. The remaining 50% of assets are invested in liability-matching asset classes.
(2) Fixed interest bonds include a mixture of corporate, government and absolute return bonds. 8% has a sub-investment grade credit rating (i.e. BB+ or lower).
(3) Other assets include £8.0 million of investments in direct lending, a type of private equity vehicle, which is not quoted in an active market.

6.3 Retirement benefit obligations continued

The pension plan assets do not include any ordinary shares issued by Drax Group plc or any property occupied by the Group.

The Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class relative to the actual asset allocation for the scheme.

The assumptions for discount rate, inflation rate, rate of increase in pensions paid and expected return on plan assets all have a potentially significant effect on the measurement of the scheme deficit. The following table provides an indication of the sensitivity of the pension deficit at 31 December 2015 to changes in these assumptions:

		%	(Decrease)/Increase in net liability £m
Discount rate	– Increase	0.25	(11.3)
	– Decrease	0.25	12.2
Inflation rate[1]	– Increase	0.25	10.6
	– Decrease	0.25	(10.0)
Life expectancy	– Increase	1 year	6.8
	– Decrease	1 year	(6.8)

Note:
(1) The sensitivity of the scheme liabilities to salary and pension increases is closely correlated with inflation. The impact of corresponding decreases in these variables is included here.

The Group is exposed to investment and other experience risks, as described above, and may need to make additional contributions where it is estimated that the benefits will not be met from regular contributions and expected investment income.

	As at 31 December				
	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Defined benefit obligation	**(244.6)**	(242.1)	(220.9)	(199.0)	(182.4)
Fair value of plan assets	**215.1**	207.8	179.2	156.9	145.4
Deficit	**(29.5)**	(34.3)	(41.7)	(42.1)	(37.0)
Experience adjustments on plan liabilities	**1.7**	1.6	8.7	(1.7)	(4.3)
Experience adjustments on plan assets	**(4.6)**	13.6	9.4	(3.0)	0.6

The defined benefit obligation includes benefits for current employees of the Group (70%), former employees of the Group who are yet to retire (5%) and retired pensioners (25%). The weighted-average period over which benefit payments are expected to be made, or the duration of the liabilities, is currently 22 years.

The Group expects to contribute £8.3 million to its pension plans during the 12 months ended 31 December 2016.

The Group intends to fund the deficit, agreed at the last triennial valuation, over the period to 31 December 2019.

Section 7: Risk Management

This section provides disclosures around financial risk management, including the financial instruments we use to mitigate such risks.

7.1 Risk management disclosures

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

The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by the risk management committees as detailed in Principal risks and uncertainties (page 52) which identify, evaluate and hedge financial risks in close co-ordination with the Group's trading function under policies approved by the Board of directors.

Commodity price risk

The Group is exposed to the effect of fluctuations in commodity prices, particularly the price of electricity, the price of coal, sustainable biomass and other fuels, and the price of CO_2 emissions allowances. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so.

The Group has a policy of securing forward power sales, purchases of fuel and CO_2 emissions allowances when profitable to do so. All commitments to sell power under fixed price contracts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of electricity.

The Group purchases coal, sustainable biomass and other fuels under either fixed or variable priced contracts with different maturities from a variety of domestic and international sources. All international physical coal purchase contracts transacted at a fixed price and financial coal contracts exchanging floating price coal for fixed price amounts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of coal.

The Group purchases CO_2 emissions allowances under fixed price contracts with different maturity dates from a range of domestic and international sources. All commitments to purchase CO_2 emissions allowances under fixed price contracts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of CO_2 emissions allowances.

Commodity price sensitivity

The sensitivity analysis below has been determined based on the exposure to commodity prices for outstanding monetary items at the balance sheet date. The analysis is based on the Group's commodity financial instruments held at each balance sheet date.

If commodity prices had been 5% higher/lower and all other variables were held constant, the Group's:

- profit after tax for the year ended 31 December 2015 would decrease/increase by £6.7 million (2014: decrease/increase by £9.4 million). This is mainly attributable to the Group's exposure to oil derivatives; and
- the hedge reserve would decrease/increase by £11.5 million (2014: decrease/increase by £12.0 million) mainly as a result of the changes in the fair value of financial coal and power derivatives.

Interest rate risk

Historically the Group has been exposed to interest rate risk principally in relation to its bank debt, and has sought to mitigate this risk with interest rate hedges on a proportion of its debt facilities. The Group has no interest rate swaps outstanding at the balance sheet date; however this risk management tool remains available to the Group. Information about the Group's instruments that are exposed to interest rate risk and their repayment schedules is provided below.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's profit after tax and net assets for the year ended 31 December 2015 would decrease/increase by £1.8 million (2014: decrease/increase by £1.4 million) as a result of the changes in interest payable during the period.

Foreign currency risk

Foreign currency exchange contracts are entered into hedge fixed price international coal purchases in US dollars, biomass purchases in US dollars, Canadian dollars and Euros, and CO_2 emissions allowances purchases in Euros. As our biomass transformation plans have progressed, we have entered into an increasing volume of forward foreign exchange contracts. Exchange rate exposures are managed within approved policy parameters utilising a variety of foreign currency exchange contracts.

Foreign currency sensitivity

If sterling exchange rates had been 5% stronger/weaker against other currencies and all other variables were held constant, the Group's:

- profit after tax for the year ended 31 December 2015 would decrease/increase by £233.3 million/£241.1 million (2014: decrease/increase by £261.0 million/£275.3 million). This is mainly attributable to the Group's exposure to foreign currency exchange contracts entered in relation to fuel purchase contracts; and
- other equity reserves would increase/decrease by £67.8 million/£75.0 million (2014: increase/decrease by £48.7 million/£53.9 million) as a result of the changes in the fair value of foreign currency exchange contracts.

7.1 Risk management disclosures continued

Liquidity risk

The treasury function is responsible for liquidity, funding and settlement management under policies approved by the Board of directors. Liquidity needs are monitored using regular forecasting of operational cash flows and financing commitments. The Group maintains a mixture of cash and cash equivalents, and committed facilities in order to ensure sufficient funding for business requirements.

The following tables set out details of the expected contractual maturity of non-derivative financial liabilities. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date.

