OFFERING MEMORANDUM
AND LISTING PARTICULARS

NOT FOR GENERAL DISTRIBUTION
IN THE UNITED STATES

Drax Finco plc

US$300,000,000 6⅝% Senior Secured Notes due 2025

Guaranteed on a senior secured basis by Drax Group Holdings Limited and certain of its subsidiaries

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Drax Finco plc, a public limited company incorporated under the laws of England and Wales (the "**Issuer**"), is offering (the "**Offering**") US$300 million aggregate principal amount of its 6⅝% Senior Secured Notes due 1 November 2025 (the "**Notes**"). The Notes will be issued pursuant to an indenture (the "**Indenture**") to be dated on or around 26 April 2018 (the "**Issue Date**").

The Notes will bear interest at the rate of 6.625% per annum, payable semi-annually in arrear on 1 May and 1 November of each year, commencing on 1 November 2018. The Notes will mature on 1 November 2025. The Issuer may redeem the Notes in whole or in part at any time on or after 1 May 2021 at the redemption prices specified in this offering memorandum (the "**Offering Memorandum**"). At any time prior to 1 May 2021, the Issuer will be entitled, at its option, to redeem all or a portion of the Notes at a redemption price equal to 100% of the principal amount of such Notes, plus accrued and unpaid interest and additional amounts, if any, plus a "make-whole" premium, as described in this Offering Memorandum. At any time prior to 1 May 2021, the Issuer will also be entitled, at its option, to redeem up to 40% of the aggregate principal amount of the Notes (including the original principal amount of any Additional Notes) with the net proceeds from certain equity offerings at a redemption price set forth in this Offering Memorandum, if at least 50% of the original aggregate principal amount of the Notes remains outstanding (including the original principal amount of any Additional Notes).

The Issuer may also redeem all, but not less than all, of the Notes upon the occurrence of certain changes in applicable tax law. Upon the occurrence of certain events constituting a change of control, the Issuer may be required to make an offer to purchase all of the outstanding Notes at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest and additional amounts, if any. See "*Description of Notes*" for further information.

The Notes will be senior secured obligations of the Issuer and will rank *pari passu* in right of payment with all of the Issuer's existing and future senior obligations. The Notes will be guaranteed on a senior secured basis (the "**Guarantees**" and each, a "**Guarantee**") by Drax Group Holdings Limited ("**DGHL**") and certain of DGHL's direct and indirect subsidiaries (the "**Subsidiary Guarantors**" and, together with DGHL, the "**Guarantors**"). Each of the Guarantees will rank *pari passu* in right of payment with all existing and future obligations of each Guarantor, and will rank senior in right of payment with all existing and future obligations of each Guarantor that are expressly subordinated in right of payment to such Guarantee. The Notes and the Guarantees will (subject to the Agreed Security Principles (as defined herein)) be secured by security interests over (i) all of the issued share capital of DGHL and the Issuer; (ii) certain receivables owed to Drax Group plc by DGHL; (iii) all of the issued share capital of each Subsidiary Guarantor; (iv) substantially all of the assets of the Issuer, including the receivables owed to the Issuer in respect of the Proceeds Loan pursuant to which the proceeds of the Offering are on-lent; and (v) substantially all of the assets of each Guarantor other than any real property (collectively, the "**Collateral**").

The Notes, the Guarantees and the Collateral will be subject to restrictions on enforcement and other intercreditor arrangements. See "*Description of Certain Financing Arrangements—Intercreditor Agreement*" and "*Certain Insolvency Considerations and Limitations on the Validity and Enforceability of the Guarantees and Security*" for further information. Under the terms of the Intercreditor Agreement (as defined herein) in the event of a distressed disposal of the Collateral or an enforcement of the security interests over the Collateral, the holders of the Notes will receive proceeds from such Collateral only after the lenders under the Senior Facilities Agreement (as defined herein), counterparties to certain hedging agreements (including under the Secured Trading Line (as defined herein)) and lenders or creditors under certain other indebtedness permitted to be incurred on a priority basis under the Indenture (subject to the Intercreditor Agreement) have been repaid in full. Any remaining amounts from the proceeds of the enforcement of the Collateral will then be applied, *pari passu* and *pro rata*, to amounts due under the 2022 Fixed Rate Notes, the Notes and any *pari passu* additional indebtedness incurred in the future and then outstanding. The Issuer's obligations in respect of the Notes may be released in certain circumstances. In addition, the Guarantees and the security interests in the Collateral may be released under certain circumstances. See "*Risk Factors—Risks Related to the Notes, the Guarantees and Our Capital Structure*", "*Description of Certain Financing Arrangements—Intercreditor Agreement*", "*Description of Notes—Note Guarantees—Releases of the Note Guarantees*" and "*Description of Notes—Security—Release of Liens*" for further information.

Currently there is no public market for the Notes. This document constitutes the listing particulars ("**Listing Particulars**") in respect of the admission of the Notes to the Official List and to trading on the Euro MTF Market of the Luxembourg Stock Exchange (the "**Euro MTF Market**"). Application has been made to the Luxembourg Stock Exchange for the approval of this document as Listing Particulars. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted for trading on the Euro MTF Market. The Euro MTF Market is not a regulated market pursuant to the provisions of Directive 2004/39/EC on markets in financial instruments, as amended. This Offering Memorandum constitutes a prospectus for purposes of Luxembourg Law on Prospectuses for Securities dated 10 July 2005, as amended.

The Notes will be issued in registered form in minimum denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. The Notes will be represented by one or more global notes, which we expect will be delivered to investors in book-entry form through The Depository Trust Company ("**DTC**") on or about the Issue Date. Interests in a global note will be exchangeable for the relevant definitive Notes only in certain limited circumstances. See "*Book-Entry; Delivery and Form*".

Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 27.

Price for the Notes: 100.00% plus accrued and unpaid interest, if any, from the Issue Date

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The Notes and the Guarantees have not been and will not be registered under the US Securities Act of 1933, as amended (the "US Securities Act"), or the securities laws of any other jurisdiction, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. In the United States, this offering is being made only to "qualified institutional buyers" (as defined in Rule 144A under the US Securities Act) in compliance with Rule 144A under the US Securities Act ("Rule 144A"). You are hereby notified that the Initial Purchasers (as defined herein) of the Notes may be relying on the exemption from the provisions of Section 5 of the US Securities Act provided by Rule 144A. Outside of the United States, this offering is being made to non-US persons in offshore transactions in reliance on Regulation S under the US Securities Act. See "*Plan of Distribution*" and "*Notice to Investors*" for additional information about eligible offerees and resale restrictions.

Joint Global Coordinators and Joint Bookrunners

Barclays **BofA Merrill Lynch**

Joint Bookrunner

Deutsche Bank Securities

The date of these Listing Particulars is 30 April 2018.

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In making your investment decision, you should rely only on the information contained in this Offering Memorandum. The Issuer, the Group (as defined herein), the Guarantors and Barclays Capital Inc., Merrill Lynch International and Deutsche Bank Securities Inc. (collectively, the "Initial Purchasers") have not authorised anyone to provide you with any other information or represent anything about the Issuer, the Group or the Guarantors, their financial results or this Offering that is not contained in this Offering Memorandum. If given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Group, the Guarantors or the Initial Purchasers. None of the Issuer, the Guarantors and the Initial Purchasers is making an offer of the Notes in any jurisdiction where this Offering is not permitted. You should not assume that the information contained in this Offering Memorandum is accurate as at any date other than the date on the front cover of this Offering Memorandum. The Group's business or financial condition and other information in this Offering Memorandum may change after that date.

IMPORTANT INFORMATION

We have prepared this Offering Memorandum solely for use in connection with the Offering of the Notes to "qualified institutional buyers" (within the meaning of Rule 144A under the US Securities Act) in compliance with Rule 144A under the US Securities Act and to "non-US persons" (within the meaning of Regulation S under the US Securities Act) outside the United States in reliance on Regulation S under the US Securities Act.

In making an investment decision regarding the Notes offered by this Offering Memorandum, you must rely on your own examination of the Issuer and the rest of the DGHL Group, as well as the terms of the Offering and the application of the proceeds of the Offering as described in "*Use of Proceeds*", including the merits and risks involved. The Offering is being made on the basis of this Offering Memorandum only. Any decision to purchase Notes in the Offering must be based on the information contained in this Offering Memorandum. None of the Issuer, the Guarantors or the Initial Purchasers has authorised anyone to provide you with additional or different information.

You are not to construe the contents of this Offering Memorandum as investment, legal or tax advice. You should consult your own counsel, financial advisers and other advisers as to legal, tax, business, financial and related aspects of a purchase of the Notes. You are responsible for making your own examination of the DGHL Group's business and your own assessment of the merits and risks of investing in the Notes. None of the Issuer, the Guarantors, the Initial Purchasers or the Trustee is making any representation to you regarding the legality of an investment in the Notes by you under appropriate legal investment or similar laws.

The information contained in this Offering Memorandum has been furnished by us and other sources the DGHL Group believes to be reliable. No representation or warranty, express or implied, is made by the Initial Purchasers or the Trustee or their respective directors, affiliates, advisers and agents as to the accuracy or completeness of any of the information set out in this Offering Memorandum, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers or the Trustee or their respective directors, affiliates, advisers and agents, whether as to the past or the future. By receiving this Offering Memorandum, you acknowledge that you have not relied on the Initial Purchasers or the Trustee or their respective directors, affiliates, advisers and agents in connection with your investigation of the accuracy of this information or your decision whether to invest in the Notes.

Summaries of documents contained in this Offering Memorandum may not be complete. The DGHL Group will make copies of certain actual documents available to you upon request. See "*Available Information*". None of the Issuer, the Guarantors or the Initial Purchasers represents that the information in this Offering Memorandum is complete. All summaries of the documents contained herein are qualified in their entirety by reference to the relevant document. We urge you to read these documents in their entirety to understand the rights and obligations arising therefrom. You agree to the foregoing by accepting this Offering Memorandum.

No person is authorised in connection with any offering made by this Offering Memorandum to give any information or to make any representation not contained in this Offering Memorandum and, if given or made, any other information or representation must not be relied upon as having been authorised by the Issuer, the Guarantors or the Initial Purchasers. The information contained in this Offering Memorandum is accurate as at the date hereof. Neither the delivery of this Offering Memorandum at any time nor any subsequent commitment to purchase the Notes shall, under any circumstances, create any implication that there has been no change in the information set forth in this Offering Memorandum or in the business of the DGHL Group since the date of this Offering Memorandum.

The Issuer and the Guarantors have made all reasonable enquiries and confirmed to the best of their knowledge, information and belief that the information contained in this Offering Memorandum is true and accurate in all material respects, that the opinions and intentions expressed in this Offering Memorandum are honestly held, and the Issuer and the Guarantors are not aware of any other facts, the omission of which would make this Offering Memorandum or any statement contained herein misleading in any material respect.

The Issuer reserves the right to withdraw this Offering at any time. The Issuer is making this Offering subject to the terms described in this Offering Memorandum. The Issuer and the Initial Purchasers each reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective investor less than the full amount of the Notes sought by such investor. The Initial Purchasers and certain of their related entities may acquire, for their own accounts, a portion of the Notes.

None of the US Securities and Exchange Commission (the "**SEC**"), any state securities commission or any other regulatory authority has approved or disapproved of the Notes, nor have any of the foregoing authorities passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary could be a criminal offence in certain countries.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold, except as permitted under the US Securities Act and applicable securities laws of any other jurisdiction. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. See "*Plan of Distribution*" and "*Notice to Investors*".

The distribution of this Offering Memorandum and the offer and sale of the Notes are restricted by law in some jurisdictions. This Offering Memorandum does not constitute an offer to sell or an invitation to subscribe for or purchase any of the Notes in any jurisdiction in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. Each prospective offeree or purchaser of the Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes or possesses or distributes this Offering Memorandum, and must obtain any consent, approval or permission required under any regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and neither the Issuer nor the Initial Purchasers shall have any responsibility therefor. See "*—Notice to Investors in the United States*", "*—Notice to Investors in the United Kingdom*", "*—Notice to Investors in Canada*", "*—Notice to Investors in the European Economic Area*", "*—Notice to French Investors*", "*—Notice to German Investors*", "*—Notice to Dutch Investors*", "*—Notice to Swiss Investors*", "*—Notice to Investors in Luxembourg*", "*Plan of Distribution*" and "*Notice to Investors*".

The information set out in the sections of this Offering Memorandum describing clearing and settlement arrangements, including the section entitled "*Book-Entry; Delivery and Form*", is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear and Clearstream currently in effect. The information in such sections concerning these clearing and settlement arrangements has been obtained from sources that the Issuer believes to be reliable. This information has been accurately reproduced and as far as the Issuer is aware, and is able to ascertain from published information, no facts have been omitted that would render the reproduced information inaccurate or misleading. The Issuer and the Guarantors accept responsibility only for the correct extraction and reproduction of such information, but not for the accuracy of such information. DTC, Euroclear and Clearstream are not under any obligation to perform or continue to perform under such clearing arrangements and such arrangements may be modified or discontinued at any time. We will not, nor will any of our agents, have responsibility for the performance of the respective obligations of DTC, Euroclear and Clearstream or their respective participants. If you wish to use the facilities of any clearing system, you should confirm the applicability of the rules, regulations and procedures of the relevant clearing system. The Issuer will not be responsible or liable for any aspect of the records relating to, or payments made on account of, Book-Entry Interests held through the facilities of any clearing system or for maintaining, supervising or reviewing any records, relating to such Book-Entry Interests.

Each prospective purchaser of the Notes must comply with all applicable laws, rules and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Notes under the laws, rules and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuer, the Guarantors or the Initial Purchasers shall have any responsibility therefor.

By receiving this Offering Memorandum, you acknowledge that you have had an opportunity to request from us for review, and that you have received, all additional information you deem necessary to verify the accuracy and completeness of the information contained in this Offering Memorandum. You also acknowledge that you have not relied on the Initial Purchasers in connection with your investigation of the accuracy of this information or your decision whether to invest in the Notes.

You agree not to use any information herein for any purpose other than considering an investment in the Notes. This Offering Memorandum may only be used for the purpose for which it was published.

Investing in the Notes involves risks. See "*Risk Factors*" beginning on page 27.

STABILISATION

IN CONNECTION WITH THE OFFERING, BARCLAYS CAPITAL INC. (THE "**STABILISING MANAGER**") (OR ANY PERSON(S) ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSON(S) ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE ANY STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE NOTES IS MADE

AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

NOTICE TO INVESTORS IN THE UNITED STATES

Each purchaser of the Notes will be deemed to have made the representations, warranties and acknowledgements that are described in this Offering Memorandum under the section entitled "*Notice to Investors*".

The Notes and the Guarantees have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered or sold in the United States, except to "qualified institutional buyers" within the meaning of Rule 144A under the US Securities Act ("**Rule 144A**"), in reliance on the exemption from the registration requirements of the US Securities Act provided by Rule 144A. Prospective investors are hereby notified that sellers of the Notes may be relying on the exemption from the registration requirements of Section 5 of the US Securities Act provided by Rule 144A. The Notes may be offered and sold to "non-US persons" (within the meaning of Regulation S under the US Securities Act) outside the United States in connection with offshore transactions complying with Rule 903 or Rule 904 of Regulation S under the US Securities Act. For a description of certain restrictions on transfers of the Notes, see "*Notice to Investors*".

The securities offered hereby have not been reviewed or recommended by any US federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not passed upon the merits of the Offering or confirmed the accuracy or determined the adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offence under the laws of the United States.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

This Offering Memorandum is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Financial Promotion Order**"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "**relevant persons**"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

NOTICE TO INVESTORS IN CANADA

The Notes may only be offered or sold in the provinces of British Columbia, Alberta, Saskatchewan, Ontario, Québec, New Brunswick, Nova Scotia and Prince Edward Island to or for the benefit of a resident of these provinces pursuant to an exemption from the requirement to file a prospectus in such province in which such offer or sale is made, and only by a registrant duly registered under the applicable securities laws of that province or by a registrant that is relying in that province on the "international dealer" exemption provided by section 8.18 of National Instrument 31 103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* ("NI 31 103"). Furthermore, the Notes may only be offered or sold to residents of any such province that are purchasing, or deemed to be purchasing, as principal, that are "accredited investors" as defined in National Instrument 45 106 *Prospectus Exemptions* ("NI 45 106") or subsection 73.3(1) of the Securities Act (Ontario), and that are "permitted clients" as defined in NI 31 103. Each Canadian purchaser hereby acknowledges that any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws and that it shall be deemed to represent and warrant it is an accredited investor and is purchasing as principal (or deemed principal) in connection with any purchase of Notes hereunder.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province of residence for particulars of these rights or consult with a legal adviser.

Pursuant to section 3A.3 of NI 33 105, the underwriters are not required to comply with the disclosure requirements of NI 33 105 regarding underwriter conflicts of interest in connection with this offering.

We and the Initial Purchasers hereby notify prospective Canadian purchasers that: (a) we may be required to provide personal information pertaining to the purchaser as required to be disclosed in Schedule I of Form 45 106F1 under NI 45 106 (including its name, address, telephone number, email and the aggregate purchase price of any Notes purchased) ("personal information"), which Form 45 106F1 may be required to be filed by us under NI 45 106, (b) such personal information may be delivered to the Ontario Securities Commission (the "OSC"), in accordance with NI 45 106, (c) such personal information is collected indirectly by the OSC under the authority granted to it under the securities legislation of Ontario, (d) such personal information is collected for the purposes of the administration and enforcement of the securities legislation of Ontario, and (e) the public official in Ontario who can answer questions about the OSC's indirect collection of such personal information is the Administrative Support Clerk at the OSC, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H3S8, Telephone: (416) 593 3684. Prospective Canadian purchasers that purchase Notes in this offering will be deemed to have authorised the indirect collection of the personal information by the OSC, and to have acknowledged and consented to its name, address, telephone number, email and other specified information, including the aggregate purchase price paid by the purchaser, being disclosed to other Canadian securities regulatory authorities, and to have acknowledged that such information may become available to the public in accordance with requirements of applicable Canadian laws.

Upon receipt of this document, each Canadian purchaser hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque acheteur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement*.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

This Offering Memorandum has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area (the "**EEA**") which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of the Offering contemplated in this Offering Memorandum may only do so in circumstances in which no obligation arises for the Issuer or any of the Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any of the Initial Purchasers have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any of the Initial Purchasers to publish a prospectus for such offer. The expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the notes has led to the conclusion that: (i) the target market for the notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "MiFID II"); and (ii) all channels for distribution of the notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the notes (a "distributor") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

The Notes are not intended to be offered, sold or otherwise made available to and should not be made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

NOTICE TO FRENCH INVESTORS

This Offering Memorandum has not been prepared in the context of a public offering of financial securities in France within the meaning of Article L.411 1 of the French *Code Monétaire et Financier* and Title I of Book II of the French *Règlement Général* of the *Autorité des marchés financiers* (the "**AMF**") and therefore has not been submitted for clearance to the AMF. Consequently, the Notes have not been and will not be, directly or indirectly, offered or sold to the public in France (*offre au public de titres financiers*), and neither this Offering Memorandum nor any other offering material relating to the Notes has been or will be distributed or caused to be distributed to the public in France. Such offers, sales and distribution of the Notes have been and will only be made in France to (i) providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (ii) qualified investors (*investisseurs qualifiés*) other than individuals, acting for their own account or to a closed circle of investors (*cercle restreint d'investisseurs*) acting for its own account, as defined in, and in accordance with, Articles L.411 1, L.411 2 and D.411 1 to D.411 4, and D.744.1, D.754.1 and D.764.1 of the French *Code Monétaire et Financier*.

Prospective investors are informed that:

(i) this Offering Memorandum has not been and will not be submitted for clearance to the AMF;

(ii) in compliance with articles L.411 2 and D.411 1 through D.411 4, D.744 1, D.754 1 and D.764 1 of the French *Code Monétaire et Financier*, any investors subscribing for the Notes should be acting for their own account; and

(iii) the direct and indirect distribution or sale to the public of the Notes acquired by them may only be made in compliance with articles L.411 1, L.411 2, L.412 1 and L.621 8 through L.621 8 3 of the French *Code Monétaire et Financier*.

NOTICE TO GERMAN INVESTORS

The Notes may not be offered and sold to the public, except in accordance with the German Securities Prospectus Act (*Wertpapierprospektgesetz*) or any other laws applicable in Germany governing the issue, offering and sale of securities. This Offering Memorandum has not been and will not be submitted to, nor has it been nor will it be approved by, the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*). The Issuer has not obtained, and does not intend to obtain, a notification from the German Federal Financial Supervisory Authority or from another competent authority of a member state of the European Economic Area, with which a securities prospectus may have been filed, pursuant to Section 17(3) of the German Securities Prospectus Act. The Notes must not be distributed within Germany by way of a public offer, public advertisement or in any similar manner, and this Offering Memorandum and any other document relating to the Notes, as well as information contained therein, may not be supplied to the public in Germany or used in connection with any offer for subscription of Notes to the public in Germany. Consequently, in Germany, the Notes will only be available to, and this Offering Memorandum and any other offering material in relation to the Notes are directed only at, persons who are "qualified investors" (*qualifizierte Anleger*) within the meaning of Section 2 No. 6 of the German Securities Prospectus Act. This Offering Memorandum and other offering materials relating to the offer of Notes are strictly confidential and may not be distributed to any person or entity other than the recipients hereof.

NOTICE TO DUTCH INVESTORS

The Notes may not be offered, sold or delivered in the Netherlands to anyone other than persons who qualify as Qualified Investors (*gekwalificeerde beleggers*) as defined in the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

NOTICE TO SWISS INVESTORS

The Notes are being offered in Switzerland on the basis of a private placement only. This Offering Memorandum does not constitute a prospectus within the meaning of Art. 652A of the Swiss Federal Code of Obligations.

NOTICE TO INVESTORS IN LUXEMBOURG

The Notes are not offered to the public in or from Luxembourg and each Initial Purchaser has represented and agreed that it will not offer the Notes or cause the offering of the Notes or contribute to the offering of the

Notes to the public in or from Luxembourg, unless all the relevant legal and regulatory requirements concerning a public offer in or from Luxembourg have been complied with. In particular, this offer has not been and may not be announced to the public and offering material may not be made available to the public in Luxembourg.

THIS OFFERING MEMORANDUM CONTAINS IMPORTANT INFORMATION THAT YOU SHOULD READ BEFORE YOU MAKE ANY DECISION WITH RESPECT TO AN INVESTMENT IN THE NOTES.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes forward-looking statements within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this Offering Memorandum, including, without limitation, those regarding our intentions, beliefs or current expectations concerning, among other things, our future financial conditions and performance, results of operations and liquidity, our strategy, plans, objectives, prospects, growth, goals and targets, future developments in the markets in which we participate or are seeking to participate, and anticipated regulatory changes in the industry in which we operate. These forward-looking statements can be identified by the use of forward-looking terminology, including, but not limited to, terms such as "aim", "anticipate", "assume", "believe", "continue", "could", "estimate", "expect", "forecast", "guidance", "intend", "may", "outlook", "plan", "predict", "project", "should", "will" or "would" or, in each case, their negative, or other variations or comparable terminology.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and are based on numerous assumptions. Our actual financial condition, results of operations and cash flows, and the development of the industry in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this Offering Memorandum. In addition, even if our financial condition, results of operations and cash flows, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this Offering Memorandum, those results or developments may not be indicative of results or developments in subsequent periods. Important risks, uncertainties and other factors that could cause these differences include, but are not limited to those relating to:

- reduction or abandonment of governmental support for renewable energy sources;
- the impact of complex governmental legislation and regulations;
- the impact of Brexit and other changes in general economic, business and political conditions, including changes in the financial markets;
- the impact of future changes in legislation on the supply of electricity to the retail market;
- cost of compliance with and impact of new regulations on environmental and health and safety obligations, including the risk of health and safety liabilities, fines and penalties;
- cost of compliance with energy efficiency initiatives, environmental laws and regulations;
- change in governmental policy, including in relation to sustainability policies;
- inability to source fuel of the requisite standard;
- the impact of negative publicity regarding the use of biomass for electricity generation;
- unplanned outages, mechanical failure, equipment malfunction or technological breakdown;
- a breakdown in our supply chain;
- fluctuations in fuel transportation costs;
- destablisiation of fuel supplies;
- significant capital expenditure on maintenance of our facilities;
- development and operational risks relating to our Open Cycle Gas Turbine assets and our proposed repowering project;
- fluctuations in market prices for electricity we generate and our cost of fuel;
- poor liquidity in the wholesale electricity market;
- the impact of UK, EU and other regulation of financial and derivative products;
- potential risks of undertaking new business or activities;
- significant reliance on the UK's electricity transmission and distribution network;
- our exposure to short-term electricity and gas price volatility following the Opus Acquisition;
- growing competition in the retail energy supply markets;
- fluctuations in demand for electricity and gas;

- a failure of or an attack on our IT systems;
- loss or disclosure of sensitive customer data with an adverse impact on our reputation;
- our inability to attract and retain key personnel;
- an inability to be fully hedged against changes in commodity prices and market utilisations and failure of our hedging transactions to function as intended;
- the impact of any failure to secure future Ancillary Services contracts;
- a potential increase in regulatory scrutiny and increased reliance on third party intermediaries as a result of the Opus Acquisition;
- fluctuations in the demand for and supply of ROCs;
- counterparty risk to our engagement in hedging and risk management activities;
- potential liabilities that may not be covered by insurance;
- future pension contributions;
- foreign currency exchange risk;
- changes in legislation or policies related to taxes applicable to us;
- the Notes and the Guarantees;
- our capital structure and indebtedness; and
- other factors discussed or referred to in this Offering Memorandum.

The foregoing factors and others described under "*Risk Factors*" should not be construed as exhaustive. Other sections of this Offering Memorandum describe additional factors that could adversely affect our business, financial condition or results of operations. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all such risks; nor can we assess the impact of all such risks on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Due to such uncertainties and risks, investors are cautioned not to place undue reliance on such forward-looking statements, which speak only as at the date hereof. We urge you to read this Offering Memorandum, including the sections entitled "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Our Business*" for a more complete discussion of the factors that could affect our future performance and the industry in which we operate.

Any forward-looking statements are only made as at the date of this Offering Memorandum and, except as required by law or the rules and regulations of any stock exchange on which the Notes are listed, we undertake no obligation to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Offering Memorandum, including those set forth under "*Risk Factors*".

PRESENTATION OF FINANCIAL INFORMATION AND OTHER INFORMATION

In this Offering Memorandum, references to "**£**" and "**pound sterling**" are to the lawful currency of the United Kingdom, references to "**$**", "**US$**" and "**US dollars**" are to the lawful currency of the United States of America, and references to "**€**" and "**euro**" are to the single currency adopted by participating Member States of the European Union relating to Economic and Monetary Union.

Financial Data

The Issuer is a public limited company incorporated under the laws of England and Wales on 10 March 2017, and is a direct wholly-owned subsidiary of DGHL, which is in turn a direct wholly-owned subsidiary of Drax Group plc. The Issuer was formed for the purposes of issuing notes and lending the proceeds on to the DGHL Group.

The Issuer conducts no business operations of its own and its only material assets are its rights and claims under intercompany financings (including under the 2022 Proceeds Loans) and its only material liabilities are its outstanding indebtedness (including its obligations under the 2022 Notes and its guarantees in respect of the Senior Facilities Agreement and certain hedging obligations (including the Secured Trading Line)), and it has not engaged in any activities other than those related to its formation and in relation to the issuance of the 2022 Notes and preparation for the Offering. On and from the Issue Date, its material assets will increase with further rights and claims under intercompany financings pursuant to the Proceeds Loan and its outstanding indebtedness will also increase its material liabilities (through the issuance of the Notes). For further information, please see "*Summary—Corporate and Financing Structure*", "*Our Business*" and "*Description of Certain Financing Arrangements*".

Unless otherwise indicated, this Offering Memorandum does not include any historical financial information relating to the Issuer.

This Offering Memorandum presents consolidated financial information for the Group at the level of Drax Group plc, the immediate holding company of DGHL. Drax Group plc will not be subject to the restrictive covenants under the Indenture, will not provide a Guarantee in favour of the Notes and will not grant security in favour of the Notes, except with respect to the shares it owns in DGHL. Drax Group plc is a holding company and as at 31 December 2017 its only material assets and liabilities are its interest in the issued and outstanding shares of DGHL and certain receivables owed to Drax Group plc by members of the Group, its obligations under the Shareholder Support Agreement, a net intercompany liability (includes balance of intercompany liabilities and intercompany receivables) of £12.7 million and cash of £1.6 million.

The financial information presented in this Offering Memorandum includes the audited consolidated financial statements of Drax Group plc and its subsidiaries as of and for each of the years ended 31 December 2015, 2016 and 2017, including the related notes thereto (the "**Drax Group Audited Financial Statements**").

The Drax Group Audited Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**"), and have been audited by Deloitte LLP. Drax Group plc is the indirect parent of the Issuer, and the Issuer intends to provide a copy of the consolidated financial statements of Drax Group plc to holders of the Notes following the Issue Date.

The financial information included in this Offering Memorandum in respect of the Group does not constitute statutory accounts within the meaning of section 434(3) of the UK Companies Act 2006 (the "**Companies Act**"). Statutory accounts for Drax Group plc for the financial years ended 31 December 2015, 2016 and 2017 have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in our audited consolidated financial statements.

The financial information included in this Offering Memorandum is not intended to comply with the applicable accounting requirements of the US Securities Act and the related rules and regulations of the SEC, which would apply if the Notes were being registered with the SEC. There could be significant differences between IFRS and generally accepted accounting principles in the United States of America ("**US GAAP**"), as applied to the Group. We neither describe the differences between IFRS and US GAAP nor reconcile the Group's IFRS financial statements to US GAAP. Accordingly, such information is not available to investors, and investors should consider this in making their investment decision. The Indenture will impose no obligation on us to reconcile our future financial statements prepared under IFRS to US GAAP.

See "*Independent Auditors*" and "*Risk Factors—Risks related to the Notes, the Guarantees and Our Capital Structure—Investors in and purchasers of the Notes may have limited or no recourse against our independent auditors in respect of the Drax Group Audited Financial Statements*" for a description of the independent auditors' reports of Deloitte LLP.

Non-IFRS Financial Measures

This Offering Memorandum contains certain non-IFRS measures and ratios, including EBITDA, Adjusted EBITDA, EBITDA Margin, Adjusted EBITDA Margin, net debt, net leverage and certain other measures (the "**Non-IFRS Measures**") that are not required by, or presented in accordance with, IFRS or the accounting standards of any other jurisdiction. We define the following Non-IFRS Measures as follows:

- "EBITDA" as earnings before interest, tax, depreciation, amortisation, asset obsolescence charges, losses on disposals, unrealised gains and losses on derivative contracts, acquisition-related costs, cost of debt restructure and other losses, as presented in our income statement (see page F-13);
- "Adjusted EBITDA" as the sum of the EBITDA of the Group for the year ended 31 December 2017 and the Opus EBITDA adjustment (as defined below) for the period from 1 January 2017 to 9 February 2017;

We completed the acquisition of the entire issued share capital of Opus on 10 February 2017.

As the Opus Acquisition (as defined below) is accounted for under the purchase method of accounting prescribed under IFRS, the full contribution of Opus to our operating results is included only from the date of completion of the Opus Acquisition. Adjusted EBITDA gives effect to the Opus Acquisition as if the acquisition had occurred on 1 January 2017.

We present Adjusted EBITDA as an additional measure of our operating performance to provide an indicative illustration of how the Opus Acquisition would have contributed to our results of operations had it occurred on 1 January 2017. The presentation of Adjusted EBITDA is based on a number of significant assumptions and estimates, which we believe are reasonable and have summarised below. There can be no assurance, however, that our estimates and assumptions (some of which are forward-looking in nature) are or will prove accurate in all material respects. The Adjusted EBITDA information presented herein is for informational purposes only and is inherently subject to risks and uncertainties. It may not give an accurate or complete picture of what our results of operations would have been for the year ended 31 December 2017 if the Opus Acquisition had occurred on 1 January 2017, and may not be comparable to the consolidated financial statements or other financial information of the Group included elsewhere in this Offering Memorandum. The basis of preparation for Opus's income statements differed from that used to prepare our income statements, and no adjustment has been made to account for such difference. Furthermore, "EBITDA" as historically defined by Opus differs from EBITDA as defined by us, and there can be no assurance that the Opus EBITDA adjustment presented herein fully reflects the adjustments described in the definition of EBITDA presented above. As such, the EBITDA of Opus is not comparable to the EBITDA of the Group. Adjusted EBITDA does not purport to indicate our future consolidated results of operations. Our actual results may differ significantly from those reflected in the Adjusted EBITDA information.

The calculation of Adjusted EBITDA is derived from the addition of the following components:

  - EBITDA of the Group: this information is derived from our consolidated income statement information for the year ended 31 December 2017; and
  - Opus EBITDA adjustment: we calculate the Opus EBITDA adjustment as the EBITDA of Opus for the period beginning 1 January 2017 and ending 9 February 2017 (the day before the completion date of the Opus Acquisition), sourced from Opus management accounts.

- "Adjusted Revenue" as the sum of revenue of the Group for the year ended 31 December 2017 and the revenue of Opus for the period from 1 January 2017 to 9 February 2017;

We present Adjusted Revenue as an additional measure of our operating performance to provide an indicative illustration of how the Opus Acquisition would have contributed to our revenue had it occurred on 1 January 2017. The presentation of Adjusted Revenue is based on a number of significant assumptions, which we believe are reasonable and have summarised below. There can be no assurance, however, that our assumptions (some of which are forward-looking in nature) are or will prove accurate in all material respects. The Adjusted Revenue information presented herein is for informational purposes only and is inherently subject to risks and uncertainties. It may not give an accurate or complete picture of what our revenue would have been for the year ended 31 December 2017 if the Opus Acquisition had occurred on 1 January 2017, and may not be comparable to the consolidated financial statements or other financial information of the Group included elsewhere in this Offering Memorandum. The basis of calculation for Opus's revenue differs from that used to calculate our revenue for purposes of the Drax Group Audited Financial Statements, and no adjustment has been made to account for such difference. As such, the revenue of Opus is not directly comparable to the revenue of the Group. Adjusted Revenue does not purport to indicate our future revenue. Our actual revenue may differ significantly from the revenue reflected in the Adjusted Revenue information.

The calculation of Adjusted Revenue for the year ended 31 December 2017 is derived from the addition of the following components:

- Revenue of the Group: this information is derived from our consolidated income statement information for the year ended 31 December 2017; and
- Revenue of Opus: we calculate the revenue of Opus as the revenue of Opus for the period beginning 1 January 2017 and ending 9 February 2017 (the day before the completion date of the Opus Acquisition), sourced from management accounts. The Drax Group Audited Financial Statements included elsewhere in this Offering Memorandum do not reflect the revenue of Opus for this period and such adjustment has not been audited, reviewed or verified by an independent accounting firm.

- "EBITDA Margin" for a given period as EBITDA divided by revenue for that period;
- "Adjusted EBITDA Margin" for the year ended 31 December 2017 as Adjusted EBITDA divided by Adjusted Revenue;
- "net debt" as current and non-current borrowings and overdrafts (net of deferred finance costs) less cash and cash equivalents; and
- "net leverage" as the ratio of net debt to Adjusted EBITDA for the year ended 31 December 2017 and the ratio of net debt to EBITDA for the years ended 31 December 2015 and 2016.

We believe that the presentation of the Non-IFRS Measures enhances an investor's understanding of our operating performance and our ability to service our debt. In addition, we believe that EBITDA is a measure commonly used by investors. Our Non-IFRS Measures may not be comparable with similarly titled measures used by other companies. For example, our definition of EBITDA (in respect to the Group) includes certain adjustments which some companies might include in a definition of "adjusted EBITDA". Our EBITDA and related leverage and coverage ratios are not measurements of financial performance under IFRS and should not be considered as alternatives to other indicators of our operating performance, cash flows or any other measure of performance derived in accordance with IFRS. Our Non-IFRS Measures have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results of operations as reported under IFRS. In addition, EBITDA may be defined differently from the definition of "Consolidated EBITDA" under the Indenture. Some other limitations of EBITDA-based measures include:

- they do not reflect the interest expense or cash requirements necessary to service interest or principal payments on our debt;
- they do not reflect any cash income taxes and certain other taxes that we may be required to pay;
- they are not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows; and
- they do not reflect the impact of earnings or charges resulting from certain matters we consider not to be indicative of our ongoing operations.

Because of these limitations, our Non-IFRS Measures should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our IFRS results and using these Non-IFRS Measures only in a supplemental manner to evaluate our performance.

Key performance indicators and the other non-financial operational data included in this Offering Memorandum are not part of our financial statements and have not been audited. Our use or computation of these indicators may not be comparable with the use or computation of similarly titled measures reported by other companies. None of the key performance indicators or other non-financial operating data included in this Offering Memorandum should be considered in isolation or as an alternative to any indicator of our operating performance, cash flows or other measure of performance derived in accordance with IFRS.

For a reconciliation of each of the Non-IFRS Measures to the most directly comparable measure calculated and presented in accordance with IFRS and further discussion of the limitations of these Non-IFRS Measures, refer to "*Summary Historical Consolidated Financial and Other Data—Summary historical financial and other information—Other Financial and As Adjusted Information*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Performance Indicators*".

As Adjusted Financial Data

This Offering Memorandum includes certain unaudited *as adjusted* financial information, presented on an *as adjusted* basis to give effect to the Transactions. The unaudited *as adjusted* financial information is for illustrative purposes only and is not intended to represent or to be indicative of the consolidated results of operations or financial position the Group would have reported had (i) the Transactions been completed as of 1 January 2017 for the purposes of the calculation of *as adjusted* interest expense or (ii) the Transactions been completed as of 31 December 2017 for the purposes of the calculation of *as adjusted* cash and cash equivalents, *as adjusted* consolidated debt and *as adjusted* consolidated net debt. The unaudited *as adjusted* financial information should not be taken as indicative of the Group's future consolidated results of operations or financial position.

The *as adjusted* financial data has not been prepared in accordance with the requirements of Regulation S-X of the US Securities Act, the Prospectus Directive or IFRS, US GAAP or any other generally accepted accounting standards. Neither the assumptions underlying the *as adjusted* adjustments nor the resulting *as adjusted* financial data have been audited or reviewed.

You should read the *as adjusted* financial information in conjunction with the information contained in "*Use of proceeds*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Drax Group Audited Financial Statements and the related notes included elsewhere in this Offering Memorandum.

See "*Summary Historical Consolidated Financial and Other Data—Summary historical financial and other information—Other Financial and As Adjusted Information*".

Rounding

Certain numerical figures set out in this Offering Memorandum, including financial data presented in millions or thousands and percentages describing market shares, have been subject to rounding adjustments, and, as a result, the totals of the data in this Offering Memorandum may vary slightly from the actual arithmetic totals of such information. Percentages and amounts reflecting changes over time periods relating to financial and other data set forth in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" are calculated using the numerical data in the Drax Group Audited Financial Statements (contained elsewhere in this Offering Memorandum) or the tabular presentation of other data (subject to rounding) contained in this Offering Memorandum, as applicable, and not using the numerical data in the narrative description thereof.

MARKET AND INDUSTRY DATA

In this Offering Memorandum, reference is made to information regarding our business and the market and industry in which we operate and compete. The market data and certain economic and industry data and forecasts used in this Offering Memorandum were obtained from governmental sources and other publicly available information, independent industry publications and reports prepared by industry consultants. Market data and forecasts are inherently predictive and subject to uncertainty and not necessarily reflective of actual market conditions. Such market data and forecasts are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what type of products and transactions should be included in the relevant market. While the Issuer and the Guarantors accept responsibility for accurately extracting, reproducing and summarising this market and industry data, neither the Issuer nor the Guarantors accept any further responsibility in respect of such information. Industry publications and forecasts generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Management has not independently verified such data and cannot guarantee their accuracy or completeness.

In addition to the foregoing, certain information regarding markets, market size, market share, market position, growth rates and other industry data pertaining to us contained in this Offering Memorandum were based on estimates prepared by management based on certain assumptions and management's knowledge of the industry in which we operate. In many cases, there is no readily available external information (whether from trade associations, government bodies or other organisations) to validate market-related analyses and estimates, requiring us to rely on our own internally developed estimates regarding the energy industry, our position in the industry, our market share and the market shares of various industry participants based on management's experience, management's own investigation of market conditions and management's review of industry publications, including information made available to the public by our competitors. Neither we nor the Initial Purchasers can assure you of the accuracy and completeness of, or take responsibility for, such data. Similarly, while management believes its internal estimates to be reasonable, these estimates have not been verified by any independent sources and neither we nor the Initial Purchasers can assure you as to their accuracy or the accuracy of the underlying assumptions used to estimate such data. Our estimates involve risks and uncertainties and are subject to change based on various factors.

In this Offering Memorandum, certain of the references to our competitors, customers or other companies are made by using their trade names and not their full legal names.

DEFINITIONS

Term	Definition
"**2022 Fixed Rate Notes**"	means the 4 ¼% Senior Secured Fixed Rate notes due 2022 issued by the Issuer on 5 May 2017.
"**2022 Fixed Rate Proceeds Loan**"	means the loan made under the 2022 Fixed Rate Proceeds Loan Agreement.
"**2022 Fixed Rate Proceeds Loan Agreement**"	means a loan agreement dated 5 May 2017 between the Issuer, as lender, and Drax Corporate Limited, as borrower, pursuant to which the proceeds of the offering of the 2022 Fixed Rate Notes were on-lent to Drax Corporate Limited.
"**2022 Floating Rate Notes**"	means the Senior Secured Floating Rate notes due 2022 issued by the Issuer on 5 May 2017, which will be redeemed with the proceeds of the Offering.
"**2022 Floating Rate Proceeds Loan**"	means the loan made under the 2022 Floating Rate Proceeds Loan Agreement, which will be repaid in connection with the redemption of the 2022 Floating Rate Notes.
"**2022 Floating Rate Proceeds Loan Agreement**"	means a loan agreement dated 5 May 2017 between the Issuer, as lender, and Drax Corporate Limited, as borrower, pursuant to which the proceeds of the offering of the 2022 Floating Rate Notes were on-lent to Drax Corporate Limited.
"**2022 Indenture**"	means the indenture dated as of 5 May 2017 in relation to the 2022 Notes.
"**2022 Notes**"	means the 2022 Fixed Rate Notes together with the 2022 Floating Rate Notes.
"**2022 Proceeds Loans**"	means the 2022 Fixed Rate Proceeds Loan and the 2022 Floating Rate Proceeds Loan.
"**2022 Proceeds Loans Agreements**"	means the 2022 Fixed Rate Proceeds Loan Agreement and the 2022 Floating Rate Proceeds Loan Agreement.
"**Additional Intercreditor Agreement**"	has the meaning assigned to such term in "*Description of Notes*".
"**Agreed Security Principles**"	means the agreed security principles as set out in the Senior Facilities Agreement.
"**AMF**"	means the Autorité des marchés financiers.
"**Board**"	means the board of directors of Drax Group plc.
"**Billington Bioenergy**"	means Billington Bioenergy, a private limited company incorporated in England and Wales with registered number 9164604, and formerly a member of the Group prior to being sold in 2017.
"**Book-Entry Interests**"	means the Rule 144A Book-Entry Interests together with the Regulation S Book-Entry Interests.
"**Brexit**"	means the exit of the UK from the EU formally initiated by the Government on 29 March 2017.
"**Capital Stock**"	has the meaning assigned to such term in "*Description of Notes*".
"**Class Exemptions**"	means exemptions from the prohibited transaction provisions of ERISA and Section 4975 of the Code under: (i) Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code;

	(ii) PTCE 84-14 (relating to transactions effected by an "independent qualified professional asset manager");
	(iii) PTCE 90-1 (relating to investments by insurance company pooled separate accounts);
	(iv) PTCE 91-38 (relating to investments by bank collective investment funds);
	(v) PTCE 95-60 (relating to investments by insurance company general accounts); and
	(vi) PTCE 96-23 (relating to transactions directed by an in-house asset manager).
"**Clearstream**"	means Clearstream Banking, *société anonyme*.
"**CMA**"	means the UK Competition and Markets Authority.
"**Code**"	means the US Internal Revenue Code of 1986, as amended.
"**Collateral**"	has the meaning assigned to such term in "*The Offering*".
"**COMI**"	means a company's "centre of main interests" (as such term is used in Article 3(1) of the EU Insolvency Regulation).
"**Companies Act**"	means the UK Companies Act 2006.
"**CPDI Rules**"	means the contingent payment debt instrument rules of applicable Treasury Regulations.
"**Definitive Registered Notes**"	means the Notes in definitive registered form.
"**DGHL**"	means Drax Group Holdings Limited, a private limited company incorporated in England and Wales with registered number 9887429 and with its registered office at Drax Power Station, Selby, North Yorkshire, YO8 8PH.
"**DGHL Group**"	refers to DGHL and its subsidiaries.
"**DPA**"	means the UK Data Protection Act 1998.
"**Drax**"	means the Group.
"**Drax Group Audited Financial Statements**"	means the audited consolidated financial statements of Drax Group plc and its subsidiaries as of and for each of the years ended 31 December 2015, 2016 and 2017, including the related notes thereto.
"**Drax Group plc**"	refers to Drax Group plc, a public limited company incorporated in England and Wales with registered number 5562053 and with its registered office at Drax Power Station, Selby, North Yorkshire, YO8 8PH.
"**Drax Power**"	means Drax Power Limited, a private limited company incorporated in England and Wales with registered number 6657454 and with its registered office at Drax Power Station, Selby, North Yorkshire, YO8 8PH.
"**Drax Research**"	means Drax Research and Innovation HoldCo Limited, a private limited company incorporated in England and Wales with registered number 6657454 and with its registered office at Drax Power Station, Selby, North Yorkshire, YO8 8PH.
"**DTC**"	means The Depository Trust Company.
"**English Guarantees**"	means the Guarantees provided by the English Guarantors.

"**English Guarantors**"	means the Guarantors who are incorporated under the laws of England and Wales.
"**ERISA**"	means the US Employee Retirement Income Security Act of 1974, as amended.
"**ERISA Plans**"	means employee benefit plans subject to ERISA.
"**EU**"	means the European Union.
"**EU Insolvency Regulation**"	means Council Regulation (EC) no. 1346/2000 on insolvency proceedings.
"**EURIBOR**"	means the euro interbank offered rate administered by the European Money Markets Institute (or any other person which takes over the administration of that rate).
"**Euro MTF Market**"	means the Luxembourg Stock Exchange's Euro MTF Market.
"**Euroclear**"	means Euroclear Bank SA/NV.
"**Existing Security Documents**"	means: (i) a first-ranking share charge and security assignment deed entered into on 5 May 2017 between Drax Group plc as chargor in favour of the Security Agent; (ii) a first-ranking debenture originally dated 20 December 2012 as amended and restated pursuant to a security amendment agreement entered into on 5 May 2017 between, among others, Drax Corporate Limited, DGHL and the Security Agent; (iii) a first-ranking security agreement entered into on 5 May 2017 between, among others, Drax Biomass Inc. and the Security Agent; (iv) a pledge agreement dated 5 May 2017 made by Drax Biomass Holdings Limited in favour of the Security Agent; and (v) a pledge agreement dated 5 May 2017 made by Drax Smart Sourcing Holdco Limited in favour of the Security Agent.
"**FATCA**"	means: (i) sections 1471 to 1474 of the Code or any associated regulations or official interpretations thereof; (ii) any treaty, law or regulation of any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in each case) facilitates the implementation of any law or regulation referred to in paragraph (i) above; or (iii) any agreement pursuant to the implementation of any treaty, law or regulation referred to in paragraphs (i) or (ii) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.
"**FCA**"	means the UK Financial Conduct Authority.
"**Financial Promotion Order**"	means the UK Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended.
"**Fitch**"	means Fitch Ratings Inc.
"**FSMA**"	means the UK Financial Services and Markets Act 2000.
"**FTSE 250 Index**"	means the Financial Times Stock Exchange 250 Index.
"**GDPR**"	means the new EU-wide General Data Protection Regulation which will become applicable on 25 May 2018.

"**Global Notes**"	means the Regulation S Global Notes and the Rule 144A Global Notes.
"**Government**"	means Her Majesty's Government of the UK.
"**Group**"	means Drax Group plc and its consolidated subsidiaries.
"**Guarantee**"	means the guarantee of the Notes on a senior secured basis by the Guarantors.
"**Guarantors**"	means the Subsidiary Guarantors together with DGHL.
"**Haven Power**"	means Haven Power Limited, a private limited company incorporated in England and Wales with registered number 5893966 and with its registered office at Drax Power Station, Selby, North Yorkshire, YO8 8PH.
"**Haven Power MRTSA**"	means a master receivables and transfer and servicing agreement dated 23 June 2016 (as amended from time to time) between, among others, Haven Power as seller and servicer, Ester Finance Titrisation as purchaser, Crédit Agricole Corporate and Investment Bank as arranger and calculation agent and Eurotitrisation as programme agent.
"**Hedge Counterparties**"	means the financial institutions who have entered into certain hedging arrangements with Drax Power and are being referred to in that capacity.
"**HMRC**"	means Her Majesty's Revenue and Customs.
"**IAS**"	means International Accounting Standards.
"**IFRS**"	means the International Financial Reporting Standards, as adopted by the EU.
"**IGAs**"	mean the intergovernmental agreements which a number of jurisdictions have entered into with the US to implement FATCA.
"**Indenture**"	means the indenture to be dated on or around the Issue Date in relation to the Notes.
"**Initial Purchasers**"	means Barclays Capital Inc., Merrill Lynch International and Deutsche Bank Securities Inc.
"**Insolvency Act**"	means the UK Insolvency Act 1986.
"**Intercreditor Agreement**"	means the intercreditor agreement dated 5 May 2017 between, among others, the Issuer, the Guarantors, the trustee under the 2022 Indenture, the STL Counterparties, the Hedge Counterparties and the lenders under the Senior Facilities Agreement, to which the Trustee will accede on or about the Issue Date.
"**IRS**"	means the US Internal Revenue Service.
"**Issue Date**"	means 26 April 2018.
"**Issuer**"	means Drax Finco plc, a public limited company incorporated in England and Wales with registered number 10664639 and with its registered office at Drax Power Station, Selby, North Yorkshire, YO8 8PH.
"**ITA**"	means the UK Income Tax Act 2007.
"**LCL Control**"	means the Government's Control for Low Carbon Levies.
"**LIBOR**"	means the London Interbank Offered Rate administered by ICE Benchmark Administration Limited (or any other person that takes over the administration of that rate).
"**Listing Agent**"	means The Bank of New York Mellon SA/NV, Luxembourg Branch.

"**MiFID II**"	means the Markets in Financial Instruments Directive (2014/65/EU) and the Markets in Financial Instruments Regulation (600/2014).
"**Moody's**"	means Moody's Investors Service, Inc.
"New EU Insolvency Regulation"	means Regulation (2015/848/EU).
"**Non-IFRS Measures**"	means certain non-IFRS measures and ratios, including Adjusted Revenue, EBITDA, EBITDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin, net debt, net leverage and certain other measures that are not required by, or presented in accordance with, IFRS or the accounting standards of any other jurisdiction; see "*Presentation of Financial Information and Other Information—Non-IFRS Financial Measures*".
"Note Guarantee"	has the meaning given to such term in "*Description of Notes*".
"**Notes**"	means the 6⅝% Senior Secured Notes due 2025 to be issued by the Issuer on the Issue Date.
"**Obligors**"	means the Issuer and the Guarantors.
"**Offering**"	means the offering by the Issuer of the Notes.
"**Offering Memorandum**"	means this offering memorandum.
"**Opus**"	means Opus Energy Group Limited, a private limited company incorporated in England and Wales with registered number 4409377 and with its registered office at Drax Power Station, Selby, North Yorkshire, YO8 8PH.
"**Opus Acquisition**"	means the acquisition of Opus by Drax Research on 10 February 2017.
"**Opus Group**"	means Opus and its consolidated subsidiaries.
"our"	refers to the Group.
"our CfD"	means the CfD secured by Drax Power in respect of its third converted biomass-fired generation unit in the form of an Investment Contract awarded under the FIDeR regime in 2014.
"**Paying Agent**"	means The Bank of New York Mellon, London Branch.
"**Permitted Reorganisation**"	has the meaning assigned to such term in "*Description of Notes*".
"**Plans**"	mean plans that are not subject to ERISA but which are subject to Section 4975 of the Code, together with ERISA Plans.
"**Premises**"	means the land and buildings at Drax Power Station and Drax Abbey Farm, Drax, Selby, North Yorkshire as registered at HM Land Registry under the title number NYK223464.
"**Proceeds Loan**"	means the loan to be made under the Proceeds Loan Agreement.
"**Proceeds Loan Agreement**"	means the loan agreement to be dated on or about the Issue Date between the Issuer, as lender, and Drax Corporate Limited, as borrower, pursuant to which the proceeds of the Offering are on-lent to Drax Corporate Limited.
"**Prospectus Directive**"	means the EU Prospectus Directive 2003/71/EC, as amended, and includes any relevant implementing measure in the Member State concerned.
"**PTCE**"	means Prohibited Transaction Class Exemption, a class exemption to certain provisions of ERISA and the Code granted by the US Department of Labor.
"**Purchase Agreement**"	means the purchase agreement between the Group, the Guarantors and the Initial Purchasers in respect of the Notes.

"**QIB**"	means "qualified institutional buyers" within the meaning of Rule 144A.
"**Regulation S Book-Entry Interests**"	means ownership of interests in the Regulation S Global Notes.
"**Regulation S Global Notes**"	means the global notes representing the Notes sold to non-US persons outside the US in offshore transactions in reliance on Regulation S under the US Securities Act.
"**Regulation S**"	means Regulation S under the US Securities Act.
"**relevant person**"	means all persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Promotion Order, (ii) are persons falling within Article 49(2)(a) to (d) of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated.
"**Restricted Subsidiary**"	has the meaning assigned to such term in "*Description of Notes*".
"**Revolving Facility**"	means the £315 million committed multicurrency working capital and ancillary facility, including, without limit, a letter of credit facility pursuant to the Senior Facilities Agreement.
"**ROC Agreements**"	has the meaning assigned to such term in "*Description of Certain Financing Arrangements—ROC Agreements*".
"**Rule 144A**"	means Rule 144A under the US Securities Act.
"**Rule 144A Book-Entry Interests**"	means ownership of interests in the Rule 144A Global Notes.
"**Rule 144A Global Notes**"	means the global notes representing the Notes sold to qualified institutional buyers in reliance on Rule 144A under the US Securities Act.
"**S&P**"	means Standard & Poor's Rating Services, a division of McGraw Hill, Inc.
"**SDRT**"	means stamp duty reserve tax.
"**SEC**"	means the US Securities and Exchange Commission.
"**secondary proceedings**"	means, where main proceedings have been opened in the member state of the EU in which the company has its COMI, any proceedings opened subsequently in another member state of the EU in which the company has an establishment.
"**Secured Trading Line**"	means the agreements entered into by Drax Power with a number of parties under which Drax Power can trade UK power, dark green spreads and gas on a senior secured basis without the requirement for Drax Power to post collateral.
"**Security Agent**"	means Deutsche Bank AG, London Branch.
"**Security Documents**"	means: (i) the Existing Security Documents; and (ii) the Supplemental Security Documents.
"**Senior Facilities**"	means the Revolving Facility and the Term Loan.
"**Senior Facilities Agreement**"	means the revolving credit facility agreement dated 20 December 2012 between, among others, Drax Power, Barclays Bank plc as facility agent and Drax Corporate Limited and its subsidiaries as guarantors, as amended and restated pursuant to an amendment and

	restatement agreement on 21 April 2017, with effect from 5 May 2017, and comprising a £315 million committed multicurrency working capital and ancillary facility, including, without limitation, a letter of credit facility, and a £35 million term facility.
"**Shareholder Support Agreement**"	means the agreement entered into between Drax Group plc and its indirect wholly-owned subsidiaries, Drax Corporate Limited and Drax Power, on 20 December 2005, as amended from time to time.
"**Similar Law**"	means non-US, state, local, federal or other laws, rules or regulations that are substantially similar to: (i) the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA and Section 4975 of the Code; or (ii) Title I of ERISA or Section 4975 of the Code, as the context requires or permits.
"**Stabilising Manager**"	means Barclays Capital Inc.
"**STL Counterparties**"	means the financial institutions who have entered into the Secured Trading Line with Drax Power and are being referred to in that capacity.
"**Subsidiary Guarantors**"	means Drax Corporate Limited, Drax Smart Generation Holdco Limited, Drax Fuel Supply Limited, Drax Power, Drax Smart Supply Holdco Limited, Haven Power, Haven Heat Limited, Drax Retail Developments Limited, Opus, Opus Energy Limited, Abbott Debt Recovery Limited, Opus Energy (Corporate) Limited, Opus Gas Supply Limited, Opus Energy Renewables Limited, Farmoor Energy Limited, Donnington Energy Limited, Drax Research, Drax Corporate Developments Limited, Drax Innovation Limited, Drax Smart Sourcing Holdco Limited, Drax Biomass Transit LLC, Morehouse BioEnergy LLC, Drax Biomass International Holdings LLC, Drax Biomass Holdings LLC, Drax Biomass Inc., Baton Rouge Transit LLC, DBI O&M Company LLC, Amite BioEnergy LLC, Tyler BioEnergy LLC, Jefferson Transit LLC and LaSalle BioEnergy LLC.
"**Successor Parent Entity**"	has the meaning assigned to such term in "*Description of Notes*".
"**Supplemental Security Documents**"	means: (i) a supplemental share charge and security assignment deed entered into on or around the Issue Date between Drax Group plc as chargor in favour of the Security Agent; and (ii) a supplemental debenture entered into on or around the Issue Date between, among others, Drax Corporate Limited, DGHL and the Security Agent; and (iii) a master reaffirmation agreement entered into on or around the Issue Date between, among others, Drax Smart Sourcing Holdco Limited, Drax Biomass Inc., the other obligors party thereto and the Security Agent.
"**Term Loan**"	means the £35 million term loan facility pursuant to the Senior Facilities Agreement.
"**TP**"	means Telecom Plus plc.
"Transactions"	means the Offering and use of proceeds therefrom as described in "*Use of Proceeds*".
"**Treasury Regulations**"	means regulations promulgated under the Code.
"**Trustee**"	means BNY Mellon Corporate Trustee Services Limited.
"**Unrestricted Subsidiary**"	has the meaning assigned to such term in "*Description of Notes*".

"**US**"	means the United States of America.
"**US Exchange Act**"	means the US Securities Exchange Act of 1934, as amended.
"**US GAAP**"	means the generally accepted accounting principles in the US.
"**US Guarantors**"	means the Guarantors who are organised under the laws of the US.
"**US Holder**"	means a beneficial owner of a Note that, for US federal income tax purposes, is: (i) an individual who is a citizen or resident of the US; (ii) a corporation, or an entity treated as a corporation for US federal income tax purposes, created or organised under the laws of the US, any state thereof, or the District of Columbia; (iii) an estate, the income of which is subject to US federal income tax regardless of its source; or (iv) a trust that (1) is subject to the primary supervision of a US court and the control of one or more "United States persons" (within the meaning of Section 7701(a)(30) of the Code), or (2) has a valid election in effect to be treated as a United States person for US federal income tax purposes.
"**US Securities Act**"	means the US Securities Act of 1933, as amended.
"**UK**"	means the United Kingdom of Great Britain and Northern Ireland.
"**UK GAAP**"	means the generally accepted accounting principles in the UK.
"**us**"	refers to the Group.
"**Warranty and Indemnity Insurance Policy**"	means the warranty and indemnity policy entered into by Drax Research with Ambridge Europe Limited (on behalf of various insurers) on 8 December 2016 in respect of the Opus Acquisition.
"**we**"	refers to the Group.

BUSINESS AND INDUSTRY GLOSSARY

Term	Definition
"**ACER**"	means the Agency for the Cooperation of Energy Regulators.
"**AMRs**"	means advanced meters allowing automated meter readings.
"**Ancillary Services**"	means services provided to the System Operator used for balancing supply and demand (other than the Balancing Mechanism) or maintaining/ensuring the security of supply of electricity to the electricity grid within acceptable limits.
"**availability**"	means, in relation to our generation units, the percentage of time the units were available for generation.
"**average achieved electricity price per MWh sold**"	means electricity revenues divided by volume of net sales and includes imbalance charges.
"**Balancing Mechanism**"	means the sub-set of the electricity market through which the System Operator can call upon additional generation or consumption or reduce generation or consumption through market participants' bids and offers, in order to balance the system minute-by-minute.
"**bark spread**"	means the wholesale electricity price plus renewable support, less the cost of sustainable biomass.
"**baseload electricity**"	means the minimum level of demand on an electrical grid over a certain period. Baseload electricity sources are power stations which can generate electricity at a constant level to satisfy this minimum demand.
"**Big Six**"	means British Gas, EDF Energy, npower, E.ON (which recently demerged to E.ON and Uniper), Scottish Power and SSE.
"**B2B Energy Supply segment**"	means the segment of the Group's business that sells electricity and gas to end users.
"**Carbon Price Floor**" or "**Carbon Price Support**"	means the tax upon fossil fuels (including coal) used to generate electricity, charged as a levy on coal delivered to the Power Station.
"**CCA**"	means the Climate Change Act 2008.
"**CCC**"	means the Committee on Climate Change established under section 32 and Schedule 1 of the CCA.
"**CCGT**"	means combined cycle gas turbine stations, which generate electricity using both a gas turbine and a steam turbine.
"**CCL**"	means the climate change levy introduced in 2001 under the Finance Act 2000.
"**CCS**"	means carbon capture and storage.
"**CESP**"	means Community Energy Savings Programme.
"**CfD**"	means Contract for Difference.
"**CfD Regime**"	means the CfD regime established under the UK Energy Act 2013 as a new support mechanism to replace the RO Scheme and includes the transitioning FIDeR regime under which Investment Contracts were awarded.
"**CO_2**"	means carbon dioxide.
"**compliance period**"	means the obligation period for the purposes of licensed electricity suppliers' compliance with the Renewables Obligation, which runs from 1 April to 31 March each year.

"**Contract for Difference**"	means 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", which is annually adjusted for inflation. Generators will receive revenue from selling their electricity to the market as usual. However, when the market reference price is below the strike price they will also receive a top-up payment from the CfD counterparty for the additional amount. Conversely, if the reference price is above the strike price, the generator must pay back the difference.
"**dark green spread**"	means the difference between the wholesale electricity price and the cost of coal and carbon, including emissions allowances under the EU ETS and the Carbon Price Support mechanism.
"**DBEIS**"	means the UK Department for Business, Energy & Industrial Strategy.
"**DECC**"	means the UK Department for Energy and Climate Change.
"**De-rated Reserve Margin**"	is a measure of available capacity over and above the capacity needed to meet normal peak demands.
"**Distribution System**"	means the delivery of electricity from the Transmission System through low voltage local distribution networks to customers.
"**Doha Amendment**"	means the second commitment period for the Kyoto Protocol as agreed at the Doha Conference in December 2012 and which runs from 1 January 2013 to 31 December 2020.
"**Electricity Market Reform**"	means the Government policy introduced to incentivise investment in secure, low-carbon electricity, to improve the security of electricity supply, and to improve affordability for consumers.
"**EMIR**"	means Regulation (EU) No 648/2012 on over-the-counter derivatives, central counterparties and trade repositories.
"**Emissions Performance Standard**"	means the regulatory limit on the amount of carbon emissions that a new fossil fuel plant can emit.
"**EPS**"	means the Emissions Performance Standard.
"**EU Allowances**"	means the allowances granted to participants under the EU ETS.
"**EU Emissions Trading System**"	means the mechanism introduced across the EU to reduce emissions of CO_2.
"**EU ETS**"	means the EU Emissions Trading System.
"**EUAs**"	means EU Allowances.
"**FGD**"	means flue-gas desulphurisation.
"**Fibre Basket**"	means the range of suppliers local to the manufacturing facilities from whom fibre is sourced.
"**FIDeR**"	means Final Investment Decision Enabling for Renewables process, under which the Government awarded Investment Contracts as part of the Electricity Market Reform.
"**GHG**"	means greenhouse gas.
"**GW**"	means gigawatt; a gigawatt is 1,000 megawatts.
"**Health and Safety Executive**"	an independent regulator of health and safety in the worksplace in Great Britain.
"**Hinkley Point C**"	means the proposed nuclear power plant to be built in Hinkley Point, Somerset, England.
"**I&C**"	means industrial and commercial.
"**IED**"	means the Industrial Emissions Directive (Directive 2010/75/EU).

"**Investment Contract**"	means the early form of CfDs issued by the Government in advance of the full implementation of the CfD Regime.
"**Kyoto Protocol**"	means the Kyoto Protocol to the UNFCCC.
"**LCCC**"	means Low Carbon Contracts Company Limited, a limited company owned by the Government.
"**LCL Control**"	means the Government's Control for Low Carbon Levies.
"**LEC**"	means levy exemption certificate, demonstrating generation of CCL-exempt electricity from qualifying renewable sources.
"**MW**"	means megawatt, a measure of power.
"**MWh**"	means megawatt-hour, which represents a megawatt of power used continuously for one hour.
"**NOx**"	means nitrogen oxides.
"**OCGT**"	means an open cycle gas turbine, which generates electricity using a gas turbine.
"**Ofgem**"	means the Office of Gas and Electricity Markets, the UK energy market regulator.
"**Panamax Vessel**"	means a vessel whose dimensions comply with the "Panamax" size specifications as set by the Panama Canal Authority for vessels passing through the Panama Canal.
"**Pellet Production segment**"	means the segment of the Group's business based in the US that manufactures sustainable wood pellets.
"**Power Generation segment**"	means the segment of the Group's business that generates electricity.
"**Power Station**"	means the solid fuel powered electricity generating station situated on the Premises and comprising, as at the Issue Date, six steam turbines, each with a capacity of 645MW and all material associated property, plant and equipment including all atmospheric monitoring equipment.
"**reactive power**"	means the background energy movement in an alternating current system, which is injected into the grid to allow the System Operator to manage the voltage profile of the transmission system within certain parameters.
"**REMIT**"	means the Regulation on Wholesale Energy Market Integrity and Transparency (EU No. 1227/2011).
"**Renewable Energy Directive**"	means Directive 2009/28/EC on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC.
"**Renewables Obligation**"	means the financial support mechanism for large-scale renewable electricity generation in the UK introduced in 2002.
"**RO**"	means Renewables Obligation.
"**RO Scheme**"	means the Renewables Obligation scheme operated by Ofgem which requires electricity suppliers in the UK to source a targeted percentage of supplied electricity from renewable sources or to make a buy-out payment.
"**ROC**"	means a Renewables Obligation Certificate, a tradable certificate issued by Ofgem to an accredited generator for electricity generated from eligible renewable sources in the UK.
"**SME**"	means small and medium sized enterprises.
"**Smart Meters**"	means the new generation of gas and electricity meters being rolled out across Great Britain, which show how much energy a customer is using in near real time.

"**SO_2**"	means sulphur dioxide.
"**SS-FiT**"	means small-scale feed-in-tariff, the Government programme designed to promote the uptake of small-scale renewable and low-carbon electricity generation technologies.
"**Sustainable Biomass Program**"	means the certification system designed for woody biomass used in industrial, large-scale energy production to provide assurance that woody biomass is sourced from legal and sustainable sources.
"**System Operator**"	means National Grid Electricity Transmission plc, the system operator of the electricity grid in Great Britain.
"**T-1 Capacity Market Auction**"	means the auctions whereby participant generators bid for capacity market agreements under which they commit to, in one year's time, be available to generate at times of system stress.
"**T-4 Capacity Market Auction**"	means the auctions whereby participant generators bid for capacity market agreements under which they commit to, in four years' time, be available to generate at times of system stress.
"**tonnes**"	means metric tonnes (approximately 2,204.6 pounds or 1.1 short tonnes).
"**TPIs**"	mean third party intermediaries.
"**Transmission System**"	means the transfer of electricity across the high-voltage electricity transmission network.
"**TWh**"	means terawatt-hour, which represents a terawatt (equal to 1,000 gigawatts) of power used continuously for one hour.
"**UNFCCC**"	means the United Nations Framework Convention on Climate Change which entered into force on 21 March 1994.

EXCHANGE RATES

The following tables set forth, for the periods indicated below, the high, low, average and period end Bloomberg Composite Rate (London) expressed as (i) US dollars per £1.00 and (ii) euro per £1.00. The Bloomberg Composite Rate is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The rates presented below may differ from the actual rates used in the preparation of the consolidated financial information and other financial information appearing in this Offering Memorandum. We make no representation that the US dollar or euro amounts referred to below could have been or could, in the future, be converted into pound sterling at any particular rate, if at all. The Bloomberg composite rate of US Dollars on 11 April 2018 was $1.4176 per £1.00.

US Dollars

Year	High	Low	Average	Period End
2012	1.6276	1.5295	1.5850	1.6242
2013	1.6566	1.4858	1.5648	1.6566
2014	1.7165	1.5515	1.6474	1.5581
2015	1.5872	1.4654	1.5283	1.4734
2016	1.4810	1.2158	1.3554	1.2345
2017	1.3582	1.2068	1.2886	1.3524
1 January 2018 to 30 March 2018	1.4184	1.3785	1.4001	1.4034

Month	High	Low	Average	Period End
October 2017	1.3398	1.3055	1.3202	1.3273
November 2017	1.3509	1.3055	1.3227	1.3509
December 2017	1.3524	1.3315	1.3401	1.3524
January 2018	1.4256	1.3501	1.3813	1.4184
February 2018	1.4231	1.3785	1.3964	1.3785
March 2018	1.4222	1.3735	1.3976	1.4034
1 April 2018 to 11 April 2018	1.4176	1.3988	1.4088	1.4176

Euro

Year	High	Low	Average	Period End
2012	1.2863	1.1789	1.2331	1.2307
2013	1.2328	1.1431	1.1779	1.2014
2014	1.2874	1.1912	1.2409	1.2874
2015	1.4399	1.2726	1.3775	1.3559
2016	1.3645	1.0983	1.2243	1.1705
2017	1.1968	1.0758	1.1417	1.1250
1 January 2018 to 30 March 2018	1.1424	1.1292	1.1367	1.1386

Month	High	Low	Average	Period End
October 2017	1.1312	1.1121	1.1218	1.1312
November 2017	1.1405	1.1170	1.1263	1.1360
December 2017	1.1396	1.1250	1.1321	1.1250
January 2018	1.1456	1.1219	1.1326	1.1424
February 2018	1.1404	1.1224	1.1309	1.1292
March 2018	1.1470	1.1186	1.1330	1.1386
1 April 2018 to 11 April 2018	1.1475	1.1415	1.1453	1.1456

SUMMARY

This summary highlights selected information about the Group and the Offering contained elsewhere in this Offering Memorandum. The following summary is not complete and does not contain all the information you should consider before investing in the Notes. The following summary should be read in conjunction with, and is qualified in its entirety by, the more detailed information included elsewhere in this Offering Memorandum. Before making an investment decision, you should read this entire Offering Memorandum carefully, including the Drax Group Audited Financial Statements and the notes thereto and the other financial information contained in this Offering Memorandum, as well as the risks described in the section entitled "Risk Factors". Certain defined terms used herein are defined elsewhere in this Offering Memorandum.

Unless the context indicates otherwise, when we refer to "we", "us", "our" and the "Group" for the purposes of this "Summary", we are referring to the business of Drax Group plc and its consolidated subsidiaries.

Certain statements include forward-looking information that involves risks and uncertainties. See "Forward-Looking Statements".

Overview

We are an innovative vertically-integrated electricity generation and supply business with operations in the UK and the US. We own and operate the largest power plant in the UK by generation capacity with an installed capacity of approximately 4GW, mainly via our six 645MW generation units. Our business comprises three segments with an integrated strategy where we source and produce fuel in the form of sustainable wood pellets, generate electricity, and supply electricity and gas to end customers.

We are an important part of the UK's energy infrastructure, generating approximately 6 per cent. of the UK's total electricity, and approximately 15 per cent. of the UK's renewable electricity in the twelve months ended 30 September 2017. Based on the 2016-2017 compliance period, we are also the UK's largest single-site generator of renewable energy. We provide flexible and reliable generation and produced 20.0 TWh and 19.6 TWh of electricity in 2017 and 2016, respectively, of which 65 per cent. was generated from sustainable biomass in each year, making us a core part of the UK's decarbonisation strategy. Our three 645MW biomass-fired generation units receive regulatory support, leading to enhanced earnings streams with a significant component of stable and predictable revenue. Furthermore, we anticipate converting an additional coal-fired generation unit to biomass-fired generation in summer 2018. Our biomass-fired generation assets are served by an efficient and reliable biomass supply chain comprising dedicated port handling infrastructure and rail paths, thereby enhancing security of supply of fuel for our electricity generation activities. Currently, our three 645MW capacity coal-fired generation units provide important support services to the UK's electricity system, including greater reliability and flexibility at times of low De-rated Reserve Margins and system stress. In response to the growth in inflexible, intermittent renewable capacity on the electricity grid, we are developing four 299MW rapid-response standalone Open Cycle Gas Turbine ("**OCGT**") projects and also developing options to repower up to two of our coal-fired generation units with supporting battery storage technology. Each of these projects are subject to a positive investment decision, would need to be underpinned by a 15-year capacity market agreement and have the potential to provide flexible and reliable electricity to the UK electricity system and diversify our future energy generation capability.

Our business-to-business ("**B2B**") energy supply segment, comprising Haven Power and Opus, is the fifth largest supplier of electricity to businesses in the UK by volume supplied as of 31 October 2017 and had over 375,000 electricity and gas connections as of 31 December 2017. Our B2B Energy Supply segment provides us with a direct route to market for much of the electricity we generate. We believe that B2B counterparties place fewer credit restrictions on us than wholesale market counterparties and selling to this market provides us with a more diversified counterparty base with less overall counterparty credit risk.

We produce compressed wood pellets from sustainable sources in three plants in the southern US and use those pellets as fuel for our biomass-fired generation, which provided 12.3 per cent. of our biomass need in the year ended 31 December 2017. Two of these plants can currently manufacture wood pellets at their nameplate capacity. The third wood pellet manufacturing facility, our LaSalle facility, located in Urania, Louisiana, was acquired in April 2017 and commissioning of the plant commenced in November 2017 with a view to significantly increasing our production throughout 2018, with full commissioning expected by the first quarter of 2019. In addition to self-supply from our manufacturing facilities, we have a network of third party suppliers of wood pellets and to this end we have entered into long-term contracts with other wood pellet suppliers in North America and Europe to support a long-term, stable supply of biomass.

Drax Group plc is listed on the Main Market of the London Stock Exchange under stock ticker "DRX", and is part of the FTSE 250 Index. Drax Group plc's market capitalisation as at 5 April 2018 was approximately £1,127 million. In 2017 our EBITDA grew across all three segments of our business to £228.9 million and our consolidated net debt as at 31 December 2017 was £367 million.

The three segments of our business are:

- *Power Generation*: Through our Power Generation segment, we play a significant role in providing reliable renewable baseload electricity generation capacity as well as important system support services, enhancing the security of the UK's electricity supply and supporting the UK's transition to a low-carbon future. In the twelve months ended 30 September 2017, we generated approximately 6 per cent. of the UK's electricity needs and our sustainable biomass-fired generation units generated approximately 15 per cent. of the UK's renewable electricity. In 2016 and 2017, approximately 65 per cent. of electricity generated by the Power Station (located near Selby, Yorkshire) was from sustainable biomass. In 2017, less than 10 per cent. of the Group's revenue was attributable to sales of electricity from our coal-fired generation units.

  The Power Station benefits from regulatory support via the Contracts for Difference ("**CfD**") and Renewables Obligation ("**RO**") regimes which provide the Power Station with financial support to facilitate the production of baseload electricity. In January 2018, the Government announced that the RO regime will be changed in 2018. These changes will enable us to convert a fourth unit to biomass-fired generation in summer 2018, subject to legislative implementation of these changes. The estimated incremental cost of converting the fourth unit to biomass-fired generation is up to £30 million, which is considerably less than the cost of conversion for each of the three previous biomass-fired generation units. The unit we propose converting is not expected to provide the same incremental return as the existing biomass-fired generation units because the announced change to the RO regime effectively caps the Renewables Obligation Certificates ("**ROCs**") for which this unit is eligible, but this conversion would allow us the flexibility to optimise our generation in a way that maximises the ROCs available to the Power Station as a whole under the modified RO regime. Under the current RO Scheme, the first, second and, if successfully converted, fourth generation units converted to biomass are eligible to receive ROCs until March 2027.

  The six generation units at the Power Station are the largest in their class in the UK, with an output capacity of up to 645MW each, compared with the typical coal-fired thermal generation unit size for larger power stations in the UK of approximately 500MW. Each of the generation units is operated independently and has the flexibility to generate electricity between 200MW and 645MW. The System Operator has a growing need for system support services (for example, predicting that within five years over 60 per cent. of settlement periods for electricity may require corrective action) and we have signed and renewed a number of contracts with the System Operator to supply Ancillary Services systems support. Furthermore, we are developing four new 299MW OCGT plants in England and Wales with the potential to provide flexible and reliable electricity to the UK electricity system and diversify our future energy generation capability subject to being underpinned by a 15-year capacity market agreement. We expect the first two of our four OCGT projects to participate in the next Capacity Market auction (expected to be in February 2019). When commissioned, each of these plants will provide fast, flexible gas generation to support the UK electricity system at times of peak demand. The remaining two OCGT plants are progressing through planning permission and are expected to participate in future capacity market auctions when the projects are sufficiently developed. Any 15-year capacity market agreements awarded to our OCGT plants would provide us with stable and predictable earnings over the life of the agreement.

  We are also developing options to repower up to two coal-fired generation units to gas and build supporting battery storage at the Power Station. The project could replace the existing c.1.3GW of coal-fired generation capacity with up to 3.6GW of gas generation capacity (capable of running in open cycle and combined cycle modes) and up to 200MW of supporting battery storage, subject to a positive investment decision, obtaining consent and other approvals and the award of one or more 15-year capacity market agreements in future capacity market auctions.

- *B2B Energy Supply*: We supply electricity to businesses through Haven Power and electricity and gas to businesses through Opus, the latter of which we acquired in February 2017 for total consideration of £367.3 million. Both Haven Power and Opus provide us with a credit-efficient route to market for a proportion of the electricity we generate and the ROCs that our Power Generation segment earns. The majority of Haven Power's sales volumes are with larger industrial and commercial ("**I&C**") customers, while Opus is focused on small and medium sized enterprises ("**SMEs**"). Our B2B Energy Supply segment is the fifth largest supplier of electricity to businesses in the UK by volume as of 31 October 2017. Opus was awarded Utility Provider to Small Business of the Year 2017 at the British Business Awards and the standard of service recognised by this award is one we have focused on integrating within the Group as we continue to deliver a strong level of customer service across our B2B Energy Supply segment. As a leading challenger brand to the largest energy suppliers in the UK (known as the "**Big Six**"), in the SME market, Opus enhances and broadens our retail offering in the SME market with a wider product range than we previously offered, including, for example, gas. In line with our strategy to focus on our core B2B energy market, in October 2017 we successfully completed the sale of Billington Bioenergy, a biomass pellet supplier to businesses and households, for total consideration of £2 million.

- *Pellet Production*: Through our Pellet Production segment based in the US Gulf region, we manufacture and supply compressed wood pellets from sustainably managed forests. We take low-grade wood and residues from other wood processing industries and transform them into pellets that can be transported to the Power Station to generate low-carbon energy. We operate three wood pellet manufacturing facilities in the US Gulf region: Amite BioEnergy in Gloster, Mississippi, Morehouse BioEnergy in Bastrop, Louisiana and LaSalle BioEnergy in Urania, Louisiana. In 2017, our wood pellet manufacturing facilities produced 821,764 tonnes of sustainable biomass and supplied 12.3 per cent. of our internal requirements for generation from sustainable biomass. Our wood pellet manufacturing facilities have a combined annual nameplate production capacity of 1,500,000 tonnes, following an increase in annual production capacity of 75,000 tonnes at each of our Amite and Morehouse facilities in 2017 and the acquisition of our LaSalle facility in April 2017 which added 450,000 tonnes of annual nameplate production capacity. Our Amite and Morehouse facilities are both able to produce wood pellets at their nameplate capacity, while commissioning of our LaSalle plant commenced in November 2017 and we expect to significantly increase our production through 2018, with full commissioning expected by the first quarter of 2019. This capacity, if fully utilised, would enable us to supply approximately 20 per cent. of our internal requirements for generation from sustainable biomass in 2018. We aim to increase the share of internally sourced pellets to up to 30 per cent. in the future. Our Amite and Morehouse facilities are certified under the Sustainable Biomass Program, an industry standard, demonstrating that their biomass is legally and sustainably sourced. Our recently acquired LaSalle facility is working toward the same certification. We operate a port facility in Baton Rouge, Louisiana, which includes two 40,000 tonne storage domes to transport pellets from our own manufacturing facilities and from approved third party suppliers to the UK for use by our Power Generation segment. The port facility can load more than 15,000 tonnes of pellets per day and can accommodate Panamax Vessels.

Strengths

We are an important part of the UK's energy infrastructure.

We are a major provider of electricity in the UK, generating approximately 6 per cent. of the UK's requirements for the twelve months ended 30 September 2017. We generated approximately 15 per cent. of the UK's renewable energy in the twelve months ended 30 September 2017. Based on the 2016-2017 compliance period, we are also the largest single-site UK renewable energy generator through our biomass-fired generation units. As a vertically-integrated business active in each of the sourcing, electricity generation and supply businesses, we are a significant participant in the overall UK energy landscape.

Our primary generation facility, the Power Station, is the largest power station in the UK by generation capacity, with approximately 4GW of installed capacity. The Power Station has six generation units of which three currently generate electricity from sustainable biomass and three from coal, meaning that we are not dependent on a single fuel source. We are currently working towards delivering the low cost conversion of a further coal-fired generation unit to a fourth biomass-fired generation unit, accelerating the removal of coal-fired generation from the UK electricity system, while supporting security of supply. The conversion is planned to be completed in summer 2018, at an estimated incremental cost of up to £30 million, which is lower than the cost of converting each of the previous three biomass-fired generation units. We are also developing options to repower the remaining two coal-fired generation units to gas and build supporting battery storage at the Power Station which will, if successful, extend the operating life of the Power Station and increase its installed capacity up to approximately 6.5GW.

Our existing generating units currently have an output capacity of up to 645MW each, compared to a typical coal-fired thermal generation unit size of approximately 500MW in the UK, and are the most efficient units in their class in the UK, enabling them to run profitably at times when others cannot. Each of the generation units can be operated independently to provide baseload electricity and has the flexibility to generate between 200MW and 645MW, enabling them to provide a range of generation and system support services to the electricity network.

During the last decade, the UK energy market has changed significantly due to the increase in inflexible, renewable generation technology, the increase in the amount of self-supply and embedded generation and the closure of significant volumes of thermal plants. De-rated Reserve Margins are lower now than they were five years ago. As a result, there is a need for generation assets in the UK which can generate at any point in time and which can alter their generation profiles to support the changing levels of intermittent generation. The flexible, responsive and reliable characteristics of our biomass-fired and coal-fired generation units allow us to meet this need and play an important role in the UK's security of supply. Once operational, our OCGT plants will be well suited to support the system at times of peak demand and, in addition, will be able to provide various Ancillary Services. Similarly, the options we are developing to repower up to two of our existing coal assets to gas-fired generation (and supporting battery storage) are expected to provide flexible generation in support of the UK energy system.

Our earnings benefit from a high degree of stability and visibility.

Our earnings have a high degree of stability as a result of:

- the support for our biomass-fired generation units under the RO Scheme and CfD Regime;
- capacity market payments for two of our existing coal-fired generation units;
- long-term fixed price formula biomass contracts providing visibility of cash flows;
- retail margins; and
- a strong hedging policy.

Based on our recent performance, we expect our gross margin to be derived predominantly from non-commodity exposed sources of earnings in the future. As a consequence of this, the volatility of our earnings which characterised the cash flows in previous years should be substantially reduced.

Biomass-fired generation

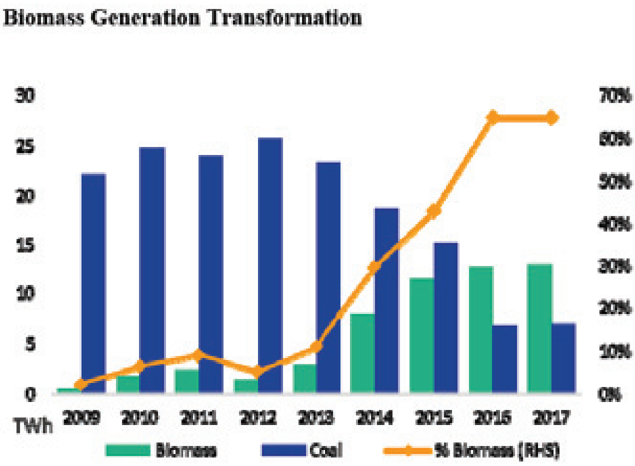
Generation from the Power Station's existing biomass generation units benefits from a UK legislative and contractual framework designed to support renewable energy sources. Our third biomass-fired generation unit receives support through the CfD Regime, while our other two biomass-fired generation units are supported under the RO Scheme. Our support under both regimes extends out to 2027. As a renewable fuel, biomass is exempt from the EU ETS and Carbon Price Support.

Our CfD is a private law contract between Drax Power and a Government-owned entity, the Low Carbon Contracts Company Limited. Under our CfD we are paid any shortfall, and repay any excess, between a strike price and a market reference price calculated as the average market price for electricity in the UK market over a given period. Our CfD is indexed to the UK consumer price index and extends to March 2027. It provides an effective hedge against the electricity price at current market prices and thereby supports earnings stability and visibility for our business.

The RO Scheme, established in 2002 to encourage the development of large-scale renewable electricity capacity in the UK, places an obligation on licensed electricity suppliers either to source a proportion of the electricity they provide to customers from eligible renewable sources or to make a payment equal to the buy-out price. The buy-out price increases in line with UK retail price index each year. The sourcing of renewable energy is demonstrated by the supplier presenting ROCs (equivalent in number to the supplier's individual obligation) to the administrator of the RO Scheme, Ofgem. ROCs are issued by Ofgem to renewable generators for each MWh of renewable electricity generated in different proportions based on the type of technology used. Electricity suppliers can source ROCs from renewable electricity generators. ROCs are tradable certificates with no fixed price and therefore the amount an electricity supplier pays for a ROC is a matter for negotiation between the supplier and generator. However, the Department for Business, Energy & Industrial Strategy ("**DBEIS**") sets the level of the obligation of a supplier to source renewable electricity each year using a headroom calculation which provides a set margin between the predicted generation (supply of ROCs) and the level of the obligation (demand for ROCs). This aims to reduce the possibility of supply exceeding the obligation in any given year and therefore provides some stability to the price of ROCs. As a result of the RO Scheme, our Power Generation segment receives ROCs that, as a vertically-integrated renewable energy generator, we can use in our B2B Energy Supply segment or sell to third parties.

We currently receive one ROC for each MWh of generation from our first two biomass-fired generation units, on top of the purchase price for the sale of electricity produced. ROC support for these two units extends until March 2027 and through this period is grandfathered by the Government at the level of one ROC for each MWh of generation. The buy-out price for ROCs includes an element of inflation indexation. A proportion of the underlying electricity that these two units produce is sold on a forward basis in order to improve the stability and visibility of our cash flows.

In January 2018, the Government announced that the RO regime would be changed so as to enable generators to optimise their levels of biomass-fired generation across all RO-accredited units at a power station (whether grandfathered or not) subject to an overall cap at the power station level (see "*Industry Overview—UK clean energy legislation—Grandfathering of support under the Renewables Obligation*"), for example by increasing biomass-fired generation in one unit to compensate for unplanned outages or reduced availability in another unit (subject to the overall cap). The expected implementation of this decision will enable us to convert a fourth unit to biomass-fired generation in summer 2018, further reducing our ongoing operational and earnings and cash flow volatility.



Generation Capacity and System Support

With increasing levels of intermittent renewables we are continuing to see opportunities to extract value from flexibility, such as short-term power and balancing market activity, the provision of Ancillary Services and the increased margin achieved from coal-fired generation due to the use of out-of-specification fuels. To capture value in this market we continue to focus resources on optimising availability and flexibility of both our coal- and biomass-fired generation units. The System Operator is required to balance supply and demand and to ensure the secure and stable operation of the transmission system. In addition to its operation of the Balancing Mechanism, it routinely contracts with generators to provide various Ancillary Services. We are able to provide Ancillary Services to the System Operator such as frequency response (altering output to ensure the frequency of electricity on the grid is within statutory limits) and "reactive power" services (enabling the System Operator to manage the voltage profile of the transmission system within certain parameters). Only a limited number of generators can provide some of these services in Great Britain, and we expect this number of generators to reduce over time as further large thermal plants close. We believe that the large, flexible characteristics of the generating assets we currently operate are well suited to offer these services, providing an opportunity for further contract-based revenues. In addition, the OCGT plants that we are developing and the options that we are developing to repower up to two of our coal-fired generation units at the Power Station to gas-fired generation, as well as supporting battery storage, would also improve our ability to provide many of these services.

The UK has established a capacity market system to support security and reliability of supply for the end consumer. The capacity market guarantees selected generators a fixed price for maintaining a specified generation capacity for a given period of time through an auction system. Generators receive either a one-year capacity market agreement or 15-year capacity market agreement depending on whether they are entering the auction for existing or potential new plants, respectively. Existing plants requiring significant refurbishment may also be eligible for three-year capacity market agreements.

All of our generation units which do not benefit from support under the RO Scheme or CfD Regime are currently eligible to participate in future capacity market auctions. We currently have index-linked capacity market agreements for two coal-fired generation units and the three small ancillary gas turbines located at the Power Station, which are expected to result in contract-based revenues in excess of £90 million between 2018 and 2022 in the aggregate. To the extent that these coal-fired generation units are repowered to gas-fired generation, we expect that any repowering will only take effect after our obligations under existing capacity market agreements (which currently run to 30 September 2022) have been fulfilled.

Retail

The Opus Acquisition, which completed in February 2017, added an established and profitable energy supplier in the SME market to our Group, in addition to our Haven Power business. Opus has been successfully integrated within the Group allowing us to realise various operational benefits.

Opus enjoys good customer retention levels and the potential for further growth, for example by allowing our Group to provide a dual fuel offering for the first time, while Haven Power is well established in the I&C market and is seeking to increase its number of SME customers. Opus enhances and broadens our offering in the SME market which is characterised by higher gross margins per MWh compared to the I&C market. Haven Power and Opus provide a direct route into the market for a significant amount of the electricity we generate and a significant proportion of the ROCs issued to us.

Hedging policy

The earnings of our Power Generation segment are further supported by our strong hedging policy under which we sell electricity generated by the Power Station up to two years ahead. This allows us to secure a margin on such electricity at times when bark spreads or dark green spreads are attractive, thereby increasing visibility with respect to our future Power Generation segment earnings. As of 20 February 2018, we had contracted fixed price power sales (including forward sold electricity and gas proxy hedges) of approximately 16.6 TWh, 7.3 TWh and 3.0 TWh for delivery in 2018, 2019 and 2020, respectively.

Contracted at 20 February 2018	**2018**	**2019**	**2020**
Power sales (TWh)	**16.6**	**7.3**	**3.0**
—Fixed price power sales (TWh)	15.9	6.0	2.2
At an average achieved price (per MWh)	£ 43.8	£ 43.1	£ 42.0
—Gas hedges (TWh)	0.6	1.4	0.8
At an achieved price per therm	**41.3p**	**45.0p**	**48.0p**

Our business is subject to risks due to fluctuations in currency exchange rates. Most of the biomass we purchase is priced in US dollars, Canadian dollars or euro. We operate a strong hedging policy with a five-year hedging period to manage the risk of a change in the relative values of the US dollar, Canadian dollar or euro, or relative to other currencies (including the pound sterling), which may increase our suppliers' cost of business and ultimately our cost of goods sold with respect to biomass.

We enjoy relatively low levels of volatility in our fuel input costs through active management of our supply chain.

We actively manage our biomass supply chain to enhance security of supply and support sufficient sourcing of wood pellet volumes to generate electricity. Our wood pellet manufacturing facilities have a combined annual nameplate capacity of 1,500,000 tonnes, following an increase in annual production capacity of 75,000 tonnes at each of our Amite and Morehouse facilities in 2017 and the acquisition of our LaSalle facility in April 2017 which will, when fully commissioned by first quarter of 2019, add 450,000 tonnes of annual production capacity. Our US port facility that we operate in Baton Rouge, Louisiana has an annual export capacity of 2,100,000 tonnes (with the scope to expand further to 3,000,000 tonnes) and exceeds our current self-supply, allowing us to consolidate supply from third parties to drive further supply chain efficiencies.

Our Pellet Production segment manufactures compressed wood pellets, from sustainably sourced feedstock, for use as a low-carbon, renewable fuel in our biomass-fired generation units. The US operations are strategically positioned near one another for operational efficiencies including optimising the time and cost of wood pellet deliveries to our Baton Rouge port facility.

In 2017, our wood pellet manufacturing facilities produced 821,764 tonnes of wood pellets and our US port facility shipped 943,594 tonnes of wood pellets to the Power Station. In 2017, wood pellets manufactured at our own facilities accounted for 12.3 per cent. of the biomass used at the Power Station (compared with 7.7 per cent. of self-supply in 2016) with the balance sourced from third party suppliers based in North America and Europe under a series of predominantly long-term contracts from sources also certified as sustainable. We aim to increase the share of internally sourced pellets to up to 30 per cent. in the future.

Our ability to source an increasing proportion of our biomass requirements internally via self-supply allows us to better manage the quality of feedstock and the timing of deliveries. This self-supply enables us to optimise generation and reduce the risk of fuel shortages and supply chain issues curtailing generation from the Power Station and to better ensure a stable cost of biomass, thus reducing exposure to commodity price fluctuations. At the same time, we maintain the flexibility to participate in the biomass spot market when biomass prices are attractive.

Our exposure to commodity prices is managed through a commercial hedging strategy which seeks to enter into forward sales of electricity and purchases of associated fuel and the carbon emissions allowances. Additionally, to manage the currency risks associated with our biomass purchase contracts, which are mainly in US dollars, we actively hedge our position and have put in place a rolling five-year hedging strategy to that effect.

Due to the conversion of three of our coal-fired generation units to biomass (and the expected conversion of a fourth coal-fired unit to biomass) and our expected lower need for coal in the future, we have reduced the level of coal stocks held on-site, and intend to further reduce such stocks over time until such time as coal-fired generation at the Power Station has ceased.

We operate the most efficient coal/biomass-fired power station in its class in the UK.

The Power Station's biomass-fired and coal-fired generation units are the most efficient in their class in the UK, based on the proportion of the energy content of the fuel that is ultimately converted into electricity. Our successful conversion of three coal-fired generation units to biomass demonstrates our technological capabilities while proving our ability to take action in light of changes in the regulatory framework.

The changes in the UK regulatory environment over the past decade provided a catalyst to upgrade our generation assets by converting three of our six electricity generation units to biomass.

We continue to invest regularly in our asset base. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Capital and Operating Expenditure*". For example, over the next three years we plan to continue to invest in replacing and upgrading the high pressure turbines in our biomass-fired units to improve efficiency, reduce maintenance costs and increase unit flexibility.

Following the successful conversion of our third coal-fired generation unit to biomass in 2016, we are the UK's largest single-site renewable generator based on capacity and generated approximately 15 per cent. of the UK's renewable energy in the 12 months ended 30 September 2017. We have been able to achieve this without compromising our ability to operate each unit independently, and we remain flexible to ensure we can continue to provide the essential services required by the System Operator and can maximise the value of our generation business.

The health and safety of all our employees, contractors and visitors is of paramount importance to us. We believe that a safe, compliant and sustainable business model is critical to the delivery of our strategy and crucial for sustained long-term performance. Safety is at the heart of our operational philosophy and we continue to work across the Group to maintain high standards and a culture of safe working. Each business unit and corporate team has local arrangements in place, reflecting the operating environment and hazards inherent in the various workplaces, to ensure that high standards are set and maintained.

Strong financial metrics and conservative financial policy

We have a conservative financial policy and have maintained a low leverage since we listed on the London Stock Exchange in December 2005.

Over the last three calendar years, our reported net leverage has been between 0.7x and 1.6x. After the completion of the Opus Acquisition in February 2017, our consolidated net leverage as at 31 December 2017 only increased to 2.7x, decreasing to 1.6x by the end of the calendar year. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Factors affecting Results of Operations*" for a discussion of factors affecting comparability of 2016 and 2017. We are committed to maintaining leverage at a level that is consistent with our current credit rating, which supports our trading strategy.

We announced a new dividend policy in June 2017, which will pay a sustainable dividend consistent with our commitment to a strong balance sheet and our ambitions for growth.

We are focused on targeted selective investments which we expect to help us to continue to diversify our earnings and cash flow sources within the framework of our conservative financial policy.

Given that electricity generation from unabated coal is expected to cease in the UK by 2025 and that our anticipated future output of coal-fired generation is expected to be far lower than historical levels, we have adapted the maintenance and upgrade schedule for our coal-fired generation units and expect our annual maintenance capital expenditures with respect to these units to continue to decrease to levels lower than those seen in past years. Furthermore, we expect to convert one of our coal-fired generation units to biomass in summer 2018 and are developing options for coal-to-gas repowering and supporting battery storage technology for the other two remaining coal-fired generation units. We expect our future maintenance capital expenditures to primarily consist of investments to upgrade our facilities to, among other things, comply with applicable regulatory regimes, which we expect to translate into greater operating cash flow going forward. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital and Operating Expenditure*".

We have robust credit policies in place to limit the amount of concentration risk we have with any particular counterparty (noting that the counterparty's appetite to trade with us is itself based on its assessment of our credit profile). Sales to the B2B Energy Supply segment (as opposed to third parties) also reduce the Power Generation segment's exposure to third parties by spreading credit risk across a wider customer base.

We and our management team have proven experience in leading our business through an evolving regulatory and commodity market environment.

We and our management team has proven experience in leading our business through an evolving regulatory and commodity market environment and are complemented by a skilled operating team who are at the forefront of biomass conversion technology, including the mechanical, engineering, electrical and civil works required for conversion. We have successfully transformed what was initially a pure coal generation business into a vertically-integrated generator and supplier of predominantly renewable electricity and now have industry-leading experience and knowledge with respect to biomass and its related supply chain logistics, as well as in relation to the conversion from coal to biomass generation.

We believe the conversion of three of our generation units to biomass remains Europe's largest decarbonisation project and was delivered on budget. We believe this experience positions us to deliver the planned low cost conversion of a fourth biomass-fired generation unit and options to repower the two remaining coal-fired generation units to gas generation.

Our operational experience in handling biomass is also market-leading. We have developed innovative fuel-handling systems, logistics and storage solutions for biomass fuel as well as a bespoke technically-advanced covered rail wagon with a specialised door design and a patented product flow control system to manage biomass during discharge.

As a result of the conversion project, we have developed an in-depth understanding of the scientific and technological effects of burning a range of biomass fuels, as well as of the critical combustion characteristics of such fuels.

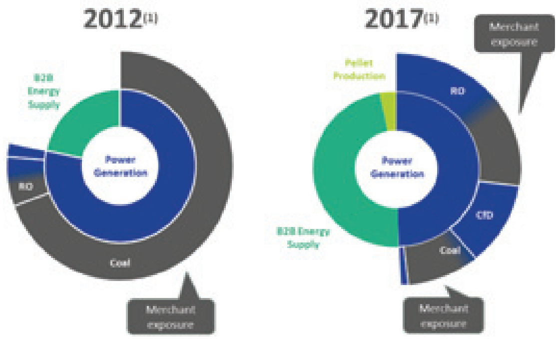
We have also put in place a biomass sustainability policy, which includes comprehensive carbon foot-printing across our biomass supply chain, regular independent supplier audits and the use of third party sustainability certification. All of our biomass is procured in accordance with this sustainability policy and details of these audit results are published as part of our annual report.

Strategy

Our strategy is to deliver a stronger, more predictable, long-term financial performance for the Group along with greater diversification in the markets in which we operate. By doing so, we seek to continue to play an important role in the way energy is generated, supplied and used as the UK moves to a low-carbon future.

Maintain stable earnings visibility by focusing on contractual revenue streams

Historically, the vast majority of the Group's earnings were derived from the operation of the Power Station as a merchant plant, selling wholesale power independently to third parties. Accordingly the Group's earnings were volatile and exposed to commodity (principally power, coal and carbon) price or merchant risk. In recent years, the Group's earnings have diversified and the Group's exposure to commodity price risk has substantially reduced as detailed in the chart below.



(1) Based on revenues that have not been adjusted to exclude intra-group transactions nor power purchases.

In the Power Generation segment, we plan to significantly further improve the visibility of future earnings and cash flows by increasing the proportion of our contracted earnings through capacity market and Ancillary Services payments. We expect this, combined with the support we receive under the CfD Regime and ROC Scheme, will result in a reduced level of commodity markets exposure and increased stability and visibility of earnings.

We have secured a number of one-year capacity market agreements worth in excess of £90 million between 2018 and 2022 in aggregate in respect of two of our coal-fired generation units and the three small gas turbines located at the Power Station.

We believe that more rapid response power plants will be required to keep the UK's electricity system stable in the future. We are developing four new 299MW OCGT plants in England and Wales with the potential to provide flexible and reliable electricity to the UK electricity system and diversify our future energy generation capability, subject to the award of a 15-year capacity market agreement. We expect the first two of our four OCGT projects to participate in the next T-4 Capacity Market Auction (expected to be in February 2019). The other two OCGT plants are progressing through the planning process and are expected to participate in future capacity market auctions if and when they have been granted a development consent order. Any capacity market agreements awarded to our OCGT plants will provide us with stable and predictable earnings over the life of the agreement. When commissioned, each of these plants will provide fast, flexible gas generation to support the UK electricity system at times of peak demand. Once complete, these OCGT plants will together add the potential for more than approximately 1.2GW of rapid response OCGT generation into our generation portfolio.

With increasing levels of intermittent renewables we are continuing to see opportunities to extract value from flexibility, such as short-term power and balancing market activity, the provision of Ancillary Services and the increased margin achieved from coal-fired generation due to the use of out-of-specification fuels. To capture value in this market we continue to focus resources on optimising availability and flexibility of both our coal- and biomass-fired generation units. The flexible, dispatchable and responsive nature of our generation assets positions us well to compete in the market and the development of our OCGT plants will further bolster our offering in this market. With the changing grid dynamic, this market could grow significantly.

Both capacity market agreements and agreements for the provision of Ancillary Services ensure the stability of the UK electricity system and provide us with revenue streams independent of electricity price fluctuations.

Profitably grow our B2B Energy Supply segment

One of our objectives is to increase the proportion of revenue and earnings generated by our B2B Energy Supply segment by increasingly focusing on the SME market, which has higher margins than the I&C market, and by evaluating options for further margin enhancement, such as product alternatives and efficiency enhancement. For example, we have through the Opus Acquisition further enhanced and broadened our retail offering with a wider product range, including gas. Opus has been successfully integrated within the Group allowing us to realise various operational benefits, for example, third party power and gas supply arrangements have been replaced with cheaper internal arrangements.

We have a strong platform for growth in the B2B Energy Supply segment. Our B2B Energy business has seen a 12 per cent. increase in customer meter points to more than 375,000 and was the fifth largest B2B power supplier by volume in the UK as at 31 October 2017. As the power system transforms, we will be working closely with our customers to help them adapt to more decentralised and decarbonised power. We see this as a significant opportunity for the Group in the medium and long term.

Opus' expertise in SME electricity and gas sales, combined with Haven Power's track record in the I&C market and our generation capacity and commodity risk management expertise, we expect the B2B Energy Supply business to deliver new products and services and enhanced market coverage to drive market share growth across both the I&C and the SME markets.

Expand wood pellet self-supply and increase operational and supply chain efficiencies

We intend to supply the Power Station with up to 30 per cent. of its annual demand for wood pellets from our own production in the future. Our wood pellet manufacturing facilities supply all of their output to the Power Station and supplied 12.3 per cent. of our internal requirements for generation from sustainable biomass in 2017. We expect output to increase throughout 2018 due to the increase in annual production capacity of each of our Amite and Morehouse manufacturing facilities by 75,000 tonnes in 2017 and the increasing production at our LaSalle facility, with full commissioning expected by first quarter of 2019. Once fully commissioned, the LaSalle facility will add a total of 450,000 tonnes of annual production capacity, for a combined annual nameplate capacity of 1,500,000 tonnes. Our wood pellet manufacturing facilities are strategically located close to one another in the US Gulf region for operational and supply chain efficiencies. We intend to consolidate supply from third parties at our Baton Rouge port facility to utilise unused export capacity and to drive further supply chain efficiencies.

We have continued to identify opportunities to improve efficiencies in our supply chain. For example, in 2017 we have reduced the amount of downtime and cost associated with the replacement of dyes. These components press wood residues into sustainable wood pellets. By utilising double-sided components we have doubled the useful life of these parts. In March 2018 we entered into an agreement to allow a biomass fibre supplier to build a sawmill adjacent to our LaSalle facility, which we expect will reduce raw material transport costs and the overall biomass cost as a result.

More generally, we are actively focused on reducing the amount of wood pellet degradation or "fines" that arise during the transportation of our wood pellets from our wood pellet manufacturing facilities to the Power Station, thereby increasing the proportion of good quality wood pellets received at the Power Station and reducing the amount of dust in our supply chain. We have a number of active internal workstreams to reduce fines and our progress on this front is a key focus for the Group.

We further intend to optimise supply chain and logistics operations for our Power Generation segment, and to utilise the flexibility of self-supply to manage production, to allow it to benefit from attractively priced biomass cargoes in the spot market.

Continue to focus on operational excellence

We continue to work at improving our performance across all segments. Having established ourselves as a leader in managing sustainable biomass-based electricity generation across the entire value chain, we aim to leverage this expertise to continue developing our business.

We are focused on improving the operational gains from our wood pellet manufacturing facilities, responding to planned and unplanned events at the Power Station through seamless teamwork to maintain high availability and ensure an excellent standard of customer service at our B2B Energy Supply segment. Safety and sustainability remain at the centre of our operational philosophy, recognising that excellent safety performance at the Power Station and our wood pellet manufacturing facilities drives efficiency and improves the productivity of our assets, and we are a consistent top quartile performer for safety performance. All of our biomass is procured in line with our industry-leading sustainability criteria ensuring that the wood pellets we use for electricity generation are sustainable and low carbon.

Recent Developments

In January 2018, the Government announced that the RO Scheme will be changed in 2018. These changes will enable us to convert a fourth unit to biomass-fired generation in summer 2018, subject to legislative implementation of such changes. We expect that these changes will enable Drax to optimise its levels of biomass-fired generation across all RO-accredited units subject to an annual cap of ROCs received at the power station level. See "*Industry Overview—UK clean energy legislation—Grandfathering of support under the Renewables Obligation*".

On 27 February 2018, Drax Group plc announced a £50 million share buy-back programme consistent with its capital allocation policy, which will commence in the first half of 2018.

The Issuer

The Issuer is incorporated in England and Wales with company number 10664639 for the purposes of issuing notes and lending the proceeds on to the DGHL Group. It is a direct wholly-owned subsidiary of DGHL, and an indirect wholly-owned subsidiary of Drax Group plc. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom. The Issuer is a wholly-owned finance subsidiary of DGHL with no revenue-generating business, operations or significant assets other than its interests in proceeds loans.