	As at 31 December 2015			
	Within 3 months £m	3 months –1 year £m	>1 year £m	Total £m
Term loans, gross value	3.1	9.8	374.5	387.4
Finance lease liabilities, carrying value	–	0.3	0.6	0.9
Borrowings, contractual maturity	3.1	10.1	375.1	388.3
Trade and other payables	327.2	147.7	13.1	488.0
	330.3	157.8	388.2	876.3

	As at 31 December 2014			
	Within 3 months £m	3 months –1 year £m	>1 year £m	Total £m
Term loans, gross value	3.4	10.8	388.0	402.2
Finance lease liabilities, carrying value	–	0.6	–	0.6
Borrowings, contractual maturity	3.4	11.4	388.0	402.8
Trade and other payables	353.4	113.3	1.6	468.3
	356.8	124.7	389.6	871.1

Interest payments are calculated based on forward interest rates estimated at the balance sheet date using publicly available information. The weighted average interest rate payable at the balance sheet date on our term loans was 4.22% (2014: 4.21%).

The following tables set out details of the expected contractual maturity of derivative financial instruments which are marked-to-market, based on the undiscounted net cash inflows/(outflows). Where the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to projected commodity prices, or foreign currency exchange rates, as illustrated by the yield or other forward curves existing at the reporting date.

	As at 31 December 2015			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts, net	233.1	(84.5)	(73.0)	75.6
Forward foreign currency exchange contracts, net	1,019.1	1,005.5	1,859.2	3,883.8
	1,252.2	921.0	1,786.2	3,959.4

	As at 31 December 2014			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts, net	170.7	10.2	(3.8)	177.1
Forward foreign currency exchange contracts, net	941.2	1,206.0	2,157.3	4,304.5
	1,111.9	1,216.2	2,153.5	4,481.6

Counterparty risk

As the Group relies on third party suppliers for the delivery of fuel, sustainable biomass and other goods and services, it is exposed to the risk of non-performance by these third party suppliers. If a large supplier falls into financial difficulty and/or fails to deliver against the contracts, there would be additional costs associated with securing fuel from other suppliers.

The Group enters into fixed price and fixed margin contracts for the sale of electricity to a number of counterparties. The failure of one or more of these counterparties to perform their contractual obligations may cause the Group financial distress or increase the risk profile of the Group.

Section 7: Risk Management continued

7.1 Risk management disclosures continued

Credit risk

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	As at 31 December 2015 £m	2014 £m
Financial assets:		
Cash and cash equivalents	133.8	180.9
Short-term investments	–	40.1
Trade and other receivables	324.2	375.5
Derivative financial instruments	609.2	250.3
	1,067.2	846.8

Trade and other receivables are stated gross of the provision for doubtful debts of £4.9 million (2014: £6.8 million).

Credit exposure is controlled by counterparty limits that are reviewed and approved by risk management committees. Where considered appropriate, counterparties are required to provide credit support in the form of a parent company guarantee, letter of credit, deed of charge, or cash collateral. In addition, where deemed appropriate the Group has purchased credit default swaps.

The investment of surplus cash is undertaken to maximise the return within Board approved policies. These policies manage credit risk exposure by setting out minimum rating requirements, maximum investment with any one counterparty and the maturity profile.

Capital management

The Group manages its capital to ensure it is able to continue as a going concern, and maintain its credit rating while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of shareholders' equity (excluding the hedge reserve), plus net cash. Net debt is comprised of borrowings disclosed in note 4.4, cash and cash equivalents in note 4.2 and short-term investments in note 4.3.

	As at 31 December 2015 £m	2014 £m
Borrowings	320.4	319.6
Cash and cash equivalents	(133.8)	(180.9)
Short-term investments	–	(40.1)
Net debt	186.6	98.6
Total shareholders' equity, excluding hedge reserve	1,567.5	1,556.2

7.2 Derivative financial instruments

We enter into forward contracts for the purchase and sale of physical commodities (principally power, gas, coal, sustainable biomass and CO_2 emissions allowances) to secure market level dark green and bark spreads on future electricity sales, and also financial contracts (principally currency exchange contracts and financial coal and oil derivatives) to fix sterling cash flows.

We hold these contracts for risk management purposes, to manage key risks facing the business including commodity price risk, and foreign currency risk (see note 7.1).

A successful commercial hedging strategy is critical to our business model. Our policy is to lock down exposures to commodity price movements and changes in foreign exchange rates using derivative contracts such as those described above. This strategy aims to de-risk the business, providing security and certainty over cash flows into the future.

At the balance sheet date all contracts (subject to certain exemptions described below) must be measured at fair value, which is in essence the difference between the price we have secured in the contract, and the price we could achieve in the market at that point in time.

Changes in fair value are recognised either within the income statement or the hedge reserve, dependent upon whether the contract in question qualifies as an effective hedge under IFRS (see note 7.4).

Accounting policy

Where possible, the Group has taken advantage of the own use exemption which allows qualifying contracts to be excluded from fair value mark-to-market accounting. This applies to certain contracts for physical commodities entered into and held for our own purchase, sale or usage requirements, including forward contracts for the purchase of biomass, and coal from domestic sources.

Contracts which do not qualify for the own use exemption – principally power, gas, financial oil, financial coal, CO_2 emissions allowances and forward foreign currency exchange contracts – are accounted for as derivatives and recorded in the balance sheet at fair value, with changes in fair value reflected through the hedge reserve (note 7.4) to the extent that the contracts are designated as effective hedges in accordance with IAS 39, or the income statement where the hedge accounting requirements are not met.

7.2 Derivative financial instruments continued

Derivative financial instruments with a maturity date within 12 months from the balance sheet date are classified as current assets or liabilities. Instruments with a maturity date beyond 12 months are classified as non-current assets or liabilities.

The location of the changes in fair value of derivative contracts in 2015 are summarised in the table below:

Accounting for derivative contracts	Gains/(losses) on contracts in 2015	Accounting treatment for gains/(losses) in the consolidated financial statements
Commodity contracts		
Power	£13.6 million	Hedge reserve
Coal from international sources	(£4.2 million)	Income statement
Coal from domestic sources	n/a	Own-use exemption
Biomass	n/a	Own-use exemption
CO_2 emissions allowances	(£6.8 million)	Hedge reserve
Gas	£53.9 million	Income statement
Financial contracts		
Foreign currency exchange contracts	£106.1 million	Income statement
	£31.3 million	Hedge reserve
Financial coal	£6.8 million	Income statement
	(£14.7 million)	Hedge reserve
Financial oil and other financial products	(£38.9 million)	Income statement
Total net gains in hedge reserve	£23.4 million	
Total net gains in income statement	£123.7 million	

Critical judgement areas

The fair values of derivative instruments for commodities and foreign currency exchange contracts are determined using forward price curves. Forward price curves represent the Group's estimates of the prices at which a buyer or seller could contract today for delivery or settlement of a commodity or foreign exchange payment or receipt, at future dates. The Group generally bases forward price curves upon readily obtainable market price quotations, as the Group's commodity and forward foreign exchange contracts do not generally extend beyond the actively traded portion of these curves. However, the forward price curves used are only an estimate of how future prices will move and are, therefore, subjective. Where derivative financial instruments include options these are valued using an option pricing model. Inputs to the model include market commodity prices, forward price curves, the term of the option, discount rate and assumptions around volatility based on historical movements. The inputs include assumptions around future transactions and market movements, as well as credit risk and are, therefore, subjective.