The Guarantors

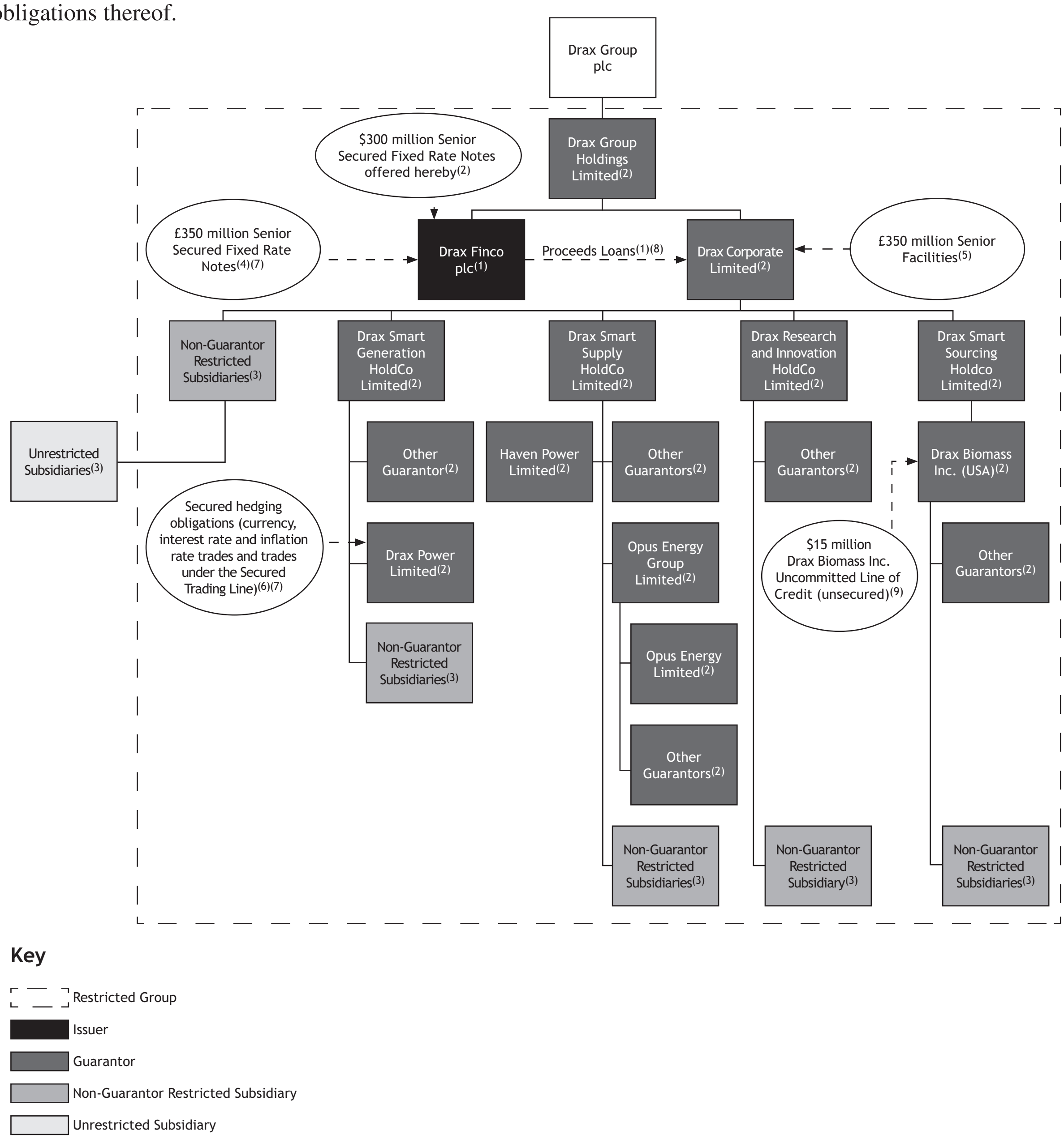
The Notes will be guaranteed on a senior secured basis by DGHL, the immediate holding company of the Issuer, and certain of its subsidiaries. See "*Listing and General Information*".

The Transactions

The Issuer is issuing US$300.0 million aggregate principal amount of Notes. The Notes will be guaranteed on a senior secured basis by the Guarantors. The proceeds of the issuance of the Notes will be used: (i) to redeem in full the outstanding 2022 Floating Rate Notes on or about 1 May 2018; (ii) to pay estimated fees and expenses of the Offering and the redemption, including underwriting fees and commissions, professional fees and other associated transaction costs as well as the applicable redemption premium and accrued and unpaid interest to the date of redemption; and (iii) for general corporate purposes (collectively, the "**Transactions**"). See "*Use of Proceeds*", "*Capitalisation*" and "*Description of Certain Financing Arrangements*".

Corporate and financing structure

The following diagram sets forth a simplified summary of our corporate and financing structure after having given effect to the Transactions. The diagram does not include each member of the Group or all of the debt obligations thereof.



(1) The Issuer of the Notes will be Drax Finco plc, a public limited company incorporated under the laws of England and Wales on 10 March 2017, a direct wholly-owned subsidiary of DGHL, which is in turn a direct wholly-owned subsidiary of Drax Group plc. The Issuer is a finance company that conducts no business operations of its own and its only material assets and liabilities as of the Issue Date are expected to be its rights and claims under various intercompany financings (including under the Proceeds Loan and the 2022 Fixed Rate Proceeds Loan) and its outstanding indebtedness (including its obligations under the Notes, the 2022 Notes and its guarantees in respect of the Senior Facilities Agreement and certain hedging obligations (including the Secured Trading Line)).

(2) The Notes will be senior secured obligations of the Issuer and will rank *pari passu* in right of payment with all of the Issuer's existing and future obligations. The Notes will be guaranteed on a senior secured basis (the "**Guarantees**" and each, a "**Guarantee**") by DGHL (the "**Parent Guarantor**") and each of (i) Drax Power Limited ("**Drax Power**"), Drax Corporate Limited, Abbott Debt Recovery Limited, Donnington Energy Limited, Drax Corporate Developments Limited, Drax Fuel Supply Limited, Drax Research and Innovation HoldCo Limited, Drax Innovation Limited, Drax Retail Developments Limited, Drax Smart Generation Holdco Limited, Drax Smart Sourcing Holdco Limited, Drax Smart Supply Holdco Limited, Farmoor Energy Limited, Haven Heat Limited, Haven Power Limited, Opus Energy (Corporate) Limited, Opus Energy Group Limited, Opus Energy Limited, Opus Energy Renewables Limited, Opus Gas Supply Limited, each of which is a direct or indirect wholly-owned subsidiary of the DGHL incorporated under the laws of England and Wales; and (ii) Drax Biomass Transit LLC, Morehouse BioEnergy LLC, Drax Biomass International Holdings

LLC, Drax Biomass Holdings LLC, Drax Biomass Inc., Baton Rouge Transit LLC, DBI O&M Company LLC, Amite BioEnergy LLC, Tyler BioEnergy LLC, Jefferson Transit LLC and LaSalle BioEnergy LLC, each of which is a direct or indirect wholly-owned subsidiary of DGHL organised under the laws of State of Delaware (the "**Subsidiary Guarantors**" and, together with the Parent Guarantor, the "**Guarantors**"). Each Subsidiary Guarantor is a Restricted Subsidiary and will be subject to the restrictive covenants under the Indenture. The Guarantees will be subject to certain contractual and legal limitations, and may be released under certain circumstances. Please see "*Description of Notes—Note Guarantees—Releases of Notes Guarantees*", "*Risk Factors—Risks Related to the Notes, the Guarantees and Our Capital Structure—Each Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defences that may limit its validity and enforceability*", and "*Certain Insolvency Considerations and Limitations on the Validity and Enforceability of the Guarantees and Security*".

For the year ended 31 December 2017, the Guarantors generated £233 million, representing 102 per cent., of the Group's EBITDA. As of 31 December 2017, the total assets of the Guarantors were £3,319 million (excluding goodwill), representing 94 per cent. of the Group's total assets (excluding goodwill).

After giving pro forma effect to the Transactions as if they had occurred on 31 December 2017, DGHL and its Restricted Subsidiaries would have had £627 million of borrowings outstanding, including £222 million under the Notes (being the pound sterling equivalent of $300 million, converted at a rate of $1.3524 to £1.00, being the Bloomberg Composite Rate on 31 December 2017).

On the Issue Date, the Notes and the Guarantees will (subject to the Agreed Security Principles) be secured by first-priority security interests in the Collateral, as set out under "*Description of Notes—Security*".

(3) Certain Restricted Subsidiaries will be subject to the restrictive covenants under the Indenture as at the Issue Date, but will not guarantee the Notes or provide any security in respect of the Notes.

As of 31 December 2017, such non-Guarantor Subsidiaries had no outstanding third party indebtedness.

As of the date of this Offering Memorandum, all of DGHL's Subsidiaries are Restricted Subsidiaries for the purposes of the Indenture, other than Drax Ouse and Drax GCo Limited which are "Unrestricted Subsidiaries" and in members' voluntary liquidation.

(4) On 21 April 2017, the Issuer issued £350 million aggregate principal amount of 4 ¼% senior secured fixed notes due 2022 (the "**2022 Fixed Rate Notes**") and £200 million aggregate principal amount of senior secured floating notes due 2022 (the "**2022 Floating Rates Notes**" and together with the 2022 Fixed Rate Notes, the "**2022 Notes**"). The 2022 Notes were issued pursuant to an indenture dated as of 5 May 2017 (as amended and restated from time to time, the "**2022 Indenture**"). The 2022 Notes are guaranteed on a senior secured basis by the Guarantors and are secured by the same Collateral as the Notes. We intend to use proceeds from the Offering of the Notes to redeem the 2022 Floating Rate Notes in full on or about 1 May 2018.

(5) On 21 April 2017, with effect from 5 May 2017, we amended and restated a revolving credit facility agreement originally entered into on 20 December 2012, as amended and restated on 8 December 2015, between, among others, Drax Power, Barclays Bank PLC as facility agent and Drax Corporate Limited and its subsidiaries as guarantors, pursuant to an amendment and restatement agreement (the "**Senior Facilities Agreement**"). The Senior Facilities Agreement comprised a £315 million committed multicurrency revolving credit facility and a drawn £35 million term facility (the "**Senior Facilities**"). The original borrower under the Senior Facilities Agreement is Drax Corporate Limited. The Senior Facilities are guaranteed on a senior secured basis by the Guarantors and are secured by the same Collateral that secures the 2022 Notes and that will secure the Notes. In the event of enforcement or certain distressed disposals, any liabilities in respect of obligations under the Senior Facilities and certain hedging obligations (including under the Secured Trading Line) and liabilities to lenders or creditors under certain other indebtedness permitted to be incurred under the Indenture and the 2022 Indenture (subject to the Intercreditor Agreement) will receive priority in relation to any proceeds received from the Collateral. Please see "*Description of Notes—Security*". For more information on the terms of the Senior Facilities Agreement, please see "*Description of Certain Financing Arrangements—Senior Facilities Agreement*".

(6) Drax Power has entered into ISDA master agreements with a number of financial institutions (the "**STL Counterparties**") with whom Drax Power can trade UK power, dark green spreads and gas on a senior secured basis without the requirement for Drax Power to post collateral (the "**Secured Trading Line**"). Under the terms of the Senior Facilities Agreement, the potential future exposure under the Secured Trading Line for each combination of tradable products must be less than £200 million, as determined each time Drax Power seeks to add an additional season to the Secured Trading Line. The STL Counterparties benefit from the same Collateral as the 2022 Notes and the Senior Facilities, and such Collateral will also secure the Notes and the Guarantees. In the event of enforcement or certain distressed disposals, any liabilities in respect of obligations under the Senior Facilities and certain hedging obligations (including under the Secured Trading Line and the currency, interest rate and inflation hedging referred to below) and liabilities to lenders or creditors under certain other indebtedness permitted to be incurred under the Indenture and the 2022 Indenture (subject to the Intercreditor Agreement) will receive priority in relation to any proceeds of certain distressed disposals or enforcement of the Collateral. Please see "*Description of Notes—Security*". In addition, Drax Power has the ability to enter into currency, interest rate and inflation rate hedging arrangements on a senior secured basis, with such counterparties also benefiting from the same Collateral as referred to above. Such hedging arrangements may, in the future, also be entered into by other members of the Group. These arrangements are in addition to any commodities and/or currency and interest rate trading that the Group undertakes on an unsecured basis. For more information on the terms of these arrangements, please see "*Description of Certain Financing Arrangements—Secured Trading Line and Hedging*".

(7) Under the terms of the Intercreditor Agreement entered into on 5 May 2017, in the event of an enforcement of the security interests over the Collateral and certain distressed disposals, the holders of the Notes will receive proceeds from such Collateral *pari passu* with the holders of the 2022 Fixed Rate Notes and only after the lenders under the Senior Facilities Agreement, counterparties to certain hedging agreements (including under the Secured Trading Line) and lenders or creditors under certain other indebtedness permitted to be incurred under the Indenture and the 2022 Indenture (subject to the Intercreditor Agreement) and then outstanding have been repaid in full. For more information on the terms of the Intercreditor Agreement, please see "*Description of Certain Financing Arrangements—Intercreditor Agreement*".

(8) On or about the Issue Date, the Issuer will lend the gross proceeds of the Offering to Drax Corporate Limited pursuant to the Proceeds Loan. Those proceeds will then be applied as described in "*Use of Proceeds*".

(9) The Drax Biomass Inc. Uncommitted Line of Credit provides for up to US$15 million of borrowings. The facility was fully drawn down as at the date of this Offering Memorandum. As of 31 December 2017, the total facility size was US$25 million.

THE OFFERING

The following summary of the Offering contains basic information about the Notes, the Guarantees and the Collateral. It is not intended to be complete and certain of the terms and conditions described below are subject to important limitations and exceptions. For a more complete understanding of the Notes, the Guarantees and the Collateral including certain definitions of terms used in this overview, please see "Description of Notes" and "Description of Certain Financing Arrangements—Intercreditor Agreement".

Issuer .... Drax Finco plc, a public limited company incorporated under the laws of England and Wales with company number 10664639.

Notes Offered .... \$300 million aggregate principal amount of 6⅝% Senior Secured Notes due 2025 (the "**Notes**").

Issue Date .... 26 April 2018 (the "**Issue Date**").

Issue Price .... 100.00%, plus accrued and unpaid interest, if any, from the Issue Date.

Maturity Date .... 1 November 2025.

Interest Rate .... 6.625% per annum.

Interest Payment Dates .... Semi-annually in arrear on 1 May and 1 November of each year, commencing on 1 November 2018. Interest will accrue from the Issue Date of the Notes.

Denomination and Form .... The Issuer will issue each Note in global registered form in minimum denominations of \$200,000 and integral multiples of \$1,000 in excess thereof maintained in book-entry form. Notes in denominations of less than \$200,000 will not be available.

Ranking of the Notes .... The Notes will:

- be general senior obligations of the Issuer;
- rank *pari passu* in right of payment with all existing and future obligations of the Issuer that are not expressly subordinated in right of payment to the Notes, including the obligations of the Issuer under the Existing Notes, Indebtedness Incurred under the Senior Facilities Agreement and certain Hedging Obligations (including the obligations under the Secured Trading Line);
- be senior in right of payment to all existing and future obligations of the Issuer that are expressly subordinated in right of payment to the Notes;
- be secured by the Collateral on and from the Issue Date, but the Holders of the Notes will only receive proceeds from the enforcement over the Collateral and certain distressed disposals after certain obligations of DGHL and its Subsidiaries, including the Indebtedness under the Senior Facilities Agreement and certain Hedging Obligations (including the obligations under the Secured Trading Line), have been repaid and discharged in full;
- be effectively subordinated to any existing and future obligations of the Issuer that are secured by property or assets that do not secure the Notes, to the extent of the value of the property and assets securing such obligations; and
- be structurally subordinated to all existing and future obligations of the non-Guarantor Subsidiaries of DGHL.

Guarantees . . . . The Notes will be guaranteed on a senior basis by DGHL, Drax Corporate Limited, Drax Smart Generation Holdco Limited, Drax Fuel Supply Limited, Drax Power, Drax Smart Supply Holdco Limited, Haven Power, Haven Heat Limited, Drax Retail Developments Limited, Opus, Opus Energy Limited, Abbott Debt Recovery Limited, Opus Energy (Corporate) Limited, Opus Gas Supply Limited, Opus Energy Renewables Limited, Farmoor Energy Limited, Donnington Energy Limited, Drax Research, Drax Corporate Developments Limited, Drax Innovation Limited, Drax Smart Sourcing Holdco Limited, Drax Biomass Transit LLC, Morehouse BioEnergy LLC, Drax Biomass International Holdings LLC, Drax Biomass Holdings LLC, Drax Biomass Inc., Baton Rouge Transit LLC, DBI O&M Company LLC, Amite BioEnergy LLC, Tyler BioEnergy LLC, Jefferson Transit LLC and LaSalle BioEnergy LLC (collectively, the "**Guarantors**").

For the year ended 31 December 2017, the Guarantors generated £233 million, representing 102 per cent., of the Group's EBITDA. As of 31 December 2017, the total assets of the Guarantors were £3,319 million (excluding goodwill), representing 94 per cent. of the Group's total assets (excluding goodwill).

After giving pro forma effect to the Transactions as if they had occurred on 31 December 2017, DGHL and its Restricted Subsidiaries would have had £627 million of borrowings outstanding, including £222 million under the Notes (being the pound sterling equivalent of $300 million, converted at a rate of $1.3524 to £1.00, being the Bloomberg Composite Rate on 31 December 2017). The Guarantees of the Guarantors may be released as set forth under "*Description of Notes—Note Guarantees—Releases of Notes Guarantees*".

As of 31 December 2017, on an *as adjusted* basis giving effect to the Transactions as described under "*Summary—The Financing*" and "*Use of Proceeds*", DGHL's subsidiaries that will not guarantee the Notes would have had no outstanding third party indebtedness.

The validity and enforceability of the Guarantees and the liability of each Guarantor will be subject to the limitations described in "*Certain Insolvency Considerations and Limitations on Validity and Enforceability of the Guarantees and Security*". The Guarantees may be released under certain circumstances. See "*Description of Notes—Note Guarantees—Releases of Note Guarantees*".

Ranking of the Guarantees . . . . The Note Guarantee of each Guarantor will be a general, joint and several, senior obligation of that Guarantor and will:

- rank *pari passu* in right of payment with all existing and future obligations of that Guarantor that are not expressly subordinated in right of payment to such Note Guarantee, including the guarantees in respect of the Existing Notes, Indebtedness Incurred under the Senior Facilities Agreement and certain Hedging Obligations (including the obligations under the Secured Trading Line);
- rank senior in right of payment to all existing and future obligations of such Guarantor that are expressly subordinated in right of payment to such Note Guarantee;

- (subject to the Agreed Security Principles) be secured by the Collateral as set forth under "*Description of the Notes—Security*", but the Holders of the Notes will only receive proceeds from the enforcement over the Collateral and certain distressed disposals after certain obligations of DGHL and its Subsidiaries, including the Indebtedness under the Senior Facilities Agreement and certain Hedging Obligations (including the obligations under the Secured Trading Line), have been repaid and discharged in full;
- be structurally subordinated to all existing and future obligations of any Subsidiaries of DGHL that are not Guarantors or the Issuer; and
- be effectively subordinated to all existing and future obligations of such Guarantor that are secured by property or assets that do not secure such Note Guarantee, to the extent of the value of the property and assets securing such obligations.

Collateral . . . . On the Issue Date, the Notes and the Note Guarantees will (subject to the Agreed Security Principles) be secured by first-ranking security interests over the following:

- the shares of DGHL and certain receivables owed to Drax Group plc by DGHL;
- substantially all of the assets of the Issuer, including the receivables owed to the Issuer in respect of the Proceeds Loan pursuant to which the proceeds of the Notes are on-lent;
- the shares of the Issuer and each Subsidiary Guarantor;
- substantially all of the assets of each Guarantor incorporated or organised under the laws of England and Wales; and
- substantially all of the assets of each Guarantor located in the United States other than any real property located in the United States.

(together, the "**Collateral**").

The Collateral securing the Notes and the Guarantees will also secure the Senior Facilities, the 2022 Fixed Rate Notes and certain hedging obligations (including the obligations under the Secured Trading Line). Under the terms of the Intercreditor Agreement, in the event of enforcement of the security interests over the Collateral and certain distressed disposals, the holders of the Notes will receive proceeds from such Collateral *pari passu* with the holders of the 2022 Fixed Rate Notes only after the lenders under the Senior Facilities Agreement, counterparties to certain hedging agreements (including counterparties under the Secured Trading Line) and lenders or creditors under certain other indebtedness permitted to be incurred under the Indenture (subject to the Intercreditor Agreement) have been repaid in full.

The Issuer's obligations in respect of the Notes and the Guarantors' obligations in respect of the Guarantees may be released in certain circumstances. In addition, the security interests in the Collateral may be released under certain circumstances. See "*Risk Factors—Risks Related to the Notes, the Guarantees, and Our Capital Structure*", "*Description of Certain Financing Arrangements—Intercreditor*

	Agreement", and "*Description of Notes—Security*", "*Description of Notes—Certain Covenants—Additional Guarantees*" and "*Description of Notes—Satisfaction and Discharge*".
Intercreditor Agreement	Each holder of a Note by accepting a Note will be deemed to have agreed to, and be bound by, the terms of the Intercreditor Agreement. The Indenture will be subject to the terms of the Intercreditor Agreement, and the rights and benefits of the holders of the Notes will be limited accordingly and subject to the terms of the Intercreditor Agreement. See "*Description of Certain Financing Arrangements—Intercreditor Agreement*".
Optional Redemption	The Issuer may redeem all or part of the Notes at any time on or after 1 May 2021 at the redemption prices as described under "*Description of Notes—Optional Redemption*" plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the redemption date. At any time prior to 1 May 2021, the Issuer may redeem all or, from time to time, part of the Notes at a redemption price equal to 100 per cent. of the principal amount of such Notes plus accrued and unpaid interest, if any, to, but not including, the applicable redemption dates plus the applicable "make whole" premium set forth in "*Description of Notes—Optional Redemption*". At any time prior to 1 May 2021, the Issuer may redeem up to 40 per cent. of the aggregate principal amount of the Notes (including the original principal amount of any Additional Notes) with the net cash proceeds from certain equity offerings at a redemption price equal to 106.625 per cent. of the principal amount of the Notes redeemed, plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the redemption date; provided that at least 50 per cent. of the original aggregate principal amount of the Notes (including the original principal amount of any Additional Notes) remain outstanding after such redemption. In connection with any tender offer or other offer to purchase all of the Notes, if holders of not less than 90 per cent. of the aggregate principal amount of the then outstanding Notes validly tender and do not validly withdraw such Notes in such tender offer or offer to purchase, the Issuer will have the right to redeem all Notes that remain outstanding at a price equivalent to the highest price paid pursuant to such tender offer or offer to purchase (excluding any early tender premium). See "*Description of Notes—Optional Redemption upon Certain Tender Offers*".
Additional Amounts	Except as provided in "*Description of Notes*", all payments made by or on behalf of the Issuer or any Guarantor in respect of the Notes or the Guarantees will be made without withholding or deduction for any taxes or other governmental charges, except to the extent required by law. If any such withholding or deduction is required by law in any Relevant Taxing Jurisdiction (as defined under "*Description of Notes—Withholding Taxes*"), subject to certain exceptions, the Issuer or the relevant Guarantor, as appropriate, will pay additional amounts so that the net amount received is no less than would have been received in the absence of such withholding or deduction. See "*Description of Notes—Withholding Taxes*".
Tax Redemption	The Issuer may redeem the Notes in whole, but not in part, at any time upon giving proper notice if certain changes in the tax law of any

	Relevant Taxing Jurisdiction become effective that would impose withholding or deduction for taxes on amounts payable on the Notes or the Guarantees, as applicable, in respect of which the relevant payor would be required to pay Additional Amounts, such redemption being at a redemption price of 100 per cent. of the principal amount, plus accrued and unpaid interest and Additional Amounts, if any, to the redemption date. See "*Description of Notes—Redemption for Taxation Reasons*".
Change of Control	Upon the occurrence of certain events constituting a "change of control", the Issuer is required to offer to repurchase all outstanding Notes at a purchase price in cash equal to 101 per cent. of the aggregate principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the date of purchase. See "*Description of Notes—Change of Control*".
Certain Covenants	The Indenture will, among other things, restrict the ability of DGHL and the restricted subsidiaries of DGHL to: • incur or guarantee additional indebtedness and issue certain preferred stock; • pay dividends on, or redeem, capital stock and make certain other restricted payments; • make certain investments; • create or permit to exist certain liens; • sell, lease or transfer certain assets, including subsidiary stock; • agree to restrictions on dividends by restricted subsidiaries; • enter into certain transactions with affiliates; • merge or consolidate with other entities; • engage in certain activities (with respect to the Issuer); • make certain amendments to the Proceeds Loan; and • impair the security interests for the benefit of the holders of the Notes. Certain of the covenants will be suspended if the Notes obtain and maintain an investment-grade rating. Each of these covenants is subject to significant exceptions and qualifications. See "*Description of Notes—Certain Covenants*".
Use of Proceeds	The Group will use the gross proceeds of the Offering: (i) to redeem in full the outstanding 2022 Floating Rate Notes on or about 1 May 2018, including paying the applicable redemption premium and accrued and unpaid interest to the date of redemption; (ii) to pay estimated fees and expenses of the Offering and the redemption, including underwriting fees and commissions, professional fees and other associated transaction costs; and (iii) for general corporate purposes. See "*Use of Proceeds*".
Transfer Restrictions	The Notes and the Guarantees have not been, and will not be, registered under the US Securities Act or the securities laws of any other jurisdiction. The Notes are subject to restrictions on transferability and resale. See "*Notice to Investors*". The Issuer has not agreed to, or otherwise undertaken to, register the Notes or the Guarantees under the securities laws in any jurisdiction (including by way of an exchange offer) and does not intend to do so.

No Established Market for the Notes	The Notes will be new securities for which there is currently no established trading market. Although the Initial Purchasers have advised the Issuer that they intend to make a market for the Notes, they are not obligated to do so and they may discontinue market making at any time without notice. Accordingly, there can be no assurances as to the development or liquidity of any market for the Notes.
Listing	Application has been made to the Luxembourg Stock Exchange for the approval of this document as Listing Particulars. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange, and to have the Notes admitted to trading on the Euro MTF Market.
Trustee	BNY Mellon Corporate Trustee Services Limited.
Paying Agent	The Bank of New York Mellon, London Branch.
Registrar, Transfer Agent and Listing Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Security Agent	Deutsche Bank AG, London Branch.
Governing Law for the Notes, the Guarantees and the Indenture	New York.
Governing Law for the Intercreditor Agreement	English.
Governing Law for the Security Documents	English or New York law, as applicable.

RISK FACTORS

Investing in the Notes involves risks. You should carefully consider the information contained in the section of this Offering Memorandum entitled "*Risk Factors*" and the other information contained in this Offering Memorandum before deciding whether to invest in the Notes.

SUMMARY HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The Issuer is a public limited company incorporated under the laws of England and Wales on 10 March 2017, and is a direct wholly-owned subsidiary of DGHL, which is in turn a direct wholly-owned subsidiary of Drax Group plc. The Issuer is a finance company that conducts no business operations of its own and as of the Issue Date its only material assets will be its rights and claims under various intercompany financings (including under the Proceeds Loan and the 2022 Fixed Rate Proceeds Loan) and its only material liabilities will be its outstanding indebtedness (including its obligations under the Notes, the 2022 Fixed Rate Notes and its guarantees in respect of the Senior Facilities Agreement and certain hedging obligations (including the Secured Trading Line)). For further information, please see "*Summary—Corporate and Financing Structure*", "*Our Business*" and "*Description of Certain Financing Arrangements*".

Unless otherwise indicated, this Offering Memorandum does not include any historical financial information relating to the Issuer.

This Offering Memorandum presents consolidated financial information for the Group on the level of Drax Group plc, the immediate holding company of DGHL. Drax Group plc will not be subject to the restrictive covenants under the Indenture, will not provide a Guarantee in favour of the Notes and will not grant security in favour of the Notes, except with respect to the shares it owns in DGHL and certain receivables owed to Drax Group plc by members of the Group. Drax Group plc is a holding company and as at 31 December 2017 its only material assets and liabilities were its interest in the issued and outstanding shares of DGHL, its rights and obligations under the Shareholder Support Agreement, a net intercompany liability (including the balance of intercompany liabilities and intercompany receivables) of £12.7 million and cash of £1.6 million.

The following tables present summary historical consolidated financial data for Drax Group plc as at and for the years ended 31 December 2015, 2016 and 2017. The summary historical consolidated financial data of Drax Group plc as at and for the years ended 31 December 2015, 2016 and 2017 has been derived from the Drax Group Audited Financial Statements included elsewhere in this Offering Memorandum. The Drax Group Audited Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**").

The financial information below includes certain Non-IFRS Measures used to evaluate the Group's economic and financial performance. These measures are not identified as accounting measures under IFRS and therefore should not be considered as an alternative measure to evaluate the Group's performance. See "*Presentation of Financial Information and Other Information—Non-IFRS Financial Measures*". The financial information below is not necessarily indicative of future results of operations. Prospective investors should read the summary data presented below in conjunction with "*Use of Proceeds*", "*Capitalisation*", "*Selected Financial Information*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Drax Group Audited Financial Statements for 2015, 2016 and 2017 and the related notes thereto, which are included elsewhere in this Offering Memorandum.

The financial information presented below includes certain unaudited *as adjusted* financial information, presented on an *as adjusted* basis to give effect to the Transactions. The unaudited *as adjusted* financial information is for illustrative purposes only and is not intended to represent or to be indicative of the consolidated results of operations or financial position the Group would have reported had (i) the Transactions been completed as of 1 January 2017 for the purposes of the calculation of *as adjusted* interest expense or (ii) the Transactions been completed as of 31 December 2017 for the purposes of the calculation of *as adjusted* cash and cash equivalents, *as adjusted* consolidated debt and *as adjusted* consolidated net debt. The unaudited *as adjusted* financial information should not be taken as indicative of the Group's future consolidated results of operations or financial position.

The *as adjusted* financial data has not been prepared in accordance with the requirements of Regulation S-X of the US Securities Act, the Prospectus Directive or IFRS, US GAAP or any other generally accepted accounting standards. Neither the assumptions underlying the *as adjusted* adjustments nor the resulting *as adjusted* financial data have been audited or reviewed.

Drax Group plc—Summary historical financial and other information

Income Statement

	Year ended 31 December		
	2015	2016	2017
		(£ million)	
Revenue	3,065.0	2,949.8	3,685.2
Total cost of sales	(2,656.2)	(2,573.5)	(3,140.2)
Gross profit	408.8	376.3	545.0
Operating and administrative expenses	(239.8)	(236.3)	(316.1)
EBITDA(1)	**169.0**	**140.0**	**228.9**
Depreciation and amortisation	(100.4)	(109.5)	(166.3)
Asset obsolescence charges	(109.2)	—	—
Loss on disposal	(7.1)	(3.8)	(15.4)
Unrealised gains/(losses) on derivative contracts	123.7	176.8	(156.1)
Acquisition-related costs	—	—	(7.8)
Other losses	—	—	(0.4)
Operating profit/(loss)	**76.0**	**203.5**	**(117.1)**
Cost of debt restructure	—	—	(24.2)
Interest payable and similar charges(2)	(24.3)	(29.0)	(31.5)
Interest receivable	1.4	0.6	0.2
Foreign exchange gains/(losses)(2)	5.9	22.0	(10.6)
Profit/(loss) before tax	**59.0**	**197.1**	**(183.2)**
Total tax (charge)/credit	(2.7)	(3.2)	32.1
Profit/(loss) for the year attributable to equity holders	**56.3**	**193.9**	**(151.1)**

(1) We define EBITDA as earnings before interest, tax, depreciation, amortisation, asset obsolescence charges, losses on disposals, unrealised gains and losses on derivative contracts, acquisition-related costs, cost of debt restructure and other losses, as presented in our income statement. See page F-13. EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results of operations as reported under IFRS. See "*Presentation of Financial Information and Other Information—Non-IFRS Financial Measures*". A reconciliation from profit for the year to EBITDA is presented below:

	Year ended 31 December		
	2015	2016	2017
		(£ million)	
Profit/(loss) for the year	**56.3**	**193.9**	**(151.1)**
Interest payable and similar charges(a)	24.3	29.0	31.5
Interest receivable	(1.4)	(0.6)	(0.2)
Foreign exchange gains and losses(a)	(5.9)	(22.0)	10.6
Total tax (credit)/charge	2.7	3.2	(32.1)
Depreciation and amortisation	100.4	109.5	166.3
Asset obsolescence charges(b)	109.2	—	—
Loss on disposal(c)	7.1	3.8	15.4
Unrealised losses/(gains) on derivative contracts	(123.7)	(176.8)	156.1
Acquisition-related costs(d)	—	—	7.8
Cost of debt restructure(e)	—	—	24.2
Other losses(f)	—	—	0.4
EBITDA	**169.0**	**140.0**	**228.9**

(a) In 2017, we separated foreign exchange gains and losses from interest payable and similar charges. Prior years have been restated to conform to this presentation, consistent with Note 2.4 to the 2015 and 2016 Drax Group Audited Financial Statements.

(b) Represents asset obsolescence charges relating to (i) a decision to decommission the FGD technology within our Power Generation segment as it was no longer required on the generation units converted to biomass (£92.6 million), (ii) a decision to abandon the development of a technology solution to comply with the IED (£10.0 million), and (iii) a decision not to proceed with a third wood pellet manufacturing project in the US (£6.6 million).

(c) Represents the loss realised on the disposal of multiple immaterial assets compared to the book value of the respective assets. For the year ended 31 December 2017, also represents the loss realised on the disposal of assets related to Billington Bioenergy (£3.6 million).

(d) Represents the costs associated with the acquisition and on-boarding of Opus into the Group.

(e) Represents the one-off costs associated with the refinancing of the Group's debt in May 2017, including break fees paid and deferred costs written off in connection with the facilities being refinanced.

(f) Represents unrealised losses on the equity investment in Aggregated Micro Power Holdings Plc (£0.2 million) as well as a charge relating to contingent consideration payable in connection with our OCGT projects (£0.2 million).

(2) In 2017, we separated foreign exchange gains and losses from interest payable and similar charges. Prior years have been restated to conform to this presentation, consistent with Note 2.4 to the 2015 and 2016 Drax Group Audited Financial Statements.

Balance Sheet

	As of 31 December		
	2015	**2016**	**2017**
Assets			
Non-current assets	1,958.5	2,197.5	2,278.5
Of which goodwill	14.5	14.5	169.9
Of which intangible assets	11.8	21.7	232.0
Of which property, plant and equipment	1,653.8	1,641.5	1,661.9
Of which other fixed asset investments	—	—	1.3
Of which deferred tax assets	—	33.5	22.7
Of which derivative financial instruments	278.4	486.3	190.7
Current assets	1,278.6	1,471.4	1,239.1
Of which inventories	224.0	287.5	272.1
Of which ROC and LEC assets	270.1	257.6	145.5
Of which trade and other receivables	319.3	292.9	417.5
Of which derivative financial instruments	330.8	405.0	175.5
Of which current tax assets	0.6	—	6.2
Of which cash and cash equivalents	133.8	228.4	222.3
Total Assets	3,237.1	3,668.9	3,517.6
Liabilities			
Current liabilities	762.6	884.9	864.7
Of which trade and other payables	488.0	591.9	736.5
Of which current tax liabilities	—	6.1	—
Of which borrowings	0.3	35.9	18.6
Of which derivative financial instruments	274.3	251.0	109.6
Non-current liabilities	872.1	738.8	932.8
Of which borrowings	320.1	286.0	571.1
Of which derivative financial instruments	300.1	112.5	94.2
Of which provisions	30.5	35.0	36.3
Of which deferred tax liabilities	191.9	275.2	230.0
Of which retirement benefit obligations	29.5	30.1	1.2
Total liabilities	1,634.7	1,623.7	1,797.5
Net assets	1,602.4	2,045.2	1,720.1
Total shareholders' equity	1,602.4	2,045.2	1,720.1

Cash Flow Statement

	Year ended 31 December		
	2015	2016	2017
	(£ million)		
Net cash from operating activities	148.1	190.8	315.2
Cash flow from investing activities			
Purchase of property, plant and equipment(1)	(179.1)	(93.2)	(159.0)
Purchase of software assets(1)	—	—	(15.7)
Acquisition of subsidiaries	(4.0)	—	(379.8)
Redemption of/(cash invested in) short-term investments	40.1	—	—
Net cash used in investing activities	**(143.0)**	**(93.2)**	**(554.5)**
Cash flow from financing activities			
Equity dividends paid	(49.9)	(11.0)	(21.6)
Proceeds from issue of share capital	1.5	0.1	0.1
Repayment of borrowings	—	—	(493.8)
New borrowings	—	—	768.5
Other financing costs paid	(5.7)	—	17.9
Net cash (absorbed by)/generated from financing activities	**(54.1)**	**(10.9)**	**235.3**
Net increase/(decrease) in cash and cash equivalents	**(49.0)**	**86.7**	**(4.0)**
Effect of changes in foreign exchange rates	1.9	7.9	(2.1)
Cash and cash equivalents at 31 December	133.8	228.4	222.3

(1) Our capital expenditure for 2015 and 2016 included purchases of software assets, however, beginning in 2017, we no longer account for purchases of software as capital expenditures, classifying software as general intangibles instead.

Other Financial and As Adjusted Information

	Year ended 31 December		
	2015	2016	2017
	(£ million, except ratios and percentages)		
Revenue	3,065.0	2,949.8	3,685.2
Adjusted Revenue(1)			3,775.7
Power Generation segment Revenue(2)	1,775.0	1,622.7	1,686.2
EBITDA(3)	169.0	140.0	228.9
EBITDA Margin (in per cent.)(4)	5.5	4.7	6.2
Power Generation segment EBITDA(5)	214.6	173.8	237.5
Adjusted EBITDA(3)			231.6
Adjusted EBITDA Margin (in per cent.)(6)			6.1
As adjusted cash and cash equivalents(7)			238.1
As adjusted consolidated debt(8)			627.0
As adjusted consolidated net debt(9)			388.9
As adjusted net interest expense(10)			25.5
Ratio of *as adjusted* consolidated net debt to Adjusted EBITDA(11)			1.7x
Ratio of Adjusted EBITDA to *as adjusted* net interest expense(12)			9.1x

(1) Adjusted Revenue is revenue adjusted to include the sales attributable to Opus as if it had been part of the Group from 1 January 2017. Adjusted Revenue is not a measurement of financial performance under IFRS and should not be considered as an alternative to revenue or any other performance measure derived in accordance with IFRS. We present Adjusted Revenue for informational purposes only. This information does not represent the revenue we would have achieved had Opus been part of the Group from 1 January 2017 or a projection of future revenue. It may not give an accurate or complete picture of revenue and should not be relied upon when making an investment decision. See "*Presentation of Financial Information and Other Information—Non-IFRS Financial Measures*" for more information.

	Year ended 31 December
	2017
Revenue	3,685.2
Opus revenue adjustment(a)	90.5
Adjusted Revenue	3,775.7

(a) Represents the revenue of Opus for the period from 1 January 2017 to 9 February 2017 (the day before the completion date of the Opus Acquisition), sourced from Opus management accounts. In calculating the Opus revenue figure above, we made certain assumptions our management believes to be reasonable. Nevertheless, there can be no assurance these assumptions are correct, and the Opus revenue adjustment presented herein is therefore inherently subject to risks and uncertainties. Furthermore, the basis for calculation of revenue for Opus was different from that of the Group. As such, the revenue of Opus is not directly comparable to the revenue of the Group, and we have made no adjustment to account for these differences in the Opus revenue adjustment. The Drax Group Audited Financial Statements included elsewhere in this Offering Memorandum do not reflect the Opus adjustment and such adjustment has not been audited, reviewed or verified by an independent accounting firm.

(2) Excludes inter-segment sales.

(3) We define EBITDA as earnings before interest, tax, depreciation, amortisation, asset obsolescence charges, losses on disposals, unrealised gains and losses on derivative contracts, acquisition-related costs, cost of debt restructure and other losses. Adjusted EBITDA is EBITDA further adjusted to include the pre-acquisition EBITDA of Opus for the period from 1 January 2017 to 9 February 2017. EBITDA and Adjusted EBITDA are not measurements of financial performance under IFRS and should not be considered as alternatives to profit or any other performance measure derived in accordance with IFRS. We present EBITDA and Adjusted EBITDA for informational purposes only. This information does not represent the EBITDA we would have achieved had Opus formed part of the Group from 1 January 2017 or a projection of future EBITDA. It may not give an accurate or complete picture of the results of operations and should not be relied upon when making an investment decision. See "*Presentation of Financial Information and Other Information—Non-IFRS Financial Measures*" for more information. EBITDA is affected by a number of factors, including availability of our generation units, electricity wholesale prices, seasonality and the level of our operating expense. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Factors Affecting Our Results of Operations*" for a description of certain significant factors that are expected to have an impact on our EBITDA going forward.

	Year ended 31 December		
	2015	**2016**	**2017**
		(£ million)	
(Loss)/profit for the year	**56.3**	**193.9**	**(151.1)**
Interest payable and similar charges[(a)]	24.3	29.0	31.5
Interest receivable	(1.4)	(0.6)	(0.2)
Foreign exchange gains and losses[(a)]	(5.9)	(22.0)	10.6
Total tax (credit)/charge	2.7	3.2	(32.1)
Depreciation and amortisation	100.4	109.5	166.3
Asset obsolescence charges[(b)]	109.2	—	—
Loss on disposal[(c)]	7.1	3.8	15.4
Unrealised losses/(gains) on derivative contracts	(123.7)	(176.8)	156.1
Acquisition-related costs[(d)]	—	—	7.8
Cost of debt restructure[(e)]	—	—	24.2
Other losses[(f)]	—	—	0.4
EBITDA	**169.0**	**140.0**	**228.9**
Opus EBITDA adjustment[(g)]			2.7
Adjusted EBITDA			**231.6**

(a) In 2017, we separated foreign exchange gains and losses from interest payable and similar charges. Prior years have been restated to conform to this presentation, consistent with Note 2.4 to the 2015 and 2016 Drax Group Audited Financial Statements.

(b) Represents asset obsolescence charges relating to (i) a decision to decommission the FGD technology within our Power Generation segment as it was no longer required on the generation units converted to biomass (£92.6 million), (ii) a decision to abandon the development of a technology solution to comply with the IED (£10.0 million) and (iii) a decision not to proceed with a third wood pellet manufacturing project in the US (£6.6 million).

(c) Represents the loss realised on the disposal of multiple immaterial assets compared to the book value of the respective assets. For the year ended 31 December 2017, also represents the loss realised on the disposal of assets related to Billington Bioenergy (£3.6 million).

(d) Represents the costs associated with the acquisition and integration of Opus into the Group.

(e) Represents the one-off costs associated with the refinancing of the Group's debt in May 2017, including break fees paid and deferred costs written off in connection with the facilities being refinanced.

(f) Represents unrealised losses on the equity investment in Aggregated Micro Power Holdings Plc (£0.2 million) as well as a charge relating to contingent consideration payable in connection with our OCGT projects (£0.2 million).

(g) Represents the EBITDA of Opus for the period from 1 January 2017 to 9 February 2017 (the day before the completion date of the Opus Acquisition), sourced from Opus management accounts. In calculating the Opus EBITDA adjustment figure above, we made certain assumptions our management believes to be reasonable. Nevertheless, there can be no assurance these assumptions are correct, and the Opus EBITDA adjustment presented herein is therefore inherently subject to risks and uncertainties. In addition, the basis for calculation of EBITDA for Opus was different from that of the Group. As such, the EBITDA of Opus is not directly comparable to the EBITDA of the Group, and we have made no adjustment to account for these differences in the Opus EBITDA adjustment. The Drax Group Audited Financial Statements included elsewhere in this Offering Memorandum do not reflect the Opus EBITDA adjustment and such adjustment has not been audited, reviewed or verified by an independent accounting firm.

(4) EBITDA Margin for a given period is defined as EBITDA divided by revenue for that period. See "*Presentation of Financial Information and Other Information—Non-IFRS Financial Measures*" for more information.

(5) Excludes central costs and does not reflect consolidation adjustments.

(6) Adjusted EBITDA Margin for a given period is defined as Adjusted EBITDA divided by Adjusted Revenue for that period. See "*Presentation of Financial Information and Other Information—Non-IFRS Financial Measures*" for more information.

(7) As adjusted cash and cash equivalents gives effect to the Transactions as described under "*Use of Proceeds*" as if the Transactions had taken place on 31 December 2017. The effect of the Transactions on our cash and cash equivalents depends upon a number of factors and may vary from the expected effect reflected in this as adjusted figure. See "*Use of Proceeds*".

(8) As adjusted consolidated debt gives effect to the Transactions as described under "*Use of Proceeds*" as if the Transactions had taken place on 31 December 2017. As adjusted consolidated debt is defined to be as adjusted current and non-current borrowings excluding deferred finance costs.

(9) As adjusted consolidated net debt is net financial debt adjusted for the effect of the Transactions as described under "*Use of Proceeds*" as if the Transactions had taken place on 31 December 2017. As adjusted consolidated net debt is defined to be as adjusted consolidated debt less as adjusted cash and cash equivalents.

(10) As adjusted net interest expense gives effect to the Transactions as described under "*Use of Proceeds*" as if the Transactions had taken place on 1 January 2017 and has been calculated after taking into account currency hedging arrangements. This figure does not include commitment fees in respect of our Senior Facilities Agreement. See "*Description of Certain Financing Arrangements—Senior Facilities Agreement*". As adjusted net interest expense has been presented for illustrative purposes only and does not purport to represent what our interest expense would have actually been had the Transactions occurred on the date assumed, nor does it purport to project our interest expenses for any period or our financial condition at any future date.

(11) Ratio of as adjusted consolidated net debt to Adjusted EBITDA for a given period is defined to be as adjusted consolidated net debt divided by Adjusted EBITDA for that period.

(12) Ratio of Adjusted EBITDA to as adjusted net interest expense for a given period is defined as Adjusted EBITDA divided by as adjusted net interest expense for that period.

Key Performance Indicators

	Year ended 31 December		
	2015	**2016**	**2017**
	(£ million unless specified otherwise)		
Power Generation Segment			
Value from flexibility (in £ millions)[1]	—	—	88.0
B2B Energy Supply Segment			
Electricity sales (Opus) (in TWh)	—	—	5.7
Pellet Production Segment			
Wood pellets production (in thousand tonnes)	279	607	822
Variable cost per tonne (in US dollars per tonne)	—	82	77

(1) Value from flexibility comprises revenues from short-term power and balancing market activity, the provision of Ancillary Services and the increased margin achieved from coal-fired generation due to the use of out-of-specification fuels.

RISK FACTORS

An investment in the Notes involves risk. You should carefully consider the risks described below as well as the other information contained in this Offering Memorandum before making an investment decision. Any of the following risks could materially adversely affect our business, financial condition or results of operations, and as a result you may lose all or part of your original investment. The risks described below are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition or results of operations which, in turn, could have a material adverse effect on the Issuer's ability to pay interest and repay the principal amount in respect of the Notes.

This Offering Memorandum also contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in those forward-looking statements as a result of various factors, including the risks described below and elsewhere in this Offering Memorandum. See "Forward-Looking Statements".

RISK FACTORS RELATING TO OUR BUSINESS AND INDUSTRY

The reduction or abandonment of governmental support for generation of electricity from biomass or other relevant changes in governmental energy policy may materially adversely affect our business, operations, financial condition and results of operations.

The development of renewable energy sources, including biomass and the generation of renewable energy in the UK relies, in large part, on regulatory and financial support of the Government. Any changes to these policies have in the past materially affected, and may continue to materially affect, our existing business as support mechanisms, in particular the RO Scheme and the CfD Regime are essential to the viability of our business.

Changes in the laws and policies of the UK and the EU have a direct impact on our development and future regime operations, as our generation and electricity supply businesses are based solely in the UK. The UK is currently required by the Renewable Energy Directive (2009/28/EC) (the "**Renewable Energy Directive**") to procure 15 per cent. of the UK's energy demand from renewable sources by 2020. In October 2014, the European Council agreed on a new 2030 framework for climate change and energy, including EU-wide targets and policy objectives for the period between 2020 and 2030. This framework sets an EU-wide target of 27 per cent. for the share of renewable energy consumed in the EU in 2030. This target is binding at the EU level but has not yet been translated into specific national targets. In January 2018, the European Parliament endorsed committee proposals for binding EU-level targets of a 35 per cent. improvement in energy efficiency and a minimum 35 per cent. share of energy from renewable sources in gross final consumption of energy by 2030. To meet these overall targets, EU member states are asked to set their own national targets. The Government has also set carbon emissions targets for the UK pursuant to the Climate Change Act 2008. See "*Industry Overview—UK clean energy legislation—The Climate Change Act 2008*".

While the UK and the EU have, in recent years, adopted policies and support mechanisms actively supporting electricity generation from renewable resources and specifically biomass, it is possible that this approach could change in the future, due to a change in Government or a change in Government policy. In November 2017, the Government confirmed that the UK will maintain a total carbon price (the combined UK Carbon Price Support – Carbon Price Support and the EU Emissions Trading System ("**EU ETS**")) at around the current level until unabated coal is no longer used. Any change in the Government's policy towards fossil fuels, including increasing the price of the Carbon Price Floor to make it prohibitively expensive to burn coal for electricity generation or, conversely, an abandonment of support for renewable energy, which would render generation based on biomass uncompetitive in comparison with other technologies, could have a material adverse effect on our business, operations, prospects, financial condition and results of operations. Until August 2015, we also received LECs for electricity generated from the generation units that had been converted to biomass which could be sold to electricity suppliers, and Power Generation revenue in 2015 included £17 million of revenue from LECs. Effective 1 August 2015, electricity generation is no longer eligible for LECs, which has had a negative impact on our revenue and EBITDA.

The effects of Brexit could be significant as the Government would no longer be subject to the set of EU directives, which commit the EU Member States to reducing carbon emissions, increasing energy efficiency and increasing renewable energy production. In particular, the UK's status as a participant in the EU ETS post-Brexit is unclear. Any change in the Government's policy towards renewable energy targets could have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

In its Autumn 2017 Budget, the Government announced the replacement of the Levy Control Framework, the Government's means of controlling the costs of supporting low-carbon electricity levy-funded schemes, including the RO Scheme, CfD Regime and SS-FiT. The Levy Control Framework was replaced by a new Control for Low Carbon Levies (the "**LCL Control**"). The LCL Control covers all existing and new low-carbon electricity levies, including the RO Scheme, CfD Regime and SS-FiT and affirms the current subsidy support for existing projects but based on the current projection of levy spend on such low carbon schemes it is anticipated that there will be no new low carbon electricity levies until 2025. Any change to the LCL Control, for example restricting further spend out beyond 2025, could have a material adverse impact on our business, and in particular our generation from biomass. The Government has a statutory obligation to review and report to the UK Parliament on the extent to which the Electricity Market Reform programme of reforms commenced in 2013 has been successful by the end of 2018. See "*Industry Overview—Overview of Electricity Market Reform—Capacity Market*" for further information on the Electricity Market Reform. The format and result of this review is unknown but to the extent they necessitate additional reform of the electricity market then such changes could have a material adverse impact on our business, operations, prospects, financial condition and results of operations.

The Renewables Obligation Scheme

Renewables Obligation Certificates ("**ROCs**") are tradable certificates issued by the Office of Gas and Electricity Markets ("**Ofgem**") to generators generating electricity through renewable resources, see "*Industry Overview—UK clean energy legislation—The Renewables Obligation*". ROCs are only earned on electricity generated from renewable and sustainable material, which requires strict compliance with contractual sustainability criteria for biomass pellets. We generate revenue by selling the ROCs we earn to electricity suppliers in the market who use these certificates to demonstrate that they are procuring a certain percentage of the electricity that they supply from renewable resources. We receive ROCs at a rate of 1.0 ROC per MWh for renewable energy produced in our first two generation units converted to biomass.

As of 1 April 2017, the RO Scheme has been replaced by the CfD Regime for any newly accredited plant or generation units. Existing plant or generation units already accredited under the RO Scheme (such as the Power Station, including the coal-fired units but excluding the unit receiving support under the CfD Regime) remain under the RO Scheme until either their period of support ends, currently designated as 2027, or they obtain support under the CfD Regime instead.

On 22 July 2015, DBEIS, formerly the Department for Energy and Climate Change ("**DECC**"), confirmed that, effective as of 12 December 2014, new biomass conversion units and combustion units already receiving support under the RO Scheme that move for the first time into the mid-range co-firing, high-range co-firing or biomass conversion bands, would no longer be covered by the Government's grandfathering policy. As a result, if a fourth coal-fired generation unit at the Power Station (which is currently accredited under the RO Scheme) is converted to biomass, there is no guarantee that the level of support that it would be entitled to receive under the RO Scheme will not be altered in the future.

In January 2018, the Government announced that rather than impose a cap on RO support for future biomass unit conversions, the RO Scheme would apply a cap at the power station level across all RO accredited units. While this announcement provides more certainty as to the intended long-term regulatory position, there remains the possibility that the UK Parliament does not pass the amending legislation or else that the level of support provided to the fourth converted unit under the RO Scheme is reduced to our detriment (that is, less than the level of support provided to our two existing biomass-fired units receiving RO support).

Contracts for Difference

The UK Energy Act 2013 established the CfD Regime as a new support mechanism to replace the RO Scheme with a period of transition between 2015 and 2018. We secured our CfD under the Final Investment Decision Enabling for Renewables ("**FIDeR**") regime in 2014 for our third biomass-fired conversion unit (the "**Investment Contract**"). This unit converted to biomass with support under our CfD in December 2016 following receipt of State-aid approval from the European Commission. As at 1 April 2018, our CfD provides for a strike price of £111.29 per MWh. The strike price is indexed annually based on the consumer price index and is also adjusted to reflect average balancing system costs. Our CfD expires on 31 March 2027, and may be terminated before that date if we breach certain of our obligations under the contract, for example if we fail to make payments due under the contract within the applicable grace periods. Support under our CfD is only given on electricity generated from renewable and sustainable material and strict compliance with contractual sustainability criteria for biomass pellets is required. Accordingly, there is a risk that our CfD terminates early and there can be no assurance that support under our CfD will be available until the expiry of its initial term.

RO Scheme and CfD Regime

Both the RO Scheme and the CfD Regime as they apply to us will end in 2027. Absent a successor support scheme, the generation of electricity from our biomass-fired generation units may not be economically viable if the support under the RO Scheme and our CfD fall away.

It is unclear what subsidy regime, if any, will support generation from sustainable biomass after 2027. Any future subsidy regime will depend on a number of circumstances beyond our control, including Government policies at the relevant time, the competitiveness of electricity generation from biomass compared with other renewable energy sources, and the availability of biomass fuel in sufficient quantities and on terms that are economical. Lack of Government support for biomass post-2027 may have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

Our business is subject to complex regulation, by the Government, the EU and other authorities that has in the past and could in the future materially adversely affect us.