Fair value accounting

Forward contracts for the sale of power, purchase of coal from international sources, purchase of CO_2 emissions allowances, financial coal, financial oil, gas (collectively "Commodity contracts") and foreign currency exchange contracts are marked-to-market and recorded in the balance sheet at fair value as follows:

	As at 31 December 2015		As at 31 December 2014	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Commodity contracts:				
Less than one year	264.1	(226.1)	132.9	(97.4)
More than one year but not more than two years	81.2	(94.1)	44.8	(55.0)
More than two years	27.0	(53.4)	8.4	(45.0)
Forward foreign currency exchange contracts:				
Less than one year	66.7	(48.2)	6.2	(33.3)
More than one year but not more than two years	93.8	(81.7)	28.1	(40.2)
More than two years	76.4	(70.9)	29.9	(92.0)
Total	609.2	(574.4)	250.3	(362.9)
Less: non-current portion				
Commodity contracts	(108.2)	147.5	(53.2)	100.0
Forward foreign currency exchange contracts	(170.2)	152.6	(58.0)	132.2
Total non-current portion	(278.4)	300.1	(111.2)	232.2
Current portion	330.8	(274.3)	139.1	(130.7)

Section 7: Risk Management continued

7.2 Derivative financial instruments continued

The total movement in the fair value of these contracts of £147.1 million (2014: £166.2 million loss) is recognised in the income statement or the hedge reserve, dependent upon whether the hedge accounting requirements of IAS 39 are met, as follows:

	Years ended 31 December 2015 £m	2014 £m
Unrealised gains on derivative contracts recognised in arriving at operating profit	123.7	65.8
Unrealised gains on derivative contracts recognised in the hedge reserve (note 7.4)	23.4	100.4
Total unrealised gains/(losses) on derivative contracts	**147.1**	166.2

Unrealised gains in the income statement in 2015 are primarily the result of changes in the fair value of our forward currency exchange contracts. We maintain a substantial foreign currency hedging programme to secure the sterling cost of future purchases of fuel in foreign currencies, principally denominated in US dollars, Canadian dollars and Euros. The high volume of contracts held (demonstrated in the table on page 137) means low levels of exchange rate volatility can have a significant impact on amounts recognised in our income statement in respect of these contracts. The vast majority of our fuel purchases, and therefore our currency exchange contracts, are denominated in US dollars. The overall strengthening of the US dollar against sterling during 2015 resulted in further significant unrealised gains in the current year.

During 2015 the liquid portion of the forward power curve contracted and as a result we extended the use of longer-dated contracts to sell gas as a proxy for power hedging. Whilst the correlation is strong, the hedge is not perfect and thus we do not apply hedge accounting to these contracts. Falling market gas prices during 2015 have contributed further gains to the income statement as our hedged positions are at a price that is better than could be achieved in the market as at the balance sheet date.

These gains were partially offset by unrealised losses on our financial oil purchase contracts as a result of the continuing decline in oil prices during 2015. We utilise financial contracts to fix oil indexation in fuel purchase contracts.

Unrealised gains recognised in the hedge reserve principally reflect gains on the portion of our forward currency exchange contracts that are designated in effective hedge relationships in accordance with IAS 39 and forward contracts for the sale of power which have increased in value relative to the market as price weakness continued in 2015.

Fair value measurement

- **Commodity contracts fair value** – The fair value of commodity contracts qualifying as derivative financial instruments, not excluded through the own use exemption, are calculated by reference to forward market prices at the balance sheet date. As contracts are generally short-term, forward market price curves are available for the duration of the contracts. The quoted market price used for financial assets held by the Group is the current bid price; the quoted price for financial liabilities is the current ask price.
- **Forward foreign currency exchange contracts fair value** – The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the balance sheet date.
- **Other financial contracts fair value** – The fair value of other financial contracts qualifying as derivative financial instruments, not excluded through the own use exemption, is calculated by reference to forward market prices at the balance sheet date. As contracts are generally short-term, forward market price curves are available for the duration of the contracts.

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

The Group has reviewed all significant contracts for the presence of embedded derivatives. Where contracts were found to contain embedded derivatives, they were considered to be closely related to the economic characteristics and risks of the host contract, and therefore do not require separate valuation from their host contracts.

Categorisation within the fair value measurement hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset or liability as follows:
Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – fair value measurements are those derived from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of both commodity contracts and forward foreign currency exchange contracts is largely determined by comparison between forward market prices and the contract price; therefore these contracts are categorised as Level 2.

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

7.3 Other financial instruments

We hold a variety of other non-derivative financial instruments, including cash and cash equivalents, borrowings, payables and receivables arising from our operations.

Accounting policy

Cash and cash equivalents (note 4.2), short-term investments (note 4.3), trade and other receivables (note 3.4), and trade and other payables (note 3.5) generally have short times to maturity. For this reason their carrying values, on the historical cost basis, approximate to their fair value. The Group's borrowings (note 4.4) relate principally to amounts drawn down against term loans, the carrying amounts of which approximate their fair values by virtue of being floating rate instruments.

7.4 Hedge reserve

Changes in the fair value of our derivative commodity, financial and currency contracts are recognised in the hedge reserve, to the extent that they qualify as effective hedges under accounting rules. The cumulative gains and losses unwind and are released as the related contracts mature, and we take delivery of the associated commodity or currency.

As described in note 7.2, all of our derivative contracts are entered into for the purpose of commercial hedging; however not all of these contracts qualify as effective hedges under IAS 39. The changes in fair value of contracts that do not meet the definition of an IFRS effective hedge are recognised in the income statement. Managing our principal risks and uncertainties is about locking down exposures to moving prices and securing market level dark green and bark spreads for the future.

The Group designates certain hedging instruments used to address commodity price risk and foreign exchange risk as cash flow hedges. At the inception of the hedge, the relationship between the hedging instrument and hedged item is documented, along with its risk management objectives. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Changes in fair value of contracts designated into such hedging relationships are recognised within the hedge reserve to the extent they are effective.