Our business is subject to extensive and complex regulation by the Government and other authorities, including those in the UK, the EU and the US, such as Ofgem, DBEIS, the Financial Conduct Authority (the "**FCA**"), the Agency for the Cooperation of Energy Regulators, the Environment Agency, the Health and Safety Executive and the US Environmental Protection Agency. Regulation impacts many areas of our business, including the sourcing of biomass, combustion activity, the overall energy market structure, the construction and operation of electricity generation facilities, the trading of commodities and financial derivatives, market behaviour rules, present or prospective wholesale or retail competition and general health and safety and environmental matters. These rules and policies have affected and may continue to affect our business, operations and changes in law or regulation, or decisions by Governmental bodies or regulators could negatively affect our business.

Our Power Generation segment is subject to extensive environmental regulation, which has generally become increasingly strict. For example, since the start of 2016, we have been subject to new, stricter limits on emissions of, among other things, SO_2 and NOx, under UK legislation implementing the EU Industrial Emissions Directive ("**IED**"). We have had to make significant investments in new technology to ensure that the Power Station can meet these obligations, including in connection with the requirements of the Best Available Techniques Reference document (BREF) developed under the IED that will further reduce air emission limits when it enters into force no later than mid-2021. We may in the future become subject to even stricter emissions limits or other environmental restrictions, which may require significant additional investment or may force us to reduce or cease electricity generation from some or all of the generation units to comply or to install or upgrade pollution control or abatement technology to reduce emissions. These costs and operational changes could have a material adverse effect on our business and results of operations.

Our B2B Energy Supply segment is required to take all reasonable steps to provide Smart Meters to our customers by the end of 2020, except for those customers who have already received certain advanced meter types. As a result of the Opus Acquisition, we have a significantly larger customer base to whom Smart Meters must be provided, and there is a risk that we may be unable to provide such Smart Meters prior to the end of 2020, therefore increasing our potential exposure to fines from Ofgem for material non-compliance.

More generally, Ofgem also required electricity suppliers to provide advanced meters allowing automated meter readings ("**AMRs**") to certain customers by April 2014, as a condition to their supply licences. Failure to comply with the obligation to provide Smart Meters and/or any investigations into our B2B Energy Supply segment's compliance with its AMR obligations may result in the issue of material fines by Ofgem.

Following a public consultation, the Government announced in September 2017 an end to unabated electricity generation from coal by 2025. As such, we would have to cease electricity generation from the three coal-fired generation units at the Power Station by 2025 unless they have been upgraded to run on biomass or an alternative fuel or else converted to meet the operating requirements imposed by relevant regulatory requirements (such as addition of abatement equipment or carbon capture and storage capabilities). If we are unsuccessful at converting the remaining coal-fired generation units, we could be forced to cease using them, which would have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

In 2017 the Government announced its intention to focus on what it sees as unfair treatment of domestic consumers on legacy Standard Variable Tariff ("**SVT**") contracts. SVTs exist in the B2B market but are not a significant feature, and we do not use SVTs in our B2B Energy Supply segment. Any extension of any legislative proposal on this subject (for example, any proposal capping prices or else seeking to apply fixed profit margins) to smaller SME businesses may have an adverse effect on our B2B Energy Supply segment's business and results of operations.

A change in Government or a change in Government policy or political structure could lead to a changed regulatory environment which may materially adversely impact the business of the Group. In particular, the UK's official opposition, the UK Labour Party, stated in its manifesto in the 8 June 2017 UK General Election its commitment to regaining control of energy supply networks through alteration of operator licence conditions, and transition to a publicly owned, decentralised energy system. The UK Labour Party has also stated its commitment to the nationalisation of various public utilities. While the 2017 UK General Election did not lead to a Labour Government, a change in Government could lead to future intervention in the energy markets.

Other relevant changes in the regulatory environment may involve, for example:

- changes to or withdrawal of subsidy and financial support mechanisms related to the conversion to renewable energy sources, such as biomass or the high-range co-firing of biomass with fossil fuels. See "*The reduction or abandonment of governmental support for generation of electricity from biomass or other relevant changes in governmental energy policy may adversely affect our business, operations, financial condition and results of operations*";
- changes in Government policy relating to the mix of energy sources used for generation, for example a reduction in Government support for gas-fired generation;
- changes in legislation or policies related to tax;
- introduction of export tariffs or restrictions on the import of biomass or other fuels;
- adverse decisions on grants or renewals of licences, approvals or agreements required for the operation of our business, or related to our compliance with the terms of a licence, approval or regulatory requirement;
- changes in regulations that affect exemptions that we rely on for trading financially settled derivatives, margining requirements and reporting obligations;
- restrictions on the timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs or a decoupling of energy usage and revenue and other general economic decisions having an effect on our financial condition, markets and customers;
- new or stricter climate change and environmental laws and regulations, including carbon emissions limits both nationally and internationally;
- introduction of more stringent requirements in relation to the retail electricity market;
- limitations or restrictions on the amount of profits retail suppliers can make and price freezes in relation to retail supply;
- introduction of more stringent requirements in relation to environmental and health and safety laws, including sustainability criteria for biomass pellets and regulations covering limits on emissions to air and water, noise, soil, groundwater contamination, waste, and health and safety standards; and
- introduction of new and/or additional legislation or licence requirements affecting the way in which our B2B Energy Supply segment interacts with or charges its customers such as in relation to customer data.

Changes in the regulatory environment applicable to our business could have a material adverse effect on our business, operations, prospects, financial condition and results of operations and the ability to develop our businesses in the future.

The result of the UK referendum on withdrawal from the EU may have a negative effect on economic conditions, financial markets and demand for our products and services, which could materially adversely affect our business, results of operations and financial condition.

We are based in and operate principally within the UK. Following a national referendum in June 2016, on 29 March 2017, the Government formally initiated the withdrawal process for the UK's departure from the EU ("**Brexit**"). The terms of withdrawal are subject to ongoing negotiations which are expected to last until March 2019. The outcome of the referendum and the terms of withdrawal have created significant uncertainty about the future relationship between the UK and the EU, and has given rise to calls for certain regions within the UK to preserve their place in the EU by separating from the UK. Depending on the terms of Brexit, the UK could lose access to the single EU market and customs union (and the Government has stated its expectation that the UK will lose such access) resulting in an impact on the general and economic conditions in the UK, which could adversely affect demand for electricity and will directly impact the financial condition of our customers which could have a negative impact on our revenues. A significant weakening of economic conditions in the UK accompanied by higher insolvency rates could also impact our receivables growth and charge-off rates in the B2B Energy Supply segment, and could also result in a decrease in energy consumption, which could adversely affect our performance.

Until the terms of Brexit become clear, it is not possible to determine the impact Brexit may have on our business. If the UK were to leave the EU customs union, this could result in new or increased tariffs being levied on our imports of wood pellets or the imposition of other non-tariff barriers such as higher documentation requirements or more time consuming custom checks. It may also impact liquidity in the UK electricity and gas markets, as a result of "market decoupling" between the UK and the rest of the EU and reduce liquidity in derivative markets to the extent that the terms of Brexit prevent our counterparties from trading in the UK under the EU's passporting rules for financial services firms.

The effects of Brexit could be significant as the Government would no longer be subject to the set of EU directives, which commit the EU Member States to reducing carbon emissions, increasing energy efficiency and increasing renewable energy production. In particular, the UK's status as a participant in the EU ETS post-Brexit is unclear. Any change in the Government's policy towards renewable energy targets could have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

Future changes in legislation might impact the supply of electricity to the retail market, which could include restrictions on retail prices or our ability to pass on costs.

Government policy might impact the electricity price by imposing restrictions on the prices that can be charged to end users. It is difficult to predict the manner in which this would impact the wholesale electricity price. However, if the Government were to uncouple the wholesale electricity price from the price of commodities and other costs through a price freeze or similar action (as was recently announced for the UK domestic market), this could lead to a reduction in our revenues from electricity supply. Restrictions on prices that our B2B Energy Supply segment is able to charge its customer base or on our B2B Energy Supply segment's ability to implement the price change provisions in its supply contracts or any requirement to extend fixed term contracts on the same terms may also adversely affect the business and results of our B2B Energy Supply segment by reducing its operating margins.

Our cost of compliance with environmental laws and regulations, as well as costs to address any environmental liabilities arising from our operating activities, could have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

We are subject to laws and regulations relating to pollution, including wastewater discharges and air emissions, the protection of the environment, and the generation, use and disposal of hazardous substances and waste materials. If we fail to comply with these requirements, we could be subject to civil or criminal liabilities and fines or operation of our facilities could be forcibly stopped, curtailed or modified. We could additionally become subject to additional costs related to the installation or upgrade of pollution control or safety equipment. Any such event could have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

We could incur liability under national or local laws or regulations, either as a polluter or as the party managing certain aspects of any of the facilities we own, including the Power Station and the planned OCGT plants. Electricity generation facilities also typically use and generate hazardous and potentially hazardous products and by-products. In addition, potentially hazardous activities that arise in connection with our business include the operation and maintenance of electricity generation facilities (including the disposal of by-products associated with such generation such as ash disposal which is disposed of on the Power Station site), the operation and maintenance of pellet production plants and port facilities and transporting physical commodities, particularly biomass, which is highly combustible.

Although the Group carries insurance that covers certain environmental liabilities as a result of sudden and accidental pollution, we do not have any reserved cash funds held to meet requirements of environmental regulations and any such requirements imposed on the Power Station, or other facilities we own, could have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

In addition, we may be responsible for any on-site liabilities associated with the environmental condition of facilities that we have acquired or developed, such as the wood pellet manufacturing facilities in the US or the planned OCGT plants, leased or developed, regardless of when the liabilities arose and whether they are known or unknown. In connection with certain acquisitions and sales of assets, we may obtain, or be required to provide, indemnification against certain environmental liabilities. Another party could, depending on the circumstances, assert an environmental claim against us or fail to meet its indemnification obligations. Any costs incurred in relation to such environmental liabilities over and above those covered by applicable insurance policies could have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

We are increasingly subject to regulation in relation to climate change and are affected by requirements to encourage the reduction in energy use by our customers. Failure to comply with these regulations may have an adverse impact on our reputation and result in the imposition of fines or penalties.

We commit significant expenditure towards complying with these laws and regulations and meeting our obligations. If more onerous requirements are imposed or our ability to recover these costs under applicable regulation changes, this could adversely affect our business, operations, prospects, financial condition and results of operations. This also applies to any breach of our regulatory or contractual obligations or our climate change targets, or even incidents that do not amount to a breach.

Our operations expose us to the risk of material health and safety liabilities, which leave us open to substantial liabilities, fines and penalties.

On account of the nature of our operations, we are subject to various statutory compliance and litigation risks under health and safety and employment laws, including in the UK and the US. In particular, our operations at the Power Station, the manufacturing process at our pellet production facilities and our port operations at Baton Rouge all require the operation of heavy machinery and other forms of industrial equipment that increase health and safety risk, including of personal injury or death. In addition, there is also the inherent risk of fire, explosion and dust inhalation that arises from the inappropriate handling and burning of biomass.

In 2017, we recorded eight reportable incidents (compared to four in 2016 and two in 2015) and had a total recordable injury rate (defined as the sum of fatalities, lost time injuries and medical treatment injuries per 100,000 hours worked) of 0.27. In particular, in December 2017 a fire on a biomass conveyor between the Power Station's rail unloading facility and its biomass storage domes resulted in an unplanned outage and cessation of generation on two biomass generating units for a period of approximately four weeks. Although this issue did not directly relate to the operation of the biomass-fired units, the resulting restriction on fuel deliveries by rail impacted our ability to generate at maximum output across all our biomass units, such that we were forced to temporarily curtail generation from those biomass units receiving support under the Renewables Obligation. There can be no guarantee that there will be no future accidents or incidents suffered by our employees, our contractors or other third parties at our facilities and/or construction projects nor that the regulator will not take action in respect of previously reported incidents. If a formal investigation is opened in respect of any reportable incident by either the Health and Safety Executive or the Environment Agency, and the findings are adverse to the Group, this could affect our brand image, reputation, press coverage and could have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

If we fail to put in place appropriate procedures and/or any of these incidents occur, we could be subject to prosecutions and litigation, which may lead to fines, penalties, criminal sanctions and other damages being imposed, or restrictions on the scope of our operations, and cause damage to our reputation and brand image, result in negative press coverage, and possibly have political and regulatory implications. Such events could have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

We are required to satisfy certain sustainability criteria under the RO Scheme and our CfD, and UK or EU sustainability policy changes could be excessively onerous and make it difficult for us to comply with these policy requirements.

To be eligible to receive support under the RO Scheme or the CfD Regime, biomass burned in the Power Station must meet strict sustainability criteria. These criteria are directed at ensuring that, among other things, feedstock is sourced sustainably and overall emissions from harvesting, converting the feedstock into pellets, transporting and burning the pellets are under a certain level (which limit will decrease over time). Although in the case of certain changes to sustainability criteria, we may be compensated for operating expenditure if we can demonstrate that such change directly results in additional operating costs that would otherwise cause the permanent cessation of operation of the biomass-fired generation unit receiving support under our CfD, the terms of our CfD only provide very limited protection against the impact of any changes in these criteria, including changes that are enacted or come into effect after the date of our CfD. We will have to comply with changed sustainability criteria at our cost to the extent these are deemed to be foreseeable at the date of our CfD or where such change in law, regulation or guidance represents a continuous improvement or development of good practice. Any change in the applicable sustainability criteria could have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

More generally, the EU is currently in the process of revising the Renewable Energy Directive, one of the consequences of which will be the development of new sustainability criteria for biomass fuels. While we expect to be able to comply with any revised criteria, any unexpectedly onerous criteria or else wider unanticipated consequences of changes in the Renewable Energy Directive could have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

An inability to source fuel to the correct technical specification could lead to a reduced output from the Power Station.

The Power Station is only able to burn coal and biomass that meet its specifications as to, among other things, their calorific content. The specifications for biomass are particularly stringent. If fuel meeting these specifications is not available in sufficient amounts, generation at the Power Station may be reduced.

Biomass fuel is derived from forestry residues and woody materials, and although typically more homogeneous than coal from a chemical composition perspective, there is some variability. The degree of variability on biomass received by us is controlled through the contract fuel specification, which contains ranges for key parameters such as calorific value, ash, moisture and physical characteristics. The consequence of this variability means that at times biomass generation can be adversely affected by lack of appropriate fuel. This could delay the anticipated supply of biomass fuel to the Power Station and as a result the Power Station's ability to generate electricity may be reduced.

If a major biomass fuel supplier is unable to meet its contractual obligations, we will have to secure replacement biomass fuel in an illiquid market and could suffer the additional variable costs. This could result in loss of revenue that could adversely affect our business, operations, prospects, financial condition and results of operations.

Additionally, if our procedures are inappropriate and we fail to use coal or biomass of the requisite specification in our generation units, generation at the Power Station may be reduced and may result in damage to our facilities.

Negative news and other publicity regarding the use of biomass for electricity generation may have an adverse impact on our reputation, business and results of operations.

Special interest groups, environmental groups and public figures have in the past, and may in the future, allege that the environmental benefits of electricity generation from biomass are elusive by questioning the sustainability benefits of our biomass sourcing. Such negative publicity could change public perception of biomass, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

We are dependent on continued output from our facilities, in particular the Power Station, and outages at the Power Station or any of our other facilities could negatively affect our business, operations, prospects, financial condition and results of operations.

The successful operation of our business depends on maintaining the integrity of our key systems and equipment, such as the Power Station and the wood pellet manufacturing facilities in the US. Most of our revenue and gross profit in 2017 was derived from the sale of electricity produced and the ROCs earned by the Power Station. If operations at the Power Station were to be materially interrupted, curtailed or reduced for any reason, it could adversely affect our business, operations, prospects, financial condition and results of operations. The Power Station and our other systems and equipment may be subject to mechanical failure, equipment malfunction, technological breakdown or other interruptions from events, some of which are beyond our control, including:

- fire, explosion, flood and other natural disasters;
- adverse weather conditions;
- failures of the electricity grid;

- failure of fuel transportation equipment;
- mechanical failures, for example, failures of the generation units or the distribution systems that provide the fuel to the generation units;
- telecommunication or data networking failures;
- failure to control humidity at biomass storage or transport facilities;
- failure to satisfy increasingly complex IT requirements at the Power Station and within the Group more generally;
- terrorism; and
- unauthorised physical or electronic access, including cyber-attacks (for example, the Government has recently warned of the potential for a large-scale cyber-attack on the UK's infrastructure and energy supply from foreign agents, which could have wide-ranging and devastating consequences).

Availability of the Power Station's units is influenced by planned maintenance outages, as well as unplanned or forced outages, which are required from time to time to rectify malfunctions or other failures. During 2017, the Power Station's availability was below our target, principally due to more unplanned outages than anticipated, albeit the one major planned outage in the year was completed to schedule. We are currently undertaking a planned outage of a coal-fired generation unit and we anticipate a further planned outage to convert a fourth generation unit from coal- to biomass-fired generation in summer 2018. We also anticipate a further planned outage on our other coal unit in summer 2018. See "*Our Business—Power Generation—Availability*".

Forced outages decrease the amount of electricity that the relevant generation unit at the Power Station is able to generate over a given period, which translates into decreased potential revenue for us. Furthermore, additional costs may be incurred in recovering from any such forced outage. Prolonged forced outages, or additional planned outages that become required as a result of a regulatory change, could have a material adverse effect on our revenue, profitability, financial position and cash flows. In addition, forced outages could also damage our reputation.

The most frequent cause of a forced outage of a generation unit at the Power Station is a boiler tube leak in that generation unit. Such leaks occur at the Power Station approximately 25 times a year and ordinarily take two to three days to remedy. More severe forced outages, which are less common, could curtail, and have in the past curtailed, generation of a particular unit or multiple units for a longer period, increasing any adverse impact on our revenue and profitability. For example, in December 2017 a fire on a biomass conveyor between the Power Station's rail unloading facility and its biomass storage domes resulted in an unplanned outage and cessation of generation on two biomass generating units for a period of approximately four weeks lasting into January 2018. Although this issue did not directly relate to the operation of the biomass-fired units, the resulting restriction on fuel deliveries by rail impacted our ability to generate at maximum output across all our biomass units, such that we were forced temporarily to curtail generation from those biomass units receiving support under the Renewables Obligation. We also experience gas and coolant leaks in the ordinary course of business that can affect the availability of our generation units. Forced outages are expected in large generating plants and accordingly our business plan assumes that availability of the Power Station over the course of a year will be impacted by a number of forced outages. For example, we experienced a gas and coolant issue affecting one of our biomass-fired units in February 2018, which resulted in an outage of approximately six weeks.

Our coal-fired generation units increasingly have higher generation costs than the "marginal plant", in particular during the summer months. We run the coal-fired generation units less and cease generation in low demand periods such as overnight when they are not economically viable. As a result, the coal-fired generation units need to be turned down and started up more frequently. We believe that the increased number of starts increases the risk of forced outages for the coal-fired generation units, due to increased thermal cycling, which adds stress at a higher rate than if the coal-fired generation unit was continuously operating at a full load. We believe that reduced coal-fired generation unit loads may also increase technical risk in these units.

As a result of our conversion to a predominantly biomass-fuelled generator, we face an increased level of technical risk. Biomass generation on an industrial scale carries significant uncertainty because it is a relatively new technology. Unforeseen technical problems may occur as a result of the conversion of the Power Station's generation units, which were originally designed to burn coal, due to the difference in the chemical composition of biomass and coal.

There is no extended history of industrial large-scale biomass conversions or know-how as to the potential adverse long-term effects of burning biomass in a boiler originally designed for coal and there could be, for example, corrosion, erosion and fouling of the boiler, which could lead to increased forced outage rates on biomass units. In addition, the hygroscopic nature (tendency to absorb moisture from the air) of biomass increases the likelihood of fire and explosions. These risks may be further enhanced as existing supply-demand imbalances in the pellet market place suppliers under price pressure which in turn could negatively impact the quality of wood pellets supplied to us.

We may not be able to generate sufficient electricity to perform our obligations under our wholesale supply contracts due to outages at the Power Station. In such cases, we may have to purchase the shortfall of electricity from the wholesale market at unfavourable prices to perform our obligations under the contracts and may suffer losses. We may suffer further losses due to balancing charges applied by the System Operator to cover the costs of remedying the lost output on the grid. We may also have to sell excess fuel back to the market, including at sub-optimal prices in the spot market, or reduce future purchases. These could adversely impact our business, operations, prospects, financial condition and results of operations.

We rely on an uninterrupted supply chain for biomass and, to a lesser extent, coal. Any interruptions of the supply chain may prevent the Power Station from functioning at full capacity and prevent us from performing our supply obligations under our contracts.

Transportation

The fuel, whether biomass or coal, must be transported to the Power Station from domestic and overseas suppliers. We rely on the continued availability of sufficient international sea freight capacity, port and rail capacity and UK infrastructure to handle and transport biomass and coal in a timely and efficient manner. We currently have contracts in place for port capacity (and redundancy) that enable us to receive the required amounts of fuel into the UK. Our contract with one of the four ports handling our biomass will expire in 2022 (with an option to extend) while the contracts with the remaining three ports will expire on or after 2027. Our contract with the port handling coal expires in 2022 (with an option to extend by a further year). Any termination of, or failure to renew, these contracts may lead to an increase in costs as supply may have to be transported from a less optimal port location.

A significant proportion of fuel received at our UK ports is transported to the Power Station by rail. A failure in our rail transportation, such as the inability to secure adequate rail paths, damage to the rail network itself or damage or technical failures in relation to our specialist rolling stock for biomass transportation could impede our ability to transport the required volume of fuel to the Power Station by rail or may lead to increased costs as fuel may have to be transported to the Power Station via more costly forms of transportation.

Furthermore, changes in shipping and rail regulations, whether relating directly to fuel transportation or otherwise, may lead to increased costs.

Biomass Storage

Biomass cannot be stored outdoors because it tends to absorb moisture from the air. Pellets can spontaneously combust if inappropriately stored and therefore must be managed. In the case of our loading facility in the US, humidity poses an additional challenge, which must be addressed using aeration and temperature monitoring. At the UK discharge ports and at the Power Station, the pellets are stored in technically advanced storage spaces with dust control infrastructure to reduce the risk of fire and explosions. Any failure of the management controls and infrastructure or safety procedures at the production facilities could result in fire damage, including personal injuries, at the Power Station, our pellet manufacturing facilities or at our port facilities. Such incidents may materially hinder our ability to export sufficient biomass to the Power Station for a certain amount of time and our ability to generate electricity at optimum levels or otherwise adversely affect our operations.

Our biomass storage capacity at the UK port facilities and on-site at the Power Station is approximately 700,000 tonnes, which corresponds to approximately 30 days' supply at full capacity. This storage capacity may be insufficient for the Power Station's needs at times of seasonal high demand, curbing our potential to maximise our generation revenues. In addition, fuel that is scheduled to be burned might need to be stored instead due to planned outages or forced outages, which can result in storage of large volumes of biomass with high storage costs for us. In the case of forced outages, biomass can quickly accumulate at the ports before it can be moved to strategic storage spaces. Storage spaces at the ports may also fill up quickly, which in turn prevents ships from unloading, and consequently resulting in demurrage costs if the biomass vessel deliveries cannot be delayed or rerouted. Excess supply may need to be sold in the spot market, potentially at sub-optimal prices. As a result of failures in the supply chain, we may not be able to generate electricity at full capacity and may not be able to perform our supply obligations under our contracts. We may suffer further losses due to balancing charges applied by the System Operator or may have to purchase top-up biomass consignments if available.

Increased transportation costs could materially adversely affect our business, results of operations and financial condition.

Transportation plays an important role in our supply chain as we source the majority of the coal and biomass required for our Power Generation segment internationally. We currently source most of our coal from the US, Colombia, Russia and the UK, and most of our biomass from the US and Canada. We generally rely on third party service providers to transport fuels and our ability to source fuel at commercially reasonable costs depends on our ability to negotiate commercially reasonable terms with carriers. Accordingly, any increases in freight charges, port charges or other transportation costs will, to the extent unhedged, lead to increases in the cost of our supplies and could adversely affect our business, operations, prospects, financial condition and results of operations. To the extent that third party carriers increase their rates, including to reflect higher labour, maintenance, fuel or other costs they may incur, we may incur higher fuel costs, which may have a negative impact on our business, results of operations and financial condition.

Fuel supplies can be destabilised by concentration of supply, market risks, sanctions and geographic risks.

Biomass at the correct specifications is available in the UK only in limited amounts. This concentration of our supply in certain other countries increases our exposure to risks such as industrial action, political or economic sanctions, regulatory change, export tariffs, weather risk and political instability, each of which may lead to a restriction in the supply of the fuel.

The biomass market is a nascent and illiquid market and, if we are not able to secure the required volumes to fuel the converted units on a long-term basis, this could adversely affect the output of those units. Our US biomass supply chain is particularly subject to weather risk as it is concentrated in the US Gulf region where extreme weather such as hurricanes is prevalent. Equally, our US port facilities in Baton Rouge are the only port facilities in the area that have the storage and technical capacity to export the wood pellets manufactured by our wood pellet manufacturing facilities. Furthermore, given the limited number of participants in the biomass market, it may be difficult for us to obtain pellets of a sufficient quality and sustainability standard to fuel the Power Station and/or trade with counterparties with a robust credit profile. A breakdown in the supply chain could adversely affect our business, operations, prospects, financial condition and results of operations. We have a strategic target to self-supply up to 30 per cent. of our internal requirements for generation from sustainable biomass, but an increase to this level requires us to acquire existing plants or expand organically. Acquisition opportunities in such a nascent market depend on the existence of willing sellers or else distressed plants coming to market, neither of which can be guaranteed.

We are subject to commodity price risks that we may not be able to hedge against efficiently and our fuel costs could increase at a faster rate than UK electricity prices which could negatively affect our operating margins.

The largest component of our cost of sales is fuel costs, which represent the cost of purchasing the coal (including cost of carbon) and sustainable biomass that is used to generate electricity in the Power Station (net of any ROC and LEC support earned). Fuel costs amounted to £1,356.8 million, or 36.8 per cent. of consolidated revenue in 2017 (compared to £1,154.2 million and 39.1 per cent., respectively in 2016) and comprise the cost of biomass and coal (see page F-13). The gross cost of both fuels includes the cost of the raw material, processing costs, logistics, handling and storage costs and is influenced by exchange rates where the fuel and its transportation is contracted in a foreign currency. Any element of these costs might increase for coal and biomass without a proportionate increase in UK electricity prices. While we regularly enter into derivative transactions to hedge our exposure to these commodity price and foreign exchange currency risks, there can be no assurance that such hedging will be effective and we are subject to risks in connection with the hedging arrangements we enter into such as counterparty risks. There can be no assurances that we will be able to hedge our exposure to these risks in the future. Any increase in our fuel costs could lead to a reduction in margins and cash flow and therefore adversely affect our business, operations, prospects, financial condition and results of operations.

Biomass

The gross cost of biomass can be broken down into the raw fibre cost, cost of processing the pellets and the cost of freight and transport to the Power Station. Other factors affecting biomass fuel costs include foreign currency exchange fluctuations (as most biomass is priced in US dollars, Canadian dollars and euro), oil prices (relevant for transportation and processing costs), freight costs, hedging costs, working capital requirements, labour rates and inflation.

We seek to fix fuel supply costs as far into the future as liquidity and credit constraints permit. This can be difficult as suppliers typically are unwilling or unable to manage these costs and seek to pass them through to the purchaser. Although we seek to hedge exposures where possible, this can be expensive and collateral-intensive. Moreover, fully hedging these costs on a long-term basis is not practicable due to liquidity and credit restraints. A reduction in the extent to which we are able to hedge biomass fuel costs could adversely affect our business, operations, prospects, financial condition and results of operations because biomass costs are not correlated to UK electricity prices and therefore represent a significant source of volatility in earnings and cash flow.

Unlike coal purchases, a number of our biomass supply contracts are entered into on a "take-or-pay" basis. Should biomass generation become uneconomic or be curtailed for any other reason, we could be required to take delivery of the biomass in excess of any revised burn estimate and then have to store it, sell it to third parties, if such purchasers can be found, or pay for the cost of the biomass without taking delivery. This could lead to losses for us. See "*—We rely on an uninterrupted supply chain for biomass and, to a lesser extent, coal. Any interruptions of the supply chain may prevent the Power Station from functioning at full capacity and prevent us from performing our supply obligations under our contracts*".

Coal

The cost of coal includes both the cost of the actual coal burnt and the cost of the carbon in the form of the emissions allowances purchased to ensure our compliance with the EU ETS and the levy on coal deliveries under the Carbon Price Support mechanism. In addition to the risk of coal prices generally increasing, whether through market price rises and/or exchange rate fluctuations, the cost of carbon might also increase due to the EU's intervention in the EU ETS market, amendments to the EU ETS or the UK ceasing to participate in the EU ETS as a result of Brexit, or else due to a Government decision to further increase the amounts payable under the Carbon Price Support mechanism, notwithstanding that in November 2017, the Government confirmed that the UK will maintain a total carbon price (the combined UK Carbon Price Support – Carbon Price Support and the EU ETS) at around the current level until unabated coal is no longer used. The cost of coal and emissions allowances is driven by market prices at the time we secure our purchases. If we cannot match the timing of coal and emissions allowances purchases to the related electricity sales or the cost of coal and carbon increases, then this mismatch could have a negative impact on profitability.

The maintenance of the Power Station, our wood pellet manufacturing facilities in the US and our other facilities requires substantial capital expenditure and may not be adequate to prevent plant failure.

We are regularly required to make certain operational and maintenance-related capital expenditures at our sites, such as equipment and other infrastructure maintenance, including machine parts for the Power Station. Our ability to undertake such operational and maintenance measures largely depends on our cash flow from our operations and access to capital. We intend to continue to fund our cash needs through cash flow from operations and by drawdowns under the Revolving Facility. However, there may be unforeseen capital expenditure needs for which we may not have adequate capital.

The Power Station, our wood pellet manufacturing facilities in the US and our other facilities require regular maintenance and the provision of this maintenance is itself subject to certain risks. A number of problems may arise in relation to our facilities during maintenance, which may cause interruptions to production, including, among other things, failed deliveries by suppliers or manufacturers or longer than expected periods for technical adjustments. In particular, failure of a contractor to perform our contracted services and/or a change in a contractor's financial circumstances in conjunction with an overreliance on particular contractors may, among other things, result in the relevant asset either underperforming or becoming impaired in value and there can be no assurance that such underperformance, impairment or delay will be fully or partially compensated by any contractor warranty or bank guarantee (which are usually limited in scope and quantum, and typically will not cover full loss of profit). The additional costs and loss of revenue that may arise in the maintenance of facilities may adversely affect our business, operations, prospects, financial condition and results of operations.

We face development and operational risks in relation to the construction and operation of the Open Cycle Gas Turbine assets and the repowering of two of our coal-fired generation units to gas-fired generation and building supporting battery storage at the Power Station.

We acquired four OCGT projects in December 2016, which are in various stages of the planning and development process. We entered two of these OCGT projects, Progress Power Station and Hirwaun Power

Station, in the capacity market auctions in December 2016 and February 2018, but were not successful in securing a capacity market agreement for either of those OCGT projects. We expect these two OCGT projects to participate in the next T-4 Capacity Market Auction (expected to be in February 2019). The other two OCGT projects, Millbrook and Abergelli, are progressing through planning permission and are expected to be developed in the future subject to each project successfully obtaining development consent and a 15-year capacity market agreement in a future capacity market auction above a certain price. There is no guarantee that we will be able to secure these capacity market agreements at an economically attractive price in the capacity market, and if not, we may choose not to develop the projects and our initial investment could be impaired. For further information on the capacity market, see "*Industry Overview—Overview of Electricity Market Reform—Capacity Market*".

The initial purchase price for the four OCGT projects amounted to £18.6 million. The purchase agreements for two of the OCGT projects also included a mechanism providing for additional consideration contingent on and calculated by reference to the clearing price in the next three T-4 Capacity Market Auctions. Accordingly, the total final purchase price for the four OCGT projects could be as high as £90.5 million if one of the capacity market auctions clears at its theoretical maximum price of £75/kW.

In developing the OCGT projects, we will also have to fund the costs associated with completing the approval process for the Millbrook and Abergelli projects, constructing the four plants and procuring the necessary equipment, in addition to the purchase price of the projects under their purchase agreements. We expect that each OCGT project will cost an additional £80 million to £90 million to develop. Any delay or objection in relation to the process for obtaining the relevant approvals, permits or licences, procurement or construction delay or change in Government policy could result in delays to the estimated commencement date for commercial operations, increased costs, and the need to obtain planning amendments.

Furthermore, our OCGT projects must obtain and maintain connections to the electricity grid and gas transmission network. This process may be costly and time consuming, as we must obtain, among other requirements, planning and other consents from relevant authorities, secure any required easements or wayleaves from landowners and construct the physical connection between the OCGT project and the applicable electricity and gas grids. Any failure or delay to obtain or delay in obtaining the necessary approvals, permits or licences, enter into the procurement or construction agreements or delays in establishing the connection between the relevant OCGT project and the relevant grid could have a material adverse impact on our business, operations, prospects, financial condition and results of operations.

In June 2017, we announced that we are developing options to repower up to two coal-fired generation units to gas and plans to build supporting battery storage at the Power Station. The project could replace the existing c.1.3GW of coal-fired capacity with up to 3.6GW of new gas-fired generation capacity (capable of running in open cycle and closed cycle modes) and up to 200MW of supporting battery storage, subject to a positive investment decision, obtaining development consent and other approvals and the award of one or more 15-year capacity market agreements in future capacity market auctions. This repowering project is expected to involve significant construction and upgrade work at the Power Station, as well as the extension of gas pipelines across land owned by third parties. Any failure or delay to obtain or delay in obtaining the necessary approvals, permits, development consents or licences or to enter into the relevant procurement or construction agreements, or other delays, could have a material adverse impact on our business, operations, prospects, financial condition and results of operations.

Furthermore, while the Group has significant experience in the field of thermal generation from coal and biomass and a strong engineering team, it has no direct operational experience of operating or maintaining gas or battery assets. Any unexpected failures of plant or communication systems could have a material adverse impact on our business, operations, prospects, financial condition and results of operations.

Our results from operations are dependent on our exposure to UK wholesale electricity prices and the UK economy.

Our profitability and potential growth is determined principally by the prices received for the electricity we generate and our cost of fuel. All of our generation activities are in the UK, exposing us to significant concentration risk with respect to the UK electricity price.

The wholesale electricity price in the UK is volatile and is affected by the market demand for electricity and supply-side factors, including (i) the generation mix of power stations in the UK and the amount of interconnected capacity; and (ii) fluctuations in the market prices of other commodities. Fluctuations in the wholesale price caused by these factors can occur over a long or short period of time. Any decrease in the market price of electricity may adversely affect our margins for the electricity we generate and may result in lower revenues in our B2B Energy Supply segment. A reduction in the wholesale electricity price in the UK could therefore adversely affect our business, operations, prospects, financial condition and results of operations.

Market Demand

Demand for electricity in the UK has historically been driven by a number of factors outside our control, such as the overall level of economic activity, seasonality, prevailing weather patterns and increased energy efficiency. A decrease and/or prolonged deterioration in economic activity in the UK, for any reason, could result in a decrease in demand for electricity in the market. For example, during the last recession, demand for electricity from UK industrials decreased by 12.6 per cent. from 114.15TWh in 2008 to 99.74TWh in 2009. A fall in demand for electricity could lead to a reduction in the wholesale and retail prices for electricity. Short-term and seasonal fluctuations in electricity demand can also affect the price at which we can sell electricity. Demand for electricity is typically higher between October and March and lower between April and September. These seasonal effects can be reinforced or mitigated by weather patterns.

In our B2B Energy Supply segment, longer-term reductions in demand could result in reduced revenue and profit for Haven Power and Opus if the market price at which our B2B Energy Supply segment can sell electricity decreases, particularly in the event electricity originally purchased under long-term, fixed price supply agreements destined for customers has to be sold in the market for a lower price than that which could have been recovered under Haven Power's and Opus' cancelled supply contracts.

Wholesale electricity prices may also be affected by the level of interconnector capacity connected to the UK electricity grid. Current continental interconnector capacity is equivalent to approximately 8 per cent. of peak demand. If electricity can be generated cheaply overseas and exported to the UK then this will displace the more expensive marginal UK plant and reduce electricity prices. This could adversely affect our business, operations, prospects, financial condition and results of operations.

Generation Mix

The wholesale electricity price is principally driven by the fuel costs of the "marginal plant" as a power station's cost of generation is determined largely by the cost of the type of fuel used. Some power stations have negative marginal costs of generation, such as those that use wind or solar, because the subsidies provided to these renewable generators exceed the cost of generation. A potential change in the generation mix towards lower marginal cost electricity generation could bring down the wholesale electricity price and thereby reduce the revenues we receive from the sale of electricity.

Power stations can be modelled, according to their different costs of generation, as a stack, which is overlaid with forecasted demand for electricity. The available power stations are drawn on to supply electricity to fulfil this demand, starting with the power stations that have the lowest costs of generation. At the point in the demand stack where forecast demand intersects with available supply, the power station supplying electricity at the point of intersection is known as the "marginal plant". The price at which the marginal plant is willing to generate therefore dictates the overall market price.

The generation mix is altered by the changing economics of developing new generating plants or maintaining existing plants, which is in turn influenced by commodity prices and the level of Government support given to various generation technologies (including, among others, nuclear, shale gas and renewable sources such as onshore wind, offshore wind and biomass) in addition to environmental and other taxes such as the Carbon Price Support mechanism. Government decisions, for example, to extend or curtail the operations of nuclear and other generating plants in relation to their presently expected dates of decommissioning, as well as Government initiatives to support the development of new technologies, such as the establishment of the Office of Unconventional Gas and Oil for shale gas, have the potential to influence the generation mix of power stations in the UK by making particular forms of generation more profitable or less profitable. It can also increase the supply of electricity into the wholesale market, which could have the effect of lowering the wholesale electricity price.

In recent years, the generation mix in the UK has shifted to a higher share of electricity generated from renewable sources with negative marginal costs (such as wind and solar). This trend has resulted in lower, but also more volatile, wholesale power prices in the UK due to the intermittent nature of these energy sources. These developments have contributed to the average achieved electricity price for our Power Generation segment decreasing in each year since 2014 and our coal-fired generation units increasingly producing lower levels of electricity in the summer months, when demand is lower.

Fluctuations in Commodity Prices

The cost at which a power station can profitably generate electricity is largely determined by the cost of the type of fuel used, which is susceptible to market forces and varies widely, and the cost of any emissions allowances required to support generation from fossil fuels. Therefore a decrease in the price of oil, coal, natural gas or emissions allowances typically leads to lower wholesale electricity prices, in the longer term.

Since 2014, commodity prices have been under pressure. While they have recovered fairly recently, they are still below levels reached in the years preceding 2014.

Changes in commodity prices may also influence the generation mix and drive a shift to more efficient, lower cost power stations. A global surplus of gas may, for example, lead to lower gas prices which could increase gas use in the generation mix and bring down the wholesale electricity price. If low gas prices persist then the wholesale electricity price might continue to remain low and could fall further, which could in turn adversely affect our business, operations, prospects, financial condition and results of operations.

Gas-fired generation is the marginal plant in many periods, and therefore any fall in gas prices tends to pass through to wholesale electricity prices. Consequently, low gas prices could, to the extent unhedged, adversely affect our business, operations, prospects, financial condition and results of operations both indirectly for our coal and biomass generation in the short term and directly for any developed gas-fired generation capability in the medium-to-long term.

Taxation, Regulation and System Costs

To the extent that any taxes or other levies, such as Carbon Price Support, transmission or balancing costs, are embedded within the wholesale cost of energy, any change in the way these are recovered will affect wholesale prices and potentially their recoverability as third party charges. In addition, any variance in relative taxes between the UK and interconnected countries may influence the volume and direction of any interconnector flows, which may raise wholesale prices in the UK.

A lack of liquidity in the wholesale market for electricity could adversely affect our results of operations or require us to alter our trading strategy.

Liquidity in the market for wholesale electricity is dependent on there being a sufficient number of counterparties willing to trade actively. Factors such as changes to the market structure or consolidation of the existing generation and supply businesses could result in a reduction in the number of active participants in the market with which we are able to trade. This may affect both our ability to sell all of our output and the prices at which we sell our output. Poor liquidity in the wholesale market could also lead to retail suppliers quoting a wider range of prices to customers affecting the competitiveness of the prices quoted by Haven Power and Opus and lead to a loss of revenue. This could adversely affect our business, operations, prospects, financial condition and results of operations.

In the future, it may not be possible for us to mitigate against price volatility by selling forward our generated output.

Liquidity for the trading of electricity on a forward basis is currently limited to approximately two years forward. We attempt to minimise our exposure to price volatility and to achieve revenue certainty by selling forward a proportion of the electricity we generate. However, there can be no assurance that forward contracts entered into in the future will capture the best possible price for our electricity, or that there will be sufficient liquidity in the UK electricity markets to enable us to sell our electricity as far in advance or in such quantities as we feel is optimal for our business. Due to lower wholesale electricity prices in the UK market over the last two years and the higher cost of carbon in the form of the CPS and the EU ETS, the Power Station's coal-fired generation units have ceased to deliver baseload electricity on a routine basis (particularly, in the summer months) and are increasingly run to provide system support services, while our biomass-fired generation units are predominantly delivering baseload electricity. As a result, the selling forward of coal-generated output will be more challenging until such time as coal-fired generation at the Power Station ceases. If we are unable to enter into such forward sales and prices were to fall in the future, it could adversely affect our business, operations, prospects, financial condition and results of operations.

UK, EU and other financial regulations may reduce our ability to trade products with financial or derivative characteristics.

We enter into a significant number of derivative transactions to hedge our exposure to foreign currency exchange risks, commodity price risk and, to a lesser degree, inflation risk and interest rate risk. However, in recent years we have become subject to UK and EU financial regulations designed to reduce the level of perceived systemic risk inherent in the markets for financial instruments, commodity derivatives and physical commodities on which we trade. These regulations include the European Market Infrastructure Regulation ("**EMIR**"), which seeks to reduce the risk in trading over-the-counter derivatives by introducing reporting, collateral and risk mitigation requirements and the Regulation on Energy Market Integrity and Transparency ("**REMIT**"), which seeks to prevent insider dealing and market manipulation through increasing transparency in the electricity and gas markets. Regulatory changes may restrict our ability, or make it more costly for us, to enter into derivative transactions.

The revised Markets in Financial Instruments Directive and accompanying regulation (together, "**MiFID II**") entered into force on 3 January 2018. The MiFID II regime brings more of our trading within its and EMIR's scope than the existing regime, imposes position limits on certain commodities for certain larger market participants and limits or removes our exemption to trade commodity derivatives as an "ancillary activity" to our business without first demonstrating that we meet the criteria for the use of the exemption and notifying the same to the FCA. Our inability to access these markets due to liquidity issues may have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

These new rules could impose tighter constraints on our ability to trade physical commodities and/or commodity derivatives without regulator authorisation, increased collateral requirements for the trading of commodities and position limits in key wholesale commodity markets and impact, directly or indirectly, our ability to hedge commodity risk and/or sell electricity on a forward basis. We believe that, indirectly, these constraints have negatively impacted overall market liquidity (which impact may continue or increase) and could result in our realising reduced revenues and/or incurring higher hedging or balancing costs to achieve our trading objectives. Our inability to access these markets due to liquidity issues may have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

In addition, as the number and complexity of financial regulations affecting us increases, there is a consequential increase in the cost of compliance and in the risk of non-compliance. Any material failure in this respect could lead to sanctions, including a restriction on our trading activities, fines and a reduction in the number of counterparties that are willing to trade with us, all of which could have a material adverse effect on our business, operations, projects, financial condition and results of operations.

We may fail to secure future Ancillary Services contracts which are an important source of revenue for us.

We actively engage with the System Operator to offer Ancillary Services such as various types of "frequency response" (the service that manages system frequency, which relates to the balance between system demand and total generation) and generating "reactive power" (which is injected into the grid to allow the System Operator to manage the voltage profile of the transmission system within certain parameters). For further information, see "*Our Business—Power Generation—Ancillary Services and Capacity Market Payments*". The provision of these services is an important source of revenue for us, amounting to £30.7 million in 2017 (compared to £47.3 million in 2016). While we take steps to ensure that we continue to secure Ancillary Services contracts, there is a risk that we may fail to win these contracts in the future. In particular, certain Ancillary Services can only be provided by conventional flexible generation (coal and gas) and we may face downside pricing pressures from competitors whose economic conditions necessitate that they require such contracts in order to avoid closing or else mothballing a plant, and the loss of or inability to win such contracts in the future could adversely affect our business, operations, prospects, financial condition and results of operations.

As result of the Opus Acquisition, we may become exposed to increased regulatory scrutiny.

We operate in a highly regulated market subject to detailed legislation and regulation. As a result of the Opus Acquisition, the size of our B2B Energy Supply segment and its customer base have increased. This may lead to increased regulatory scrutiny or unfavourable regulatory change as regulators seek to ensure customer interests are sufficiently protected. Haven Power and Opus are subject to various supply licence conditions, which impose conditions on their operations in relation to various matters including continuity of supply, compliance with industry codes and customer relations, including the provision of certain information to customers. Some of these conditions are specifically designed to impact only larger suppliers and may now attach to Haven Power, Opus or Drax Power given their common ownership, although they would not have applied to them on a standalone basis prior to the Opus Acquisition, putting them at a competitive disadvantage to other small suppliers as a result. Increased regulatory scrutiny may lead to an increased cost of compliance and may result in actions against us for non-compliance with the regulatory framework. We may also become increasingly exposed to the impact of changes to the legal or regulatory framework in which we operate. See

"*—Our business is subject to complex regulation by the Government, the EU and other authorities that has in the past and could in the future materially adversely affect us*".

New businesses or activities that we undertake alone, or with partners, may not result in positive earnings and may expose us to additional operational and financial risk.

We have in the past from time to time entered into acquisition, disposal or joint venture transactions and expect to continue to do so. Business development activities, including acquisitions, disposals and joint ventures, entail a number of risks, including that they may be based on incorrect assumptions or conclusions, a failure to realise planned levels of synergy and efficiency savings and the inability to integrate acquired businesses effectively. Any integration of acquired businesses in the future would require significant time and effort on the part of our management. Integration of new businesses can be difficult and disrupt our own business because our operational and business culture may differ from the cultures of the businesses we acquire, unpopular cost-cutting measures may be required and internal controls may be more difficult to maintain. These could result in a loss of revenue on account of unanticipated costs and liabilities. We may also be liable for the past acts, omissions or liabilities of companies or businesses that we acquired or developed, which may be unforeseen or greater than anticipated at the time of the relevant acquisition. In the case of joint ventures, we may have limited control over operations and our joint venture partners may have interests that diverge from our interests. The occurrence of any of these events could adversely affect our business, operations, prospects, financial condition and results of operations, and could also affect our ability to enter into other transactions.

Acquired assets may have liabilities that are not known to us.

As a result of our acquisitions or investments, we may be exposed to certain liabilities that we are unaware of at the time of the relevant acquisition or investment.

The Opus Group was acquired with certain liabilities, including certain tax liabilities. There may be liabilities that we failed or were unable to discover in the course of performing due diligence investigations into the Opus Group. Any such undiscovered liabilities of the Opus Group, individually or in the aggregate, could have a material adverse effect on our business, operations, prospects, financial condition and results of operations. In addition, such liabilities may not be recoverable under the Opus Share Purchase Agreement.

Following the Opus Acquisition, our reliance on TPIs has increased. Increased reliance on TPIs and termination of relations with them might have an adverse impact on our reputation and operations.

Opus and (to a lesser extent) Haven Power rely on their relationships with third party intermediaries ("**TPIs**") in order to access new customers and grow their businesses. TPIs, principally brokers, typically introduce customers to energy suppliers and provide advice on suitable products in exchange for a fee, which is either charged directly to the customer or else levied via the customer invoice for electricity or gas consumed. As a result of the Opus Acquisition, we have a significantly larger retail business and the importance of its relationships with TPIs has significantly increased.

Opus' relationships with TPIs are maintained by members of the Opus management team. The departure of these employees who are important to relationships with TPIs could lead to the subsequent termination of these relationships or result in their being less productive. The termination of relationships with key TPIs or a significant number of TPIs, or any negative reputational impact due to our increased engagement with TPIs, might have an adverse impact on our business, operations, prospects, financial condition and results of operations.

More generally, a significant proportion of both Haven Power's and Opus' revenue is generated from sales via TPIs. The termination of either company's agreements with TPIs could adversely affect short-term profitability.

While TPIs are not directly regulated by Ofgem, application of more stringent rules and regulations to TPIs in the future may render our relationships with TPIs less productive. Our B2B Energy Supply Segment's engagement with TPIs could expose us to behaviour or practices of TPIs that deviate from the TPI Code of Practice, which may negatively impact our reputation.

Following the Opus Acquisition, our exposure to short-term electricity and gas price volatility has increased, which may result in increased balancing costs.

Opus' customer demand for electricity and gas is more weather-correlated than our retail demand prior to the Opus Acquisition was and, as a result, short-term changes in customer usage now have a bigger impact on our results. In particular, we are more likely to face higher than average customer demand at times of higher than average prices in the wholesale power markets; there may be times when the selling price to customers that is achieved is lower than the cost of purchasing energy to supply those customers in the short-term wholesale market. This comes against a background of generally increasing volatility in the wholesale prompt power markets (in which in-day, day-ahead and weekend electricity and gas products are traded). While we expect to take measures to forecast demand and hedge accordingly, there is a risk that variances in forecast and actual customer demand may lead to an increase in balancing costs for us.

The Opus Share Purchase Agreement includes limited protections provided to us by the previous shareholders of Opus.

The liability of the previous shareholders of Opus pursuant to the Opus Share Purchase Agreement is limited by, among other things:

- a limit on claims under business warranties of 18 months from the date of the Opus Share Purchase Agreement and a seven-year limit on claims under tax warranties and the tax covenant from the date of the Opus Share Purchase Agreement; and
- an aggregate financial cap of: (i) £3.4 million for warranty and tax covenant claims, and (ii) the purchase price paid by us for all other claims. Both of these caps are split severally between the previous individual shareholders of Opus in accordance with the proportion of their shareholdings in Opus.

In addition, the liability of the insurers under the Warranty and Indemnity Insurance Policy is subject to further limitations in addition to those contained in the Opus Share Purchase Agreement. In particular, there is an overall cap on liability of £50 million.

Accordingly, we may not have recourse against, or otherwise be able to recover from, the previous shareholders of Opus or under the Warranty and Indemnity Insurance Policy in respect of material losses that we may suffer in respect of a breach of warranty or otherwise in respect of liabilities of the Opus Group.

If any material liabilities were to arise and were it not possible to make a claim under the warranties or indemnities in respect thereof, or if any losses could not be fully recovered in respect of claims under the Opus Share Purchase Agreement, this could adversely affect our business, operations, prospects, financial condition and results of operations.

We rely on access to and operation of the transmission and distribution networks that we do not own or operate, in order to sell electricity.

We contract with third parties that own or operate electricity transmission or distribution networks to deliver the electricity we sell. We do not own or control the transmission or distribution facilities. Electricity transmission and distribution lines may experience unplanned outages over which we have no control. Our energy output may also be curtailed for other reasons beyond our control. Furthermore, the operators of such networks may not comply with their contractual obligations pertaining to transmission or distribution or they may withdraw from related agreements. The occurrence of any of the circumstances detailed above would, to the extent that we are not entitled to receive compensation for the issue, result in loss of revenue that could adversely affect our business, operations, prospects, financial condition and results of operations.

We may be unable to pass on a proportion of increased third party costs to customers.

We are subject to charges that are outside our control in relation to the supply of electricity and gas to customers ("**Third party Charges**"). Third party Charges include, but are not limited to, grid charges, together with charges arising from the RO on electricity suppliers, the SS-FiT, and charges levied on market participants for the costs of CfDs and the capacity market, respectively. Both Haven Power and Opus, in accordance with market practice, typically pass on some or all of these Third party Charges to customers pursuant to the terms of some of their customer supply contracts.

The electricity supply industry is expected to experience higher rates of increase in Third party Charges in the future as a result of the likely continued increase in the proportion of renewable generation in the UK's generation mix. There is consequently a risk that we will not be able to pass on the full amount of any such increases in Third party Charges to customers. This risk is particularly acute in relation to the Opus business, owing to the fact that Opus has historically passed on its Third party Charges to customers through the application of small periodic price rises. It is possible, therefore, in circumstances where Third party Charges increase beyond the allowances made in the Opus contracts or previously passed on, that we will, in respect of

Opus customers, either (i) be unable to successfully pass on the unanticipated portion of Third party Charges; or (ii) experience a reduced customer base as a result of passing on increased Third party Charges resulting in an adverse impact on our business, operations, prospects, financial condition and results of operations.

The retail energy supply markets in which we participate are highly competitive, which could lead to a loss of customers, reduced margins or an adverse effect on our growth strategy in our B2B Energy Supply segment.

We operate in a highly competitive market for retail supply. We are currently exposed to risks arising from a high level of competition in the market for retail supply from both large established players and smaller new entrants. The UK retail market has historically been dominated by the "Big Six" (British Gas, EDF Energy, npower, E.ON (which recently demerged to E.ON and Uniper), Scottish Power and SSE). In recent years, an increasing number of smaller new entrants have come to the market, which has resulted in increased competition on price, terms and services offered.

Some of our competitors or potential competitors are or may be larger or better capitalised than us, which may make it difficult for us to compete effectively. It is possible that our competitors may employ highly competitive strategies, such as lower or predatory pricing or attempted mergers or corporate transactions such as the proposed merger announced between SSE and npower in November 2017 or the transaction between E.ON, RWE (the majority shareholder in innogy) and innogy (the parent company of npower) announced in March 2018 in which E.ON will acquire the retail and network businesses of innogy and RWE will own the combined renewable-generation businesses of E.ON and innogy as well as a stake in E.ON, which may mean that we are unable to compete effectively, leading to a reduction in profits and market share and an adverse effect on our business, operations, prospects, financial condition and results of operations.

Fluctuations in the demand for and supply of ROCs could result in the revenues we receive from the sale of ROCs to third party suppliers being substantially lower than anticipated.

Our revenue and profitability from biomass generation depend in part on the value of ROC sale revenue, which is affected by the ROC buy-out value. ROCs are ultimately used by electricity suppliers who can submit ROCs in satisfaction of their RO or else pay the buy-out. Historically, we have sold the majority of our ROCs to third party electricity suppliers.

Revenues from the external sale of ROCs (and, historically, LECs) amounted to £367.8 million, £366.7 million and £290.8 million in 2017, 2016 and 2015, respectively. It is expected that revenues from external third party ROC sales will stabilise going forward, although the timing of such sales may vary from year to year depending on whether we seek to accelerate sales (either directly or by entering into monetisation facilities with third parties) to improve Group cash flow.

The Government regulates the market value of a ROC to a ROC generator through control of the ROC buy-out price and through establishing the number of ROCs that each supplier must submit at the end of each compliance period. When a supplier fails to procure enough ROCs to meet its RO in a compliance period it must pay the ROC buy-out price for each ROC that it failed to procure. ROCs are typically sold by the generator at a price equal to the buy-out price less a fee, possibly also with a top-up "recycling amount". See "*—The amount of the Ofgem recycle benefit fund payment that will be paid over to us is unpredictable and difficult to forecast*".

The market value of ROCs is only maintained to the extent that the total overall obligation of suppliers to purchase ROCs is greater than the supply of ROCs in the market. The Government is required to build 10 per cent. headroom into its calculation of the level of the obligation to protect the market against unexpected fluctuations in renewable generation. Should the supply of ROCs in the market be higher than suppliers' overall obligation in any given compliance period (as a result of overall renewable output being greater than forecast or demand being lower than expected), then the price paid by suppliers when purchasing ROCs, to the extent that the oversupply of ROCs is not otherwise "banked" and held by the relevant generator / supplier for use in the following compliance period, will decrease and the ultimate value realised for a ROC by a generator could be materially less than our forecasts or than historically realised. The actual headroom achieved has generally declined in recent years, other than in 2016-2017, as DBEIS has found it increasingly difficult to accurately forecast overall renewable generation and deployment. The total number of ROCs presented in the UK and the actual headroom achieved in each of the last five ROC compliance periods is set out in the table below:

Period	Obligation (in million ROCs)	ROCs presented (in million ROCs)	Headroom (in per cent.)
2012-13	48.9	44.8	8.5
2013-14	61.9	60.8	1.8
2014-15	71.9	71.3	0.9
2015-16	84.4	84.4	0.1
2016-17	100.7	90.2	10.5

In an oversupplied market, we may decide to "bank" ROCs and sell them to suppliers for use in the following compliance year; however, greater price discounting would be likely. Any oversupply of ROCs could therefore adversely affect our business, operations, prospects, financial condition and results of operations.

The amount of the Ofgem recycle benefit fund payment that will be paid over to us is unpredictable and difficult to forecast.

The RO recycle benefit fund is made up of payments from suppliers who have not submitted enough ROCs to Ofgem to meet their RO for the relevant compliance period and who therefore are required to pay the ROC buy-out price for each ROC that they failed to procure. Its quantum therefore increases proportionally to the scarcity of ROCs in any given compliance period. Many of our contracts for the sale of ROCs to suppliers contain provisions that require the supplier to pay a fixed upfront fee and then an additional fee at a later date equal to the proportion of the recycle fund that is received by the supplier from Ofgem following submission of the purchased ROCs.

In recent years it has become more challenging for DBEIS to forecast accurately the number of ROCs that may be generated in a given compliance period due to the difficulty in predicting exactly when new renewable plants will come on-stream and the amount of wind and solar electricity generation in any given period. If renewable output differs materially from DBEIS's expectations, more or fewer ROCs will have been generated during the compliance period than forecast, which will affect the level of the recycle payment.

There is, therefore, inherent uncertainty in the amount of recycle benefit to which we will be entitled and, while we may attempt to hedge our exposure to any fluctuations in the amount of recycle benefit, any significant fluctuations could have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

We operate in a seasonal industry, which may affect our results of operations.

Demand for electricity is seasonal, with demand and prices generally being higher during the winter months. Demand for gas in the B2B Energy Supply segment is also dependent on weather, with periods of cold weather usually resulting in an increase in demand.

In addition, revenue from the sale of ROCs is subject to annual patterns. Generators typically sell ROCs to suppliers for delivery and payment in the months of June or July following the end of the relevant compliance period as suppliers need to submit the ROCs to Ofgem by the end of August following the end of the compliance period. Therefore, the results of a single financial half-year may not be a reliable basis for the expectations of a full fiscal year and may not be comparable with the results in other financial half-years.

A failure of, or a malicious attack in relation to, our IT systems could adversely affect our reputation, business and results of operations.

We are highly dependent on our IT systems and networks and our operational performance could be materially adversely affected by a failure to maintain the health of our IT systems and networks, with inadequate record keeping, poor control of data and failure to support key technologies being among the key risks.

Attempts may be made to gain unauthorised access to, or deliberately breach, our IT systems in order, for example, to manipulate our proprietary business data or customer information. Other examples include breaching of a licence agreement, regulatory requirement or contractual obligation, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation.

In addition to these risks, we may be affected by other potential events that are largely outside our control. Malicious attacks, including cyber-attacks, may damage our assets, or prevent generation at the Power Station. The Government has recently warned of the potential for a large-scale cyber-attack on the UK's infrastructure and energy supply from foreign agents. Any cyber-attack on the Group and, in particular, on the Power Station could have wide-ranging and devastating consequences. Such an event could have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

As our business grows, our information security capability will need to be expanded and improved to accommodate the businesses' increasingly complex and demanding requirements. Failure to make these improvements in an efficient and timely manner could have a detrimental impact on our systems or networks availability or efficiency, leading to a material adverse impact on our business, results of operations and financial condition.

Failures of our IT systems for our B2B Energy Supply segment may negatively impact future business development and adversely affect our existing customer base.

Our B2B Energy Supply segment, Haven Power and Opus, depends on its respective IT systems for regulatory compliance, such as the effective and compliant roll-out of Smart Meters to customers. See "*—Our business is subject to complex regulation by the Government, the EU and other authorities that has in the past and could in the future materially adversely affect us*".

Haven Power is currently replacing the majority of its ageing, complex IT systems with a new system stack. There can be no assurance that the replacement of the existing IT system will be completed in 2018 as planned and we may incur substantial additional costs in relation to the replacement of Haven Power's existing IT systems. In addition, there can be no assurance that the new IT system will deliver the expected efficiencies and improvements. Any failings in the implementation of the new IT systems in Haven Power or any failings in the existing IT architecture of Haven Power or Opus may adversely affect the customer experience in these companies and their ability to comply with their regulatory obligations. Such occurrences may have a material adverse effect on Haven Power or Opus' ability to retain and develop its customer base and may adversely affect our business, operations, prospects, financial condition and results of operations.

Failure to comply with data protection legislation or the disclosure of customer and employee data could result in significant harm to us.

Our B2B Energy Supply segment requires access to customer personal data and / or special category personal data. Examples of such data include information identifying a person as a customer by reference to an identifier such as a name, an identification number, location data, an online identifier or to one or more factors specific to the physical, physiological, genetic, mental, economic, cultural or social identity of that person. In the ordinary course of business, we also collect, transmit and store employee data, including dates of birth and medical information as well as contact data of vendors.

Our use of this data is subject to laws, regulations and guidance designed to protect data that a business processes, including, among others, the UK Data Protection Act 1998 (the "**DPA**"), which imposes significant compliance obligations. The new EU-wide General Data Protection Regulation (the "**GDPR**") will become enforceable on 25 May 2018. It will be substantively transposed into UK law by a new Data Protection Act, replacing the current DPA. The GDPR implements more stringent operational requirements for controllers and processors of personal data, including, for example, expanded disclosures about how personal information is to be used. The Information Commissioner's Office (the "**Regulator**") will also have the ability to impose larger fines of up to €20 million or up to 4 per cent. of the total worldwide annual turnover of the preceding financial year, whichever is higher.

If a significant or widely publicised unlawful disclosure of employee or customer data were to occur, whether as a result of a failure of our IT security systems, employee negligence or the actions of our vendors, the reputation of our B2B Energy Supply segment may be adversely affected, employee or customer confidence may be diminished and we may be subject to legal claims by individuals, fines or other enforcement action by the Regulator. Additionally, individuals who are the subject of the data have much more control over their data under the GDPR and if there is a failure to accommodate the exercise of their expanded individual rights, then similar consequences could flow from such failures.

Our inability to attract, train or retain appropriately qualified personnel could adversely affect our business.

Our success depends on our ability to attract and retain highly qualified employees and contractors. The need for such employees is particularly enhanced in light of the current pace of strategic change we are experiencing. The unplanned departure of any of our executive officers or key employees could have a negative impact on our operations, including possibly adversely affecting our ability to provide the service levels our customers expect.

This risk is particularly true with respect to electricity regulation and the renewable energy industry. Electricity regulation and trading is a highly specialised field with a limited pool of qualified and experienced personnel while the renewable energy industry is a highly specialised and relatively new industry and, as a result, there is a limited pool of technically qualified personnel, particularly outside London. We compete with a number of companies as well as Government entities and other organisations for such personnel and, consequently, we have encountered and may continue to encounter difficulties in retaining certain key employees and attracting new personnel. Any such difficulty in retaining and/or attracting key personnel could have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

We are dependent on good working relations with our employees, unions and employee representatives to avoid business interruptions or amend collective bargaining agreements.

As of 31 December 2017, approximately 66 per cent. of the employees of Drax Power (the owner of the Power Station) were covered by collective bargaining arrangements. If we were to make any changes to the terms of employment of any of our employees or to terminate employment agreements of our employees and our employees were to react adversely to such changes or terminations, we may face labour disputes or work stoppages at the Power Station. The operations at the Power Station have not recently been adversely affected by disputes with employees, contractors or trade unions. However, we can give no assurance that future industrial action may not disrupt our operations. For example, in 2017 employees at the Power Station subject to collective bargaining arrangements formally voted on whether to strike over Drax Power's pay offer, albeit the outcome of the ballot was in Drax Power's favour.

We may suffer damages as a result of our employees or agents acting outside applicable law or regulation or our policies and procedures.

We may suffer damage if an employee or someone acting on our behalf, for example a TPI, breaches our internal controls or internal governance framework or contravenes applicable laws and regulations. Such breach or circumvention may include, for example, inadvertent or careless mistakes or intentional acts or misrepresentations by our employees or agents, breaches of applicable laws or regulations in the course of their duties, breaches of operational guidelines or other improper acts. Any such misconduct could have an impact on our reputation and our relationship with our regulators and other stakeholders or lead to regulatory or legal action, which in turn could adversely affect our business, operations, prospects, financial condition and results of operations.

The customers, suppliers, financial institutions, contractors and other third parties that we do business with may not fulfil their obligations to us and may expose us to credit and operational risks, which could adversely affect our financial position.

Credit Risk

We purchase from and sell commodities to a range of counterparties in a number of different countries. Collateral is not required from all counterparties and the failure of one or more of these counterparties to perform its contractual obligations might lead to reduced profits for us or result in our incurring additional costs in replacing the relevant transactions. We may also find ourselves unable to procure or sell replacement commodities elsewhere.

We derived revenues of £319.8 million and £289.0 million in 2017 (£541.5 million and £399.3 million in 2016) from our top two external customers in the Power Generation segment, representing 8.6 per cent. and 7.8 per cent. of our consolidated revenue in 2017, respectively. A default by one of these customers could lead to such customer failing to make a substantial payment to us, thereby causing a loss of revenue and adversely affecting our business, operations, prospects, financial condition and results of operations.

The failure of one or more of the large customers in our B2B Energy Supply segment (who are generally not required to deliver collateral in respect of their contractual obligations) may lead to reduced profits for us, particularly if the power then needs to be sold in the market at a lower price than that previously contracted.

We are also exposed to the credit risk of banks that hold our deposits and of financial counterparties with whom we hedge foreign exchange, commodity price, interest rate or inflation rate exposures. Our foreign exchange exposures are routinely hedged in line with our hedging policy and so any default or insolvency of a counterparty could lead to a failure by such counterparty to make termination payments payable to us and an inability to obtain sufficient replacement currency to enable us to meet our liabilities in a particular jurisdiction on a timely basis.

Operational Counterparty Risk

The nascent nature of the biomass supply market means that our third party biomass suppliers do not have the same financial strength as our coal suppliers. There is an increased risk that these biomass suppliers may default on their supply obligations and, in such circumstances, the potential for us to recover our losses as a result of a supplier default may be remote.

We are exposed to foreign currency exchange risk and our business and results of operations may be negatively affected by fluctuation of different currencies.

Our business is subject to risks due to fluctuations in currency exchange rates. Most of the biomass we purchase is priced in US dollars, Canadian dollars or euro. Changes in the relative value of the US dollar, Canadian dollar or euro, or relative to other currencies (including the pound sterling), may increase our suppliers' cost of business and ultimately our cost of goods sold with respect to biomass. As such, our failure or inability to hedge currency exchange rate risks within our expected five-year hedging period (see "*Our Business—Power Generation—Trading sustainable biomass units*") or fluctuations in foreign currency exchange rates beyond this period could have a material adverse effect on our business, results of operations and financial condition.

Our financial models may be flawed and inaccurate.

We use a number of financial models to manage our business and there is a risk that the financial models used by us to calculate important information such as generation forecasts and fuel pricing models, optimisation of fuel deliveries and infrastructure investment may produce inaccurate information. This could be due to a model itself being incorrect or corrupted, or the assumptions that we use in a model being inaccurate. Such failures could adversely affect our business, operations, prospects, financial condition and results of operations.

Our insurance policies may not provide cover for all losses incurred and we may not be able to maintain the same level of insurance cover in the future.

Our operations are subject to various hazards common to the industry, such as explosions, fire, severe weather conditions, toxic emissions and equipment breakdowns. This risk is particularly acute because most of our revenue and all of our gross profit for 2017 was derived from the sale of electricity produced and ROCs earned by the Power Station. As protection against operating hazards, we maintain insurance cover against some, but not all, of the potential losses which may arise. There is no assurance that catastrophic or other events relating to uninsured or uninsurable risks will not occur. Furthermore, if we suffer a loss in relation to an insured risk, there is no guarantee that the amount of insurance protection to which we would be contractually entitled will be sufficient to cover the entire loss incurred. Insurance, warranties or performance guarantees may not cover all or any lost revenues or increased expenses from business interruptions or other events. If we suffer an uninsured or underinsured loss, this could adversely affect our business, operations, prospects, financial condition and results of operations.

We currently have a claim under our business interruption insurance for lost revenue arising from reduced generation due to a longer than anticipated planned outage of one of our biomass generation units and other unplanned outages reducing the availability of the Power Station's biomass generation units in the second half of 2016 (see "*Our Business—Power Generation—Availability*"). An interim settlement of £8 million was received in respect of the claim in December 2017. The claim is still outstanding and there can be no assurances that the quantum of any successful claim will be of the quantum originally claimed. We are assessing whether to make further claims under our business interruption insurance for lost revenue arising from two recent unplanned outages. There can be no assurances that we will proceed with any further claims.

Insurance cover for particular risks or limits of indemnity may not continue to be available on commercially reasonable terms or cost. It is possible that in the future insurance providers may no longer wish to insure businesses in the biomass or coal industry against certain risks, or may charge generators significantly higher premiums for such cover. Moreover, if the Power Station were to suffer an insured loss, the insurance proceeds received by us might not be sufficient to cover the business loss, or to repair and reinstate the affected facilities, or to satisfy liabilities to third parties. The occurrence of an event that is not fully covered by insurance could adversely affect our business, operations, prospects, financial condition and results of operations.

We may be required to pay increased pension contributions to our pension schemes in the future.

We maintain a variety of pension schemes, including a defined benefit scheme. We and our pension scheme trustees aim to meet the defined benefit liabilities from cash contributions from Drax Power, the sponsoring company, in respect of ongoing benefit accrual and deficit repair contributions, and with a portfolio of investments. These investments give rise to associated risks relating to interest rates, inflation, returns on assets and the longevity of scheme members and a mismatch between asset and liability value movements as a consequence of targeting higher returns than those available from assets effectively matching the liabilities. The defined benefit scheme's investment portfolio contains a proportion of assets that are expected to provide a better return in the long term than alternative investments such as bonds; however, in the short term, the difference between the value of liabilities and assets may vary significantly, potentially resulting in an increase in the funding requirements.

The current business environment, with low long-term interest rates, long-term gilt yields, corporate bond yields, equity values and credit spreads, could also affect the value of the deficit having to be recognised. Furthermore, a quicker than expected increase in life expectancy and/or employee pensionable salaries increasing above the rates assumed in the previous scheme valuation could be expected to increase the defined benefit liabilities. Further changes in the accounting standards relating to defined benefit pension liabilities could also lead to an increasing deficit arising in our defined benefit pension scheme. As of 31 December 2017, our defined benefit pension scheme had a deficit of £1.2 million (compared to £30.1 million as of 31 December 2016). As of 31 December 2017, a decrease of 0.25 per cent. in the discount rate or an increase of 0.25 per cent. in the inflation rate would have resulted in an increase in our net liability under the defined benefit scheme of £16.3 million and £13.7 million, respectively. Also, as of 31 December 2017, an increase in life expectancy by one year would have resulted in an increase in our net liability under the defined benefit pension scheme of £10.9 million.

Our defined benefit pension scheme is subject to triennial actuarial valuations, the latest having been undertaken and agreed for 31 March 2016. The level of funding deficit calculated at the time could, subject to agreement between us and the pension scheme trustees, result in additional deficit repair contributions being required or possibly our offering more contingent assets or asset-backed contributions as further security. Any requirement to make significant immediate cash contributions into our defined benefit scheme to cover any such deficit could adversely affect our business, operations, prospects, financial condition and results of operations. The trustees of the Group's defined benefit pension scheme (the "**Pension Trustees**") currently benefit from second-ranking security over the Collateral. See "*Description of Certain Financing Arrangements—Pension Trustee Priority Deed*".

Unanticipated actions by the pension regulator and/or any material revisions to existing pensions legislation could require accelerated and increased contributions to our defined benefit scheme which may restrict our financial flexibility. The pension scheme trustees could also seek accelerated and increased contributions should we plan to make material disposals or else fail to comply with certain financial covenants when raising additional debt. This could adversely affect our business, operations, prospects, financial condition and results of operations.

We may become involved in legal proceedings which could have a material adverse effect on our reputation, financial condition, results of operation and cash flows.

We may become involved in a variety of legal proceedings based on, for example, environmental, health and safety and land use issues and other matters. These may include complaints and statutory nuisance actions and claims by third parties based on their common law rights. Such complaints and actions may be related to issues such as odour, emission and other such nuisances at our Power Station or wood pellet manufacturing facility sites. These types of lawsuits are often lengthy and can be expensive to defend. A successful third party claim could materially hinder our operations, prejudice our reputation and result in the imposition of penalties or substantial damages.

Changes in tax laws or challenges to our tax position could adversely affect our results of operations and financial condition.

We are subject to complex tax laws. Changes in tax laws could adversely affect our tax position, including our effective tax rate or tax payments. We often rely on generally available interpretations of applicable tax laws and regulations. There cannot be certainty that the relevant tax authorities are in agreement with our interpretation of these laws. If our tax position is challenged by the relevant tax authorities, the imposition of additional taxes could require us to pay taxes that we currently do not collect or pay or increase the costs of our services to track and collect such taxes, which could increase our costs of operations or our effective tax rate. The occurrence of any of the foregoing tax risks could have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

RISKS RELATED TO THE NOTES, THE GUARANTEES AND OUR CAPITAL STRUCTURE

The Collateral may not be sufficient to secure the obligations under the Notes.

The Notes and the Guarantees will be secured by security interests in the Collateral described in this Offering Memorandum, which Collateral also secures the obligations under the Senior Facilities Agreement, the 2022 Fixed Rate Notes and certain hedging obligations (including our obligations under the Secured Trading Line). Pursuant to the terms of the Intercreditor Agreement, our obligations under the Senior Facilities and certain hedging obligations (including our obligations under the Secured Trading Line) will have priority to the Notes and the 2022 Fixed Rate Notes with respect to the application of the proceeds from any enforcement action over the Collateral and certain distressed disposals of the Collateral. The Collateral may also secure additional debt or other obligations with such priority to or ranking *pari passu* with the Notes to the extent permitted by the terms of the Indenture, the 2022 Indenture and the Intercreditor Agreement. As such, in the event of a foreclosure of the Collateral, you may not be able to recover on the Collateral if the then outstanding claims under the Senior Facilities or such other credit facility and such secured hedging obligations (including outstanding claims under the Secured Trading Line) are greater than the proceeds realised. Any proceeds from an enforcement sale of the Collateral by any creditor will, after all obligations under the Senior Facilities or such other credit facility and such secured hedging obligations (including the obligations under the Secured Trading Line) have been discharged from such recoveries, be applied *pro rata* in repayment of the Notes and any other debt or obligations then outstanding secured by the Collateral entitled to be repaid with the proceeds thereof on a *pari passu* basis (including the 2022 Fixed Rate Notes).

No appraisals have been prepared by or on our behalf in connection with the issuance of the Notes. The fair market value of the Collateral and the amount able to be realised upon an enforcement of such Collateral will depend upon many factors, including, among others, the ability to sell the Collateral in an orderly sale, general economic conditions, the availability of buyers, whether or not our business is sold as a going concern, the jurisdiction in which the enforcement action or sale is completed, the ability to readily liquidate the Collateral and the fair market value and condition of the Collateral. The book value of the Collateral should not be relied on as a measure of realisable value for such assets. All or a portion of the Collateral may be illiquid and may have no readily ascertainable market value. Likewise, we cannot assure you that there will be a market for the sale of the Collateral or, if such a market exists, that there will not be a substantial delay during liquidation. In addition, the share pledges or charges of an entity may be of no value if that entity is subject to an insolvency or bankruptcy proceeding.

To the extent that security interests and other rights granted to other parties that are not a party to the Intercreditor Agreement encumber assets owned by the Issuer or Guarantors that do not comprise the Collateral, those parties have or may exercise rights and remedies with respect to the property subject to their security interests or other rights that could adversely affect the value of that Collateral and the ability of the Security Agent, the Trustee or holders of the Notes to realise the value of or enforce that Collateral. For example, the trustees of our defined benefit pension scheme have been granted second-ranking security over the Collateral. As of 31 December 2017, our defined benefit pension scheme had a deficit of £1.2 million. The pension trustees, who are not party to the Intercreditor Agreement, have entered into certain contractual arrangements with DGHL pursuant to which, among other things, they undertook not to enforce their second-ranking security without the

Security Agent's consent prior to the discharge of the 2022 Notes and certain other indebtedness secured over the Collateral (including the Notes). If the proceeds of any sale of Collateral are not sufficient to repay all amounts due on the Notes, holders of the Notes (to the extent not repaid from the proceeds of the sale of the Collateral) would have only an unsecured claim against the Issuer's and (assuming that the relevant Guarantees have not been released) the Guarantors' remaining assets. Each of these factors or any challenge to the validity of the Collateral or the Intercreditor Agreement could reduce the proceeds realised upon enforcement of the Collateral.

The Senior Facilities Agreement and the 2022 Indenture permit, and the Indenture will permit, the granting of certain liens other than those in favour of the holders of the Notes on the Collateral. To the extent that holders of other secured debt or third parties enjoy liens, including statutory liens, such holders or third parties may have rights and remedies with respect to the Collateral that, if exercised, could reduce the proceeds available to satisfy our obligations under the Notes. Moreover, if we issue additional Notes under the Indenture or the 2022 Indenture, holders of such additional notes would benefit from the same Collateral as the holders of the relevant Notes being offered hereby (and the 2022 Fixed Rate Notes), thereby diluting your ability to benefit from the Collateral for the Notes.

The value of the Collateral may decrease because of wear and tear, obsolescence, impairment or certain casualty events.

The value of the assets serving as Collateral for the Notes may be adversely affected by normal wear and tear, obsolescence, impairment or because of certain events that may cause damage to these assets. The Issuer and the Guarantors will not be required to improve the Collateral. Furthermore, the value of the Collateral is significantly influenced by the usefulness of the assets serving as Collateral for our business operations. If any of the assets serving as Collateral were to become obsolete, for example as a result of new technological standards or changes in the applicable regulatory regime, this would have a significant negative impact on the value of the relevant Collateral.

On account of the nature of our operations, the Collateral is subject to the risk of certain casualty events. The proceeds of any insurance taken out with respect to the Collateral may not be sufficient to rebuild or restore such properties to their original condition prior to the occurrence of the events that caused the insured damages. In addition, there are certain events that are either not insurable or not economically insurable.

The rights of holders of the Notes in the Collateral may be adversely affected by the failure to perfect security interests in the Collateral.

Under applicable law, a security interest in certain tangible and intangible assets can only be properly perfected, and priority retained, through certain actions undertaken by the secured party and/or the grantor of the security. The liens on the Collateral securing the Notes may not be perfected with respect to the claims of the Notes if we fail or are unable to take the actions required to perfect any of these liens. Furthermore, neither the Trustee nor the Security Agent will have any obligation to take any steps or action to perfect any such security interest. Absent perfection, the Security Agent, on behalf of the holders of Notes, may have difficulty enforcing or be entirely unable to enforce rights in the Collateral in competition with third parties, including a trustee in bankruptcy and other creditors who claim a security interest in the same collateral.

The granting or the release and retake of the security interests in the Collateral may create hardening periods for such security interests in accordance with the law applicable in certain jurisdictions.

The granting of new security interests in connection with the issuance of the Notes may create hardening periods for such security interests in certain jurisdictions. Furthermore, the Indenture will permit the Issuer, DGHL and the other Guarantors to retake and release security over the Collateral in certain circumstances, including in connection with the incurrence of future indebtedness and the transfer of Collateral within the Group. The applicable hardening period for any new security interests will run as from the moment each new security interest has been granted or re-granted, perfected or recreated. At each time, if the security interest granted, re-granted, perfected or recreated were to be enforced before the end of the respective hardening period applicable in such jurisdiction, it may be declared void and/or it may not be possible to enforce it.

The security over the Collateral will not be granted directly to the holders of the Notes.

The security interests in the Collateral that will secure the Issuer's obligations under the Notes and the obligations of the Guarantors under the Guarantees will not be granted directly to the holders of the Notes, but have been or will be granted only in favour of the Security Agent. The Trustee for the Notes will be a party to the

Intercreditor Agreement between, among others, the Security Agent and creditors or representatives of the creditors of the other indebtedness secured by the Collateral, including the Senior Facilities, the 2022 Fixed Rate Notes and the counterparties to certain hedging obligations (including the obligations under the Secured Trading Line). Other creditors may become parties to the Intercreditor Agreement in the future. Among other things, the Intercreditor Agreement governs the enforcement of the Security Documents, the sharing in any recoveries from such enforcement and the release of the Collateral by the Security Agent. As a consequence, holders of the Notes will not have direct security interests and will not be entitled to take enforcement action in respect of the Collateral securing the Notes, except through the Security Agent, who will follow instructions as set forth under the caption "*Description of Certain Financing Arrangements—Intercreditor Agreement*". In addition, in certain circumstances, lenders under the Senior Facilities Agreement will have the right to direct the Security Agent in enforcement actions with respect to the Collateral.

Creditors under the Senior Facilities, certain hedging obligations (including the obligations under the Secured Trading Line) and other priority debt are entitled to be repaid with the proceeds of the Collateral sold in any enforcement sale in priority to the Notes.

The Notes and the Guarantees will be secured initially on a first-priority basis by the same Collateral securing the obligations under the Senior Facilities, the 2022 Fixed Rate Notes and certain hedging obligations (including the obligations under the Secured Trading Line). In addition, under the terms of the Indenture, subject to certain restrictions, we will be permitted to (and under the terms of the 2022 Indenture we are permitted to) incur significant additional indebtedness and other obligations that may be secured by the same Collateral and that may be entitled to be repaid with the proceeds thereof on a priority or *pari passu* basis, including other credit facilities and certain hedging obligations.

Pursuant to the Intercreditor Agreement, creditors under the Senior Facilities and any other super priority indebtedness (subject to the incurrence of additional indebtedness permitted by the Indenture and the 2022 Indenture) and certain hedging obligations (including the obligations under the Secured Trading Line) are entitled to be repaid with the proceeds of the Collateral sold in any enforcement sale or certain distressed disposals in priority to the Notes (and the 2022 Fixed Rate Notes). See "*Description of Certain Financing Arrangements—Intercreditor Agreement*". As a result, the claims of the holders of the Notes will be effectively subordinated to the rights of our existing and future secured creditors who have priority in respect of the proceeds from enforcement of the liens over assets that constitute Collateral to the extent of the value of such assets. As such, in the event of a foreclosure of the Collateral, holders of the Notes may not be able to recover on the Collateral if the then outstanding claims under the Senior Facilities Agreement, any such other priority indebtedness and such secured hedging obligations (including the obligations under the Secured Trading Line) are greater than the proceeds realised. Any proceeds from an enforcement sale of the Collateral by any creditor will, after all obligations under the Senior Facilities, any such other priority indebtedness and such secured hedging obligations (including the obligations under the Secured Trading Line) have been discharged from such recoveries, be applied *pro rata* in repayment of the Notes and any other obligations then outstanding secured by the Collateral that are entitled to be repaid with the proceeds thereof on a *pari passu* basis (including the 2022 Fixed Rate Notes). To the extent we incur additional indebtedness that is secured by the Collateral and that may be entitled to be repaid with the proceeds thereof on a priority or *pari passu* basis with the Notes, the recoveries in respect of the proceeds of the Collateral by holders of Notes will be diluted commensurate with the amount of indebtedness we incur.

Holders of the Notes will not control decisions regarding the Collateral in certain circumstances.

The Trustee under the Indenture governing the Notes will on the Issue Date be a party to the Intercreditor Agreement between, among others, the agent under the Senior Facilities Agreement, the note trustee for the 2022 Fixed Rate Notes, the counterparties under the Secured Trading Line, certain other hedge counterparties and the Security Agent. Other creditors may become parties to the Intercreditor Agreement or we may enter into additional intercreditor agreements in the future. Among other things, the Intercreditor Agreement governs the enforcement of the security interests in the Collateral, the sharing in any recoveries from such enforcement and the release of the Collateral by the Security Agent.

The Intercreditor Agreement provides that the Security Agent, who also serves as the security agent for the lenders under the Senior Facilities Agreement, the holders of the 2022 Fixed Rate Notes, the counterparties under the Secured Trading Line, certain other hedge counterparties and holders of any permitted future shared security indebtedness, will act to enforce the security interest in the Collateral and take instructions from the secured creditors in respect of the Collateral only as provided for in the Intercreditor Agreement.

The provisions governing enforcement of the Collateral are described in "*Description of Certain Financing Arrangements—Intercreditor Agreement—Restrictions on Enforcement and Permitted Enforcement*".

The arrangements regarding enforcement of the Collateral could be disadvantageous to the holders of the Notes in a number of respects. For example, other creditors not party to the Intercreditor Agreement could commence enforcement action against the Issuer, DGHL or its subsidiaries prior to any action taken by the Security Agent, the Issuer, DGHL or one or more of its subsidiaries could seek protection under applicable bankruptcy laws, or the value of certain Collateral could otherwise be impaired or reduced in value. For example, the trustees of the Group's defined benefit pension scheme will be granted second-ranking security over the Collateral. As of 31 December 2017, our defined benefit pension scheme had a deficit of £1.2 million. The pension trustees, who are not party to the Intercreditor Agreement, have entered into certain contractual arrangements with DGHL pursuant to which, among other things, they undertook not to enforce their second-ranking security without the Security Agent's consent prior to the discharge of the 2022 Notes and certain other indebtedness secured over the Collateral (including the Notes).

In addition, if we incur substantial additional indebtedness that may be secured on the Collateral, the holders of the Notes may not comprise the majority of the senior secured creditors for the purposes of instructing the Security Agent. Further, if the obligations of the priority creditors have not been satisfied within six months of the date any proposed enforcement instruction is first given to the Security Agent, control of the enforcement proceedings will shift to the super priority creditors. The lenders under the Senior Facilities Agreement, the counterparties under the Secured Trading Line, certain other hedge counterparties and lenders or creditors of future classes of debt that are permitted to share the security granted in favour of the Notes may have interests that are different from the interest of the holders of the Notes and may, subject to the terms of the Intercreditor Agreement, elect to pursue remedies under the Security Documents at a time or in a manner that is not supported by the holders of the Notes. In connection with the enforcement of the Collateral or certain distressed disposals of the Collateral, the Collateral and the guarantees of the Notes may be released in circumstances where the holders of the Notes do not recover any proceeds from the enforcement of the Collateral or such distressed disposal proceeds or recover only a limited amount of proceeds.

Delays in enforcement could decrease or eliminate recovery values. In addition, the holders of the Notes will not have any independent power to enforce, or have recourse to, any of the Security Documents or to exercise any rights or powers arising under the Security Documents, except through the Security Agent as provided in the Intercreditor Agreement. By accepting the Notes, holders of the Notes will be deemed to have agreed to these restrictions. As a result of these restrictions, holders of the Notes will have limited remedies and recourse against the Issuer and the Guarantors in the event of a default. See "*Description of Certain Financing Arrangements—Intercreditor Agreement*".

There are circumstances other than repayment or discharge of the Notes under which the Collateral securing the Notes and the Guarantees will be released automatically, without the consent of the holders of the Notes or the consent of the Trustee.

Under various circumstances, the Collateral securing the Notes will be released automatically, including:

- in connection with any sale or other disposition of Collateral to (i) a person that is not DGHL or a Restricted Subsidiary (but excluding any transaction subject to "*Description of Notes—Certain Covenants—Merger and Consolidation*"), if such sale or other disposition does not violate the covenant described under "*Description of Notes—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*" or (ii) any Restricted Subsidiary that is not a Guarantor, *provided* that, in the case of (ii) after giving *pro forma* effect to such release, the relevant Collateral will become promptly subject to a substantially equivalent lien in favour of the Security Agent securing the Notes;

- in the case of a Guarantor that is released from its Note Guarantee pursuant to the terms of the Indenture, the release of the property and assets, and Capital Stock, of such Guarantor;

- in respect of any Collateral, automatically, without any action by the Trustee, if the lien granted in favour of the Senior Facilities Agreement in respect of such Collateral is released (only to the extent that there is no other indebtedness secured by a lien on the assets constituting such Collateral that would result in the requirement for the Notes and/or the Note Guarantees to be secured on such property or assets pursuant to the covenant described under "*Description of Notes—Certain Covenants—Limitations on Liens*", it being understood that the foregoing limitation will not be applicable to the extent that such indebtedness is secured by a permitted lien);

- as described under "*Description of Notes—Certain Covenants—Amendments and Waivers*";

- upon payment in full of principal, interest and all other obligations on the Notes or legal defeasance, covenant defeasance or satisfaction and discharge of the Notes, as provided under "*Description of Notes—Certain Covenants—Defeasance*" and "*Description of Notes—Satisfaction and Discharge*";
- if DGHL designates any Restricted Subsidiary to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture, the release of the property and assets, and Capital Stock, of such Unrestricted Subsidiary;
- in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement, including upon an enforcement action;
- in connection with the granting of liens on such property or assets, which may include Collateral, or the sale of such property or assets, which may include Collateral, pursuant to a Qualified Receivables Financing (as defined under "*Description of Notes—Certain Definitions*");
- as permitted by the covenant described under "*Description of Notes—Certain Covenants—No Impairment of Security Interest*";
- to release and/or re-take any lien on any Collateral to the extent otherwise permitted by the terms of the Indenture, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement, including as part of any Permitted Reorganisation;
- pursuant to the second paragraph of the covenant described under "*Description of Notes—Certain Covenants—Limitations on Liens*"; or
- as otherwise permitted under the Indenture.

See "*Description of Notes—Security—Release of Liens*".

Under various circumstances, the Subsidiary Guarantees will be released automatically, including:

- upon a sale or other disposition (including by way of consolidation or merger) of the Capital Stock of the relevant Subsidiary Guarantor (whether by direct sale or sale of a holding company) or the sale or other disposition (including by way of a consolidation or merger) of all or substantially all the assets of the Subsidiary Guarantor, if the sale or other disposition does not violate the covenant described under "*Description of Notes—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*" and the Subsidiary Guarantor ceases to be a Restricted Subsidiary of DGHL as a result of the sale or other disposition;
- upon written notice from DGHL to the Trustee, so long as no event of default under the Indenture has occurred and is continuing; provided that prior to or substantially concurrently with such release, such Subsidiary Guarantor is unconditionally released and discharged from its liabilities, if any, with respect to the Senior Facilities Agreement and the Existing Notes; provided further that, after giving effect to such release, the earnings before interest, tax, depreciation and amortisation calculated on the same basis as Consolidated EBITDA (as defined in the 2022 Indenture) attributable to the Guarantors (determined separately for each Guarantor and excluding all intra-group items and investments in Subsidiaries of DGHL and its Restricted Subsidiaries) is at least 80% of the Consolidated EBITDA (as defined in the 2022 Indenture) of DGHL and its Restricted Subsidiaries and the aggregate gross assets of the Guarantors (calculated on an unconsolidated basis and excluding all intra-group items, goodwill and investments in Subsidiaries of DGHL or any of its Restricted Subsidiaries) is at least 80% of the Total Assets (as defined in the 2022 Indenture) (excluding goodwill) of DGHL and its Restricted Subsidiaries, in each case, calculated in accordance with, and in the manner provided by and subject to the same exceptions as those set forth in, the relevant provisions of the 2022 Indenture as in effect on the Issue Date;
- upon the designation in accordance with the Indenture of the Subsidiary Guarantor as an Unrestricted Subsidiary;
- upon payment in full of principal, interest and all other obligations on the Notes or legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture, as described under "*Description of Notes—Certain Covenants—Defeasance*" and "*Description of Notes—Satisfaction and Discharge*";
- in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement, including upon an enforcement action;
- as described under "*Description of Notes—Certain Covenants—Amendments and Waivers*";

- as described in the covenant described under "*Description of Notes—Certain Covenants—Additional Guarantees*";
- upon written notice from DGHL to the Trustee, so long as no event of default under the Indenture is continuing; *provided* that, after giving *pro forma* effect to such release, DGHL and its Restricted Subsidiaries are in compliance with the covenant described under "*Description of Notes—Certain Covenants—Additional Guarantees*";
- as a result of any transaction permitted by the covenant described under "*Description of Notes—Certain Covenants—Merger and Consolidation*"; or
- in connection with a Permitted Reorganisation.

Under various circumstances, the Guarantee of DGHL will be released automatically, including:

- upon payment in full of principal, interest and all other obligations on the Notes or legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture, as provided in "*Description of Notes—Certain Covenants—Defeasance*" and "*Description of Notes—Certain Covenants—Satisfaction and Discharge*";
- in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement, including upon an enforcement action;
- as described under "*Description of Notes—Certain Covenants—Amendments and Waivers*";
- as a result of any transaction permitted by "*Description of Notes—Certain Covenants—Merger and Consolidation*"; or
- in connection with a Permitted Reorganisation.

See "*Description of Notes—Note Guarantees—Releases of Note Guarantees*".

The Issuer, the Guarantors and Drax Group plc will have control over the Collateral securing the Notes, and the sale of particular assets could reduce the pool of assets securing the Notes.

The Security Documents governing the Collateral will allow the Issuer, the Guarantors and Drax Group plc to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from the Collateral securing the Notes. So long as no default or event of default under the Indenture would result therefrom, the Issuer, the Guarantors and Drax Group plc may, among other things, without any release or consent by either Security Agent, conduct ordinary course activities with respect to the Collateral, such as selling, factoring, securitisation, abandoning or otherwise disposing of Collateral and making ordinary course cash payments, including repayments of indebtedness.

The Issuer is a special purpose finance subsidiary of DGHL with no business operations and will depend on cash from Drax Corporate Limited and Drax Corporate Limited's direct and indirect subsidiaries to be able to make payments on the Notes.

The Issuer is a special purpose finance subsidiary of DGHL and was formed for the purposes of issuing notes and lending the proceeds on to the DGHL Group. The Issuer has no subsidiaries and conducts no business operations of its own and has no material assets other than its rights and claims under intercompany financings (including under the 2022 Fixed Rate Proceeds Loan and, on and from the Issue Date, the Proceeds Loan). The Issuer's ability to make payments pursuant to the Notes and Guarantees is therefore dependent on the interest or other payments it receives pursuant to the Proceeds Loan. If Drax Corporate Limited (or any successor borrower) does not make payments under the Proceeds Loan for whatever reason, the Issuer does not expect to have any other sources of funds available to it that would permit it to make payments pursuant to the Notes.

In addition, the borrower under the Proceeds Loan, Drax Corporate Limited, is a holding company with no independent revenue-generating business, operations or significant assets other than investments in its subsidiaries. Drax Corporate Limited depends upon the receipt of sufficient funds from its subsidiaries to meet its obligations, including payments owed under the Proceeds Loan and the 2022 Fixed Rate Proceeds Loan. If our operating subsidiaries do not distribute cash to Drax Corporate Limited to make scheduled payments to the Issuer on the Proceeds Loan and the 2022 Fixed Rate Proceeds Loan, we do not expect Drax Corporate Limited to have any other source of funds that would allow it to make payments on the Proceeds Loan and the 2022 Fixed Rate Proceeds Loan. Various agreements governing our debt may restrict the ability of these subsidiaries to move cash within the restricted group. Applicable tax laws may also subject such payments to further taxation. Applicable law may also limit the amounts that some of Drax Corporate Limited's subsidiaries will be permitted to pay as dividends or distributions on their equity interests, or even prevent such payments. The inability to transfer cash among entities within their respective consolidated groups may mean that even though the entities, in aggregate, may have sufficient resources to meet the obligations under the Proceeds Loan, the 2022 Fixed Rate Proceeds Loan, the Notes and the 2022 Fixed Rate Notes, they may not be permitted to make the necessary dividends or distributions from one entity in their restricted group to another entity in their restricted group in order to make payments to the entity owing the obligations.

In such circumstances, holders of the Notes would have to rely upon claims for payment under the Guarantees and on all available security. However, the Intercreditor Agreement provides that following the occurrence of an acceleration of any of the classes of debt secured by the Collateral and subject to the Intercreditor Agreement, payments in respect of the Notes and the Guarantees will be prohibited except from enforcement proceeds of the Collateral or any *pro rata* distribution or dividend out of the Issuer's or a Guarantor's unsecured assets. In addition, such payments are subject to the risks and limitations described herein.

Each Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defences that may limit its validity and enforceability.

Each Guarantee will provide holders of the Notes with a direct claim against the relevant Guarantor. However, the Intercreditor Agreement provides that following the occurrence of an acceleration of any of the classes of debt secured by the Collateral and subject to the Intercreditor Agreement, payments in respect of the Notes and the Guarantees will be prohibited except from enforcement proceeds of the Collateral or any pro rata distribution or dividend out of the Issuer's or a Guarantor's unsecured assets. In addition, the obligations in respect of the Notes and the Note Guarantees will be secured by the Collateral under the relevant Security Documents. However, each security interest granted under a Security Document will be limited in scope to the value of the relevant assets expressed to be subject to such Security Document, and the Indenture will provide that each Guarantee and security interest granted by a Guarantor will be limited to the maximum amount that can be secured by the Issuer and the Guarantors without rendering the relevant Guarantee or security interest voidable or otherwise ineffective under English, United States or other applicable law and enforcement of each Guarantee and security interest against the Issuer and the Guarantors will be subject to certain generally available defences. These laws and defences include those that relate to insolvency, voidable preference, fraudulent conveyance, financial assistance, corporate purpose or benefit, the preservation of share capital, thin capitalisation and defences affecting the rights of creditors generally. See "*Certain Insolvency Considerations and Limitations on the Validity and Enforceability of the Guarantees and Security*".

Although laws differ among various jurisdictions, in general, under bankruptcy or insolvency law and other laws, a court could (i) avoid or invalidate all or a portion of a Guarantor's obligations under its Guarantee of the Notes or any security interests; (ii) direct that the holders of the Notes return any amounts paid under the relevant Guarantee or realised from the enforcement of the Collateral to the relevant Guarantor or security provider or to a fund for the benefit of the relevant Guarantor's or security provider's creditors; or (iii) take other action that is detrimental to holders of the Notes, typically if the court found that:

- the relevant Guarantee was incurred or the relevant security interest was granted with actual intent to give preference to one creditor over another, hinder, delay or defraud creditors or shareholders of the Guarantor or security provider or, in certain jurisdictions, when the granting of the Guarantee or security interest has the effect of giving a creditor a preference or when the recipient was aware that the Guarantor or security provider was insolvent when it granted the relevant Guarantee or security interest;
- the Guarantor or security provider did not receive fair consideration or reasonably equivalent value or corporate benefit for the relevant Guarantee or security interest and the Guarantor or security provider: (i) was insolvent or rendered insolvent because of the relevant Guarantee or security interest; (ii) was undercapitalised or became undercapitalised because of the relevant Guarantee or security interest; or (iii) intended to incur, or believed that it would incur, indebtedness beyond its ability to pay at maturity;
- the relevant Guarantee or security interest was held to exceed the corporate objects of the Guarantor or security provider or not to be in the best interests or for the corporate benefit of the Guarantor or security provider; or
- the amounts paid or payable under the relevant Guarantee or the enforcement proceeds under the relevant Security Document were in excess of the maximum amount permitted under applicable law.

These or similar laws may also apply to any future guarantee or security interest granted by any of our subsidiaries pursuant to the Indenture.

There can be no assurance which standard a court would apply in determining whether a Guarantor or security provider was "insolvent" at the relevant time or that, regardless of method of valuation, a court would not determine that a Guarantor or security provider was insolvent on that date, or that a court would not determine, regardless of whether or not a Guarantor or security provider was insolvent on the date the Guarantee was issued or the relevant security interest granted, that payments to holders of the Notes constituted preferences, fraudulent transfers or conveyances on other grounds.

The liability of each Guarantor under its Guarantee of the Notes and the enforcement proceeds under each Security Document will be limited to the amount that will result in such Guarantee or security interest not constituting a preference, fraudulent conveyance or improper corporate distribution or otherwise being set aside. However, there can be no assurance as to what standard a court will apply in making a determination of the maximum liability of each Guarantor or security provider. There is a possibility that the entire Guarantee or security interest may be set aside, in which case the entire liability under the relevant Note Guarantee or Security Document may be extinguished.

If a court decided that a Guarantee or security interest was a preference, fraudulent transfer or conveyance and voided such Guarantee or security interest, or held it unenforceable for any other reason, a holder of the Notes may cease to have any claim in respect of the relevant Guarantor or Collateral and would be an unsecured creditor solely of the Issuer and, if applicable, of any other Guarantor under the relevant Guarantee that has not been declared void. In the event that any Guarantee is invalid or unenforceable, in whole or in part, or to the extent the agreed limitation of the Guarantee obligations apply, the Notes would be effectively subordinated to all liabilities of the applicable Guarantor, and if a Guarantor cannot satisfy its obligations under the Notes or any Guarantee is found to be a preference, fraudulent transfer or conveyance or is otherwise set aside, the Issuer cannot assure you that it can ever repay in full any amounts outstanding under the Notes. In the event that any security interest is void or unenforceable, claims of holders of the Notes would be effectively subordinated to other claims against the relevant security provider that are secured over the relevant Collateral and up to the value of such Collateral.

The Notes and each of the Guarantees will be structurally subordinated to present and future liabilities of DGHL's non-Guarantor subsidiaries.

Some, but not all, of DGHL's subsidiaries will guarantee the Notes, which means that the holders of the Notes will have no direct claims against the assets or earnings of such non-Guarantor subsidiaries to satisfy obligations due under the Notes or the Guarantees. For the year ended 31 December 2017, the Guarantors generated £233 million, representing 102 per cent., of the Group's EBITDA. As of 31 December 2017, the total assets of the Guarantors were £3,319 million (excluding goodwill), representing 94 per cent. of the Group's total assets (excluding goodwill). Any of DGHL's subsidiaries that do not guarantee the Notes do not have any obligations to pay amounts due on the Notes or to make funds available for that purpose. Accordingly, you should only rely on the Guarantees to provide credit support in respect of payments of principal or interest on the Notes. Generally, claims of creditors of a non-Guarantor subsidiary, including trade creditors and claims of preference shareholders (if any) of such subsidiary, will have priority with respect to the assets and earnings of such subsidiary over the claims of creditors of such non-Guarantor's parent entity, including claims by holders of the Notes under the Guarantees. In the event of any foreclosure, dissolution, winding-up, liquidation, administration, reorganisation or other insolvency or bankruptcy proceeding of any of DGHL's non-Guarantor subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to the direct or indirect shareholders of such entity, including DGHL and the Guarantors. As such, the Notes, each Guarantee and the Proceeds Loan will each be structurally subordinated to the creditors (including trade creditors) and preference shareholders (if any) of DGHL's non-Guarantor subsidiaries. The covenants in the Notes permit us to incur additional indebtedness at subsidiaries that do not guarantee the Notes and in the future the revenues and EBITDA of such entities could increase, possibly substantially.

The claims of the holders of the Notes will be effectively subordinated to the rights of our existing and future secured creditors to the extent of the value of the assets securing such indebtedness do not also secure the Notes.

The claims of any secured creditors that are secured by assets that do not also secure the Notes will have priority with respect to such assets over the claims of holders of the Notes. As such, the claims of the holders of the Notes will be effectively subordinated to the rights of such secured creditors to the extent of the value of the assets securing such indebtedness.

Our indebtedness could adversely affect our financial condition, our ability to operate the business, react to changes in the economy or in the industry and pay our debts and could divert our cash flow from operations for debt payments.

We have, and following the issuance of the Notes will continue to have, a substantial amount of debt and debt service obligations. We cannot assure you that we will generate enough cash flow from operations to service our debt obligations. After giving pro forma effect to the Transactions as if they had occurred on 31 December 2017, we would have had £627 million of borrowings outstanding, including £222 million under the Notes (being the pound sterling equivalent of $300 million, converted at a rate of $1.3524 to £1.00, being the Bloomberg Composite Rate on 31 December 2017) and £350 million under the 2022 Fixed Rate Notes. In addition, as at 31 December 2017, the Senior Facilities, which provide for up to £350 million of senior secured borrowings, had been utilised in respect of letters of credit with a total value of £35.7 million, and the term loan facility of £35 million was fully drawn. Our exposure under our hedging obligations (including the obligations under the Secured Trading Line and other secured hedging) will also fluctuate from time to time and could be substantial. There is no limitation in the Indenture or the 2022 Indenture to our incurrence of certain hedging obligations. For further details, see "*Description of Certain Financing Arrangements*" and "*Description of Notes*". We anticipate that our leverage will continue to be in place for the foreseeable future. Our leverage could have important consequences for our business and operations, and therefore for holders of the Notes offered hereby, including:

- making it more difficult for us to satisfy our obligations with respect to the Notes and other indebtedness and liabilities;
- restricting us from pursuing strategic acquisitions or exploiting certain business opportunities;
- negatively impacting credit terms with our creditors;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby limiting cash flow available to fund our working capital, capital expenditures, acquisitions, joint ventures or other general corporate requirements;
- limiting our flexibility in planning for, or reacting to, changes in tax regulations, our business and the industry;
- placing us at a competitive disadvantage as compared with our competitors, to the extent that they are not as highly leveraged;
- compromising our ability to capitalise on business opportunities and to react to competitive pressures, as compared with our competitors due to the maintenance covenants in some of our debt instruments; and
- limiting our ability to obtain additional financing, or negatively impacting the terms of such financing, to fund future working capital, capital expenditures, joint ventures, other general corporate requirements and acquisitions.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including the obligations under the Notes (and the 2022 Fixed Rate Notes). Our ability to make payments on and refinance our indebtedness and to fund working capital expenditures and other expenses will depend on our future operating performance and ability to generate cash from operations. Our ability to generate cash from operations is subject, in large part, to general economic, competitive, legislative and regulatory factors and other factors that are beyond our control. We may not be able to generate sufficient cash flow from operations nor obtain enough capital to service our debt or fund our planned capital expenditures. For a discussion of our cash flows and liquidity, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*".

You may face interest rate risks by investing in the Notes, as certain of our borrowings bear interest at floating rates that could rise significantly, increasing our interest cost and reducing cash flow.

We may incur additional indebtedness that bears interest at a floating rate. LIBOR, EURIBOR and/or any other floating interest rate applicable to such indebtedness could rise significantly in the future. Certain of our current debt facilities, including the Revolving Facility, are exposed to interest rate risk. Fluctuations in LIBOR, EURIBOR and/or any other floating rate interest, or the occurrence of certain events (as defined in the relevant debt facility) may increase our overall interest burden and may have a material adverse effect on our ability to service our debt obligations. See "*Description of Certain Financing Arrangements—Senior Facilities Agreement*".

Changes or uncertainty in respect of LIBOR may affect our sources of funding

Some of our sources of funding are linked to LIBOR. See "—*You may face interest rate risks by investing in the Notes, as certain of our borrowings bear interest at floating rates that could rise significantly, increasing our interest cost and reducing cash flow*". Various interest rate benchmarks (including LIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some reforms are already effective while others are still to be implemented including the EU Benchmark Regulation (Regulation (EU) 2016/1011) (the "**Benchmarks Regulation**"). In addition, the sustainability of LIBOR has been questioned by the FCA as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 29 November 2017, the Bank of England and the FCA announced that the market Working Group on Sterling Risk-Free Rates would have an extended mandate to catalyse a broad transition to the Sterling Over Night Index Average rate ("**SONIA**") across sterling bond, loan and derivatives markets so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021. The Bank of England and FCA have stated that a key near-term priority for the Working Group will be to make recommendations relating to the potential development of term SONIA reference rates. A public consultation is expected to take place in early 2018. These reforms and other pressures may cause such benchmarks to disappear entirely, to perform differently than in the past (as a result of a change in methodology or otherwise), create disincentives for market participants to continue to administer or participate in certain benchmarks or have other consequences which cannot be predicted. Based on the foregoing, investors should in particular be aware that:

(a) any of these reforms or pressures described above or any other changes to a relevant interest rate benchmark (including LIBOR) could affect the level of the published rate, including causing it to be lower and/or more volatile than it would otherwise be; and

(b) if LIBOR is discontinued, then the rate of interest applicable to our sources of funding may be determined for a period by applicable fall-back provisions, although such provisions, often being dependent in part upon the provision by reference banks of offered quotations for the LIBOR rate, may not operate as intended (depending on market circumstances and the availability of rates information at the relevant time) and may in certain circumstances result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR was available.