	Years ended 31 December	
	2015 £m	2014 £m
At 1 January	16.4	(63.9)
Gains/(losses) recognised:		
– Commodity contracts	41.4	48.1
– Forward foreign currency exchange contracts	27.7	37.1
Released from equity:		
– Commodity contracts	(49.2)	8.1
– Forward foreign currency exchange contracts	3.5	7.1
Related deferred tax, net (note 2.5)	(4.9)	(20.1)
At 31 December	34.9	16.4

The Group's cash flow hedges relate to commodity contracts (principally commitments to sell power) and forward foreign currency exchange contracts. Amounts are recognised in the hedge reserve as the designated contracts are marked to market at each period end for the effective portion of the hedge, which is generally 100% of the relevant contract. Amounts held within the hedge reserve are then released as the related contract matures and the hedged transaction impacts profit or loss. For power sales contracts, this is when the underlying power is delivered. For FX contracts, this is when the associated foreign currency transaction is recognised. Further information about the Group's accounting for financial instruments is included in note 7.2.

The expected release profile from equity of post-tax hedging gains and losses is as follows:

	As at 31 December 2015			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	27.9	4.8	(0.8)	31.9
Forward foreign currency exchange contracts	7.8	(10.0)	5.2	3.0
	35.7	(5.2)	4.4	34.9

	As at 31 December 2014			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	39.3	(0.2)	(2.1)	37.0
Forward foreign currency exchange contracts	(3.3)	1.8	(19.1)	(20.6)
	36.0	1.6	(21.2)	16.4

Section 7: Risk Management continued

7.5 Contingent liabilities

Contingent liabilities are potential future outflows of cash that are dependent on a future event that is outside of our control. The amount and timing of any payment is uncertain, cannot be measured reliably, or is considered to be unlikely.

Guaranteed Minimum Pension (GMP)

The UK government intends to implement legislation to equalise the GMP, resulting in an increase in the value of GMP for males. This would correspondingly increase the defined benefit pension obligation of the Group (note 6.3). At present, the methodology for implementing the equalisation is uncertain and thus the impact cannot be reliably measured. As a result, no allowance has been made for GMP equalisation in the calculation of the defined benefit obligation within these consolidated financial statements.

Borrowings

In addition to the amount drawn down against the bank loans, certain members of the Group guarantee the obligations of a number of banks in respect of letters of credit issued by those banks to counterparties of the Group. As at 31 December 2015 the Group's contingent liability in respect of letters of credit issued under the revolving credit facility amounted to £37.9 million (2014: £50.5 million).

Invoices subject to dispute resolution

At the balance sheet date, the Group was engaged in a commercial dispute resolution process relating to certain invoices received for the year ending 31 December 2015. No entries have been made in the financial statements in respect of these items as the existence and value of any potential liability remains uncertain. Under the terms of our contract the Group is entitled to withhold payment until the dispute is resolved.

7.6 Commitments

We have a number of financial commitments (i.e. a contractual requirement to make a cash payment in the future) that are not recorded in our balance sheet as the contract is not yet due for delivery. Such commitments include contracts for the future purchase of coal and biomass, operating leases for land and buildings, contracts for the construction of assets and contracts for the provision of services.

	As at 31 December	
	2015 £m	2014 £m
Contracts placed for future capital expenditure not provided in the financial statements	43.2	66.7
Future support contracts not provided in the financial statements	6.1	12.4
Future commitments to purchase fuel under fixed and variable priced contracts	4,739.0	4,512.0

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2015 £m	2014 £m
Within one year	8.0	1.7
Within two to five years	8.1	7.9
After five years	7.0	7.4
	23.1	17.0

Section 8: Reference Information

This section details reference information relevant to the accounts. Here we describe the general information about the Group (e.g. operations and registered office). We also set out the basis of preparation of the accounts and general accounting policies that are not specific to any one note.

8.1 General information

Drax Group plc (the Company) is incorporated in England and Wales under the Companies Act. The Company and its subsidiaries (together, the Group) have three principal activities:

- Electricity generation;
- Electricity supply to business customers;
- Manufacturing of sustainable compressed wood pellets for use in electricity production.

The Group's activities are principally based within the UK, with the wood pellet manufacturing activities situated in the US. The Group also operates in the UK domestic heat market.

The address of the Company's registered office and principal establishment is Drax Power Station, Selby, North Yorkshire, YO8 8PH, United Kingdom. A full list of operating companies of the Group is disclosed in note 4 to the Company's separate financial statements, which follow these consolidated financial statements.

8.2 Basis of preparation

Adoption of new and revised accounting standards

In 2015, one new, amended or revised standard became effective. The Group adopted the following standard from 1 January 2015:

Annual improvements to 2011-2013 Cycle.

The adoption of this standard has not had a material impact on the financial statements of the Group.

At the date of authorisation of these financial statements, the following new or amended standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and some of which were pending endorsement by the EU - marked by *):

IFRS 9 – Financial Instruments – effective for annual reporting periods beginning on or after 1 January 2018.*

IFRS 15 – Revenue from Contracts with Customers – effective for annual reporting periods beginning on or after 1 January 2018.*

IFRS 16 (amended) – Leases – effective for annual reporting periods beginning on or after 1 January 2019.*

Annual improvements to 2012-2014 Cycle – all amendments are effective for annual reporting periods beginning on or after 1 January 2016.

IFRS 11 (amended) – Joint Arrangements – applicable to annual reporting periods beginning on or after 1 January 2016.

IAS 16 (amended) – Property, Plant and Equipment and IAS 38 (amended) Intangible Assets – applicable to annual reporting periods beginning on or after 1 January 2016.

IAS 27 (amended) – Separate Financial Statements – applicable to annual reporting periods beginning on or after 1 January 2016.

IFRS 10 (amended) – Consolidated Financial Statements and IAS 28 (amended) Investments in Associates and Joint Ventures (2011) – effective date deferred indefinitely.*

IAS 1 (amended) – Presentation of Financial Statements – effective for annual reporting periods beginning on or after 1 January 2016.

IAS 12 (amended) – Income Taxes – effective for annual reporting periods beginning on or after 1 January 2017.*

IAS 7 (amended) – Statement of Cash Flows - effective for annual periods beginning on or after 1 January 2017.*

IAS 19 (amended) – Defined Benefit Plans: Employee contributions – effective for annual reporting periods beginning on or after 1 February 2015.

The Group is in the process of assessing the full impact of adopting IFRS 9, which may materially change the presentation of derivative financial instruments held by the Group and accounted for at fair value. The Group currently intends to adopt the standard in the earliest permitted accounting period, subject to endorsement by the EU.