More generally, any of the above matters or any other significant change to the setting or existence of LIBOR could affect the ability of amounts available to us to meet our obligations under our sources of funding and/or could have a material adverse effect on the value or liquidity of, and the amount payable under, our sources of funding. Changes in the manner of administration of LIBOR could result in adjustment to the conditions applicable to our sources of funding or other consequences as relevant to our sources of funding including, without limitation, early redemption, discretionary valuation, delisting or other consequences. No assurance can be provided that relevant changes will not be made to LIBOR or any other relevant benchmark rate and/or that such benchmarks will continue to exist.

Despite current indebtedness levels, our subsidiaries may incur substantially more debt, which could further exacerbate the risks associated with our leverage.

The terms of the Indenture will permit, and the terms of the 2022 Indenture permit, us to incur substantial additional indebtedness in the future, significant amounts of which may be secured and share in the Collateral securing the Notes. Certain creditors in respect of our indebtedness, including lenders under the Senior Facilities Agreement and counterparties under certain hedging obligations (including obligations under the Secured Trading Line) will receive proceeds from the enforcement of security granted over the Collateral prior to the holders of the Notes (and the 2022 Fixed Rate Notes). In addition, the Indenture will allow, and the 2022 Indenture allows, our non-Guarantor subsidiaries to incur additional debt that would be structurally senior to the Notes (and 2022 Fixed Rate Notes) and will not prevent us from incurring liabilities that do not constitute "Indebtedness" as defined thereunder. Although the agreements governing our debt instruments contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Our exposure under our hedging obligations (including obligations under the Secured Trading Line and other secured hedging) will also fluctuate from time to time and could be substantial. There are no limitations in the Indenture to our incurrence of certain hedging obligations. If we incur additional debt above the levels currently in effect, the risks associated with our leverage, including those described above, would increase.

We may not be able to generate sufficient cash to service our indebtedness, including due to factors outside our control, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

We have substantial debt outstanding and debt service obligations. Our ability to make interest or principal payments on or to refinance our debt obligations, including the Senior Facilities and our obligations under the Notes and the 2022 Fixed Rate Notes, as well as our hedging obligations (including obligations under the Secured Trading Line), will depend on our future operating performance and ability to generate sufficient cash. Our ability to generate cash from operations is subject, in part, to general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. Our significant leverage may also make it more difficult for us to satisfy our obligations with respect to the Notes and expose us to interest rate increases to the extent any of our variable rate debt (such as the Revolving Facility) is not hedged.

Our business may not generate sufficient cash flows from operations to make payments on our debt obligations, and additional debt and equity financing may not be available to us in an amount sufficient to enable us to pay our debts when due, or to refinance such debts, including the Notes and the 2022 Fixed Rate Notes. If our future cash flows from operations and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities and capital expenditures;
- sell assets;
- obtain additional debt or equity financing; or
- restructure or refinance all or a portion of our debt, including the Senior Facilities, the 2022 Fixed Rate Notes and the Notes, on or before maturity.

We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all.

If any of the above were to occur, the holders of our debt may be able to accelerate our debt and, to the extent such debt is secured, foreclose on our assets. The type, timing and terms of any future financing, restructuring, asset sales or other capital raising transactions will depend on our cash needs and the prevailing conditions in the financial markets. There can be no assurance that we will be able to accomplish any of these measures in a timely manner or on commercially reasonable terms, if at all. In particular, our ability to restructure or refinance our debt will depend in part on our financial condition at such time. See "*—Our results from operations are dependent on our exposure to UK wholesale electricity prices and the UK economy*". Any refinancing of our debt could be at higher interest rates than our current debt and may require us to comply with more onerous covenants, which could further restrict our business. The terms of existing or future debt instruments and the Indenture may restrict us from adopting some of these alternatives.

In addition, any failure to make payments of interest or principal on our outstanding indebtedness on a timely basis would likely result in the downgrading of our credit rating, which could harm our ability to incur additional indebtedness. In the absence of sufficient resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The terms of our indebtedness, including the Indenture and the 2022 Indenture, restrict our ability to transfer or sell assets and to use the proceeds from any such disposition. We may not be able to consummate certain dispositions or obtain the funds that we could have realised from the proceeds of such dispositions, and any proceeds we do realise from asset dispositions may not be adequate to meet any of our debt service obligations then due. These alternative measures may not be successful and may not permit us to meet our debt service obligations.

Furthermore, any downgrading of our credit rating could harm our ability to engage in commodity or other hedging transactions, which are an important part of our operations, or else require us to post increased amounts of collateral in support of such transactions. If we were unable to engage in hedging transactions on terms that were acceptable to us or at all, this would have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

Restrictive covenants in the Senior Facilities Agreement, the Indenture and the 2022 Indenture may restrict our ability to operate our business.

The 2022 Indenture and the Senior Facilities Agreement restrict, and the Indenture will restrict, among other things, our ability to:

- incur or guarantee additional debt or issue preferred stock;

- make certain payments, including dividends and other restricted payments;
- create, permit to exist or incur liens;
- make certain investments or acquisitions, including participation in joint ventures;
- agree to limitations on the ability of our subsidiaries to pay dividends or make other distributions;
- engage in sales, leases or transfers of certain assets and subsidiary stock;
- enter into certain transactions with affiliates;
- transfer all or substantially all of our assets or enter into merger or consolidation transactions;
- engage in certain activities (with respect to the Issuer);
- impair the security interests; and
- create Unrestricted Subsidiaries.

All of these limitations are subject to certain exceptions and qualifications. See "*Description of Notes—Certain Covenants*", "*Description of Certain Financing Arrangements—2022 Fixed Rate Notes and 2022 Floating Rate Notes—Covenants and events of default*" "*Description of Certain Financing Arrangements—Senior Facilities Agreement*". Our compliance with these covenants could reduce our flexibility in conducting our operations, particularly by:

- affecting our ability to react to changes in market conditions, whether by increasing our vulnerability in relation to unfavourable economic conditions or by preventing us from profiting from an improvement in those conditions;
- affecting our ability to pursue business opportunities and activities that may be in our interest;
- limiting our ability to obtain certain additional financing in order to meet our working capital requirements, make investments or acquisitions and carry out refinancings; and
- forcing us to dedicate a significant portion of our cash flows to payment of the sums due on our indebtedness, thus reducing our ability to utilise our cash flow for other purposes.

In addition, certain of our financing arrangements, including the Senior Facilities Agreement, require us or certain of our subsidiaries to comply with certain additional negative covenants. The Senior Facilities Agreement requires us to comply with customary negative covenants, subject to certain agreed exceptions, including, but not limited to, (i) restrictions on change of business, (ii) restrictions on change of centre of main interests, (iii) restrictions on change of share capital, (iv) restrictions on the purchase or redemption of the 2022 Notes, (v) restrictions on the activities of DGHL, (vi) restrictions on the incurrence of certain indebtedness by non-obligor subsidiaries, (vii) restrictions on certain disposals of assets to non-obligor subsidiaries, (viii) restrictions on change to Drax Group plc's or DGHL's year end, and (ix) restrictions on the parameters of the Secured Trade Line.

The Senior Facilities Agreement also requires us to observe certain affirmative undertakings and a financial covenant. See "*Description of Certain Financing Arrangements—Senior Facilities Agreement—Undertakings and covenants*".

If we fail to meet our obligations under our financing agreements, our creditors could declare all amounts owed to them due and payable, which could lead to liquidity constraints.

Our ability to comply with the covenants and restrictions in our debt instruments may be affected by events beyond our control. These include general economic, financial and industry-related factors and conditions. If we breach any of the aforementioned covenants or restrictions, we could be in default under the Notes, the 2022 Notes, the Senior Facilities Agreement and other relevant financing agreements.

In the event of a default under the Notes, the 2022 Notes, the Senior Facilities Agreement or any other debt facility agreement, the lenders or creditors under the respective facilities or financing instruments could take certain actions, including terminating their commitments, if any, and declaring all amounts that we have borrowed under our credit facilities and other indebtedness to be due and payable, together with any accrued and unpaid interest. In addition, borrowings under other debt instruments that contain cross-acceleration or cross-default provisions, including the Notes, the 2022 Notes and the Senior Facilities Agreement, may as a result also be accelerated and become due and payable.

If the debt under the Senior Facilities Agreement, the 2022 Notes, the Notes or any other material financing arrangement that we have entered into or will subsequently enter into were to be accelerated, our assets may be insufficient to repay the Notes in full. Any such actions could force us into bankruptcy or liquidation, and we might not be able to repay our obligations under the Notes in such an event.

The Issuer may not be able to finance a change of control offer.

The Indenture will require the Issuer to make an offer to repurchase the Notes at 101% of their principal amount, if DGHL experiences certain change of control events. The Issuer's failure to effect a change of control offer when required would constitute an event of default under the Indenture. The Issuer's ability to repurchase any Notes as may be required by the Indenture will depend on our access to funds at such time, and we may not be able to secure access to enough cash to finance the repurchase. In addition, the Senior Facilities Agreement, other indebtedness of the Group, the Intercreditor Agreement or any Additional Intercreditor Agreement may restrict our ability to make an offer to repurchase the Notes following the occurrence of such a change of control event. A change of control event may result in an event of default under, acceleration of, or obligation to mandatorily prepay, the Senior Facilities Agreement and other indebtedness. The repurchase of the Notes pursuant to a change of control offer could cause a default under such indebtedness, even if the change of control event itself does not.

In certain circumstances, a change of control offer is not required to be made.

The change of control provision contained in the Indenture may not necessarily afford holders of the Notes protection in the event of certain important corporate events, including a reorganisation, restructuring, merger or other similar transaction involving us that may adversely affect holders of the Notes, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "Change of Control" as defined in the Indenture. Except as described under "*Description of Notes—Change of Control*", the Indenture will not contain provisions that would require the Issuer to offer to purchase or redeem the relevant Notes in the event of a reorganisation, restructuring, merger, recapitalisation or similar transaction.

The definition of "Change of Control" in the Indenture will include a disposition of all or substantially all of the properties or assets of DGHL and its Restricted Subsidiaries, taken as a whole, to any person, other than a subsidiary of Drax Group plc, Drax Group plc or a parent entity. Although there is a limited body of case law interpreting the phrase "all or substantially all", there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of DGHL's and its Restricted Subsidiaries' assets and therefore it may be unclear as to whether a Change of Control has occurred and whether the Issuer is required to make a Change of Control offer to repurchase the Notes.

Under certain circumstances, following a tender offer or offer to purchase the Notes, the Issuer may, at its option, redeem all of the remaining Notes of non-tendering holders.

If, pursuant to any tender offer or other offer to purchase all of the Notes, holders of not less than 90 per cent. of the aggregate principal amount of the then outstanding Notes validly tender and do not withdraw such Notes, the Indenture will permit the Issuer, or any third party on behalf of the Issuer, at its option, to redeem the remaining outstanding Notes at a price equivalent to the highest price paid pursuant to such tender offer or offer to purchase (excluding any early tender premium). As a consequence, holders of the Notes may be required to surrender the Notes against their will at a price equivalent to the highest price paid to tendering holders, including if such price is below par, and may not receive the return holders of the Notes expect to receive on the Notes. See "*Description of Notes—Optional Redemption upon Certain Tender Offers*".

Holders of the Notes may not be able to resell the Notes easily, an active liquid trading market for the Notes may not develop or may be volatile and no assurance can be made regarding the prices at which holders of the Notes might be able to resell the Notes.

The Notes are new securities for which there is currently no existing market. Although we will apply to list the Notes on the Official List of the Luxembourg Stock Exchange and to have them admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange, we cannot assure you that the Notes will become or will remain listed. In addition, we cannot assure you that an active or liquid trading market will develop for the Notes or make any assurance regarding the prices at which holders of the Notes would be able to sell Notes. Further liquidity will depend on, among other things, the number of holders of the Notes, our financial performance, prevailing interest rates, the market for similar securities and the interest of securities dealers in making a market in the Notes. In addition, changes in the overall market for high yield securities and changes in our financial performance or in the markets where we operate may adversely affect the liquidity of the trading market in the Notes and the market price quoted for the Notes. As a result, we cannot assure you that an active trading market will actually develop for the Notes or, if one does develop, that it will be maintained.

Moreover, the price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenue, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions, interest rates, fluctuations in prices for securities of comparable companies and Government regulations and changes thereof applicable to the industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. There can be no assurance that these developments will not occur in the future.

If the Notes are not listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange or on another "recognised stock exchange" within the meaning of section 1005 of the UK Income Tax Act 2007, or cease to be so listed and admitted to trading, interest payments will generally be paid by the Issuer under deduction of UK income tax at the basic rate (currently 20 per cent.) and may result in a requirement for the Issuer or a Guarantor to pay Additional Amounts (as defined under "*Description of Notes—Withholding Taxes*") unless relief is available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty or any other UK domestic exemption is available. (See "*Tax Considerations—Certain United Kingdom Tax Considerations*" and "*Description of Notes—Withholding Taxes*").

Lenders and holders of our debt may allege in the future that we are not operating in compliance with covenants in our debt instruments, which, even if the claims have no merit, could cause the trading price of the Notes to decline.

Lenders or holders of our debt may assert that we are not operating in compliance with covenants in our debt instruments or make other related allegations, including for the purpose of accelerating the maturity of such debt and/or attempting to obtain economic benefits from us. Even if any claim by lenders or holders of our debt alleging non-compliance or an event of default under our debt instruments is without merit, such a claim could nevertheless cause the trading price of the Notes to decline.

Transfer of the Notes will be restricted, which may adversely affect the liquidity and the value of the Notes.

Because the Notes and the Guarantees have not been, and are not required to be, registered under the US Securities Act or the securities laws of any other jurisdiction, they may not be offered or sold except to QIBs in accordance with Rule 144A, in offshore transactions in accordance with Regulation S or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and all other applicable laws. These restrictions may limit the ability of holders of the Notes to resell the Notes. It is the obligation of each holder of the Notes to ensure that its offers and sales of the Notes within the US and other countries comply with applicable securities laws. See "*Notice to Investors*", "*Important Information—Notice to Investors in the United States*", "*Important Information—Notice to Investors in the United Kingdom*", "*Important Information—Notice to Investors in the European Economic Area*", "*Important Information—Notice to French Investors*", "*Important Information—Notice to German Investors*", "*Important Information—Notice to Dutch Investors*", "*Important Information—Notice to Swiss Investors*", "*Important Information—Notice to Investors in Luxembourg*", and "*Plan of Distribution*" for further information on these restrictions. We have not agreed to or otherwise undertaken to register any of the Notes or the Guarantees, and do not have any intention to do so.

The market value of the Notes could decrease if the Issuer's or our creditworthiness worsens.

In the event any of the risks regarding our business materialises, the likelihood that the Issuer will be in a position to fully perform all obligations under the Notes when they fall due will decrease and the market value of the Notes is likely to suffer. In addition, even if the likelihood that the Issuer will be in a position to fully perform all obligations under the Notes when they fall due has not actually decreased, market participants could nevertheless have a different perception. Furthermore, the market participants' estimation of the creditworthiness of corporate debtors in general or debtors operating in the same business as us could adversely change. If any of these risks occurred, third parties would likely only be willing to purchase Notes at a lower price than before any such risk materialised. Under these circumstances, the market value of the Notes is likely to decrease.

Credit ratings assigned to the Notes may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension, withdrawal and may be lowered at any time.

Credit ratings address the Issuer's ability to perform its obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will be confirmed, remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. The Issuer has no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. Other credit ratings agencies that do not publish ratings with respect to the Notes may assign a lower rating than any published rating of the Notes. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings and could adversely affect the value, market price and trading of the Notes.

Holders of the Notes may be unable to recover in civil proceedings for US securities laws violations.

The Issuer and the majority of the Guarantors, including DGHL, are incorporated under the laws of England and Wales and do not have any assets in the US. It is anticipated that a majority of the directors and executive officers of the Issuer and DGHL will be non-residents of the US and that a majority of their assets will be located outside the US. As a result, it may not be possible for investors to effect service of process within the US upon the Issuer and the majority of the Guarantors, or their respective directors and executive officers, or to enforce any judgments obtained in US courts predicated upon civil liability provisions of the US securities laws. In addition, the Issuer cannot assure you that civil liabilities predicated upon the federal securities laws of the US will be enforceable in England and Wales. See "*Service of Process and Enforcement of Civil Liabilities*".

Investors may face foreign exchange risks by investing in the Notes.

The Notes will be denominated and payable in US dollars. If investors measure their investment returns by reference to a currency other than US dollars, an investment in the Notes will entail foreign exchange-related risk due to, among other factors, possible significant changes in the value of the US dollar relative to the currency by reference to which the investor measures the return on its investments because of economic, political and other factors over which the Issuer has no control. Depreciation of the US dollar against the currency by reference to which an investor measures the return on its investments could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss to investors when the return on the Notes is translated into the currency by reference to which the investor measures the return on its investments.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Notes will initially only be issued in global certificated form and held through DTC or its nominee. Interests in the Global Notes will trade in book-entry form only, and the Notes in definitive registered form (the "**Definitive Registered Notes**") will be issued in exchange for book-entry interests only in very limited circumstances. Unless and until Definitive Registered Notes are issued in exchange for book-entry interests, owners of book-entry interests will not be considered owners or holders of the Notes. DTC, or its nominee, will be the registered holder of the Global Notes. Payments of principal, interest and other amounts owing on or in respect of the Global Notes representing the Notes will be made to The Bank of New York Mellon, London Branch, as paying agent, which will make payments to DTC. Thereafter, these payments will be credited to DTC participants' accounts (including Euroclear and Clearstream) that hold book-entry interests in the Global Notes representing the Notes and credited by such participants to indirect participants. After payment to DTC, the Issuer, Trustee, Paying Agent, Transfer Agent and Registrar will have no responsibility or liability for the payment of interest, principal or other amounts to DTC, or to owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of DTC, and if you are not a participant in DTC, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of the Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from DTC or, if applicable, from a participant (including Euroclear and Clearstream). The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until the relevant Definitive Registered Notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through DTC or, if applicable, a participant (including Euroclear and Clearstream). The procedures to be implemented through DTC may not be adequate to ensure the timely exercise of rights under the Notes. See "*Book-Entry; Delivery and Form*".

Investors in and purchasers of the Notes may have limited or no recourse against our independent auditors in respect of the Drax Group Audited Financial Statements.

See "*Independent Auditors*" for a description of the independent auditors' reports of Deloitte LLP of the Group.

Investors in and purchasers of the Notes should understand that consistent with guidance issued by the Institute of Chartered Accountants in England and Wales (the "**ICAEW**"), each of the independent auditors' reports of Deloitte LLP included elsewhere in this Offering Memorandum states that: the report has been prepared for Drax Group plc's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act. Deloitte LLP's audit work has been undertaken so that Deloitte LLP might state to Drax Group plc's members those matters Deloitte LLP is required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, Deloitte LLP does not accept or assume responsibility to anyone other than Drax Group plc and Drax Group plc's members, as a body, for its audit work, for its report, or for the opinions it has formed.

The SEC would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the US Securities Act, or in a report filed under the US Exchange Act. If a US court (or any other court) were to give effect to the language set out above, the recourse that investors in and purchasers of the Notes may have against the independent auditors based on their reports or the financial statements or non-statutory financial statements to which they relate could be limited. The extent to which independent auditors may have responsibility or liability to third parties can be unclear under the laws of many jurisdictions, including the UK. The inclusion of the language referred to above, however, may limit the ability of holders of the Notes to bring any action against the independent auditors for damages arising out of an investment in or purchase of the Notes.

In the context of the Offering, the independent auditors have reconfirmed to us that they do not intend their duty of care in respect of their audits to extend to any party, such as investors in and purchasers of the Notes, other than the respective addressees of their reports. See "*Independent Auditors*".

Certain covenants may fall away upon the occurrence of a change in our ratings.

The Indenture will provide that, if at any time following the date of the Indenture, the Notes receive two of the following three ratings, BBB- or better by S&P, Baa3 or better by Moody's and BBB- or better by Fitch and no default or event of default has occurred and is continuing, then beginning that day and continuing until such time, if any, at which such Notes cease to have such ratings, certain covenants will cease to be applicable to such Notes. See "*Description of Notes—Certain Covenants—Suspension of Covenants on Achievement of Investment Grade Status*".

If these covenants were to cease to be applicable, we would be able to incur additional indebtedness or make payments, including dividends or investments, which may conflict with the interests of holders of the Notes. There can be no assurance that the Notes will ever achieve an investment grade rating or that any such rating will be maintained.

The insolvency laws of England and Wales and other jurisdictions may not be as favourable as US or other insolvency laws.

The Issuer is incorporated under the laws of England and Wales and certain of the Guarantors are incorporated under the laws of England and Wales. In addition, the Collateral will include a pledge over the shares in DGHL and certain of DGHL's subsidiaries incorporated under the laws of England and Wales and pledges of certain present and future intercompany receivables held by Drax Group plc, DGHL, the Issuer and certain of DGHL's other subsidiaries incorporated under the laws of England and Wales.

In the event of a bankruptcy, insolvency or similar event, proceedings could be initiated in England and Wales or another relevant jurisdiction. Such multi-jurisdictional proceedings may be complex and more costly for creditors and otherwise may result in greater uncertainty and delay regarding the enforcement of your rights. The rights of a holder of the Notes under the Notes, the Notes Guarantees and the Collateral will be subject to the insolvency and administrative laws of several jurisdictions and there can be no assurance that you will be able to effectively enforce these rights in such complex, multiple bankruptcy, insolvency or similar proceedings.

In addition, the bankruptcy, insolvency, administrative and other laws of Drax Group plc's, the Issuer's and the non-US Guarantors' jurisdictions of organisation or incorporation may be materially different from, or in conflict with, each other and those of the US, including in the areas of rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceeding. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's law should apply, adversely affect the ability of holders of the Notes to enforce their rights under the Notes and the Guarantees in those jurisdictions or limit any amounts that they may receive. See "*Certain Insolvency Considerations and Limitations on the Validity and Enforceability of the Guarantees and Security*" with respect to certain of the jurisdictions mentioned above.

USE OF PROCEEDS

The gross proceeds from the Offering are expected to be US$300.0 million, which translates to £221.8 million at the exchange rate as of 31 December 2017. We intend to use the gross proceeds of the Offering: (i) to redeem in full the outstanding 2022 Floating Rate Notes on or about 1 May 2018; (ii) to pay estimated fees and expenses of the Offering and the redemption including underwriting fees and commissions, professional fees and other associated transaction costs, as well as the applicable redemption premium and accrued and unpaid interest to the date of redemption; and (iii) for general corporate purposes (collectively, the "**Transactions**").

The following table sets out the expected sources and uses of funds from the Offering. Actual amounts are subject to adjustments and may vary from estimated amounts depending on several factors, including, but not limited to, the date of redemption, differences in the accrued but unpaid interest of the 2022 Floating Rate Notes on the date such notes are redeemed, differences between the fees and expenses expected and the fees and expenses incurred in connection with the redemption of the 2022 Floating Rate Notes and fluctuations in the pound sterling to US dollar exchange rate. For a description of our anticipated indebtedness following the Transactions, see "*Description of Certain Financing Arrangements*" and "*Capitalisation*".

Sources of funds	**Amount (£ million)**	**Uses of funds**	**Amount (£ million)**
Gross proceeds from the Offering[1]	221.8	Repayment of the principal of the 2022 Floating Rate Notes[2]	200.0
		Payment of fees and other transaction costs[3]	6.0
		Cash to balance sheet[4]	15.8
Total Sources of Funds	**221.8**	**Total Uses of Funds**	**221.8**

(1) Represents the pound sterling equivalent of the $300 million aggregate principal amount of Notes to be issued using a currency exchange rate of $1.3524 to £1.00, which was the applicable Bloomberg Composite Rate on 31 December 2017.

(2) Represents the repayment of the principal of the 2022 Floating Rate Notes.

(3) Represents estimated fees and expenses associated with the Offering and the redemption of the 2022 Floating Rate Notes, including underwriting fees and commissions, professional fees and other associated transaction costs, as well as the applicable redemption premium assuming a redemption date of 1 May 2018.

(4) Represents cash to be retained by the Group, assuming the 2022 Floating Rate Notes are redeemed on or after 1 May 2018 and using a currency exchange rate of $1.3524 to £1.00, which was the applicable Bloomberg Composite Rate on 31 December 2017. As at 5 April 2018, the applicable Bloomberg Composite Rate was $1.3988 to £1.00. Accrued and unpaid interest in respect of the 2022 Floating Rate Notes of £2.2 million from 1 November 2017 to 1 May 2018 will be paid on 1 May 2018 to holders of record of the 2022 Floating Rate Notes as of 15 April 2018.

CAPITALISATION

The following table sets forth, in each case, our cash and cash equivalents and consolidated capitalisation as of 31 December 2017 on (i) an actual basis and (ii) an as adjusted basis to give effect to the Transactions as if they had occurred on 31 December 2017. All the borrowings shown in the table below are before deferred finance costs. The *as adjusted* financial information below is illustrative only and does not purport to be indicative of our capitalisation following completion of the Transactions.

The historical information has been derived from our financial statements as of and for the year ended 31 December 2017. You should read this table together with "*Use of Proceeds*", "*Selected Financial Information*", "*Summary—The Financing*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Group's consolidated financial statements and related notes thereto included elsewhere in this Offering Memorandum.

	As at 31 December 2017		
	Actual	**Transactions**	**As Adjusted**
		(£ million)	
Cash and cash equivalents(1)	222.3	15.8	238.1
Senior Facilities (£350m)(2)	35.9	—	35.9
2022 Fixed Rate Notes(3)	350.0	—	350.0
2022 Floating Rate Notes(4)	200.0	(200.0)	—
Finance leases(5)	0.8	—	0.8
Notes offered hereby(6)	—	221.8	221.8
Drax Biomass Inc. uncommitted line of credit(7)	18.5	—	18.5
Total Gross Debt	**605.2**	**21.8**	**627.0**
Shareholders' Equity(8)	1,720.1	(6.0)	1,714.1
Total Capitalisation	**2,325.3**	**15.8**	**2,341.1**
Market Capitalisation(9)	**1,127.0**	**—**	**—**

(1) Adjustments to cash and cash equivalents represent cash to be retained by the Group in connection with the Transactions assuming the 2022 Floating Rate Notes will be redeemed on 1 May 2018 and based upon a currency exchange rate of $1.3524 to £1.00, which was the applicable Bloomberg Composite Rate on 31 December 2017. The actual amount of cash that will be retained by the Group may vary. See "*Use of Proceeds*".

(2) The Senior Facilities provide for up to £350 million of senior secured borrowings, comprised of a £315 million committed multicurrency revolving credit facility and a £35 million term loan facility. The carrying value of the term loan at 31 December 2017 is £35.9 million which includes £0.9 million indexation.

(3) 2022 Fixed Rate Notes are the £350 million aggregate amount of 4 ¼% Senior Secured Fixed Rate Notes due 2022. These notes have a total carrying value of £338.6 million, which is net of unamortised finance costs of £11.4 million.

(4) 2022 Floating Rate Notes are the £200 million aggregate amount of Floating Rate Senior Secured Notes due 2022. These notes have a total carrying value of £193.5 million, which is net of unamortised finance costs of £6.5 million. As part of the Transactions, the 2022 Floating Rate Notes will be redeemed in full on or about 1 May 2018. See "*Use of Proceeds*".

(5) Reflects the carrying value.

(6) Represents the pound sterling equivalent of the US$300 million principal amount of Notes offered hereby calculated using a currency exchange rate of $1.3524 to £1.00, which was the applicable Bloomberg Composite Rate on 31 December 2017. No adjustment has been made for the costs expected in connection with the Offering that will be offset against the proceeds therefrom in determining the initial carrying value of the Notes.

(7) The Drax Biomass Inc. uncommitted line of credit provides for up to $15 million of borrowings. The facility was fully drawn down as at the date of this Offering Memorandum and had a pound sterling equivalent carrying value of £18.5 million as of 31 December 2017 (when the total facility size was $25 million).

(8) Represents estimated financing costs of £4.0 million (see note (6) above) and a redemption premium of £2.0 million. On an accounting basis, shareholders' equity would be adjusted by £8.5 million, representing the write-off of unamortised finance costs in respect of the 2022 Floating Rate Notes of £6.5 million (see note (4) above) and a redmemption premium in respect of the 2022 Floating Rate Notes of £2.0 million.

(9) Market capitalisation as at 5 April 2018.

SELECTED FINANCIAL INFORMATION

The following tables present selected historical consolidated financial data for Drax Group plc as at and for the years ended 31 December 2015, 2016 and 2017. The selected historical consolidated financial data of Drax Group plc as at and for the years ended 31 December 2015, 2016 and 2017 has been derived from the Drax Group Audited Financial Statements included elsewhere in this Offering Memorandum. The Drax Group Audited Financial Statements have been prepared in accordance with IFRS.

The financial information below includes certain Non-IFRS Measures used to evaluate the Group's economic and financial performance. These measures are not identified as accounting measures under IFRS and therefore should not be considered as an alternative measure to evaluate the Group's performance. See "*Presentation of Financial Information and Other Information—Non-IFRS Financial Measures*". The financial information below is not necessarily indicative of future results of operations. Prospective investors should read the selected data presented below in conjunction with "*Use of Proceeds*", "*Capitalisation*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Drax Group Audited Financial Statements for 2015, 2016 and 2017 and the related notes thereto, which are included elsewhere in this Offering Memorandum.

Drax Group plc—Selected historical financial information

Income Statement

	Year ended 31 December		
	2015	**2016**	**2017**
		(£ million)	
Revenue	3,065.0	2,949.8	3,685.2
Total cost of sales	(2,656.2)	(2,573.4)	(3,140.2)
Gross profit	408.8	376.3	545.0
Operating and administrative expense	(239.8)	(236.3)	(316.1)
EBITDA(1)	**169.0**	**140.0**	**228.9**
Depreciation and amortisation	(100.4)	(109.5)	(166.3)
Asset obsolescence charges	(109.2)	—	—
Loss on disposal	(7.1)	(3.8)	(15.4)
Unrealised gains /(losses) on derivative contracts(1)	123.7	176.8	(156.1)
Acquisition-related costs	—	—	(7.8)
Other losses	—	—	(0.4)
Operating profit/(loss)	**76.0**	**203.5**	**(117.1)**
Cost of debt restructure	—	—	(24.2)
Interest payable and similar charges(2)	(24.3)	(29.0)	(31.5)
Interest receivable	1.4	0.6	0.2
Foreign exchange gains/(losses)(2)	5.9	22.0	(10.6)
Profit/(loss) before tax	**59.0**	**197.1**	**(183.2)**
Total tax (charge)/credit	(2.7)	(3.2)	32.1
Profit/(loss) for the year attributable to equity holders	**56.3**	**193.9**	**(151.1)**

(1) We define EBITDA as earnings before interest, tax, depreciation, amortisation, asset obsolescence charges, losses on disposals, unrealised gains and losses on derivative contracts, acquisition-related costs, cost of debt restructure and other losses, as presented in our income statement. See page F-13. EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results of operations as reported under IFRS. See "*Presentation of Financial Information and Other Information—Non-IFRS Financial Measures*". A reconciliation from profit for the year to EBITDA is presented below:

	Year ended 31 December		
	2015	**2016**	**2017**
		(£ million)	
(Loss)/profit for the year	**56.3**	**193.9**	**(151.1)**
Interest payable and similar charges(a)	24.3	29.0	31.5
Interest receivable	(1.4)	(0.6)	(0.2)
Foreign exchange gains and losses(a)	(5.9)	(22.0)	10.6
Total tax (credit)/charge	2.7	3.2	(32.1)

	Year ended 31 December		
	2015	2016	2017
	(£ million)		
Depreciation and amortisation	100.4	109.5	166.3
Asset obsolescence charges[(b)]	109.2	—	—
Loss on disposal[(c)]	7.1	3.8	15.4
Unrealised losses/(gains) on derivative contracts	(123.7)	(176.8)	156.1
Acquisition-related costs[(d)]	—	—	7.8
Cost of debt restructure[(e)]	—	—	24.2
Other losses[(f)]	—	—	0.4
EBITDA	**169.0**	**140.0**	**228.9**

(a) In 2017, we separated foreign exchange gains and losses from interest payable and similar charges. Prior years have been restated to conform to this presentation, consistent with Note 2.4 to the 2015 and 2016 Drax Group Audited Financial Statements.

(b) Represents asset obsolescence charges relating to (i) a decision to decommission the FGD technology within our Power Generation segment as it was no longer required on the generation units converted to biomass (£92.6 million), (ii) a decision to abandon the development of a technology solution to comply with the IED (£10.0 million), and (iii) a decision not to proceed with a third wood pellet manufacturing project in the US (£6.6 million).

(c) Represents the loss realised on the disposal of multiple immaterial assets compared to the book value of the respective assets. For the year ended 31 December 2017, also represents the loss realised on the disposal of assets related to Billington Bioenergy (£3.6 million).

(d) Represents the costs associated with the acquisition and on-boarding of Opus into the Group.

(e) Represents the one-off costs associated with the refinancing of the Group's debt in May 2017, including break fees paid and deferred costs written off in connection with the facilities being refinanced.

(f) Represents unrealised losses on the equity investment in Aggregated Micro Power Holdings Plc (£0.2 million) as well as a charge relating to contingent consideration payable in connection with our OCGT projects (£0.2 million).

(2) In 2017, we separated foreign exchange gains and losses from interest payable and similar charges. Prior years have been restated to conform to this presentation, consistent with Note 2.4 to the 2015 and 2016 Drax Group Audited Financial Statements.

Balance Sheet

	Year ended 31 December		
	2015	2016	2017
Assets		(£ million)	
Non-current assets	1,958.5	2,197.5	2,278.5
Of which property, plant and equipment	1,653.8	1,641.5	1,661.9
Of which derivative financial instruments	278.4	486.3	190.7
Current assets	1,278.6	1,471.4	1,239.1
Of which ROC and LEC assets	270.1	257.6	145.5
Of which trade and other receivables.	319.3	292.9	417.5
Of which derivative financial instruments	330.8	405.0	175.5
Total assets	**3,237.1**	**3,668.9**	**3,517.6**
Liabilities			
Current liabilities	762.6	884.9	864.7
Non-current liabilities	872.1	738.8	932.8
Of which borrowings	320.1	286.0	571.1
Total liabilities	**1,634.7**	**1,623.7**	**1,797.5**
Net assets	1,602.4	2,045.2	1,720.1
Total shareholders' equity	1,602.4	2,045.2	1,720.1

Cash Flow Statement

	Year ended 31 December		
	2015	2016	2017
		(£ million)	
Net cash from operating activities	**148.1**	**190.8**	**315.2**
Cash flow from investing activities			
Purchase of property, plant and equipment[(1)]	(179.1)	(93.2)	(159.0)
Purchases of software assets[(1)]	—	—	(15.7)
Acquisition of subsidiaries	(4.0)	—	(379.8)
Redemption of / (cash invested in) short-term investments	40.1	—	—
Net cash used in investing activities	**(143.0)**	**(93.2)**	**(554.5)**
Cash flow from financing activities			
Equity dividends paid	(49.9)	(11.0)	(21.6)
Proceeds from issue of share capital	1.5	0.1	0.1
Repayment of borrowings	—	—	(493.8)
New borrowings drawn down	—	—	768.5
Other financing costs paid	(5.7)	—	17.9
Net cash (absorbed by) / generated from financing activities	**(54.1)**	**(10.9)**	**235.3**
Net increase / (decrease) in cash and cash equivalents	**(49.0)**	**86.7**	**(4.0)**
Effect of changes in foreign exchange rates	1.9	7.9	(2.1)
Cash and cash equivalents at 31 December	133.8	228.4	222.3

(1) Our capital expenditure for 2015 and 2016 included purchases of software assets, however, beginning in 2017, we no longer account for purchases of software as capital expenditures, classifying software as general intangibles instead.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations as of and for the years ended 31 December 2015, 2016 and 2017, respectively, is based upon, and should be read in conjunction with, the Drax Group Audited Financial Statements, and the related notes thereto included elsewhere in this Offering Memorandum. The Drax Group Audited Financial Statements have been prepared in accordance with IFRS. Except as the context otherwise indicates, when discussing historical results of operations in this section "we", "us", "our", "Drax Group" and "Drax," are generally used to refer to the business of the Drax Group plc and its subsidiaries.

Certain numerical figures set out in this discussion and analysis of financial condition and results of operations, including financial information presented in millions, thousands or percentages, have been subject to rounding adjustments and, as a result, the totals of the data in this Offering Memorandum may vary from the actual arithmetic totals of such information. With respect to financial information set out in this Offering Memorandum, a dash ("—") indicates that the relevant figure is not available, while a zero ("0") indicates that the relevant figure is available but is or has been rounded to zero.

We encourage you to read the following discussion in conjunction with the sections entitled "Selected Financial Information" and "Presentation of Financial Information and Other Information".

The following discussion also contains forward-looking statements. Actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Offering Memorandum, particularly under "Forward-Looking Statements" and "Risk Factors".

Some of the measures used in this discussion and analysis of financial condition and results of operations are not measurements of financial performance under IFRS, but have been prepared on the basis of IFRS amounts, and should not be considered as an alternative to cash flow from operating activities as a measure of liquidity or as an alternative to operating profit, profit before tax or profit for the year attributable to equity holders or any other performance measure derived in accordance with IFRS. See "Presentation of Financial Information and Other Information—Non-IFRS Financial Measures".

Overview

We are an innovative vertically-integrated electricity generation and supply business with operations in the UK and the US. We own and operate the largest power plant in the UK by generation capacity with an installed capacity of approximately 4GW, mainly via our six 645MW generation units. Our business comprises three segments with an integrated strategy where we source and produce fuel in the form of sustainable wood pellets, generate electricity, and supply electricity and gas to end customers.

We are an important part of the UK's energy infrastructure, generating approximately 6 per cent. of the UK's total electricity, and approximately 15 per cent. of the UK's renewable electricity in the twelve months ended 30 September 2017. Based on the 2016-2017 compliance period, we are also the UK's largest single-site generator of renewable energy. We provide flexible and reliable generation and produced 20.0 TWh and 19.6 TWh of electricity in 2017 and 2016, respectively, of which 65 per cent. was generated from sustainable biomass in each year, making us a core part of the UK's decarbonisation strategy. Our three 645MW biomass-fired generation units receive regulatory support, leading to enhanced earnings streams with a significant component of stable and predictable revenue. Furthermore, we anticipate converting an additional coal-fired generation unit to biomass-fired generation in summer 2018. Our biomass-fired generation assets are served by an efficient and reliable biomass supply chain comprising dedicated port handling infrastructure and rail paths, thereby enhancing security of supply of fuel for our electricity generation activities. Currently, our three 645MW capacity coal-fired generation units provide important support services to the UK's electricity system, including greater reliability and flexibility at times of low De-rated Reserve Margins and system stress. In response to the growth in inflexible, intermittent renewable capacity on the electricity grid, we are developing four 299MW rapid-response standalone OCGT projects and also developing options to repower up to two of our coal-fired generation units with supporting battery storage technology. Each of these projects are subject to a positive investment decision, would need to be underpinned by a 15-year capacity market agreement and have the potential to provide flexible and reliable electricity to the UK electricity system and diversify our future energy generation capability.

Our B2B energy supply segment, comprising Haven Power and Opus, is the fifth largest supplier of electricity to businesses in the UK by volume supplied as of 31 October 2017 and had over 375,000 electricity and gas connections as of 31 December 2017. Our B2B Energy Supply segment provides us with a direct route to market for much of the electricity we generate. We believe that B2B counterparties place fewer credit restrictions on us than wholesale market counterparties and selling to this market provides us with a more diversified counterparty base with less overall counterparty credit risk.

We produce compressed wood pellets from sustainable sources in three plants in the southern US and use those pellets as fuel for our biomass-fired generation, which provided 12.3 per cent. of our biomass need in the year ended 31 December 2017. Two of these plants can currently manufacture wood pellets at their nameplate capacity. The third wood pellet manufacturing facility, our LaSalle facility, located in Urania, Louisiana, was acquired in April 2017 and commissioning of the plant commenced in November 2017 with a view to significantly increasing our production throughout 2018, with full commissioning expected by the first quarter of 2019. In addition to self-supply from our manufacturing facilities, we have a network of third party suppliers of wood pellets and to this end we have entered into long-term contracts with other wood pellet suppliers in North America and Europe to support a long-term, stable supply of biomass.

Drax Group plc is listed on the Main Market of the London Stock Exchange under stock ticker "DRX", and is part of the FTSE 250 Index. Drax Group plc's market capitalisation as at 5 April 2018 was approximately £1,127 million. In 2017 our EBITDA grew across all three segments of our business to £228.9 million and our consolidated net debt as at 31 December 2017 was £367 million.

The three segments of our business are:

- *Power Generation*: Through our Power Generation segment, we play a significant role in providing reliable renewable baseload electricity generation capacity as well as important system support services, enhancing the security of the UK's electricity supply and supporting the UK's transition to a low-carbon future. In the twelve months ended 30 September 2017, we generated approximately 6 per cent. of the UK's electricity needs and our sustainable biomass-fired generation units generated approximately 15 per cent. of the UK's renewable electricity. In 2016 and 2017, approximately 65 per cent. of electricity generated by the Power Station (located near Selby, Yorkshire) was from sustainable biomass. In 2017, less than 10 per cent. of the Group's revenue was attributable to sales of electricity from our coal-fired generation units.

  The Power Station benefits from regulatory support via the CFD and RO regimes which provide the Power Station with financial support to facilitate the production of baseload electricity. In January 2018, the Government announced that the RO regime will be changed in 2018. These changes will enable us to convert a fourth unit to biomass-fired generation in summer 2018, subject to legislative implementation of these changes. The estimated incremental cost of converting the fourth unit to biomass-fired generation is up to £30 million, which is considerably less than the cost of conversion for each of the three previous biomass-fired generation units. The unit we propose converting is not expected to provide the same incremental return as the existing biomass-fired generation units because the announced change to the RO regime effectively caps the ROCs for which this unit is eligible, but this conversion would allow us the flexibility to optimise our generation in a way that maximises the ROCs available to the Power Station as a whole under the modified RO regime. Under the current RO Scheme, the first, second and, if successfully converted, fourth generation units converted to biomass are eligible to receive ROCs until March 2027.

  The six generation units at the Power Station are the largest in their class in the UK, with an output capacity of up to 645MW each, compared with the typical coal-fired thermal generation unit size for larger power stations in the UK of approximately 500MW. Each of the generation units is operated independently and has the flexibility to generate electricity between 200MW and 645MW. The System Operator has a growing need for system support services (for example, predicting that within five years over 60 per cent. of settlement periods for electricity may require corrective action) and we have signed and renewed a number of contracts with the System Operator to supply Ancillary Services systems support. Furthermore, we are developing four new 299MW OCGT plants in England and Wales with the potential to provide flexible and reliable electricity to the UK electricity system and diversify our future energy generation capability subject to being underpinned by a 15-year capacity market agreement. We expect the first two of our four OCGT projects to participate in the next Capacity Market auction (expected to be in February 2019). When commissioned, each of these plants will provide fast, flexible gas generation to support the UK electricity system at times of peak demand. The remaining two OCGT plants are progressing through planning permission and are expected to participate in future capacity market auctions when the projects are sufficiently developed. Any 15-year capacity market agreements awarded to our OCGT plants would provide us with stable and predictable earnings over the life of the agreement.

We are also developing options to repower up to two coal-fired generation units to gas and build supporting battery storage at the Power Station. The project could replace the existing c.1.3GW of coal-fired generation capacity with up to 3.6GW of gas generation capacity (capable of running in open cycle and combined cycle modes) and up to 200MW of supporting battery storage, subject to a positive investment decision, obtaining consent and other approvals and the award of one or more 15-year capacity market agreements in future capacity market auctions.

- *B2B Energy Supply*: We supply electricity to businesses through Haven Power and electricity and gas to businesses through Opus, the latter of which we acquired in February 2017 for total consideration of £367.3 million. Both Haven Power and Opus provide us with a credit-efficient route to market for a proportion of the electricity we generate and the ROCs that our Power Generation segment earns. The majority of Haven Power’s sales volumes are with larger I&C customers, while Opus is focused on SMEs. Our B2B Energy Supply segment is the fifth largest supplier of electricity to businesses in the UK by volume as of 31 October 2017. Opus was awarded Utility Provider to Small Business of the Year 2017 at the British Business Awards and the standard of service recognised by this award is one we have focused on integrating within the Group as we continue to deliver a strong level of customer service across our B2B Energy Supply segment. As a leading challenger brand to the largest energy suppliers in the UK, in the SME market, Opus enhances and broadens our retail offering in the SME market with a wider product range than we previously offered, including, for example, gas. In line with our strategy to focus on our core B2B energy market, in October 2017 we successfully completed the sale of Billington Bioenergy, a biomass pellet supplier to businesses and households, for total consideration of £2 million.

- *Pellet Production*: Through our Pellet Production segment based in the US Gulf region, we manufacture and supply compressed wood pellets from sustainably managed forests. We take low-grade wood and residues from other wood processing industries and transform them into pellets that can be transported to the Power Station to generate low-carbon energy. We operate three wood pellet manufacturing facilities in the US Gulf region: Amite BioEnergy in Gloster, Mississippi, Morehouse BioEnergy in Bastrop, Louisiana and LaSalle BioEnergy in Urania, Louisiana. In 2017, our wood pellet manufacturing facilities produced 821,764 tonnes of sustainable biomass and supplied 12.3 per cent. of our internal requirements for generation from sustainable biomass. Our wood pellet manufacturing facilities have a combined annual nameplate production capacity of 1,500,000 tonnes, following an increase in annual production capacity of 75,000 tonnes at each of our Amite and Morehouse facilities in 2017 and the acquisition of our LaSalle facility in April 2017 which added 450,000 tonnes of annual nameplate production capacity. Our Amite and Morehouse facilities are both able to produce wood pellets at their nameplate capacity, while commissioning of our LaSalle plant commenced in November 2017 and we expect to significantly increase our production through 2018, with full commissioning expected by the first quarter of 2019. This capacity, if fully utilised, would enable us to supply approximately 20 per cent. of our internal requirements for generation from sustainable biomass in 2018. We aim to increase the share of internally sourced pellets to up to 30 per cent. in the future. Our Amite and Morehouse facilities are certified under the Sustainable Biomass Program, an industry standard, demonstrating that their biomass is legally and sustainably sourced. Our recently acquired LaSalle facility is working toward the same certification. We operate a port facility in Baton Rouge, Louisiana, which includes two 40,000 tonne storage domes to transport pellets from our own manufacturing facilities and from approved third party suppliers to the UK for use by our Power Generation segment. The port facility can load more than 15,000 tonnes of pellets per day and can accommodate Panamax Vessels.

Recent Developments

In January 2018, the Government announced that the RO Scheme will be changed in 2018. These changes will enable us to convert a fourth unit to biomass-fired generation in summer 2018, subject to legislative implementation of such changes. We expect that these changes will enable Drax to optimise its levels of biomass-fired generation across all RO-accredited units subject to an annual cap of ROCs received at the power station level. See “*Industry Overview—UK clean energy legislation—Grandfathering of support under the Renewables Obligation*”.

On 27 February 2018, Drax Group plc announced a £50 million share buy-back programme consistent with its capital allocation policy, which will commence in the first half of 2018.

Significant Factors Affecting Results of Operations

Our operating results are affected by a combination of economic, regulatory and industry- and company-specific factors. Economic conditions influence electricity demand, the pricing of fuel, electricity and other commodities and emissions allowances, which affect both our revenues and the costs associated with our operations. The regulatory framework determines the parameters in which the industry, generally, and we, specifically, operate. Industry-specific factors include technology, competition, capacity and supply/demand balance. Factors that specifically impact our operating results include, but are not limited to, acquisitions, plant reliability and efficiency, capital expenditure requirements, the ability to benefit from subsidies for the generation of electricity from renewable sources and the extent to which we have hedged our exposure to commodity and foreign exchange currency risks. The most important of such factors are discussed below.

Acquisitions and Pellet Production Investments

On 10 February 2017, we acquired Opus, a UK retail energy business supplying electricity and gas mainly to SME-customers, and as of that date we began consolidating Opus' financial results in our financial results. We believe that the acquisition of Opus provided us with an additional credit-efficient route to sell electricity from our Power Generation segment in the market. As a retail business, Opus is less capital intensive and is less exposed to volatility in commodity prices than our Power Generation segment. Within the B2B Energy Supply segment, Opus is focused on the SME market, which is characterised by lower consumption per customer and higher gross margins compared to the more competitive I&C market, from which Haven Power derives the majority of its sales.

We entered into the Bridge Facility in connection with the Opus Acquisition, drawings under which were refinanced from the proceeds of the Existing Notes, and our interest expense for the year ended 31 December 2017 increased as a result of the indebtedness incurred under the Bridge Facility and the Existing Notes.

In 2015, we acquired Billington Bioenergy, a UK wood pellet retail business which was a part of our B2B Energy Supply segment. In October 2017, we completed the sale of Billington Bioenergy to Aggregated Micro Power Holdings plc. We recognised a loss on disposal of £3.6 million for the year ended 31 December 2017 in connection with this sale.

Beginning in 2014, we also invested in the construction of two wood pellet manufacturing facilities near Bastrop, Louisiana and Gloster, Mississippi and related US port infrastructure. The wood pellet manufacturing facilities commenced commercial operations in 2015 and supply our Power Generation segment with wood pellets under long-term fixed price contracts. On 13 April 2017, we completed the acquisition of the LaSalle wood pellet manufacturing facility located in Louisiana which will, when fully commissioned by the first quarter of 2019, have a nameplate production capacity of 450,000 tonnes. These facilities produced approximately 822,000 tonnes of pellets in 2017. During 2017 we also installed and commissioned 150,000 tonnes of additional total capacity at our facilities near Bastrop, Louisiana and Gloster, Mississippi, allowing us to receive and process a greater amount of lower cost residues from commercial forestry processes and reducing our overall biomass cost.

Bark Spread and Dark Green Spread

The two core elements to our Power Generation gross profit are the "bark spread" for electricity generated from biomass and the "dark green spread" for electricity generated from coal.

The "bark spread" is the wholesale electricity price plus renewable support, less the cost of sustainable biomass. The cost of sustainable biomass burned is the gross cost of purchasing the fuel, which includes the cost of the raw material, processing costs, logistics, handling and storage costs, and is influenced by exchange rates where the fuel is contracted in a foreign currency. The renewable support reflects the value of the ROCs earned through generating electricity from burning sustainable biomass and payments to the renewable generator under the CfD Regime. As a renewable fuel, biomass is exempt from the EU ETS and Carbon Price Support.

The "dark green spread" is the difference between the wholesale electricity price and the cost of coal and carbon, including emissions allowances under the EU ETS and the Carbon Price Support. The cost of coal and emissions allowances is driven by market prices at the time the purchases are secured.

Electricity prices

The wholesale electricity price is affected by a variety of factors, including the price of underlying commodities such as oil, natural gas and emissions allowances, availability of generating capacity on the wholesale electricity market (and, in particular, the level of intermittent generation from sources such as wind and solar compared to baseload generation from coal and nuclear power stations), the level of demand and wider macroeconomic conditions. These factors together determine the "marginal plant", which drives the wholesale electricity price. A power station's cost of generation is determined largely by the cost of the type of fuel used, which can be susceptible to market forces and vary significantly. Some power stations have negative marginal costs of generation, such as those which use wind or solar, as the renewable support provided to these renewable generators exceeds the cost of generation.

Power stations can be modelled, according to their different costs of generation, as a stack, which is overlaid with forecasted demand for electricity. The available power stations are drawn on to supply electricity to fulfil this demand, starting with the power stations that have the lowest costs of generation. At the point in the demand stack where forecast demand intersects with available supply, the power station supplying electricity at the point of intersection is known as the "marginal plant". The price at which the marginal power plant is willing to generate therefore dictates the overall market price.

Since 2015, wholesale electricity prices in the UK have remained low by historical standards, although prices were higher in 2017 than in 2016. The principal reasons for the current period of relatively low electricity prices are lower gas prices (as the "marginal plant" is currently typically a gas-fired power station) and wind and solar generation continuing to displace coal generation (the former having no cost of fuel and the latter having a high cost of carbon).

As of 20 February 2018, we had contracted fixed price power sales (including both forward sold electricity and proxy gas hedges) of approximately 16.6 TWh, 7.3 TWh and 3.0 TWh for delivery in 2018, 2019 and 2020, respectively, amounting to approximately 82.5 per cent., 37.0 per cent. and 15.0 per cent., respectively, of our electricity output for the year ended 31 December 2017. Average achieved prices for fixed price power sales of forward sold electricity in 2018, 2019 and 2020 were £43.8, £43.1 and £42.0, respectively. During periods of low electricity prices, the electricity price that we can achieve in the market may not cover our costs of fuel and, in the case of generation from coal, the cost of carbon. As a result, it may be more economical for us to idle, or reduce the load factor on, all or some of the generation units in the Power Station. The continuing increase in generation from intermittent renewables such as wind or solar power combined with the continuing decrease in available conventional generation capacity due to the retirement of older, less efficient and mostly coal-fired power stations also results in more volatile wholesale electricity prices. This volatility presents an opportunity for generators like us that can produce significant amounts of electricity at relatively short notice at times of peak demand, for example at times of lower production from intermittent renewables due to adverse weather conditions. We expect that the increasing trend to intermittent renewables generation coupled with a decrease in conventional generation, in particular from coal-fired power stations (given the Government's intention to end electricity generation from unabated coal by 2025), will continue in the short- to medium-term and will continue to contribute to lower load factors in the coal-fired generation units and more volatile wholesale electricity prices in the UK generally.

Fuel and carbon prices

Spot market prices for wood pellets increased in 2017, which represented a change from the overall downward trend in coal and biomass prices since 2015, although we were partially protected from this increase in price by our focus on long-term contracts and self-supply. The average cost of fuel, before the impact of costs of emissions allowances, the Carbon Price Support and ROC support, was £55.0 per MWh in 2017 compared with £42.9 per MWh in 2015, primarily reflecting the shift from coal to predominantly biomass fuelled generation as the biomass required to generate a MWh of electricity is more expensive than the coal required to generate the same amount of electricity.