The Group is also in the process of assessing the impact of adopting IFRS 15 and IFRS 16; however at this stage neither standard is expected to have a material impact on the recognition, measurement or presentation of amounts within the financial statements. The Group currently expects to adopt these standards in the period they become mandatory, subject to EU endorsement.

Adoption of the other standards in future periods is not expected to have a material impact on the financial statements of the Group.

Section 8: Reference Information continued

8.3 Accounting policies

The accounting policies set out below are considered to be general to the financial statements and not covered by a specific note.

Revenue recognition

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

Revenues from the sale of electricity are measured based upon output delivered at rates specified under contract terms or prevailing market rates as applicable.

Revenues from sales of ROCs and LECs are stated at the invoiced value, net of VAT. Revenue is recognised when the ROC or LEC is transferred to the account of that third party.

Where goods or services are exchanged for goods or services of similar nature and value, the exchange is not treated as giving rise to revenue. Where goods or services are exchanged for goods or services of a dissimilar nature, the exchange is treated as giving rise to revenue. The revenue is measured at the fair value of goods or services received, adjusted by the amount of any cash or cash equivalents received or paid. If the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents received or paid.

Revenue from the sale of electricity directly to customers through our retail business, Haven Power, is recorded after deduction of agreed discounts, VAT and CCL. Revenue is recognised on the supply of electricity 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, but not yet measured or billed, is calculated based on consumption statistics and selling price estimates.

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction and from the translation at the exchange rate ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies. Foreign exchange gains and losses resulting from the settlement of such transactions, are recognised in the income statement within finance costs.

Foreign operations

The assets and liabilities of foreign operations with a functional currency other than sterling are translated to sterling using published exchange rates at the reporting date. The income and expenditure of such operations are translated to sterling using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the retranslation of the operating net assets and the results for the year are recognised in the Consolidated statement of comprehensive income.

8.4 Related party transactions

A related party is either an individual with control or significant influence over the Group, or a company that is linked to us by investment or a related individual. Our primary related parties are our key management personnel.

Remuneration of key management personnel

The remuneration of the Executive Committee members, who are considered to be the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 "Related party disclosures". Further information about the remuneration of individual directors, together with the directors' interests in the share capital of Drax Group plc, is provided in the audited part of the Remuneration Committee report.

	Years ended 31 December	
	2015 £000	2014 £000
Salaries and short-term benefits	4,112	7,895
Aggregate amounts receivable under share-based incentive schemes	1,651	2,326
Company contributions to money purchase pension schemes	33	47
	5,796	10,268

Amounts included in the table above reflect the remuneration of the six (2014: seven) members of the Executive Committee as described on page 64, in addition to two former members of the Executive Committee who resigned from the Board during 2015.

Amounts receivable under incentive schemes represents the expenses arising from share-based payments included in the income statement, determined based on the fair value of the related awards at the date of grant (note 6.2), as adjusted for non-market related vesting conditions.

There were no other transactions with directors for the periods covered by these consolidated financial statements.

Company balance sheet

	Notes	As at 31 December 2015 £000	2014 £000
Fixed assets			
Investment in subsidiaries	4	701,728	692,272
Current assets			
Amounts due from other Group companies		2,903	1,254
Cash at bank and in hand		571	4,405
		3,474	5,659
Current liabilities			
Amounts due to other Group companies		(10,220)	(11,782)
Net current liabilities		(6,746)	(6,123)
Net assets		694,982	686,149
Capital and reserves			
Called-up share capital	5	46,936	46,764
Capital redemption reserve		1,502	1,502
Share premium account		424,201	422,882
Profit and loss account		222,343	215,001
Total equity shareholders' funds		694,982	686,149

These financial statements were approved by the Board of directors on 22 February 2016.

Signed on behalf of the Board of directors:

Dorothy Thompson CBE
Chief Executive
22 February 2016

Will Gardiner
Chief Financial Officer
22 February 2016

Company statement of changes in equity

	Share capital £000	Capital redemption reserve £000	Share premium £000	Profit and loss account £000	Total £000
At 1 January 2014	46,503	1,502	422,488	211,743	682,236
Share capital issued (note 5)	261	–	394	–	655
Retained profit for the year	–	–	–	52,666	52,666
Credited to equity for share-based payments	–	–	–	5,636	5,636
Equity dividends paid (note 7)	–	–	–	(55,044)	(55,044)
At 1 January 2015	46,764	1,502	422,882	215,001	686,149
Share capital issued (note 5)	**172**	**–**	**1,319**	**–**	**1,491**
Retained profit for the year	**–**	**–**	**–**	**51,986**	**51,986**
Credited to equity for share-based payments	**–**	**–**	**–**	**5,300**	**5,300**
Equity dividends paid (note 7)	**–**	**–**	**–**	**(49,944)**	**(49,944)**
At 31 December 2015	**46,936**	**1,502**	**424,201**	**222,343**	**694,982**

Notes to the Company financial statements

1. Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council (FRC).

In the year-ended 31 December 2015 the Company has decided to adopt Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) as issued by the FRC and has undergone transition from reporting under pre-2015 UK GAAP to FRS 101. Accordingly, the financial statements have been prepared in accordance with FRS 101 (incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to Company law made by the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 prior to their mandatory effective date of accounting periods beginning on or after 1 January 2016).

This transition is not considered to have had a material effect on the financial statements.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, standards not yet effective and certain related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are summarised below, and have been consistently applied to both years presented.

2. Summary of significant accounting policies

(A) Fixed asset investments

Fixed asset investments in subsidiaries are stated at cost less, where relevant, provision for impairment.

(B) Financial instruments

Issued equity – Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting all of its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. The share premium account records amounts by which the proceeds from issuing shares exceeds the nominal value of the shares issued unless merger relief criteria within the Companies Act (2006) are met, in which case the difference is recorded in retained earnings.

Cash and cash equivalents – Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Short-term investments – Short-term investments includes cash held on deposit with financial institutions with a maturity of greater than three months at inception.

3. Profit and loss account

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company's profit and loss account was approved by the Board on 22 February 2016. Drax Group plc reported a profit for the year ended 31 December 2015 of £52.0 million (2014: £52.7 million). The Company received dividend income from its subsidiary undertakings totalling £54.5 million in 2015 (2014: £55.0 million).

The Company has no employees other than the directors, whose remuneration was paid by a subsidiary undertaking and a proportion was recharged to the Company.

The auditor's remuneration for audit services provided to the Company for the year ended 31 December 2015 was £20,000 (2014: £20,000).

4. Fixed asset investments

	Years ended 31 December	
	2015 £000	2014 £000
Carrying amount:		
At 1 January	692,272	593,666
Acquisition of Billington Bioenergy Limited	4,034	–
Capital contribution	5,422	98,606
At 31 December	701,728	692,272

4. Fixed asset investments continued

Investments in subsidiary undertakings

On 5 March 2015 the Company acquired 100% of the share capital of Billington Bioenergy Limited for consideration of £4,034,000.

On 7 December 2015 the Group reorganised its corporate structure. The Company disposed of its interests in its direct subsidiary undertakings to Drax Group Holdings Limited (DGHL) for consideration of £671,616,000 settled by acquisition of 100% of the share capital of DGHL.

The capital contribution relates to the share-based payment charge associated with the Savings-Related Share Option Plan and Bonus Matching Plan schemes, which arises because the beneficiaries of the scheme are employed by subsidiary companies. For more information see note 6.2 to the consolidated financial statements (2014: £92,725,000 capital injection into a subsidiary, and £5,881,000 in relation to share-based payment charges).

Full list of subsidiary undertakings

Name and nature of business		Country of incorporation and registration	Type of share	Group effective shareholding
Drax Group plc	Ultimate parent (holding) company	England and Wales	Ordinary	100%
Abbeville BioEnergy LLC	Non-trading company	Delaware, USA	Common	100%
Amite BioEnergy LLC	Trading company, fuel supply	Delaware, USA	Common	100%
Baton Rouge Transit LLC	Trading company, fuel supply	Delaware, USA	Common	100%
Billington Bioenergy Limited	Trading company, fuel supply	England and Wales	Ordinary	100%
DBI O&M Company LLC	Non-trading company	Delaware, USA	Common	100%
Drax Biomass Inc.	Holding company	Delaware, USA	Common	100%
Drax Biomass Developments Limited	Non-trading company	England and Wales	Ordinary	100%
Drax Biomass Holdings Limited	Holding company	England and Wales	Ordinary	100%
Drax Biomass Holdings LLC	Holding company	Delaware, USA	Common	100%
Drax Biomass International Holdings LLC	Holding company	Delaware, USA	Common	100%
Drax Biomass (Immingham) Limited	Non-trading company	England and Wales	Ordinary	100%
Drax Biomass Transit LLC	Holding company	Delaware, USA	Common	100%
Drax CCS Limited	Holding company	England and Wales	Ordinary	100%
Drax Finance Limited	Holding company	England and Wales	Ordinary	100%
Drax Fuel Supply Limited	Trading company, fuel supply	England and Wales	Ordinary	100%
Drax GCo Limited	Non-trading company	England and Wales	Limited by Guarantee	100%
Drax Generation (Selby) Limited	Non-trading company	England and Wales	Ordinary	100%
Drax Group Holdings Limited	Holding company	England and Wales	Ordinary	100%
Drax Group Project Services Limited	Non-trading company	England and Wales	Ordinary	100%
Drax Group Services Limited	Trading company, administration services	England and Wales	Ordinary	100%
Drax Holdings Limited	Holding company	Cayman Islands	Ordinary	100%
Drax (International) Limited	Holding company	England and Wales	Ordinary	100%
Drax Ouse	Dormant company	England and Wales	Ordinary	100%
Drax Pension Trustees Limited	Non-trading company	England and Wales	Ordinary	100%
Drax Power Limited	Trading company, power generation	England and Wales	Ordinary	100%
Haven Heat Limited	Non-trading company	England and Wales	Ordinary	100%
Haven Power Limited	Trading company, power retail	England and Wales	Ordinary	100%
Haven Power Nominees Limited	Non-trading company	England and Wales	Ordinary	100%
Morehouse BioEnergy LLC	Trading company, fuel supply	Delaware, USA	Common	100%
Pike BioEnergy LLC	Non-trading company	Delaware, USA	Common	100%

Drax Group plc directly holds 100% of the equity of Drax Group Holdings Limited. All other investments are held indirectly.
All subsidiary undertakings operate in their country of incorporation and have 31 December year ends.

Notes to the Company financial statements continued

5. Called-up share capital

	As at 31 December 2015 £000	2014 £000
Authorised:		
865,238,823 ordinary shares of $11^{16}/_{29}$ pence each	99,950	99,950
Issued and fully paid:		
2014 – 404,821,561 ordinary shares of $11^{16}/_{29}$ pence each	–	46,764
2015 – 406,317,162 ordinary shares of $11^{16}/_{29}$ pence each	46,936	–
	46,936	46,764

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

	Years ended 31 December 2015 (number)	2014 (number)
At 1 January	404,821,561	402,566,332
Issued under employee share schemes	1,495,601	2,255,229
At 31 December	406,317,162	404,821,561

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

Issued under employee share schemes

On 26 January, 13 February and 24 February a total of 12,893 shares were issued on early vesting of the Group's Bonus Matching Plan by three individuals whose employment had terminated due to retirement. On 9 March 1,022,848 shares were issued in satisfaction of shares vesting in accordance with the rules of the Group's Bonus Matching Plan. Throughout March to June a total of 435,681 shares were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan. On 2 July 24,179 shares were issues on early vesting of the Group's Bonus Matching Plan by one individual whose employment terminated and discretion was used to exercise the shares.

6. Distributable reserves

Note 7 sets out the proposed final dividend of £2.3 million in respect of 2015.

The Company considers its distributable reserves to be comprised of the profit and loss account with a total value of £222 million. Accordingly the Company considers itself to have sufficient distributable profits from which to pay the current year final dividend. Based on a total dividend for 2015 of £23 million, the Company has sufficient distributable reserves to pay nine years of dividend at the current level without generating further distributable profits.

The Company is dependent upon its subsidiaries for the provision of cash with which to make dividend payments. As shown in note 4.2 to the consolidated financial statements the Group has sufficient cash resources with which to meet the proposed dividend.

7. Dividends

	Years ended 31 December 2015 £m	2014 £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 2015 of 5.1 pence per share paid on 9 October 2015 (2014: 4.7 pence per share paid on 10 October 2014)	20.7	19.0
Final dividend for the year ended 31 December 2014 of 7.2 pence per share paid on 15 May 2015 (2014: 8.9 pence per share paid on 14 May 2014)	29.2	36.0
	49.9	55.0

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 2015 of 0.6 pence per share (equivalent to approximately £2.3 million) payable on or before 13 May 2016. The final dividend has not been included as a liability as at 31 December 2015.

8. Contingent liabilities

The Company has provided unsecured guarantees to third parties in respect of contracts held by a subsidiary company. The guarantees have been issued for £nil consideration and the Company has not charged the subsidiary for the guarantees.