We are generally protected from volatility in foreign exchange rates, due to having an active rolling 5-year foreign exchange hedging programme with respect to the currencies in which purchases of wood pellets are denominated (predominantly US dollars and Canadian dollars). Additionally, our focus on long-term contracts and self-supply, which enables an ability to adjust production of our self-supplied biomass to take advantage of attractively priced spot cargoes, provides protection from fluctuations in raw materials prices.

The cost of carbon in the dark green spread is made up of two elements, the cost of emissions allowances under the EU ETS and Carbon Price Support. The market price of emissions allowances increased in 2017 relative to 2016 and the average cost of emissions allowances in support of coal-fired generation was £5.7 per MWh in 2017 compared to £5.1 per MWh in 2015. The Carbon Price Support rate for the first year of operation (2013/2014) was £4.94/tonne, increasing to £9.55/tonne in 2014/2015 and £18.08/tonne in 2015/16; however, the

Carbon Price Support price has been capped at £18/tonne from 2016 until 2021. In November 2017, the Government confirmed that the UK will continue to maintain a total carbon price (the combined UK Carbon Price Support—Carbon Price Support and the EU ETS) until such time as unabated coal-fired generation in the UK has ceased.

Generation Levels and Availability

We receive a significant proportion of our revenues from wholesale electricity sales from the Power Station. Our revenues are therefore affected by the amount of generation at the Power Station, which is in turn underpinned by the availability of the Power Station to be able to generate when market conditions dictate that it is economic to do so. Availability is impacted by planned and unplanned outages due to maintenance, inspections or other safety-related incidents. Each of our six generation units at the Power Station typically has a planned outage every four years and these outages are usually scheduled for the summer months, when electricity demand and power prices are lower. In the UK power generation industry, the "summer" season comprises the calendar months April to September, and the "winter" season comprises the calendar months October to March.

During 2017, the Power Station generated approximately 20.0 TWh of electricity compared to 19.6 TWh in 2016. The availability for 2017 was impacted by a significant planned outage on our generation unit that receives support under the CfD Regime, as well as an unplanned outage in December 2017 leading to reduced generation for approximately four weeks lasting into January 2018 from our biomass-fired units as a result of a fire on a section of conveyor at our biomass rail unloading facility. Although this issue did not directly relate to the operation of the biomass-fired units, the resulting restriction on fuel deliveries by rail impacted our ability to generate at maximum output across all our biomass units such that were forced to temporarily curtail generation from those biomass units receiving support under the Renewables Obligation. The availability for 2016 reflected a particularly busy maintenance schedule that included planned outages on two of the six generation units (one of which took longer than anticipated due to an unplanned equipment failure), as well as four shorter outages for essential repair works. The availability for 2015 was principally a result of a single planned outage when electricity prices are lower.

We are currently undertaking a planned outage of a coal-fired generation unit, and anticipate a further planned outage to convert a fourth generation unit from coal- to biomass-fired generation in summer 2018. We also anticipate a further planned outage on our other coal unit in summer 2018. We expect that none of these outages will have a notable impact on profitability given that coal-fired generation units are generally not able to generate profitably during summer periods. We also sometimes experience unplanned outages. See "*Risk Factors—Risk Factors Relating to Our Business and Industry—We are dependent on continued output from our facilities, in particular the Power Station, and outages at the Power Station or any of our other facilities could negatively affect our business, operations, prospects, financial condition and results of operations*".

Regulation

Renewables

Revenue from our three biomass-fired generation units is supported by the RO Scheme, in the case of two generation units, and the CfD Regime, in the case of the third generation unit. The RO Scheme is a market-based mechanism that was introduced in 2002 to support the deployment of large scale renewable energy in the UK. The RO Scheme requires licensed electricity suppliers to submit a specified number of ROCs to Ofgem per MWh of electricity they supply or to make a buy-out payment. ROCs are issued by Ofgem to accredited renewables generators for each MWh of renewable electricity generated. The number of ROCs received by a generator per MWh of electricity produced differs depending on the type of renewable generation technology utilised. We receive one ROC per MWh of electricity generated from the first and second generation units. We anticipate converting an additional coal-fired generation unit to biomass fired generation in summer 2018 following a recent change in Government policy, although the total amount of ROCs that may be received by the Power Station following the conversion will be subject to an overall station-level cap such that the incremental amount of ROCs received by this fourth unit will likely be lower than the average number of ROCs received in generation from our existing RO Scheme-supported biomass-fired generation units. Under the current RO Scheme, the first, second and, if successfully converted, fourth generation units converted to biomass are eligible to receive ROCs until March 2027.

ROCs are tradable certificates that have no fixed price so the amount an electricity supplier pays for a ROC is negotiated between the generator and supplier. However, the buy-out payment that a supplier would have to make if it failed to present a sufficient number of ROCs to Ofgem effectively sets a price cap on ROCs and historically the purchase price has been lower than the buy-out payment. Each ROC is also entitled to a share of the buy-out fund, in which all buy-out payments from suppliers are pooled and then recycled back to suppliers in proportion to the number of ROCs they have validly submitted toward discharging their obligation in the relevant period. Many of our contracts for the sale of ROCs to suppliers contain a provision that requires the supplier to pass the recycle payment received by the supplier following submission of the ROC to Ofgem on to us.

Prior to August 2015, we received LECs for the supply of electricity generated from the generation units that had been converted to biomass, which we could sell to suppliers who could use the LECs to demonstrate that the energy they supplied was CCL exempt. Effective 1 August 2015, we are no longer eligible for LECs. This change had a negative impact on our revenue and EBITDA. See "*Risk Factors—Risk Factors Relating to Our Business and Industry—The reduction or abandonment of governmental support for generation of electricity from biomass or other relevant changes in governmental energy policy may materially adversely affect our business, operations, financial condition and results of operations*".

Revenues from the external sale of ROCs and LECs amounted to £367.8 million, £366.7 million and £290.8 million in 2017, 2016 and 2015, respectively.

Effective 19 December 2016 and following the state aid approval by the European Commission, electricity generated in our third biomass-fired generation unit is supported by the CfD Regime. Our CfD has a term until 2027 and as of 1 April 2018 provides for a strike price of £111.29 per MWh. The strike price is adjusted annually on 1 April to reflect the consumer price index and system balancing costs in the UK. Based on average realised electricity prices since 2015, we expect our CfD to continue to contribute significantly to our revenue and gross profit going forward, providing increased visibility and stability of earnings.

Conventional generation

In November 2016, the Government initiated a public consultation seeking stakeholder feedback on its proposal to put into effect an end to unabated electricity generation from coal by 2025. In January 2018, the Government restated its intention to phase out electricity generation from coal by 2025 in order to reduce overall carbon dioxide emissions, and announced the introduction of an emissions intensity limit, which, if enacted, will make generation from unabated coal units uneconomic. Against the background of these plans, we expect that electricity generation from coal at the Power Station will end by 2025. Accordingly, we decided to adopt a more focused and tailored maintenance plan for our coal-fired generation units, which is expected to lead to lower maintenance capital expenditure on these units compared to our historical maintenance capital expenditure. A major outage of one of the coal-fired generation units that was initially planned for 2017 has also been deferred to 2018. Furthermore, we have accelerated the depreciation of the coal-specific assets at the Power Station. Coal-specific assets include those assets that are only useful for as long as the unconverted generation units are coal-fired (such as the coal transportation system), but not the generation units themselves as these could potentially be operational after 2025 under our proposed gas repowering project or else converted to run on other alternative fuels. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations of Drax—Significant Factors Affecting Results of Operations—Capital and Operating Expenditure*" for a discussion of our proposal to convert a further coal-fired generation unit to biomass and explore repowering and battery storage technology for the remaining coal-fired generation units.

Effective January 2016, the IED sets an annual limit on the amount of NOx that we can emit from the Power Station. This limit is provided in the form of allowances. We must either ensure that the generation profile of the Power Station's coal and biomass units operates within this limit or else purchase surplus allowances from other generators equal to the excess.

The Power Station is also subject to short-term (24-hourly and monthly) emission limit values for SO_2, NOx and particulate matter. These limits reflect achievable emissions rates from plants such as the Power Station, and the Power Station remains compliant with them.

The type and quality of fuel used in generation (particularly the quality of coal) and the load factor of the generation units have an impact on the amount of NOx and other gases released by the Power Station. We also have selective non-catalytic reduction technology fitted to five of the Power Station's six generation units which can be turned on (at a cost) to reduce NOx emissions. However, ultimately if the Power Station is about to exceed one of the applicable annual limits and we are unable to acquire the relevant additional emissions allowances from the market, we would have to reduce the level of otherwise profitable generation.

Capital and Operating Expenditure

Since 2012, we have made significant investments and incurred the corresponding capital expenditure. Our non-recurring capital expenditures mainly related to the conversion of three of the generation units at the Power

Station to biomass and the investment in three US wood pellet manufacturing facilities and the associated transport infrastructure, such as loading and unloading terminals in the US and the UK. Since 2012, we have spent more than £650 million on this first phase of our biomass conversion project (including the investment to make these generation units IED-compliant) which is now complete. In addition, following the Government's consultation on an end to unabated electricity generation from coal by 2025, we expect to convert one of our three remaining coal-fired generation units to biomass in summer 2018 and are separately developing options for coal-to-gas repowering and supporting battery storage technology for the other two coal-fired generation units. Accordingly, we have adapted the maintenance and upgrade schedule for our remaining coal-fired generation units and expect our annual maintenance capital expenditures with respect to these units to continue to decrease to levels lower than those seen in past years.

Our recurring capital expenditure is concentrated in the Power Generation segment. In contrast, the operations of the Pellet Production segment and the B2B Energy Supply segment require relatively small amounts of maintenance capital expenditure. Within the Power Generation segment, recurring capital expenditures mainly relate to scheduled maintenance work, technological improvements (such as investments to comply with the IED) and unscheduled repairs. See also "—*Depreciation of Coal Specific Assets*" below.

Our capital expenditure amounted to £164.6 million, £95.7 million and £173.8 million in 2017, 2016 and 2015, respectively. Maintenance capital expenditure constituted £69.4 million, £68.9 million and £59.6 million of our capital expenditure in 2017, 2016 and 2015, respectively. Our capital expenditure for 2015 and 2016 included purchases of software assets, however, beginning in 2017, we no longer account for purchases of software as capital expenditures, classifying software as general intangibles instead. Including the impact of purchases of software assets, our capital expenditure for 2017 would have been £180.6 million.

Excluding the impact of acquisitions and related commissioning costs (in particular, in 2017, the purchase of the LaSalle manufacturing facility, which was accounted for as an asset purchase and not the acquisition of a business, and related commissioning cost), our capital expenditure would have amounted to £116.8 million, £95.7 million and £173.8 million in 2017, 2016 and 2015, respectively.

For the year ending 31 December 2018, we expect capital expenditure to be between £100 million and £120 million, consisting of up to £30 million in expenditures relating to the potential conversion of a fourth unit to biomass-fired generation, an estimated £50 million to £60 million of maintenance capital expenditure and an estimated £20 million of other general capital expenditures relating primarily to strategic spares (i.e. large equipment for the Power Station with long lead times that we keep on-site to reduce the risk of prolonged unplanned outages). In the medium term, we expect that our capital expenditure will be principally dependent on the decision as to whether and when to pursue the development of the four OCGT projects acquired in December 2016. If developed, these OCGT power plants are expected to become operational between 2021 and 2025 and to require an investment of approximately £80 million to £90 million each. In addition, if completed, we expect our coal-to-gas repowering and battery storage technology projects to require a substantial additional investment of over £500 million in total in the period from 2019 through 2022.

Our results of operations are also affected by our operating and administrative expenses. In the years ended 31 December 2017, 2016 and 2015 operating and administrative expenses were £316.1 million, £236.3 million and £239.8 million, respectively. The increase in 2017 was primarily due to the acquisition of Opus, along with increased expenses associated with expansion in capacity in our wood pellet manufacturing business and an increase in central administrative expenses resulting from increased investment in strategic, innovation and development activities. In 2018, we expect our operating and administrative expenses to be broadly aligned with 2017.

Derivative Financial Instruments

We are exposed to commodity price, foreign currency exchange rate, interest rate and inflation rate risks in the course of our business and financing activities. We seek to hedge our exposure to these risks by entering into derivative financial instruments where deemed appropriate. For example, as of 31 December 2017, 2016 and 2015 we had outstanding derivative financial instruments in respect of commodities and foreign currency exchange rates with an aggregate notional value (based on the undiscounted net cash inflows/outflows) of £4,856.7 million, £3,510.3 million and £3,959.4 million, respectively.

During 2017, the pound sterling appreciated significantly against the US dollar, largely reversing the losses in the value of the pound sterling relative to the US dollar sustained in 2016 that resulted, in part, from the UK's referendum on withdrawing from the European Union. As we had hedged significant parts of our exposure from fuel purchases to the US dollar, the market value of our derivative assets was adversely affected by these shifts in exchange rates and we recognised non-cash, unrealised losses in our income statement and hedge reserves as of and for the year ended 31 December 2017 as a result of the lower mark-to-market values of these hedging arrangements at year-end relative to the beginning of the year.

During 2016, the pound sterling depreciated significantly against other major currencies such as the US dollar, the euro and the Canadian dollar. As we had hedged significant parts of our exposure from fuel emissions allowances and other purchases in these currencies, we recognised significant balance sheet gains from higher mark-to-market values of these hedging arrangements.

We are extensively hedged against foreign currency volatility until the end of 2022, and through our five-year rolling hedging we continue to secure certainty over our FX exposures over this period. Should there be any renewed and prolonged weakness in the pound sterling, it may lead to higher fuel prices for us.

Seasonality

Our primary activities are affected by seasonality. Demand in the UK for electricity and gas is typically higher, and thus drives higher electricity prices and dispatch, in the winter period (October to March) when temperatures are colder. Conversely, demand is typically lower in the summer months (April to September), when prices are lower. This trend is experienced by all of our UK-based businesses, as they variously operate within the UK electricity and gas markets, and is most notable within our Power Generation segment due to its scale and the flexible operation of coal-fired plants when prices are low in the summer. Our Pellet Production segment has a regular production and dispatch schedule, which generally insulates it from demand fluctuations caused by seasonality, although unseasonably wet weather can reduce the availability of raw materials to produce wood pellets as our fibre suppliers may experience difficulties or may be unable to access harvesting sites. Overall, as a result of these seasonal patterns, profit margins are lower in the summer months, partially offset by a related reduction in working capital requirements, with any fluctuations in our cash flow cycle principally managed through cash at hand or borrowings under our debt facilities.

Depreciation of Coal-Specific Assets

During 2016, management assessed the likely future prospects of our existing generation units and took the decision to reduce the expected remaining useful economic life of coal-specific assets to a long stop date of 2025, in line with the Government’s stated ambition for the cessation of unabated coal generation. This decision followed the launch of a public consultation in November 2016 seeking stakeholder feedback on this ambition, and in January 2018, the Government restated its intention to end unabated coal generation by 2025.

Coal-specific assets include those assets that are only useful for as long as the unconverted generation units are coal-fired (such as the coal transportation system), but not the actual generation units as these can potentially be converted to biomass and be operational after 2025. Our decision to reduce the expected remaining useful economic life of coal-specific assets has increased depreciation charges by approximately £15 million for the year ended 31 December 2017, and we expect these increased charges to continue until 2025 or, if earlier, the date that coal generation ceases at the Power Station. If, prior to either of these dates, we decide to further reduce the expected remaining useful economic life of our coal-specific assets, our annual depreciation charges may further increase.

Generation Capacity and System Support

With increasing levels of intermittent renewables we are continuing to see opportunities to extract value from flexibility, such as short-term power and balancing market activity, the provision of Ancillary Services and the increased margin achieved from coal-fired generation due to the use of out-of-specification fuels. To capture value in this market we continue to focus resources on optimising availability and flexibility of both our coal- and biomass-fired generation units.

For example, we compete with other generators for Ancillary Services contracts, the revenues from which can support falling or negative dark green spreads in respect of our coal-fired generation. Revenues from Ancillary Services amounted to £30.7 million in 2017 compared to £47.3 million in 2016 and £14.0 million in 2015, primarily due to the replacement of an expiring 1-year “black start” contract.

In addition, over the period 2017 to 2022 we expect to generate revenues in excess of £90 million from a series of one-year capacity market contracts for our coal-fired generation units (accounting for indexing over the tenure of the contract). The first of these contracts commenced in October 2017, generating £3 million in revenues for the year ended 31 December 2017.

Going forward, revenues from short-term power and balancing market activity, the provision of Ancillary Services and the increased margin achieved from coal-fired generation due to the use of out-of-specification fuels will be combined into Value from flexibility and tracked on this basis. In total, these contributed to Value from flexibility of £88.0 million for the year ended 31 December 2017.

Significant Factors Affecting Comparability of Financial Information

Acquisitions and Pellet Production Investments

On 10 February 2017, we acquired Opus, a UK retail energy business providing electricity and gas mainly to SME-customers, and as of that date we began consolidating Opus' financial results in our financial results. We believe that the acquisition of Opus provided us with an additional credit-efficient route to sell electricity from our Power Generation segment in the market. As a retail business, Opus is less capital intensive and is less exposed to volatility in commodity prices than our Power Generation segment. Within the B2B Energy Supply segment, Opus is focused on the SME market, which is characterised by lower consumption per customer and higher gross margins compared to the more competitive I&C market, from which Haven Power derives the majority of its sales. Opus contributed revenue of £610.7 million and net profit of £22.5 million in 2017. See "*Our Business—B2B Energy Supply—Opus*" for more information regarding Opus.

We have recognised a substantial amount of goodwill on our consolidated balance sheet as a result of the acquisition of Opus. In addition, we entered into the Bridge Facility in connection with the Opus Acquisition, drawings under which were refinanced from the proceeds of the Existing Notes, and our interest expense increased as a result of the indebtedness incurred under the Bridge Facility and the Existing Notes.

In 2015, we acquired Billington Bioenergy, a UK wood pellet retail business which was a part of our B2B Energy Supply segment. In October 2017, we completed the sale of Billington Bioenergy to Aggregated Micro Power Holdings plc. We recognised a loss on disposal of £3.6 million for the year ended 31 December 2017 in connection with this sale.

Beginning in 2014, we also invested in the construction of two wood pellet manufacturing facilities near Bastrop, Louisiana and Gloster, Mississippi and related US port infrastructure. The wood pellet manufacturing facilities commenced commercial operations in 2015 and supply our Power Generation segment with wood pellets under long-term fixed price contracts. During 2017 we also installed and commissioned 150,000 tonnes of additional total capacity at our facilities near Bastrop, Louisiana and Gloster, Mississippi, allowing us to receive and process a greater amount of lower cost residues from commercial forestry processes and reducing our overall biomass cost. On 13 April 2017, we completed the acquisition of the LaSalle wood pellet manufacturing facility located in Louisiana which will, when fully commissioned by the first quarter of 2019, have a nameplate production capacity of 450,000 tonnes. Our wood pellet manufacturing facilities produced approximately 822,000 tonnes of pellets in 2017. As part of our strategy to supply the Power Station with up to 30 per cent. of its annual demand for wood pellets from our own production, we will consider targeted acquisitions if we can identify attractive opportunities, including the potential acquisition of financially distressed wood pellet manufacturing facilities in the US.

Contract for Difference

Following the approval by the European Commission on 19 December 2016, our CfD for electricity produced by our third biomass-fired generation unit became effective. Our CfD provides a variable top-up to a reference price which reflects average wholesale electricity prices over a certain period. Our CfD is between Drax Power as a renewable electricity generator and the Low Carbon Contracts Company Limited, a limited company owned by the UK Government (the "**LCCC**"), as the CfD counterparty, under which payments are made by reference to a fixed price for each MWh of electricity produced, known as the strike price. Our CfD has a term until 2027 and as of 1 April 2018 provided for a strike price of £111.29 per MWh. The strike price is adjusted annually on 1 April to reflect consumer price inflation and system balancing costs in the UK. We sell the electricity in the wholesale market and when the reference price (which is an average price and therefore not directly related to the price at which we sell the underlying electricity) is below the strike price, we receive a top-up payment from the LCCC for the additional amount we generate and when the reference price is above the strike price, we must pay back the difference it generates to the LCCC. As a result, we have stability in respect of the price of the electricity that we generate from the biomass-fired generation unit to which our CfD relates, which extends to 2027.

Loss of Climate Change Levy Exemption

Effective 1 August 2015 we no longer earn LECs from the generation of electricity from renewable sources. Power Generation revenue in 2015 included £17 million of revenue from the sale of LECs. See "*Industry Overview—UK clean energy legislation—Climate Change Levy and Control for Low Carbon Levies*".

Tax

The reduction in US federal tax rates to 21 per cent. from 1 January 2018 resulted in a one-off non-cash deferred tax charge of £16 million for the year ended 31 December 2017 due to the reduction in the deferred tax asset held in respect of built up start-up losses for the US Pellet businesses. As we are not expecting to pay taxes in the near term in the US, this change in tax rates is not expected to have an impact on cash taxes payable by those of our businesses that are subject to US taxation. Additionally, we received notification of a patent box claim with respect to the biomass generation business for which we obtained a tax credit of £10.4 million in 2017, and will receive the cash benefit in 2018, and ongoing reduced UK corporation tax rate on these profits going forward. Under the UK Patent Box tax regime, the Group can pay corporate taxes at a lower rate on profits which arise from the use of innovation.

Key Performance Indicators

Our management uses a number of key financial and non-financial performance indicators to track the performance of our business. The principal key performance indicators we monitor are total revenue, gross profit, EBITDA and net debt. Additionally, we rely on biomass unit technical availability and value from flexibility to track the performance of our Power Generation segment, sales volume (in TWh) and renewal rate (in per cent.) of Opus to track the performance of our B2B Energy Supply segment and wood pellets production (in thousand tonnes), the variable cost per tonne of biomass produced (in USD/tonne) to track the performance of our Pellet Production segment.

EBITDA and net debt are not accounting measures within the scope of IFRS. We define EBITDA as earnings before interest, tax, depreciation, amortisation, asset obsolescence charges, losses on disposals, unrealised gains and losses on derivative contracts, acquisition-related costs, cost of debt restructure and other losses. Net debt is defined as current and non-current borrowings and overdrafts (net of deferred finance costs) less cash and cash equivalents. See "*Presentation of Financial Information and Other Information—Non IFRS Financial and Other Information*".

The following table sets forth certain key performance indicators for the Drax Group for the years ended 31 December 2015, 2016 and 2017, respectively.

	Year ended 31 December		
	2015	**2016**	**2017**
	(£ million unless specified otherwise)		
Revenue	3,065.0	2,949.8	3,685.2
Gross profit	408.8	376.3	545.0
EBITDA[(1)]	169.0	140.0	228.9
Net debt[(2)]	186.6	93.5	367.4
Power Generation Segment			
Value from flexibility (in £ millions)[(3)]	—	—	88.0
B2B Energy Supply Segment			
Electricity sales (Opus) (in TWh)	—	—	5.7
Pellet Production Segment			
Wood pellets production (in thousand tonnes)	279	607	822
Variable cost per tonne (in US dollars per tonne)	—	82	77

(1) EBITDA is defined as earnings before interest, tax, depreciation, amortisation, asset obsolescence charges, losses on disposals, unrealised gains and losses on derivative contracts, acquisition-related costs, cost of debt restructure and other losses, as presented in our income statement. See page F-13. The below table provides a reconciliation between profit for the year and EBITDA.

	Year ended 31 December		
	2015	2016	2017
		(£ million)	
(Loss)/profit for the year	**56.3**	**193.9**	**(151.1)**
Interest payable and similar charges[(a)]	24.3	29.0	**31.5**
Interest receivable	(1.4)	(0.6)	**(0.2)**
Foreign exchange gains and losses[(a)]	(5.9)	(22.0)	**10.6**
Total tax (credit)/charge	2.7	3.2	**(32.1)**
Depreciation and amortisation	100.4	109.5	**166.3**
Asset obsolescence charges[(b)]	109.2	—	**—**
Loss on disposal[(c)]	7.1	3.8	**15.4**
Unrealised losses/(gains) on derivative contracts	(123.7)	(176.8)	**156.1**
Acquisition-related costs[(d)]	—	—	**7.8**
Cost of debt restructure[(e)]	—	—	**24.2**
Other losses[(f)]	—	—	**0.4**
EBITDA	**169.0**	**140.0**	**228.9**

(a) In 2017, we separated foreign exchange gains and losses from interest payable and similar charges. Prior years have been restated to conform to this presentation, consistent with Note 2.4 to the 2015 and 2016 Drax Group Audited Financial Statements.

(b) Represents asset obsolescence charges relating to (i) a decision to decommission the FGD technology within our Power Generation segment as it was no longer required on the generation units converted to biomass (£92.6 million), (ii) a decision to abandon the development of a technology solution to comply with the IED (£10.0 million) and (iii) a decision not to proceed with a third wood pellet manufacturing project in the US (£6.6 million).

(c) Represents the loss realised on the disposal of multiple immaterial assets compared to the book value of the respective assets. For the year ended 31 December 2017, also represents the loss realised on the disposal of assets related to Billington Bioenergy (£3.6 million).

(d) Represents the costs associated with the acquisition and integration of Opus into the Group.

(e) Represents the one-off costs associated with the refinancing of the Group's debt in May 2017, including break fees paid and deferred costs written off in connection with the facilities being refinanced.

(f) Represents unrealised losses on the equity investment in Aggregated Micro Power Holdings Plc (£0.2 million) as well as a charge relating to contingent consideration payable in connection with our OCGT projects (£0.2 million).

(2) Net debt represents current and non-current borrowings less, cash and cash equivalents. Current and non-current borrowings are net of deferred financing costs.

	Year ended 31 December		
	2015	2016	2017
		(£ million)	
Current and non-current borrowings	(320.4)	(321.9)	(589.7)
Less short term investments, cash and cash equivalents	133.8	228.4	222.3
Net debt	**186.6**	**93.5**	**367.4**

(3) Value from flexibility comprises revenues from short-term power and balancing market activity, and the provision of Ancillary Services and the increased margin achieved from coal-fired generation due to use of out-of-specification fuels.

Description of Key Income Statement Line Items

Set forth below is a brief description of the composition of the key line items of our consolidated income statement.

Revenue

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 Drax Group companies. Revenues from the sale of electricity from the Power Generation segment are measured based upon metered output delivered at rates specified under contract terms or prevailing market rates, as applicable. Revenues from sales of ROCs or LECs are stated at the invoiced value, net of VAT. Revenue is recognised when the ROC or LEC is transferred to a third-party. Income or costs arising from the CfD are recognised in the income statement as a component of revenue at the point the flow of economic benefit becomes probable.

Revenue from the sale of electricity and gas directly to business customers through the B2B Energy Supply segment is recorded after deduction of agreed discounts, VAT and CCL. Revenue is recognised on the supply of electricity or gas when a contract exists, supply has taken place, a quantifiable price has been established or can be determined and the 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 consumption price estimates. Revenues from the sale of wood pellets in the B2B Energy Supply segment through Billington Bioenergy were recognised at the point the wood pellets were delivered to the location specified in the contract.

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

Other revenues derived from the sale of goods (for example, by-products from electricity generation such as ash and gypsum) are recognised at the point the risks and rewards of ownership pass to the customer.

In general, almost all sales of the Pellet Production segment (and all such sales during the year ended 31 December 2017) are inter-segment sales which are eliminated upon consolidation.

Total cost of sales

Total cost of sales consists of the cost of fuel required for electricity generation, the cost of transportation, the cost of raw materials for the production of wood pellets, the cost of power purchases from third-parties, grid charges payable to the System Operator, the operator of the electricity transmission network in Great Britain, and other retail costs.

In the Power Generation segment, cost of fuel is the principal driver of total cost of sales and represents the cost of purchasing the coal (including cost of carbon) and sustainable biomass that is used to generate electricity in the Power Station (net of any ROC and LEC support earned). ROCs and, until 1 August 2015, LECs earned from the biomass-fired generation units are initially recognised as a reduction in the Power Generation segment's biomass fuel costs and subsequently recognised as revenue when the ROC or LEC is sold to a third-party. The initial reduction on the fuel costs realised and the revenue is recognised at the time of sale. The Power Generation segment also purchases electricity from the market either when it is more economical to do so because the market price for electricity is lower than our marginal cost of production or when delivery obligations cannot be met by own generation. Grid charges mainly comprise distribution, transmission and system balancing costs.

In the B2B Energy Supply segment cost of sales is mainly driven by power purchases. The B2B Energy Supply segment purchases a significant proportion of its electricity requirement from the Power Generation segment under intra-group electricity purchase agreements. Other costs of sales include third-party costs such as grid charges, the costs of meeting RO obligations and small-scale Feed-in-Tariffs ("**SS-FiT**") schemes, as well as, until 1 August 2015, the costs of LECs required to demonstrate the supply of renewable source electricity, CCL-exempt energy to customers. Grid charges reflect costs of distribution, transmission and system balancing costs.

In the Pellet Production segment cost of sales is principally influenced by the price and type of raw fibre used in producing the wood pellets. Our wood pellet manufacturing facilities can process various types of raw fibre from primary sources (such as thinnings, tops and harvesting residues) or secondary sources (such as chips, shavings or sawdust), with secondary sources generally being more cost-effective compared to primary sources. Other costs of sales in the Pellet Production segment comprise costs of transport and other costs related to the production process.

Operating and administrative expenses

Operating and administrative expenses primarily consist of staff costs (such as wages and salaries, social security costs, other pension costs and share based payments) and repairs and maintenance expenditure on property, plant and equipment.

EBITDA

EBITDA represents earnings before interest, tax, depreciation, amortisation, asset obsolescence charges, losses on disposals, unrealised gains and losses on derivative contracts, acquisition-related costs, cost of debt restructure and other losses, as presented in our income statement. See page F-13. See "*Presentation of Financial Information and Other Information—Non IFRS Financial and Other Information*".

Depreciation and amortisation

Depreciation represents the systematic allocation of the cost of a tangible asset, or other amount substituted for cost, less its residual value, over its useful life. Amortisation represents the systematic allocation of the cost of an intangible asset, or other amount substituted for cost, less its residual value, over its useful life.

Unrealised gains or losses on derivative contracts

Unrealised gains or losses on derivative contracts represents changes in fair value of derivative contracts at the relevant balance sheet date, to the extent the derivatives contracts do not qualify for the own use exemption or as effective hedges in accordance with IFRS. The fair value of a derivative contract is generally the difference between the price we have secured and the price we could achieve in the market at the time.

Derivative contracts qualify for the own use exemption if they are contracts for the delivery of physical commodities entered into and held for our own purchase, sale or usage requirements (e.g., derivative contracts for physical coal or sustainable biomass). Derivative contracts that qualify for the own use exemption are not accounted for using the fair value and therefore not included in unrealised gains or losses on derivative contracts. In addition, changes in the fair value of derivative contracts that qualify as effective hedges under relevant IFRS standards are accounted for in the hedge reserve and not in unrealised gains or losses on derivative contracts.

We adopted IFRS 9 to replace IAS 39 with effect from 1 January 2018. The adoption of this standard is not expected to have a significant impact on the classification and measurement of our financial assets or financial liabilities. Following adoption, we anticipate implementing a policy to designate the fair value movements relating to forward basis points and the time value of money of options as a "cost of hedging" and recognise these movements as a component of other comprehensive income. There may also be opportunities to designate additional contracts into hedge relationships in the future, potentially reducing income statement volatility from fair value movements on such contracts.

Interest payable and similar charges

Interest payable and similar charges reflect expenses incurred in managing our debt structure (such as interest payable on our bank loans) as well as the unwinding of discounting on provisions for the reinstatement of our sites at the end of their useful lives, amortisation of deferred finance costs, net interest charges on our defined benefit pension scheme obligations and other financing charges. The unwinding of discounting on provisions for the reinstatement of our sites at the end of their useful lives relates to the provisions we are making for the estimated decommissioning costs at the end of the useful life of our Power Station assets. The amount provided for represents the present fair value of these obligations (using a risk-free pre-tax discount rate). The unwinding of such discount is included in interest payable and similar charges.

Interest receivable

Interest receivable represents income generated through the use of short-term cash surpluses, for example through investments in money market funds.

Foreign exchange gains and losses

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

Tax

The total tax charge includes both current and deferred tax. Current tax is the estimated amount payable on the taxable profits of the relevant year (which is 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 whether more or less tax is expected to arise in the future due to differences between the accounting and tax rules. The tax charge reflects the estimated effective tax rate on profit before tax for the relevant year and the movement in the deferred tax charge in that year, so far as it relates to items recognised in the income statement.

Results of Operations

The following table provides an overview of our consolidated results of operations for the years ended 31 December 2015, 2016 and 2017, respectively:

	Year ended 31 December		
	2015	2016	2017
	(£ million)		
Revenue	3,065.0	2,949.8	3,685.2
Total cost of sales	(2,656.2)	(2,573.4)	(3,140.2)
Gross profit	408.8	376.3	545.0
Operating and administrative expense	(239.8)	(236.3)	(316.1)
EBITDA(1)	**169.0**	**140.0**	**228.9**
Depreciation and amortisation	(100.4)	(109.5)	(166.3)
Asset obsolescence charges	(109.2)	—	—
Loss on disposal	(7.1)	(3.8)	(15.4)
Unrealised gains/(losses) on derivative contracts	123.7	176.8	(156.1)
Acquisition-related costs	—	—	(7.8)
Other losses	—	—	(0.4)
Operating profit and (loss)	**76.0**	**203.5**	**(117.1)**
Cost of debt restructure	—	—	(24.2)
Interest payable and similar charges(2)	(24.3)	(29.0)	(31.5)
Interest receivable	(1.4)	(0.6)	(0.2)
Foreign exchange gains and (losses)(2)	5.9	22.0	(10.6)
Profit/(loss) before tax	**59.0**	**197.1**	**(183.2)**
Total tax (charge)/credit	(2.7)	(3.2)	32.1
Profit/(loss) for the year attributable to equity holders	**56.3**	**193.9**	**(151.1)**

(1) We define EBITDA as earnings before interest, tax, depreciation, amortisation, asset obsolescence charges, losses on disposals, unrealised gains and losses on derivative contracts, acquisition-related costs, cost of debt restructure and other losses, as presented in our income statement. See page F-13. For a reconciliation from profit for the year to EBITDA, please see "—*Key Performance Indicators*".

(2) In 2017, we separated foreign exchange gains and losses from interest payable and similar charges. Prior years have been restated to conform to this presentation, consistent with Note 2.4 to the 2015 and 2016 Drax Group Audited Financial Statements.

Results of Operations for 2016 Compared to 2017

Revenue

The following table shows our total revenue and a breakdown of revenue by our segments for the years ended 31 December 2016 and 2017, respectively.

	Year ended 31 December	
	2016	2017
	(£ million)	
Revenue		
Power Generation	2,490.9	2,719.6
B2B Energy Supply	1,326.4	1,999.0
of which, revenues attributable to Opus	—	610.7
Pellet Production	73.6	135.7
Intra-group elimination	(941.1)	(1,169.1)
Total revenue	**2,949.8**	**3,685.2**

Drax Group revenue

Our total revenue after intra-group eliminations increased by £735.4 million, or 25.0 per cent., to £3,685.2 million in 2017 from £2,949.8 million in 2016. This increase was primarily due to higher revenues from our Power Generation segment attributable, in part, to inclusion of a full year of support under the CfD mechanism for our third biomass-fired generation unit and higher revenues from our B2B Energy Supply Segment attributable, in part, to the acquisition of Opus, which was completed on 10 February 2017.

Power Generation revenue

Revenue from the Power Generation segment (including inter-segment sales) increased by £228.7 million, or 9.2 per cent., to £2,719.6 million in 2017 from £2,490.9 million in 2016 principally reflecting the effect of a full year of support of our third biomass-fired generation unit by the CfD mechanism as well as slightly higher electricity output. CfD payments in respect of this generation unit did not begin until December 2016, and therefore CfD support had a comparatively small contribution to our results for the year ended 31 December 2016. Electricity output from the Power Generation segment of 20.0 TWh in 2017 was slightly higher than 19.6 TWh in 2016.

These positive trends were partially offset by decreased revenues from Ancillary Services (£47.3 million in 2016 compared to £30.7 million in 2017). ROC sales to third-parties were flat year-over-year, at £367.8 million (2016: £366.7 million).

B2B Energy Supply revenue

Revenue from the B2B Energy Supply segment increased by £672.6 million, or 50.7 per cent., to £1,999.0 million in 2017 from £1,326.4 million in 2016. There were no inter-segment sales in the B2B Energy Supply segment in 2016 and 2017. The increase in B2B Energy Supply segment revenues was mainly due to the contribution to revenue of £610.7 million from Opus following its acquisition on 10 February 2017, including, for the first time, revenues from sales of gas, a key contributor to revenues over the winter period in 2017. Higher average sales prices in the Haven Power business due to higher wholesale electricity prices had a positive impact on revenue during 2017. The supply arrangements with many of the larger customers of the B2B Energy Supply segment allow the customer flexibility to decide when to fix the price of their electricity or to purchase their electricity at the prevailing market rates for the day or month ahead. Haven Power purchases the electricity to fulfil the customer's requirements at the same point in time at which the customer agrees to fix a price allowing Haven Power to secure a fixed margin for these transactions. Therefore, while our revenue may fluctuate depending on the wholesale electricity price, given the effective fixed margin of these flexible contracts this has a limited impact on our profitability.

Pellet Production revenue

Revenue from the Pellet Production segment (including inter-segment sales) increased by £62.1 million, or 84.4 per cent., to £135.7 million in 2017 from £73.6 million in 2016, reflecting increased production at our US wood pellet manufacturing facilities in Bastrop, Louisiana and Gloster, Mississippi as well as a small amount of production from our LaSalle facility, which was acquired on 13 April 2017. During 2017, the Pellet Production segment produced approximately 822,000 tonnes of wood pellets compared to approximately 607,000 tonnes produced in 2016 and shipped approximately 944,000 tonnes of wood pellets compared to approximately 558,000 tonnes shipped in 2016.

The Pellet Production segment sells wood pellets to the Power Generation segment under fixed-price, long-term intra-group supply contracts.

Intra-group elimination

Intra-group eliminations increased by £228.0 million, or 24.2 per cent., from £941.1 million in 2016 to £1,169.1 million in 2017. Intra-group eliminations related to electricity, gas and ROC sales from the Power Generation segment to the B2B Energy Supply segment increased by £165.2 million, or 19.0 per cent., from £868.2 million in 2016 to £1,033.4 million in 2017 as a result of higher electricity and ROC sales to Haven Power and Opus following the termination of Opus' existing supply contracts with third party suppliers, further reinforced by higher average realised sale prices for electricity. Intra-group eliminations related to sales of wood pellets from the Pellet Production segment to the Power Generation segment increased by £62.8 million, or 86.1 per cent., from £72.9 million in 2016 to £135.7 million in 2017 due to higher wood pellet sales volumes reflecting the expanded production at our US wood pellet manufacturing facilities in Bastrop, Louisiana and Gloster, Mississippi and commissioning production from our LaSalle facility.

Total cost of sales

In 2017 total cost of sales increased by £566.8 million, or 22.0 per cent., to £3,140.2 million compared to £2,573.4 million in 2016.

Power Generation segment

Cost of sales in the Power Generation segment increased by £167.2 million, or 7.8 per cent., from £2,153.9 million in 2016 to £2,321.1 million in 2017 primarily due to the decrease in ROCs awarded in 2017 as a result of our third biomass-fired generation unit operating under the CfD mechanism post-conversion (which does not generate ROCs), as anticipated ROCs are recognised as a reduction in our biomass fuel costs at the point of generation until the relevant ROCs are received, as well as higher fuel costs. These effects were only partially offset by slightly lower grid charges driven by higher generation volumes and lower costs of electricity purchases. Fuel costs increased by £202.6 million, or 17.6 per cent., from £1,154.2 million in 2016 to £1,356.8 million in 2017, primarily reflecting higher generation volumes and higher commodity prices, partially driven by lower ROC generation as a result of our converted CfD-supported biomass-fired generation unit no longer receiving ROCs. While commodity prices increased in 2017 relative to previous years, fuel costs did not increase at corresponding rates as the Power Generation segment procures a substantial part of its fuel needs under long-term supply fixed prices contracts. ROC generation continued to have a significant impact on fuel costs as the expected benefit from ROCs earned from the biomass-fired generation units are initially recognised as a reduction in the Power Generation segment's biomass fuel costs and subsequently recognised as revenue when the ROC is sold to a third-party.

Lower grid charges of £62.9 million in 2017 compared to £69.4 million in 2016 principally reflect reduced transmission network use of system charges due to changes in methodology by the System Operator.

The volume of electricity purchases in the Power Generation segment, and as a result, the costs associated therewith, decreased from £904.4 million in 2016 to £891.2 million in 2017, primarily as a result of reduced system volatility in 2017 compared to 2016 leading to a corresponding reduction in the periods during which it was most economic to buy power on the wholesale market to satisfy our delivery obligations than generate directly.

B2B Energy Supply segment

Cost of sales in the B2B Energy Supply segment increased by £578.7 million, or 44.4 per cent., from £1,302.9 million in 2016 to £1,881.6 million in 2017, respectively, primarily due to the contribution of Opus, which contributed £528 million to our costs of sales for 2017 following its acquisition on 10 February 2017, as well as due to the rising cost of power purchases and other retail costs. These cost of sales corresponded to gross profit margins of 1.8 per cent. and 5.9 per cent for 2016 and 2017, respectively. The increase in gross profit margin is primarily due to the higher gross margin achieved by Opus than our business prior to the Opus Acquisition. Higher electricity sales as well as the inclusion for the first time of gas sales due to Opus resulted in the cost of electricity and gas purchases increasing from £688.9 million in 2016 to £883.7 million in 2017. The B2B Energy Supply segment purchases a significant proportion of its expected electricity and gas needs under long- or medium-term supply agreements at fixed prices and the remainder under short-term arrangements. Increasing wholesale electricity prices therefore do not immediately translate into a corresponding increase in the cost of power purchases for the B2B Energy Supply segment or vice-versa.

Third-party costs, such as grid charges (including distribution, transmission and system balancing costs) were £435.8 million in 2017 compared to £310.4 million in 2016. The costs of meeting Haven's and Opus' obligations under the various renewable energy subsidies schemes (e.g., RO and SS-FiT schemes) continued to increase and represented 50 per cent. of the B2B Energy Supply Segment's revenue in 2017 compared to 46 per cent. in 2016.

Pellet Production segment

Cost of sales in the Pellet Production segment increased by £41.2 million, or 74.2 per cent., from £55.5 million in 2016 to £96.7 million in 2017 reflecting the increased production volumes at our US wood pellet manufacturing facilities in Bastrop, Louisiana and Gloster, Mississippi following our investments to increase capacity as well as the commissioned capacity at our LaSalle facility. Raw fibre procurement comprised the largest share of these costs and we continued the process of controlling these costs through a combination of measures, including improved forecasting of utilisation and increased purchases of more cost-effective feedstocks such as sawmill residues.

Operating and administrative expenses

Operating and administrative expenses increased by £79.8 million, or 33.8 per cent., from £236.3 million in 2016 to £316.1 million in 2017. In the Power Generation segment, operating and administrative expenses decreased by £2.4 million, or 1.5 per cent., from £163.3 million in 2016 to £160.9 million in 2017 as a result of cost savings and efficiency initiatives, including the implementation of lean management techniques, despite a high volume of repair and maintenance work, including a major planned outage on one of our biomass units and an unplanned outage in December 2017. Operating and administrative expenses in the B2B Energy Supply segment increased significantly to £88.0 million in 2017 compared to £27.8 million in 2016, primarily due to the contribution of Opus. In the Pellet Production segment, operating and administrative expenses increased to £33.5 million in 2017 from £24.4 million in 2016 reflecting the increased production volumes at two of our US wood pellet manufacturing facilities in Bastrop, Louisiana and Gloster, Mississippi following our investments to increase capacity. Central operating and administrative expenses attributable to the Drax Group amounted to £33.7 million in 2017 compared to £20.9 million in 2016. The increase reflects investment in strategy, innovation and development activities, only partially offset by cost saving and efficiency initiatives.

EBITDA

The following table shows our EBITDA and a breakdown of the EBITDA for our Power Generation, B2B Energy Supply and Pellet Production segments for the years ended 31 December 2016 and 2017, respectively.

	Year ended 31 December	
	2016	**2017**
	(£ million)	
EBITDA		
Power Generation	173.8	237.5
B2B Energy Supply	(4.3)	29.4
of which, EBITDA attributable to Opus	—	28.9
Pellet Production	(6.3)	5.5
Central costs	(20.9)	(33.7)
Consolidation adjustments	(2.3)	(9.8)
Total	**140.0**	**228.9**

Drax Group EBITDA

Our EBITDA increased by £88.9 million, or 63.5 per cent., to £228.9 million for 2017 from £140.0 million for 2016, primarily due to increased revenues as a result of the contribution from Opus of £28.9 million in EBITDA for 2017 following its acquisition on 10 February 2017 and inclusion of a full year of support of our third biomass-fired generation unit by the CfD mechanism, partially offset by higher costs of sales and administrative and operating costs. The consolidation adjustment represents the elimination of unrealised profit on intra-group stock.

Power Generation EBITDA

EBITDA for the Power Generation segment increased by £63.7 million, or 36.7 per cent., to £237.5 million for 2017 from £173.8 million for 2016 reflecting the factors discussed above.

B2B Energy Supply EBITDA

EBITDA for the B2B Energy Supply segment increased by £33.7 million, or 783.7 per cent., to £29.4 million for 2017 from negative £4.3 million for 2016 reflecting the factors discussed above. Opus contributed £28.9 million to EBITDA for 2017 following its acquisition on 10 February 2017.

Pellet Production EBITDA

EBITDA for the Pellet Production segment increased by £11.8 million, or 187.3 per cent., to £5.5 million for 2017 from negative £6.3 million for 2016 reflecting the factors discussed above.

Depreciation and amortisation

Depreciation and amortisation charges increased by £56.8 million, or 51.9 per cent., to £166.3 million for 2017 from £109.5 million for 2016, mainly reflecting the higher asset base as a result of the intangible assets recognised on acquisition of Opus (£37.0 million) and acceleration of the depreciation of the coal specific assets in Power Generation (£15.0 million).

Unrealised gains/(losses) on derivative contracts

Unrealised gains/losses on derivative contracts changed from a gain of £176.8 million in 2016 to a loss of £156.1 million in 2017, a change of £332.9 million, or 188.3 per cent. This change principally relates to losses under forward currency purchase contracts and reflects the change in the fair value of our derivative contracts as the pound sterling strengthened substantially against the US dollar during 2017, the currency in which the majority of our fuel purchases are denominated, largely reversing the losses in the value of the pound sterling relative to the US dollar sustained in 2016 that resulted, in part, from the UK's referendum on withdrawing from the European Union. These losses were partially offset by mark-to-market gains as a result of fair value movements on our derivative contracts relating to commodities which increased as a result of the relatively lower pressure on commodity prices compared to 2016.

Operating profit/loss

Despite the increase in EBITDA described above, operating profit changed from a profit of £203.5 million in 2016 to a loss of £117.1 million in 2017, a change of £320.7 million, or 157.5 per cent. This change is primarily due to the change from unrealised gains to unrealised losses on derivative contracts discussed above.

Cost of debt restructure

Cost of debt restructure was £24.2 million in 2017, representing acceleration of deferred financing costs and the one-off cost of early repayment charges for loans outstanding, in each case at the time of our refinancing of our debt in May 2017.

Interest payable and similar charges

Interest payable and similar charges increased by £2.5 million, or 8.6 per cent., to £31.5 million in 2017 from £29.0 million in 2016. This increase primarily reflects interest costs driven by a higher quantum of debt than the previous year as a result of the Opus Acquisition. Interest payable on bank borrowings increased significantly to £25.6 million in 2017 (2016: £19.4 million).

Interest receivable

Interest receivable decreased by £0.4 million, or 66.7 per cent., to £0.2 million in 2017 from £0.6 million in 2016, primarily as a result of fewer short-term cash surpluses available to make interest-generating investments.

Foreign exchange gains and losses

Foreign exchange gains and losses changed by £32.6 million, or 148.2 per cent., from a gain of £22.0 million in 2016 to a loss of £10.6 million in 2017, due to the non-cash effect of the revaluation of certain assets that are denominated in currencies other than pounds sterling (including intercompany loans denominated in US dollars). The value of these assets measured in pounds sterling decreased during 2017 as a result of the pound sterling's appreciation against other major currencies, including the US dollar.

Tax

Our total tax charge changed by £35.3 million, or 1,103.1 per cent., from a tax charge of £3.2 million in 2016 to a tax credit of £32.1 million in 2017, primarily as a result of a loss before tax in 2017 compared to a taxable profit before tax in 2016. In addition, in 2017, we received notification of a patent box claim with respect to the biomass generation business for which we obtained a tax credit of £10.4 million. This tax credit was more than offset by the one-off non-cash deferred tax charge (£16 million) (arising from the reduction in US federal tax rates to 21 per cent. from 1 January 2018) held in respect of built up start-up losses for the US Pellet Production businesses. As we not expecting to be paying taxes in the near term in the US it is not expected to have an impact on cash taxes payable by those of our businesses that are subject to US taxation.

Cash taxes paid (net of refunds) during 2017 were £14.0 million compared to £1.7 million for 2016.

Profit for the year

Profit for the year decreased by £345.0 million, or 178 per cent., from £193.9 million in 2016 to a loss of £151.1 million in 2017, mainly reflecting the factors discussed above under "—*Operating Profit*".

Results of Operations for 2015 Compared to 2016

Starting with our fiscal year ended 31 December 2017, we renamed our segments from Generation, Retail and Biomass Supply to Power Generation, B2B Energy Supply and Pellet Production, respectively. The discussion below uses the new names of our segments for consistency.

Revenue

The following table shows our total revenue and a breakdown of revenue by our segments for the years ended 31 December 2015 and 2016, respectively.

	Year ended 31 December	
	2015	**2016**
	(£ million)	
Revenue		
Power Generation	2,638.2	2,490.9
B2B Energy Supply	1,290.0	1,326.4
Pellet Production	28.4	73.6
Intra-group elimination	(891.6)	(941.1)
Total revenue	**3,065.0**	**2,949.8**

Drax Group revenue

Our total revenue after intra-group eliminations decreased by £115.2 million, or 3.8 per cent., to £2,949.8 million in 2016 from £3,065.0 million in 2015. This decrease was primarily due to lower revenues from our Power Generation segment which were only partially offset by higher revenues from our B2B Energy Supply and Pellet Production segments.

Power Generation revenue

Revenue from the Power Generation segment (including inter-segment sales) decreased by £147.3 million, or 5.6 per cent., to £2,490.9 million in 2016 from £2,638.2 million in 2015 principally reflecting a significantly lower electricity output, slightly lower average realised electricity prices and the first full year effect of the removal of the CCL exemption for renewable generation from the biomass-fired generation units. Power Generation revenue in 2015 included £17 million of revenue from LECs, earned prior to the withdrawal of the CCL exemption for generation from renewable sources in August 2015. Electricity output from the Power Generation segment of 19.6 TWh in 2016 was significantly lower than 26.7 TWh in 2015, as a result of lower electricity prices resulting in the coal-fired generation units being out of merit (and therefore not generating revenue for most of the summer). In addition, 2016 was a particularly busy year for maintenance, which also contributed to lower electricity output. A lower realised average wholesale electricity price of £48.3 per MWh in 2016, compared to £49.4 per MWh in 2015, reflected the continued pressure on commodity prices.

These negative trends were partially mitigated by increased revenues from system balancing activity and the 12-month Ancillary Services contract to provide black start capability awarded by the System Operator, which resulted in revenues from Ancillary Services provided to the System Operator increasing from £14.0 million in 2015 to £47.3 million in 2016 as well as increased ROC sales to third-parties of £366.7 million (2015: £290.8 million). Our CfD for our third biomass-fired generation unit did not have a significant impact on the Power Generation segment's revenue in 2016 as it only became effective in the second half of December 2016.

B2B Energy Supply revenue

Revenue from the B2B Energy Supply segment increased by £36.4 million, or 2.8 per cent., to £1,326.4 million in 2016 from £1290.0 million in 2015. There were no inter-segment sales in the B2B Energy Supply segment in 2015 and 2016. The increase in B2B Energy Supply segment revenues was mainly due to growth in electricity sales by Haven Power from 13.8 TWh in 2015 to 14.6 TWh in 2016 (as a result of winning several large contracts) and strong sales volume growth at Billington Bioenergy. Haven Power's sales growth was mainly generated in the larger, but more competitive, I&C market. Lower average sales prices in the Haven Power business due to lower wholesale electricity prices had a negative impact on revenue during 2016. The supply arrangements with many of the larger customers of the B2B Energy Supply segment allow the customer flexibility to decide when to fix the price of their electricity or to purchase their electricity at the prevailing market rates for the day or month ahead. Haven Power purchases the electricity to fulfil the customer's requirements at the same point in time at which the customer agrees to fix a price allowing Haven Power to secure a fixed margin for these transactions. Therefore, while our revenue may fluctuate depending on the wholesale electricity price, given the effective fixed margin of these flexible contracts this has a limited impact on our profitability.

Pellet Production revenue

Revenue from the Pellet Production segment (including inter-segment sales) increased by £45.2 million, or 159.2 per cent., to £73.6 million in 2016 from £28.4 million in 2015, reflecting the first full year of production at our US wood pellet manufacturing facilities. During 2016, the Pellet Production segment produced approximately 607,000 tonnes of wood pellets (2015: approximately 279,000 tonnes) and shipped approximately 558,000 tonnes of wood pellets (2015: approximately 243,000 tonnes).

The Pellet Production segment sells wood pellets to the Power Generation segment under long-term intra-group supply contracts at fixed prices. Therefore the Pellet Production segment was largely insulated from the effects of falling spot prices for wood pellets during 2016 as a result of excess supply caused by three consecutive warm winters and the delay in expected increases in biomass demand in Europe, a major market for wood pellets. However, the Pellet Production segment temporarily curtailed its own production to allow the Power Generation segment to take advantage of the attractive pricing conditions on the spot market for wood pellets during 2016.