The Company has granted a charge over the assets of certain of its subsidiaries, in respect of the Group's debt (detailed in note 4.4 to the consolidated financial statements), which is guaranteed and secured directly by each of the subsidiary undertakings of the Company that are party to the security arrangement. The Company itself is not a guarantor of the Group's debt.

Shareholder information

Key dates for 2016

At the date of publication of this document, the following are the proposed key dates in the 2016 financial calendar:

Annual General Meeting	20 April
Ordinary shares marked ex-dividend	21 April
Record Date for entitlement to the final dividend	22 April
Payment of final dividend	13 May
Financial half year end	30 June
Announcement of half year results	26 July
Financial year end	31 December

Other significant dates, or amendments to the proposed dates above, will be posted on the Company's website as and when they become available.

Results announcements

Results announcements are issued to the London Stock Exchange and are available on its news service. Shortly afterwards, they are available under "Regulatory news" within the Investor section on the Company's website.

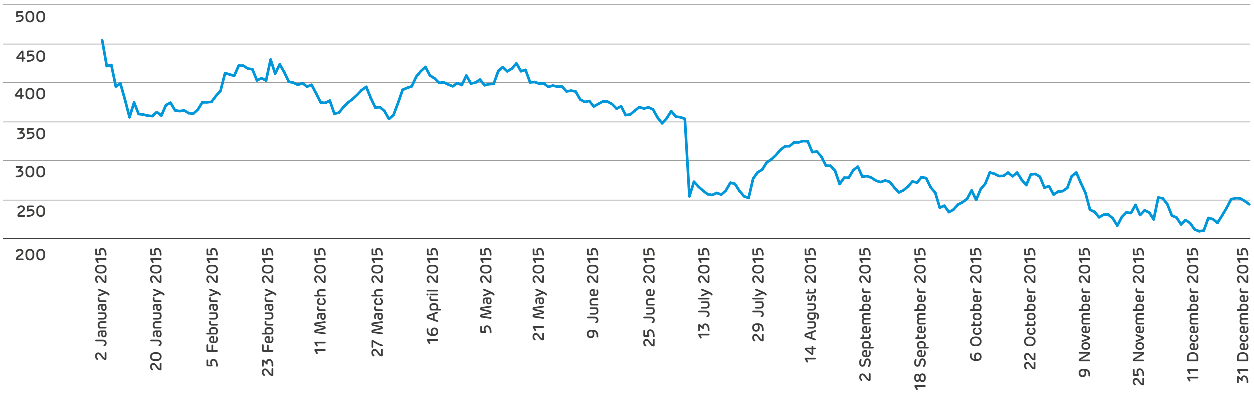
Share price

Shareholders can access the current share price of Drax Group plc ordinary shares on our website at www.drax.com. During Stock Exchange trading hours the price shown on the website is subject to a delay of approximately 15 minutes and outside trading hours it is the last available price.

The table below provides an indication of the fluctuations in the Drax Group plc share price during the course of 2015, and the graph provides an indication of the trend of the share price throughout the year.

Closing price on 31 December 2014	Low during the year (14 December 2015)	High during the year (2 January 2015)	Closing price on 31 December 2015
460.6 pence	209.9 pence	454.5 pence	244.4 pence

Share price 2015
(pence)



Note:
The share prices given are the middle market closing prices as derived from the London Stock Exchange Daily Official List.

Market capitalisation

The market capitalisation, based on the number of shares in issue and the closing price at 31 December 2015, was approximately £993 million (2014: £1,865 million).

Financial reports

Copies of all financial reports we publish are available from the date of publication and can be downloaded from our website. Printed copies of reports can be requested by writing to the Company Secretary at the registered office, by clicking on "Contact Us" on our website, or direct by e-mail to enquiries@drax.com.

Drax shareholder queries

Drax's share register is maintained by Equiniti Limited ("Equiniti"), who is primarily responsible for updating the share register and for dividend payments.

Shareholders should contact Equiniti directly if they have a query relating to their Drax shareholding, in particular queries regarding:
- transfer of shares;
- change of name or address;
- lost share certificates;
- lost or out-of-date dividend cheques;
- payment of dividends direct to a bank or building society account; and
- death of a registered shareholder.

Equiniti can be contacted as follows:
- Call Equiniti on 0371 384 2030 from within the UK. Lines are open from 8.30am to 5.30pm, Monday to Friday, excluding Bank Holidays); or +44 121 415 7047 from outside the UK.
- Write to Equiniti at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

When contacting Equiniti by telephone or in writing it is advisable to have your shareholder reference to hand and quote Drax Group plc, as well as the name and address in which the shares are held.

Online communications

Registering for online communications allows you to have more control over the administration of your shareholding. The registration process is easy via Equiniti's secure website www.shareview.com.

Once registered with Shareview you are able to:
- elect how Drax communicates with you;
- amend some of your personal details;
- amend the way you receive dividends; and
- buy or sell shares online.

Registering for electronic communications does not mean that you can no longer receive paper copies of documents. We are able to offer a range of services and tailor the communications to meet your needs.

A range of frequently asked shareholder questions can also be found on the Drax website at www.drax.com/investor/shareholder_info/shareholderfaq.

Tax on dividends

In the 2015 Budget, the Chancellor announced changes in the way that dividends would be taxed in the future. Below is a brief summary of the guidance provided by HMRC. If you are in any doubt as to the impact on your personal circumstances, you are recommended to seek your own financial advice from a professional adviser authorised under the Financial Services and Markets Act 2000.

From April 2016, there will be an income tax charge on dividends at the rate of 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.

The long-standing system of tax credits attached to dividends will be replaced with a new tax-free Dividend Allowance. This will mean that there will be no tax to pay on the first £5,000 of dividend income, no matter what non-dividend income a shareholder may have. Dividends paid on shares held within pensions and ISAs will be unaffected, remaining tax-free.

Non-taxpayers and basic rate taxpayers who receive dividend income between £5,001 and £10,000 will need to make a declaration (to HMRC) for the first time. Individuals with dividend income of more than £10,000 are already required to be in HMRCs Self-Assessment regime. The impact on Share Incentive Plan participants receiving cash dividends on their plan shares align with those for Shareholders. Further information and updates on tax on dividends can be found on the HMRC website at www.gov.uk/tax-on-dividends/overview.

As the Dividend Tax Credit will no longer be required it is expected that a dividend confirmation will still need to be sent to shareholders to replace the old "tax voucher". The Company is currently considering whether to move to the practice of issuing just one dividend confirmation document towards the end of the tax year, irrespective of the number of cash payments made during the course of the year, rather than issuing a document each time a dividend is paid. Shareholders will be advised of the outcome in due course.

Shareholder information continued

Beneficial owners and "information rights"

If your shares are registered in the name of a third party (i.e. an ISA provider or other nominee company) you may, if you wish, receive information rights under Section 146 of the Companies Act 2006. In order for this to happen, you must contact the third party registered holder, who will then nominate you. All communications by beneficial owners of shares where the shares are held by third party registered holders must be directed to that registered holder and not to Drax or Equiniti.

ShareGift

ShareGift (registered charity No. 1052686) is an independent charity which provides a free service for shareholders wishing to dispose charitably of small parcels of shares, which would most likely cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is possible to obtain income tax relief. Further information can be obtained directly from the charity at www.sharegift.org.

Share frauds ("Boiler room scams")

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence offering to purchase their shares at apparently inflated prices. It is often the case that the caller, or message in the correspondence claims that they represent a majority shareholder who is looking to take over the Company. At the time of this report, the Company was not the subject of a take-over attempt, hostile or otherwise, and approaches such as those outlined are usually made by unauthorised companies and individuals. Shareholders should be very wary of any unsolicited advice, offers to buy shares at a premium or offers of free reports into the Company. Below is the advice from the Financial Conduct Authority (the "FCA").

Beware of share fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register from www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams.
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.

Remember, if it sounds too good to be true, it probably is!

Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Shareholder profile

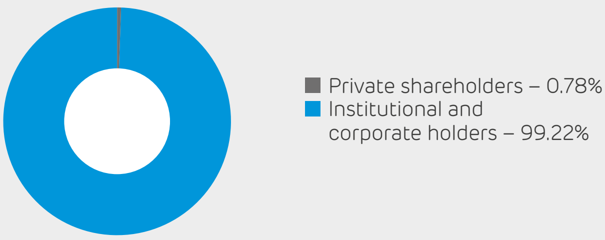
The categories of ordinary shareholders and the ranges and size of shareholdings as at 31 December 2015 are set out below:

			As at 31 December 2015	
Analysis of shareholders	Number of shareholders	%	Number of shares(1)	%
Private shareholders	1,445	56.69	3,164,700	0.78
Institutional and corporate holders	1,104	43.31	403,152,462	99.22
Total	2,549	100	406,317,162	100

			As at 31 December 2015	
Range	Number of shareholders	%	Number of shares(1)	%
1 – 100	108	4.24	5,596	0.00
101 – 200	139	5.45	22,895	0.01
201 – 500	410	16.09	149,105	0.04
501 – 1,000	506	19.85	416,558	0.10
1,000 – 5,000	878	34.44	1,992,928	0.49
5,001 – 10,000	176	6.90	1,226,740	0.30
10,001 – 100,000	198	7.77	7,483,832	1.84
100,001 – 500,000	73	2.86	16,042,579	3.95
500,001 and above	61	2.40	378,976,929	93.27
Total	2,549	100	406,317,162	100

Note:
(1) Ordinary shares of $11^{16}/_{29}$ pence each.

Shareholders by percentage ownership
As at 31 December 2015



Shareholders by number
As at 31 December 2015

Shareholder information continued

Company information, professional advisers and service providers

Drax Group plc

Registered office and trading address
Drax Power Station
Selby
North Yorkshire YO8 8PH
Telephone +44 (0)1757 618381
Fax +44 (0)1757 612192
www.drax.com

Registration details
Registered in England and Wales
Company Number: 5562053

Company Secretary
Philip Hudson

Enquiry e-mail address
enquiries@drax.com

Professional advisers and service providers

Auditor
Deloitte LLP
2 New Street Square, London EC4A 3BZ

Bankers
Barclays Bank PLC
1 Churchill Place, Canary Wharf, London E14 5HP

Brokers
Deutsche Bank AG
Winchester House, 1 Great Winchester Street, London EC2N 2DB

Financial PR
Brunswick Group LLP
16 Lincoln's Inn Fields, London WC2A 3ED

Registrars
Equiniti Limited
Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA

Remuneration advisers
PricewaterhouseCoopers LLP
1 Embankment Place, London WC2N 6RH

Solicitors
Slaughter and May LLP
One Bunhill Row, London EC1Y 8YY

Glossary

Advantaged fuels
Fuel that gives a price advantage against standard bituminous coals. Such fuels include pond fines, off-specification coal and petcoke.

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

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

Average achieved price
Power revenues divided by volume of net sales (includes imbalance charges).

Balancing mechanism
The sub-set of the market through which the system operator can call upon additional generation/consumption or reduce generation/consumption through market participants' bids and offers, in order to balance the system minute-by-minute.

Bark spread
The difference between the power price and the cost of biomass, net of renewable support.

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

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

Dark green spread
The difference between the power price and the cost of coal and carbon.

EBITDA
Profit before interest, tax, depreciation and amortisation, gains or losses on disposal of property, plant and equipment and unrealised gains/(losses) on derivative contracts and CESP settlement.

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

Feed-in tariff
A long-term contract set at a fixed level where variable payments are made to ensure the generator receives an agreed tariff. The feed-in tariff payment would be made in addition to the generator's revenues from selling in the market.

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

Forced outage rate
The capacity which is not available due to forced outages or restrictions expressed as a percentage of the maximum theoretical capacity, less planned outage capacity.

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

IFRSs
International Financial Reporting Standards.

LECs
Levy Exemption Certificates. Evidence of CCL exempt electricity supplies generated from qualifying renewable sources.

Levy control framework
A control framework for DECC levy-funded spending intended to make sure that DECC achieves its fuel poverty, energy and climate change goals in a way that is consistent with economic recovery and minimising the impact on consumer bills.

Load factor
Net sent out generation as a percentage of maximum sales.

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

Net balancing mechanism
Net volumes attributable to accepted bids and offers in the balancing mechanism.

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

Net sales
The aggregate of net volumes attributable to bilateral contracts, power exchange trades and net balancing mechanism.

Net sales at notional balancing point (NBP)
Net sales at NBP is the volume of power sold to customers by our Retail business expressed at the NBP. The NBP reflects the volume of power sold before deduction of transmission and distribution losses incurred in transporting this power from the grid to the customer meter.

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

Planned outage rate
The capacity not available due to planned outages expressed as a percentage of the maximum theoretical capacity.

Power exchange trades
Power sales or purchases transacted on the APX UK power trading platform.

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

Summer
The calendar months April to September.

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

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

UK NAP
UK National Allocation Plan.

Underlying financial measures
We report financial measures described as "underlying" such as profit after tax and earnings per share. Underlying measures are adjusted to exclude the impact of gains and losses on derivative contracts and the associated tax.

Winter
The calendar months October to March.

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