Intra-group eliminations

Intra-group eliminations increased by £49.5 million, or 5.6 per cent., from £891.6 million in 2015 to £941.1 million in 2016. Intra-group eliminations related to electricity, LEC and ROC sales from the Power Generation segment to the B2B Energy Supply segment increased by £5.0 million, or 0.6 per cent., from £863.2 million in 2015 to £868.2 million in 2016 as a result of higher electricity and ROC sales to Haven Power, offset only partially by lower averaged realised sale prices. Intra-group eliminations related to sales of wood pellets from the Pellet Production segment to the Power Generation segment increased by £44.5 million, or 156.7 per cent., from £28.4 million in 2015 to £72.9 million in 2016 due to higher wood pellet sales volumes reflecting the first full year of production at our US wood pellet manufacturing facilities.

Total cost of sales

In 2016 total cost of sales decreased by £82.8 million, or 3.1 per cent., to £2,573.4 million compared to £2,656.2 million in 2015.

Power Generation segment

Cost of sales in the Power Generation segment decreased by £94.2 million, or 4.2 per cent., from £2,248.1 million in 2015 to £2,153.9 million in 2016 due to lower fuel costs and grid charges driven by lower generation volumes, which effects were only partially offset by higher costs of electricity purchases. Fuel costs decreased by £140.4 million, or 10.6 per cent., from £1,320.5 million in 2015 to £1,180.1 million in 2016, primarily reflecting lower generation volumes, lower commodity prices and higher ROC generation as a result of a third generation unit running as an enhanced co-firing unit for the majority of the year prior to the conversion to biomass following the CfD state-aid approval. Commodity prices continued to be depressed during 2016 and while the Power Generation segment procures a substantial part of its fuel needs under long-term supply contracts at fixed prices, it was able to opportunistically benefit from lower spot prices for fuel. ROC generation continued to have a significant impact on fuel costs as the expected benefit from ROCs earned from the biomass-fired generation units are initially recognised as a reduction in the Power Generation segment's biomass fuel costs and subsequently recognised as revenue when the ROC is sold to a third-party.

Lower grid charges of £69.4 million in 2016 compared to £84.1 million in 2015 principally reflect the lower electricity output of the Power Generation segment.

The volume of electricity purchases in the Power Generation segment, and as a result, the costs associated therewith, increased from £843.5 million in 2015 to £904.4 million in 2016. Coal-fired generation units being out of merit during most of the summer and therefore producing less electricity resulted in the Power Generation business increasing the volume of its electricity purchases from third parties to meet its electricity delivery obligations under long-term electricity purchase contracts. Because the cost of generation for the Power Generation segment would have been higher than the offtake price, the third-party electricity purchases had a positive net impact on our EBITDA. The effect of such volume increase was only partially mitigated by lower electricity prices paid to third-party suppliers.

B2B Energy Supply segment

Cost of sales in the B2B Energy Supply segment increased by £32.2 million, or 2.5 per cent., from £1,270.7 million in 2015 to £1,302.9 million in 2016 as the cost of power purchases, grid charges and other retail costs rose. Higher electricity sales resulted in the cost of electricity purchases increasing from £688.9 million in 2015 to £710.2 million in 2016, an effect that was only partially mitigated by lower wholesale electricity prices. The B2B Energy Supply segment purchases a significant proportion of its expected electricity needs under long- or medium-term supply agreements at fixed prices and the remainder under short-term arrangements. Falling wholesale electricity prices therefore do not immediately translate into a corresponding fall in the cost of power purchases for the B2B Energy Supply segment.

Third-party costs, such as grid charges (including distribution, transmission and system balancing costs) were £310.4 million in 2016 compared to £285.4 million in 2015. The costs of meeting Haven Power's obligations under the various renewable energy subsidies schemes (e.g., RO and SS-FiT schemes) continued to increase and represented approximately 46 per cent. of the average realised price per MWh of electricity sold in 2016 compared to approximately 44 per cent. in 2015.

Pellet Production segment

Cost of sales in the Pellet Production segment increased by £28.1 million, or 102.6 per cent., from £27.4 million in 2015 to £55.5 million in 2016 reflecting the increased production volumes at our US wood pellet manufacturing facilities. Raw fibre procurement comprised the largest share of these costs and we continued the process of controlling these costs through a combination of measures, including improved forecasting of utilisation and increased purchases or more cost-effective feedstocks such as sawmill residues.

Operating and administrative expenses

Operating and administrative expenses decreased by £3.5 million, or 1.5 per cent., from £239.8 million in 2015 to £236.3 million in 2016. In the Power Generation segment, operating and administrative expenses decreased by £12.3 million, or 7.0 per cent., from £175.5 million in 2015 to £163.3 million in 2016 as a result of cost savings and efficiency initiatives despite a very high volume of repair and maintenance work. Operating and administrative expenses in the B2B Energy Supply segment remained relatively stable at £27.8 million in 2016 compared to £25.6 million in 2015. In the Pellet Production segment operating and administrative expenses increased significantly to £24.4 million in 2016 from £15.8 million in 2015 reflecting the first full year of operation of our two US wood pellet manufacturing facilities. Central operating and administrative expenses attributable to the Drax Group amounted to £20.9 million in 2016 compared to £24.5 million in 2015. The decrease reflects the impact of cost saving and efficiency initiatives which were only partially offset by the costs incurred in connection with the acquisition of Opus and the OCGT projects.

EBITDA

The following table shows our EBITDA and a breakdown of the EBITDA for our Power Generation, B2B Energy Supply and Pellet Production segments for the years ended 31 December 2015 and 2016, respectively.

	Year ended 31 December	
	2015	**2016**
	(£ million)	
EBITDA		
Power Generation	214.6	173.8
B2B Energy Supply	(6.3)	(4.3)
Pellet Production	(14.8)	(6.3)
Central costs	(24.5)	(20.9)
Consolidation adjustments	—	(2.3)
Total	**169.0**	**140.0**

Drax Group EBITDA

Our EBITDA decreased by £29.0 million, or 17.2 per cent., to £140.0 million for 2016 from £169.0 million for 2015, primarily due to lower revenues which were only partially offset by lower costs of sales and administrative and operating costs. The loss of LEC support for electricity generated from renewable sources continued to have a negative impact on EBITDA as EBITDA for 2015 benefited from £17 million of revenue from LEC sales. See "*—Significant Factors Affecting Comparability of Financial Information—Loss of Climate Change Levy Exemption*". The consolidation adjustment represents adjustments made to the amount of intra-group stock held.

Power Generation EBITDA

EBITDA for the Power Generation segment decreased by £40.8 million, or 19.0 per cent., to £173.8 million for 2016 from £214.6 million for 2015 reflecting the factors discussed above.

B2B Energy Supply EBITDA

EBITDA for the B2B Energy Supply segment increased by £2.0 million, or 31.7 per cent., to negative £4.3 million for 2016 from negative £6.3 million for 2015 reflecting the factors discussed above.

Pellet Production EBITDA

EBITDA for the Pellet Production segment increased by £8.5 million, or 57.4 per cent., to negative £6.3 million for 2016 from negative £14.8 million for 2015 reflecting the factors discussed above.

Depreciation and amortisation

Depreciation and amortisation charges for increased by £9.1 million, or 9.1 per cent., to £109.5 million for 2016 from £100.4 million for 2015, reflecting the higher asset base as a result of investments in our wood pellet manufacturing facilities and the completion of the biomass transformation project at the Power Station.

Unrealised gains on derivative contracts

Unrealised gains on derivative contracts increased by £53.1 million, or 42.9 per cent., from £123.7 million in 2015 to £176.8 million in 2016. This increase principally relates to forward currency purchase contracts and reflects the change in mark-to-market value of our derivative contracts as the pound sterling weakened substantially against the US dollar during 2016, the currency in which the majority of our fuel purchases are denominated. These gains were only partially offset by lower mark-to-market values of our derivative contracts relating to commodities which fell as a result of the continued pressure on commodity prices.

Operating profit

Despite the decrease in EBITDA described above, operating profit increased by £127.6 million, or 167.9 per cent., to £203.6 million in 2016 from £76.0 million in 2015. This increase is primarily due to the non-recurrence of asset obsolescence charges primarily arising from the Power Generation segment of £109.2 million incurred in 2015 and to higher unrealised gains on derivative contracts discussed above.

Interest payable and similar charges

Interest payable and similar charges increased by £4.7 million, or 19.3 per cent., to £29.0 million in 2017 from £24.3 million in 2016. This increase primarily reflects interest costs driven by a higher quantum of debt than the previous year. Interest payable on bank borrowings remained largely stable at £19.4 million in 2016 (2015: £18.0 million).

Interest receivable

Interest receivable decreased by £0.8 million, or 57.1 per cent., to £0.6 million in 2016 from £1.4 million in 2015, primarily as a result of fewer short-term cash surpluses available to make interest-generating investments.

Foreign exchange gains and losses

Foreign exchange gains and losses increased by £16.1 million, or 272.9 per cent., from a gain of £5.9 million in 2015 to a gain of £22.0 million in 2016. This increase primarily reflects the non-cash effect of the revaluation of certain assets that are denominated in currencies other than pounds sterling (including intercompany loans denominated in US dollars). The value of these assets measured in pounds sterling increased during 2016 as a result of the pound sterling's further depreciation against other major currencies, including the US dollar.

Tax

Our total tax charge increased by £0.5 million, or 18.5 per cent., from £2.7 million in 2015 to £3.2 million in 2016. In 2016, the one-off non-cash deferred tax credits arising from the reduction of future UK corporation tax rates to 17.0 per cent. from 2021 (£12 million) and the recognition of deferred tax assets associated with start-up losses in the Pellet Production segment for which we now consider the associated future tax benefit to be probable (£31.5 million) reduced the overall tax charge.

Cash taxes paid (net of refunds) during 2016 were £1.7 million (2015: £3.8 million).

Profit for the year

Profit for the year increased by £137.6 million, or 244.4 per cent., from £56.3 million in 2015 to £193.9 million in 2016, mainly reflecting the factors discussed above under "—*Operating Profit*" and the lower net interest charge.

Liquidity and Capital Resources

We are financed through a combination of cash generated from operations, drawings under the Revolving Facility and the Drax Biomass Inc. Uncommitted Line of Credit and proceeds of arrangements in respect of receivables and from long-term financing arrangements (which, following the issue of the Notes and the use of proceeds therefrom as described under "*Use of Proceeds*", will consist of the Notes, the 2022 Fixed Rate Notes and the Term Loan). See "*Description of Certain Financing Arrangements*". Liquidity, including short-term working capital requirements, is primarily financed through arrangements in respect of receivables together with available cash resources. As at 31 December 2017, the net cash benefit derived from the Haven Power MRTSA was £110 million.

The following table summarises our cash flow activity for 2015, 2016 and 2017.

	Year		
	2015	**2016**	**2017**
	(£ million)		
Cash generated from operations	**166.0**	**213.1**	**375.7**
Income taxes paid	(3.8)	(1.7)	**(14.0)**
Other gains/(losses)	(3.7)	0.7	(0.1)
Interest paid	(11.9)	(21.7)	**(46.6)**
Interest received	1.5	0.4	0.2
Net cash from operating activities	**148.1**	**190.8**	**315.2**
Purchases of property plant and equipment	(179.1)	(93.2)	**(159.0)**
Purchases of software assets	—	—	**(15.7)**
Acquisition of subsidiaries	(4.0)	—	**(379.8)**
Redemption of/(cash invested in) short-term investments	40.1	—	—
Net cash used in investing activities	**(143.0)**	**(93.2)**	**(554.4)**
Equity dividends paid	(49.9)	(11.0)	**(21.6)**
Proceeds from issue of share capital	1.5	0.1	0.1
Repayment of borrowings	—	—	(493.8)
New borrowings	—	—	768.5
Other financing costs paid	(5.7)	—	(17.9)
Net cash (absorbed by)/generated from financing activities	**(54.1)**	**(10.9)**	**235.3**
Net (decrease)/increase in cash and cash equivalents	**(49.0)**	**86.7**	**(4.0)**

Cash generated from operations

Cash generated from operations was £375.7 million in 2017 compared to £213.1 million in 2016, primarily reflecting cash inflows arising from the improvement in EBITDA, supported by an improved working capital profile arising from our CfD which is more cash efficient resulting in the reduction of ROCs held on balance sheet, along with increased usage of the Haven Power MRTSA.

Cash generated from operations was £213.1 million in 2016 compared to £166.0 million in 2015, primarily reflecting lower working capital requirements as a result of efficiency initiatives, utilisation of the Haven Power MRTSA entered into in 2016 and a reduction of ROCs held on balance sheet which more than offset lower profit for the year.

Changes in working capital (other than Power Generation segment carbon assets and ROC and LEC assets)

Our working capital mainly comprises fuel inventories (biomass and coal) in the Power Generation segment and feedstock and wood pellet inventories in the Pellet Production segment. In our B2B Energy Supply segment, working capital mainly comprises trade payables related to the obligation to procure a sufficient number of ROCs and trade receivables against customers.

Net cash inflow from changes in working capital (other than Power Generation segment carbon assets and ROC assets) was £53.6 million in 2017 compared to £38.8 million in 2016. Inventories decreased by £15.4 million in 2017 compared to an increase of £63.5 million in 2016. Biomass inventory levels in 2017 were higher than in 2016 due to the timing of outages, with a reduction in coal inventories in 2017 reflecting the decreasing use of our coal-fired generation units. Receivables decreased by £60.6 million in 2017 (2016: decrease of £28.6 million), driven by a reduced level of generation sales in December compared to the previous year. Payables decreased by £22.4 million in 2017 (2016: increase by £73.7 million) broadly in line with the decreased sales profile.

Net cash inflow from changes in working capital (other than Power Generation segment carbon assets and ROC and LEC assets) was £38.8 million in 2016 compared to £93.7 million in 2015. Inventories increased by £63.5 million in 2016 compared to a decrease of £18.0 million in 2015 primarily as a result of increased biomass stock to cater for the increased biomass requirements. Receivables decreased by £28.6 million in 2016 (2015: decrease of £48.9 million) driven by lower accounts receivables in the B2B Energy Supply segment following the execution of the Haven Power MRTSA in the first half of 2016. Payables increased by £73.7 million in 2016 (2015: increase by £26.8 million) mainly due to higher ROC payables in the B2B Energy Supply segment reflecting higher electricity sales to end-customers.

Increase/decrease in carbon assets

Carbon assets are emissions allowances purchased and held by us to be used in the relevant year pursuant to EU ETS.

Carbon assets decreased by £0.6 million in 2017 compared to a decrease by £11.1 million in 2016 and an increase by £11.8 million in 2015. We purchase carbon assets in advance based on our estimated generation from coal during each year. Increases and decreases in carbon assets therefore mainly reflect lower or higher generation from coal than originally estimated. In addition, the market for carbon assets is most liquid towards the end of each calendar year and we purchase or sell significant amounts of carbon assets towards the end of the calendar year, making the amount of carbon assets held on balance sheet at year end susceptible to volatility.

Increase/decrease in ROC and LEC assets

The value of ROCs and, until August 2015, LECs created in the Power Generation segment is held in the balance sheet until these assets are sold to a third-party. The timing of such sale is driven by RO deadlines and commercial considerations, resulting in a time lag between the time at which the ROCs and LECs are booked in the balance sheet and the time at which the purchase price for these assets is realised. We have facilities in place to accelerate cash flows from invoices issued in relation to ROC sales.

ROC assets decreased by £112.1 million in 2017 compared to a decrease of £12.5 million in 2016. The decrease in ROC assets in 2017 principally reflects the approval of the CfD contract for our third biomass-fired generation unit, which was previously supported by the ROC regime pre-conversion, as well as an increase in the number of ROCs sold in 2017 compared to 2016. As a result of this conversion, the number of ROCs earned is lower compared to 2016 and going forward, with a corresponding benefit on our cash flow due to payments under the CfD contract. However, these effects also limit the potential for further positive cash flow effects from ROC-realisation programmes as the amount of ROCs held as working capital decreases.

ROC and LEC assets decreased by £12.5 million in 2016 compared to an increase of £85.6 million in 2015. The decrease in ROC and LEC assets in 2016 principally reflects improvements to our trading activities that allowed us to realise an increasing portion of the ROCs earned early and accelerate the cash flows from these assets which, for the first time, offset the impact of additional ROCs earned as the generation of electricity from biomass increased.

Cash Flows From Investing Activities

Net cash used in investing activities was £554.5 million in 2017 compared to £93.2 million in 2016 and comprised purchases of property, plant and equipment as well as our acquisition of Opus and our purchase of the LaSalle manufacturing facility. The increase compared to 2016 primarily reflects our investments to acquire Opus as well as our purchase of the LaSalle facility, in addition to investments to expand capacity at two of our biomass pellet manufacturing facilities and to bring production at our LaSalle facility up to capacity, partially offset by lower maintenance capital expenditure with respect to our remaining coal-fired generation units. Capital expenditure for maintenance and repair was relatively flat in 2017 despite the unplanned outage on one of our biomass rail unloading facilities following a fire on a section of conveyor that resulted in a restriction on fuel deliveries by rail and a corresponding restriction on the optimisation of generation across our biomass-fired units, reflecting the reduced maintenance programme for the coal-fired generation units and the postponement to 2018 of a major planned outage for 2017.

Net cash used in investing activities was £93.2 million in 2016 compared to £143.0 million in 2015 and comprised purchases of property, plant and equipment only. The decrease compared to 2015 primarily reflects lower spend on the biomass conversion project following its completion and lower maintenance capital expenditure with respect to the generation units, partially offset by continued investment in our US wood pellet manufacturing facilities. Capital expenditure for maintenance and repair was relatively low in 2016 despite a busy maintenance schedule reflecting the reduced maintenance programme for the coal-fired generation units.

Cash Flows From Financing Activities

Net cash generated from financing activities was £235.2 million in 2017 compared to net cash absorbed by financing activities of £10.9 million in 2016, reflecting primarily the drawing down of the facility used to part-fund the acquisition of Opus in February 2017 and the Group's subsequent refinancing in May 2017. Net cash absorbed by financing activities was £10.9 million in 2016 compared to net cash absorbed by financing activities of £54.1 million in 2015, in each period primarily reflecting the dividends paid to the shareholders of Drax Group plc (2016: £11.0 million, 2015: £49.9 million).

Capital Expenditure

Our capital expenditure amounted to £137.2 million, £95.7 million and £173.8 million in 2017, 2016 and 2015, respectively. Maintenance capital expenditure constituted £59.6 million, £68.9 million and £69.4 million of our capital expenditure in 2015, 2016 and 2017, respectively. Our capital expenditure for 2015 and 2016 included purchases of software assets, however, beginning in 2017, we no longer account for purchases of software as capital expenditures, classifying software as general intangibles instead. Including the impact of purchases of software assets, our capital expenditure for 2017 would have been £180.6 million.

Excluding the impact of acquisitions and related commissioning costs (in particular, in 2017, the purchase of the LaSalle manufacturing facility, which was accounted for as an asset purchase and not the acquisition of a business, and related commissioning cost), our capital expenditure would have amounted to £173.8 million, £95.7 million and £116.8 million in 2015, 2016 and 2017, respectively.

For the year ending 31 December 2018, we expect capital expenditure to be between £100 million and £120 million, consisting of up to £30 million in expenditures relating to the potential conversion of a fourth unit to biomass-fired generation, an estimated £50 million to £60 million of maintenance capital expenditure and an estimated £20 million of other general capital expenditures relating primarily to strategic spares (i.e. large equipment for the Power Station with long lead times that we keep on-site to reduce the risk of prolonged unplanned outages). In the medium term, we expect that our capital expenditure will continue to be principally dependent on the decision as to whether and when to pursue the development of the four OCGT projects acquired in December 2016. If developed, these OCGT power plants are expected to become operational between 2021 and 2025 and to require an investment of approximately £80 million to £90 million each. See "—*Significant Factors Affecting Results of Operations—Capital Expenditure*" for more detail.

Historical Borrowings

The maturity profile of our borrowings as at 31 December 2017 is set out in the table below. See *"Description of Certain Financing Arrangements"*.

	Payments due			
	Total	Within 3 months	3 months-1 year	More than 1 year
	(£ million)			
Senior Facilities(1)	35.9	—	—	35.9
Existing Notes(2)	550.0	—	—	550.0
Drax Biomass Inc. Uncommitted Line of Credit(3)	18.5	18.5	—	—
Finance leases(4)	0.8	—	0.1	0.7
Total Borrowings	**605.2**	**18.5**	**0.1**	**586.6**

(1) The Senior Facilities provide for up to £350 million of senior secured borrowings, comprised of a £315 million committed multicurrency revolving credit facility and a £35 million term loan facility. As at 31 December 2017, the Senior Facilities had been utilised in respect of letters of credit with a total value of £35.7 million, and the index-linked term loan facility of £35 million was fully drawn.

(2) The Existing Notes are comprised of the 2022 Fixed Rate Notes and the 2022 Floating Rate Notes. The 2022 Floating Rate Notes are expected to be redeemed in full in connection with the Transactions. See "*Use of Proceeds*". The aggregate principal amount of 2022 Floating Rate Notes outstanding as of 31 December 2017 was £200.0 million.

(3) The Drax Biomass Inc. Uncommitted Line of Credit provides for up to $15 million of borrowings. The facility was fully drawn down as at date of this Offering Memorandum and had a pound sterling equivalent value of £18.5 million as of 31 December 2017 (when the total facility size was $25 million).

(4) Includes payments of principal and interest.

Certain Indebtedness Following the Transactions

As at 31 December 2017, on an unaudited basis and after giving pro forma effect to the Transactions, our borrowings are set out in the table below. See "*Use of Proceeds*", "*Capitalisation*" and "*Description of Certain Financing Arrangements*".

	Payments due			
	Total	Within 3 months	3 months-1 year	More than 1 year
	(£ million)			
Senior Facilities(1)	35.9	—	—	35.9
Notes offered hereby	221.8	—	—	221.8
2022 Fixed Rate Notes	350	—	—	350
Drax Biomass Inc. Uncommitted Line of Credit(2)	18.5	18.5	—	—
Finance leases(3)	0.8	—	0.1	0.7
Total Borrowings	**627.0**	**18.5**	**0.1**	**608.4**

(1) The Senior Facilities provide for up to £350 million of senior secured borrowings, comprised of a £315 million committed multicurrency revolving credit facility and a £35 million term loan facility. As at 31 December 2017, the Senior Facilities had been utilised in respect of letters of credit with a total value of £35.7 million, and the index-linked term loan facility of £35 million was fully drawn.

(2) The Drax Biomass Inc. Uncommitted Line of Credit provides for up to $15 million of borrowings. The facility was fully drawn down as at date of this Offering Memorandum and had a pound sterling equivalent value of £18.5 million as of 31 December 2017 (when the total facility size was $25 million).

(3) Includes payments of principal and interest.

Other Contractual Obligations

The following table sets out details of the expected contractual maturity of derivative financial instruments held by us as at 31 December 2017, which are marked-to-market, based on the undiscounted net cash inflow or outflow. Where the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected commodity price, or foreign exchange rates, as illustrated by the yield or other forward curves existing as at 31 December 2017.

	Payments due (notional amounts)			
	Total	**Within 1 year**	**1-2 years**	**More than 2 years**
		(£ million)		
Commodity contracts, net	247.9	161.9	69.4	16.6
Forward foreign currency exchange contracts, net	4,608.8	1,104.0	1,173.9	2,331.0
Total	**4,856.7**	**1,265.9**	**1,243.3**	**2,347.6**

We have a number of contractual commitments (i.e., contractual requirements to make cash payments in the future) that are not recorded as liabilities in the Drax Group Audited Financial Statements as the relevant contracts are not yet due for delivery. Such commitments include contracts for the future purchase of coal and biomass, operating leases, contracts for the construction of assets and contracts for the provision of services. The table below sets out these commitments as at 31 December 2016 and 2017, respectively.

	As at 31 December	
	2016	**2017**
	(£ million)	
Contracts placed for future capital expenditure not provided for in financial statements	33.0	11.6
Future support contracts not provided for in financial statements	5.9	6.5
Future commitments to purchase fuel under fixed and variable price contracts	5,194.4	5,803.5

The contractual maturity of the future commitments to purchase fuel are as follows:

	As at 31 December	
	2016	**2017**
	(£ million)	
Within one year	873.7	1,054.2
Within two to five years	2,773.0	2,885.5
After five years	1,547.7	1,863.8
Total	**5,194.4**	**5,803.5**

Commitments to purchase fuel reflect long-term forward purchase contracts with a variety of international suppliers, primarily for the delivery of sustainable wood pellets for use in electricity production at the Power Station over the period from 2018–2028. To the extent these contracts relate to the purchase of wood pellets, they are not reflected elsewhere in the Drax Group Audited Financial Statements owing to application of the "own-use" exemption from recognition of the financial instruments concerned.

Our future aggregate minimum lease payments under non-cancellable operating leases as at 31 December 2016 and 2017, respectively, are set out in the table below.

	As at 31 December	
	2016	**2017**
	(£ million)	
Within one year	3.7	8.9
Within two to five years	10.8	25.5
After five years	5.2	9.1
Total	**19.7**	**43.5**

Contingent Liabilities

As at 31 December 2017, we had contingent liabilities in respect of letters of credit issued on behalf of certain members of the Drax Group by a number of banks in an amount of £35.7 million (as at 31 December 2016: £57.9 million).

The Government has stated that it intends to implement legislation to equalise the guaranteed minimum pension ("**GMP**"), resulting in an increase in the value of GMP for males. This would correspondingly increase our defined benefit pension obligation (see "—*Pensions*"). 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 the Drax Group Audited Financial Statements.

Pensions

We operate a defined benefit and four defined contribution pension schemes. The Drax Power Group section of the Electricity Supply Pension Scheme is a defined benefit scheme under which participating members are entitled to a pension on retirement based on their final pensionable salary. This scheme has been closed to new members as from 1 January 2002. The Drax Power Limited Plan, Haven Power Personal Pension Plan, Opus Energy Group Personal Pension Plan and Drax Biomass Inc. 401(k) Plan are defined contribution schemes, which provide a retirement benefit that is dependent upon actual contributions made by us and members of the scheme.

Payments to defined contribution schemes are recognised as an expense when employees have rendered a service that entitles 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 year. 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 below table sets out the costs for the defined benefit scheme for 2015, 2016 and 2017, respectively.

	Year		
	2015	**2016**	**2017**
	(£ million)		
Current service cost	6.4	6.0	7.3
Interest on net defined liability	1.1	0.9	0.5
Total	**7.5**	**6.9**	**7.8**

The last funding valuation of the Drax Power Group section of the Electricity Supply Pension Scheme was carried out as of 31 March 2016. The below table sets out the difference between the present value of the defined benefit obligations and the fair value of the plan assets as at 31 December 2015, 2016 and 2017, respectively. This difference is recognised in our balance sheet. As a result of the completion of the valuation, we entered into an agreement with the pension trustees for the Group to make deficit repair contributions, totalling £56 million, from 1 January 2017 to 31 December 2025. The agreement also establishes a legally binding journey plan, which is a mutually agreed plan between us and the pension trustees that seeks to resolve the technical funding deficit to achieve self sufficiency using a combination of cash, investment return, change in contractual provisions and liability management exercises, targeting financial self-sufficiency for the scheme by 2025.

	As at 31 December		
	2015	**2016**	**2017**
	(£ million)		
Defined benefit obligations	(244.6)	(311.4)	(306.5)
Fair value of plan assets	215.1	281.3	305.3
(Deficit)	**(29.5)**	**(30.1)**	**(1.2)**

The total amounts related to the defined contribution pension schemes recognised in our income statement for each of 2017, 2016 and 2015 amounted to £8.1 million, £5.6 million and £5.9 million, respectively.

Dividend Policy

Our ability and intention to pay dividends in the future will depend on our financial condition, results of operation, capital requirements, investment alternatives and other factors that the Board may deem relevant. We expect that the principal source of funds for the payment of dividends, if any, will be cash generated from operating activities.

Drax Group plc paid dividends to its shareholders in an aggregate amount of £50.0 million in 2017, £11.0 million in 2016 and £49.9 million in 2015. Our current dividend policy is to pay a dividend consistent with maintaining our credit rating and investing in our business, and we expect it to grow from the level announced with regards to the year ended 31 December 2017 (£50.0 million).

Quantitative and Qualitative Disclosure about Market Risk

Our activities expose us to a variety of financial risks including commodity price risk, interest rate risk, foreign currency rate risk, liquidity risk, counterparty risk and credit risk. Our overall risk management programme focuses on the unpredictability of commodity and financial markets and seeks to manage potential adverse effects on our financial performance.

We use derivative financial instruments to hedge certain risk exposure. Risk management is carried out by risk management committees, which seek to identify, evaluate and hedge financial risks in close coordination with our trading function under policies approved by the Board.

Commodity Price Risk

We are exposed to the effect of fluctuations in commodity prices, particularly the price of electricity, the price of coal, the price of sustainable biomass, the costs of transporting biomass such as oil and freight, and the price of emissions allowances. Price variations and market cycles have historically influenced our financial results and are expected to continue to do so.

We have a policy of securing forward electricity sales, purchases of fuel and emissions allowances when profitable to do so. All commitments to sell electricity under fixed price contracts are designated as cash flow hedges as they reduce our cash flow exposure resulting from fluctuations in the price of electricity.

We purchase 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 our cash flow exposure resulting from fluctuations in the price of coal. We purchase emissions allowances under fixed price contracts with different maturity dates from a range of domestic and international sources. All commitments to purchase emissions allowances under fixed price contracts are designated as cash flow hedges as they reduce our cash flow exposure resulting from fluctuations in the price of emissions allowances.

If commodity prices had been 5.0 per cent. higher/lower and all other variables were held constant, our loss after tax for 2017 would decrease/increase by £1.5 million (2016: profit after tax would increase/decrease by £3.4 million, 2015: decrease/increase by £6.7 million). If commodity prices had been 5.0 per cent. higher/lower and all other variables were held constant, our hedge reserve at the end of 2017 would increase/decrease by £5.6 million (2016: increase/decrease by £36.3 million, 2015: increase/decrease by £11.5 million), mainly as a result of the changes in the fair value of financial coal and power derivatives.

The sensitivity analysis above has been determined based on the exposure to commodity prices for outstanding monetary items at 31 December 2017, 2016 and 2015, respectively. The analysis is based on our commodity financial instruments held as at 31 December 2017, 2016 and 2015, respectively.

Interest Rate Risk

Historically we have been exposed to interest rate risk principally in relation to our bank debt, and have sought to mitigate this risk with interest rate hedges on a proportion of our debt facilities. We had no interest rate swaps outstanding as at 31 December 2017, 31 December 2016 or 31 December 2015; however, this risk management tool remains available to us.

If interest rates had been 1.0 per cent. higher/lower and all other variables were held constant, our loss after tax and net assets for 2017 would increase/decrease by £2.2 million (2016: profit after tax would decrease/increase by £1.8 million) as a result of the changes in interest payable during the period.

The sensitivity analysis above has been determined based on the exposure to interest rates for non-derivative instruments as at 31 December 2017 and 2016, respectively. 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.

Foreign Currency Risk

We are exposed to foreign currency risk in connection with coal purchases in US dollars, biomass purchases in US dollars, Canadian dollars and euro, freight and other associated transportation costs (e.g. oil) in US dollars and emissions allowances purchases in euro. Foreign currency exchange contracts are entered into to hedge this exposure. As our biomass transformation plans have progressed, we have entered into an increasing volume of foreign exchange contracts.

If pound sterling exchange rates had been 5.0 per cent. stronger/weaker against other currencies in 2017 and all other variables were held constant, our loss after tax for 2017 would increase/decrease by £351.1 million/£285.5 million (2016 profit after tax: decrease/increase by £252.6 million/£277.7 million). This is mainly attributable to our exposure to foreign currency exchange contracts entered in relation to fuel purchase contracts. If pound sterling exchange rates had been 5.0 per cent. stronger/weaker against other currencies in 2017 and all other variables were held constant, our other equity reserves would decrease/increase by £111.1 million/£122.8 million (2016: decrease/increase by £87.0 million/£78.7 million) as a result of the changes in the fair value of foreign currency exchange contracts.

Counterparty Risk

As we rely on third-party suppliers for the delivery of fuel, a large portion of our sustainable biomass and other goods and services, we are 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.

We enter 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 us financial distress or increase our risk profile. In 2017, we did not have any individual customers representing 10 per cent. or more of total revenue for the year. In 2016, two customers in our Power Generation segment each represented 10 per cent. or more of total revenue for the year, generating £541.5 million and £399.3 million. In addition, we have entered into currency hedging arrangements with respect to the principal and interest payments under the Notes.

Credit Risk

We are exposed to credit risk with respect to our investments of cash and cash equivalents, other short term investments, the debtors of our trade and other receivables as well as the counterparties to our derivative financial instruments.

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 we have purchased credit default swaps.

The investment of surplus cash is undertaken to maximise the return within approved policies. These policies manage credit risk exposure by setting out minimum rating requirements, maximum investments with any one counterparty and the maturity profile.

Our exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised in the following table:

	As at 31 December	
	2016	2017
	(£ million)	
Cash and cash equivalents	228.4	222.3
Trade and other receivables	296.9	409.2
Derivative financial instruments	891.3	366.2
Other investments	—	1.3
Total	**1,416.6**	**999.0**

Critical Accounting Estimates and Judgements

The Drax Group Audited Financial Statements have been prepared in accordance with IFRS. In connection with the preparation of the Drax Group Audited Financial Statements, the directors of Drax Group plc are required to make assumptions and estimates about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue and expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, trends and other factors that management believes to be relevant at the time the Drax Group Audited Financial Statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that the Drax Group Audited Financial Statements are presented fairly and in accordance with IFRS. However, because future events and their effects cannot be determined with certainty, actual results could differ from its assumptions and estimates, and such differences could be material. For a complete discussion of all of our critical accounting estimates and judgments, see the section captioned "Judgements and estimates" on page F-10.

Management believes that the following accounting policies and estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require management's most difficult, subjective or complex judgments, resulting from the need to make estimates about the effects of matters that are inherently uncertain.

Accounting Treatment Applied to Acquisition of LaSalle Pellet Production Assets

We acquired the assets at the LaSalle pellet production plant on 13 April 2017. Having assessed the circumstances, notably that the plant was acquired without employees, input or output contracts and required significant investment prior to commissioning, we concluded that the transaction represented an asset purchase and not the acquisition of a business. Accordingly, the assets have been recognised as additions to property, plant and equipment in the year. Had business combination accounting been applied, the assets and liabilities of the plant would have been consolidated line-by-line into the Group's financial statements, with any difference between the consideration paid and the fair value of the net assets acquired recognised as goodwill or a gain on bargain purchase.

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 judgment is required. Useful economic lives are reviewed annually. We reduced the useful lives of coal-specific generation assets in our Power Generation business from 1 January 2017.

Intangible Assets

Intangible assets acquired through the purchase of Opus have been recognised at their fair value. The fair value measurement of the existing customer contracts depends on a number of assumptions, and in particular requires estimates to be made about likely margins on current customer contracts, future contract renewal rates and future margins on renewed contracts. The assets are amortised over their useful economic lives, which in the case of the customer-related assets, have also been assessed based on the future contract renewal rates. The amortisation rate will change if the assumed renewal rates differ from actual experience.

Asset Impairment

We conduct impairment tests annually for goodwill and for other fixed assets (or, where appropriate, groups of assets known as cash-generation units ("**CGUs**")) when an indicator of possible impairment exists. We consider the smallest collection of assets that generate independent cash flows to be our operating entities (Drax Power, Haven Power, Drax Biomass and Opus) and accordingly consider the Drax Group to be comprised of four CGUs. If an indication of a potential impairment exists, the recoverable amount of the asset or CGU in question is assessed with reference to the future cash flows expected to be derived from the continuing use of the asset or CGU or the expected price that would be received to sell the asset or CGU to another market participant. 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 CGU to the recoverable amount. 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 the reasonable estimates of future prices, output, costs and economic support for renewable energy production by management.

In 2015, our market capitalisation fell materially below the carrying value of our net assets. While the shortfall has reduced considerably during 2016 and 2017, this remained the case as at 31 December 2017. In addition, commodity markets continued to be weak, we perceived levels of regulatory uncertainty to be high and the volatility of the pound sterling against both the euro and the US dollar in 2017 indicated a potentially material increase in the long-term costs of fuel for the Power Generation segment, which are primarily priced in these currencies. Accordingly, an impairment review of the Drax Power CGU was undertaken as at 31 December 2017. A review of other CGUs suggested no indicators of impairment and no impairment charge was taken.

Derivatives

Derivative financial instruments are recorded in the Drax Group Audited Financial Statements at fair value. The assessment of fair value depends upon assuming a market price for the instrument in question. We base our assessment of market prices upon forward curves that are largely derived from readily obtainable quotations and third-party sources. However, any forward curve is based at least in part on assumptions around future transactions and market movements. Where derivative instruments extend beyond the liquid portion of the forward curve, the level of judgment increases as the number of observable transactions decreases. 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 rates and assumptions around volatility based on historical movements. These inputs include assumptions around future transactions and market movements and are therefore subjective.

Revenue Recognition

The nature of some of our activities, particularly within the B2B Energy Supply segment, results in revenue being based on the estimated volumes of power supplied to customers at an estimated average price per unit. Assumptions that underpin these estimates are applied consistently and comparison of past estimates to final settlements suggests a high degree of accuracy. However, given the level of judgment involved, actual outcomes may vary from initial estimates.

ROCs

The carrying amount of ROC assets generated by the Group’s Power Generation business in the Group’s balance sheet is stated at the lower of their deemed cost at the point of generation and expected realisable value, taking into account anticipated sales prices, and agreed forward sale contracts, where appropriate. ROC valuations also include an estimate of the future benefits that may be obtained from the recycle fund at the end of the compliance period. Such estimates are subject to assumptions about likely levels of renewable generation and supply over the compliance period as well as estimates of likely future sales prices and thus subject to uncertainty.

Pensions

We record a liability in our balance sheet for our obligation to provide benefits under an approved defined benefits 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.

Taxation

In accounting for both current and deferred tax we make assumptions regarding the likely treatment of items of income and expenditure for tax purposes. These assumptions are based on interpretation of relevant legislation and, where required, consultation with external advisers.

Recent Accounting Announcements

A number of new and amended standards became effective for the first time in 2017. See note 8.2 to the Drax Group Audited Financial Statements. We adopted the following from 1 January 2017:

- 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.

The adoption of these updates and amendments has not had a material impact on the financial statements of the Group.

The standards and interpretations that are issued, but not yet effective are disclosed below. We intend to adopt these standards, if applicable, when they become effective:

- IFRS 2—Classification and Measurement of Share-based Payment Transactions—effective for annual periods beginning on or after 1 January 2018.
- IFRS 9—Financial Instruments—effective for annual reporting periods beginning on or after 1 January 2018.
- IFRS 15—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.
- IFRS 10 (amended)—Consolidated Financial Statements and IAS 28 (amended) Investments in Associates and Joint Ventures (2011)—effective date deferred indefinitely.
- IFRIC 22—Foreign Currency Transactions and Advance Consideration—effective for annual reporting periods beginning on or after 1 January 2018.
- IFRIC 23—Uncertainty over Income Tax Treatments – effective for annual reports beginning on or after 1 January 2019.
- IAS 40 (amended)—Investment Property—effective for annual reporting periods beginning on or after 1 January 2018.

We adopted IFRS 9 with effect from 1 January 2018. The adoption of this standard is not expected to have a significant impact on the classification and measurement of our financial assets or financial liabilities. However, following adoption, we anticipate opportunities to designate additional contracts into hedge relationships in the future, potentially reducing income statement volatility from fair value movements on such contracts.

IFRS 9 allows a policy choice to designate the fair value movements relating to forward basis points and the time value of money of options as a "cost of hedging" and recognise these movements as a component of other comprehensive income (OCI). We intend to adopt this policy. Currently these values are recognised in the unrealised gains/losses on derivative contracts line in the income statement. Had this policy been in place during the year ended 31 December 2017, the impact would have been to reduce the loss before tax by approximately £32 million and the loss after tax by approximately £26 million, with an identical post-tax expense recognised in other comprehensive income. There is no impact on the balance sheet valuation of derivative contracts. The new impairment model requires the measurement of impairment provisions to be based on expected credit losses, rather than incurred credit losses as is the case under IAS 39. We expect this to impact our calculation of impairment provisions in respect of trade receivable balances. We estimate that such impairment provisions will increase modestly as a result (less than £1 million) with a one-off corresponding reduction in EBITDA and underlying earnings in the fiscal year ending 31 December 2018.

We have completed an impact assessment for the adoption of IFRS 15, which was adopted from 1 January 2018. Having assessed the Group's material contracts against the new model, a significant change to the quantum and timing of the recognition of revenue and profits is considered unlikely.

We intend to undertake a comprehensive review to quantify the effects of the adoption of IFRS 16 prior to its effective date. The review will also consider whether certain contracts currently not classified as leases meet the definition of a lease under IFRS 16. We intend to adopt IFRS 16 in the first period it becomes mandatory, which commences on 1 January 2019 (pending endorsement by the EU).

Adoption of the other standards in future periods is not expected to have a material impact on the financial statements of the Drax Group.

INDUSTRY OVERVIEW

Certain information in this section relating to the market environment, market developments, growth rates, market trends, industry trends, competition and similar information are estimates based on data compiled by professional organisations, consultants and analysts. Certain projections and other information set forth in this section have been derived from external sources. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed. We believe that these industry publications, surveys and forecasts are reliable, but we have not independently verified them and cannot guarantee their accuracy or completeness. The projections and forward-looking statements in this section are not guarantees of future performance and actual events and circumstances could differ materially from current expectations. Numerous factors could cause or contribute to such differences. See "Risk Factors" and "Forward-Looking Statements". For further discussion on the industry and market terms, see "Market and Industry Data".

The UK Electricity Industry

The principal sectors of the UK electricity industry are:

- *Generation*: the production of electricity;
- *Transmission and distribution*: the transfer of electricity across the high-voltage electricity transmission network (the "**Transmission System**") and the delivery of electricity from the Transmission System through low voltage local distribution networks to customers (the "**Distribution System**");
- *Wholesale*: the buying and selling of wholesale electricity by traders, generators, suppliers and other wholesale market participants; and
- *Supply*: the supply of electricity by authorised suppliers to customers.

Overview of the Generation Sector

As of the third quarter of 2017, approximately 48 per cent. of the electricity produced in the UK was generated by power stations which produce heat by burning fossil fuels such as coal, oil or natural gas. Nuclear power stations, by contrast, capture the heat released from splitting atoms. In each case, the heat created is used to turn water into steam (in a boiler), which then turns a turbine that drives an electrical generator. Electricity is also generated from renewable energy sources, such as burning biomass, and from water, solar and wind. Incineration of household and industrial waste and burning gases emitted from landfill sites are also used to generate electricity. The diversity of electricity generation is a key contributor to security of supply.

Coal and oil-fired power stations

Until 1996, coal and oil-fired power stations represented the largest proportion of electricity generation capacity in the UK. Since then, the trend in generation has been the continuing growth of gas-fired and renewable generation and the displacement of coal and oil-fired generation, with the share of generation from gas increasing to 42 per cent. by 2016.

In November 2015, the Government announced its intention to phase out electricity generation from coal by 2025 in order to reduce overall CO_2 emissions, and has stated that the capacity loss from the closure of coal plants by 2025 should be replaced by less carbon-intensive energy sources, such as gas. In January 2018 the Government restated its intention and announced the introduction of an emissions intensity limit, which, when enacted, will make generation from unabated coal units uneconomic. In 2016 and 2017, coal plants with an aggregate capacity of 5.4GW were closed in the UK.

Nuclear power stations

Nuclear power stations in the UK are designed to operate for sustained periods at relatively constant output levels and are not well suited to varying output quickly. Their low variable (as opposed to fixed) costs also mean that they have a commercial incentive to generate as much electricity as possible, and therefore continue to generate electricity during periods when market prices are low.

Gas-fired stations

There are two primary types of gas-fired station: combined cycle gas turbine stations ("**CCGT**") and open cycle gas turbine stations ("**OCGT**"). In an OCGT power station, the hot gases created by natural gas or gas-oil combustion are used to drive a turbine which provides the power to generate electricity. In CCGT stations the exhaust from the OCGT is sent through a boiler to produce steam to drive a steam turbine generator, producing additional power from the same fuel. CCGTs are generally fueled by natural gas, although some stations have the capability to burn gas-oil.

Modern OCGT and CCGT plants in the UK are generally capable of varying output upon shorter notice than existing coal-fired units, and hence are more responsive to short-term demand changes. Since 1990, CCGT power stations have provided the vast majority of new thermal generating capacity in the UK. However, in recent years, the growth in inflexible, intermittent renewable capacity has led to a need for cheaper, flexible thermal generation to respond to fluctuations in intermittent output and, accordingly, many new thermal power stations in development are smaller OCGT power stations.

Biomass-fired generation

Biomass is biological material obtained from living, or recently living, organic matter (such as plants and trees) that can be converted into electricity, fuel and heat. Biomass generation is considered a supply of renewable energy because sourced and burnt biomass can be replaced through re-plantings and the CO_2 that is emitted from burning the harvested biomass can be absorbed by the new plant growth through the process of photosynthesis. When biomass is sourced sustainably, the conversion of coal-firing power stations to burning biomass, or co-firing biomass with fossil fuels, can offer a relatively quick, cost-effective way to reduce carbon emissions from electricity generation in the short to medium term.

There is a variety of sources of biomass, from forestry residues (branches, tops and other low-grade wood) to dedicated energy crops. Biomass is the fourth largest fuel source in the world after oil, coal and gas.

One of the types of sustainable biomass feedstock comes in the form of pellets produced from thinnings, branches, tops and other low-grade wood fibre, together with sawmill chips and sawdust. Co-firing and converted coal plants usually require high-grade ‘clean’ wood pellets, with a high energy density to enhance plant efficiency.

A generator’s technical specification for industrial wood pellets is influenced by the combustion technology (the design of boiler, burners and other equipment) and the logistics facilities (transport off/on-site and storage capacity) associated with the plant where it is intended to be used. The combustion technology determines the limitations of tolerable chemical composition and the logistics facilities influence the physical quality requirements.

Biomass is the only low-carbon technology capable of providing flexible, reliable electricity and system support services at scale, which gives it an advantage over intermittent forms of renewable electricity generation. This form of technology is in the process of being adopted and developed in Japan, Korea and Western Europe.

Other renewables

Apart from biomass, electricity in the UK is generated from other renewable energy sources including wind (both onshore and offshore), solar/photovoltaic, hydro, bioenergy (including landfill gas, sewage sludge digestion, heat pumps and deep geothermal energy) and energy from waste combustion (both household and industrial) technologies. Some of these energy sources, in particular wind and solar, generate electricity only on an intermittent basis.

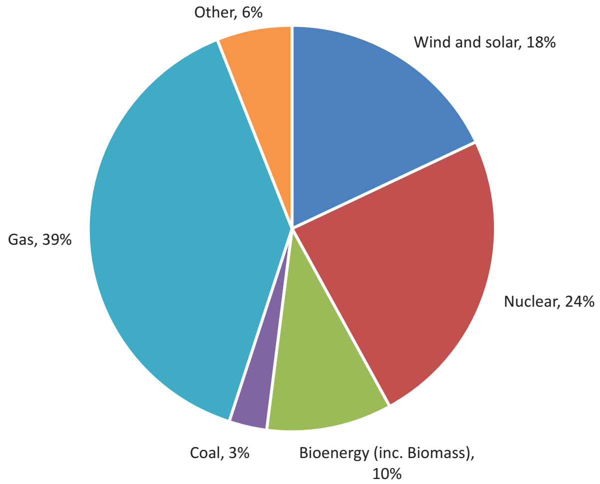
Battery storage technology

The advancement of battery storage technology has increased rapidly in the last few years. It is likely to play an increasingly broad role in the energy markets with a range of applications and has the potential to have a significant impact on the energy sector. It can be used by generators to provide a flexible, reliable source of electricity supply and to provide system support services, including grid balancing services. These features are likely to be increasingly important with the UK energy sector’s move away from baseload generation in favour of flexible, intermittent supply. On the supply side, it may be increasingly economical for I&C customers to use storage to reduce their peak consumption levels and to store excess electricity from their own embedded generation.

Contribution to generation by fuel type

According to DBEIS’s figures as of the third quarter of 2017, generation from coal and gas represented approximately 3 per cent. and 39 per cent. of the electricity generated in the UK, respectively. In the corresponding period, generation from nuclear fuel and renewable sources contributed approximately 24 per cent. and 34 per cent. of electricity generation, respectively. Renewable sources consist of wind and solar (53 per cent.), bioenergy (29 per cent., including biomass) and other renewables (18 per cent.).

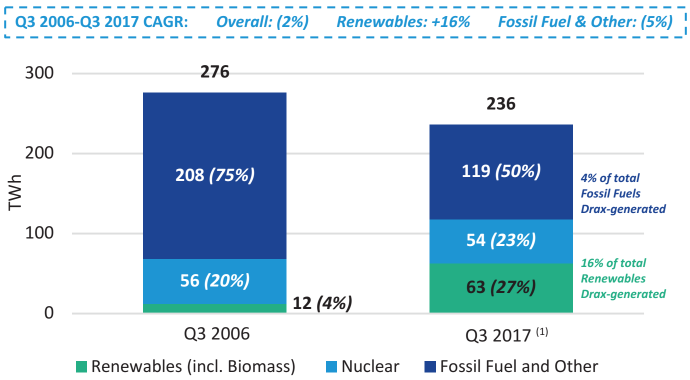
UK power generation by fuel type



(1) Figures for third quarter of 2017

Source: DBEIS

UK generation evolution (figures in TWh)



(1) Figures for third quarter of 2017

Source: DBEIS

Transmission and Distribution Sector

Overview of the transmission and distribution sector

The Transmission System carries electricity long distance around the UK at high voltages. It includes the overhead lines, underground cables and substations which connect the large generation assets and interconnectors to the distribution system. The System Operator owns and operates the Transmission System in Great Britain and, as system operator, co-ordinates and directs electricity flows on to and over the Transmission System, balancing generation supply and user demand.

The Distribution System carries a lower voltage than the Transmission System through networks of overhead lines, underground cables and substations. The Distribution System takes over the role of transporting electricity from the Transmission System and delivers it to customers at a voltage they can use. Whereas large electricity producers are connected directly to the national Transmission System, smaller-scale power stations can be connected directly to the Distribution System on a regional basis. These smaller-scale power stations currently receive various financial benefits ("embedded benefits") as a result of their direct connection to the Distribution System. In June 2017, Ofgem announced the Gas and Electricity Markets Authority's decision to reduce by up to 93 per cent. the level of embedded benefits for smaller embedded generators in order to prevent market distortion and protect customers.

The Transmission System is linked by interconnectors to the Transmission Systems of France, the Netherlands, Northern Ireland and the Republic of Ireland, through which an additional 4GW of capacity is available. European legislation requires nearly all interconnection capacity, with some exemptions for long-term interconnection contracts, to be allocated to the wholesale market by way of auction.

In May 2014, the Government introduced the "Cap and Floor" regulatory regime to encourage investment in electricity interconnectors. Interconnectors developed under this regime will earn revenue from the allocation of capacity to users who want to flow electricity between the UK and its neighbouring countries. In the scenario where an interconnector does not earn sufficient revenue from its operation, the gap between its revenue and the floor level will be transferred from the System Operator, which will recover cost through the transmission charges to users of the Great Britain electricity Transmission System. Alternatively, should the interconnector earn in excess of the cap, the surplus will be transferred back to the System Operator.

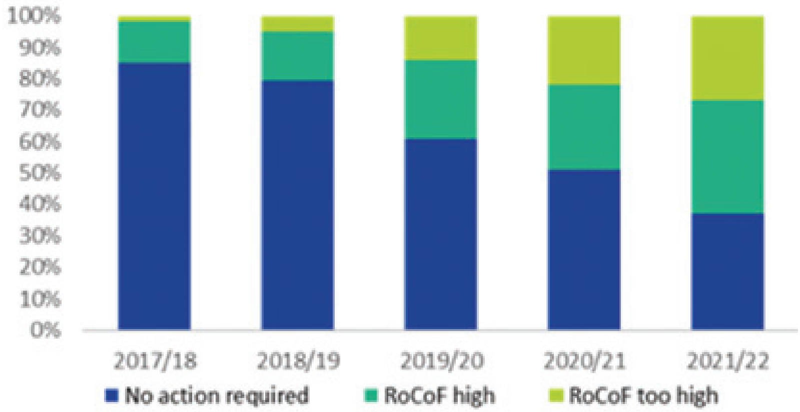
The pilot Cap and Floor project, Nemo Link, is expected to become operational in 2019. In 2015 applications for a further five interconnector investment projects were successfully awarded under the Cap and Floor regime, and these projects are expected to become operational between 2020 and 2022. In January 2018, the GridLink, NeuConnect and NorthConnect interconnector projects were granted in principle awards under the Cap and Floor regime and will progress to the final project assessment.

Ancillary services

Due to the growing dependency on intermittent renewable energy, Ancillary Services contracts are offered to electricity generators. This provides system support to the System Operator as it maintains a reliable system through the procurement of balancing, frequency response and reactive power. As more conventional power stations (typically thermal plants) reach the end of their useful lives, there are fewer market participants capable of providing Ancillary Services.

Following the increase in system volatility, the System Operator has a growing need for system support services. For example, in June 2017, the System Operator published a report stating that it predicted that within five years over 60 per cent. of settlement periods for electricity may require corrective action to manage grid frequency changes, as illustrated in the graph below.

System needs projection—Rate of Change of Frequency



(1) Rate of Change of Frequency high—may need to curtail largest single loss Rate of Change of Frequency.

(2) Rate of Change of Frequency too high—need to curtail multiple large losses including nuclear, or replace wind with synchronous plant system support.

Source: National Grid

The total cost of delivering Ancillary Services is included within the Balancing Services Use of System ("**BSUoS**"), splitting into internal costs and external costs, charged to generators and/or customers for Ancillary Services.

Wholesale

Overview of the wholesale electricity market

The wholesale market consists of electricity generators producing electricity and selling their output to electricity suppliers who in turn on-sell electricity to customers. Market participants tend to be focused on either the sale of electricity from generation or the purchase of electricity for supply; however, certain market participants have an interest in both. Wholesale trades are entered via a number of platforms, including bilaterally, through brokered platforms or on exchanges. Wholesale trades involve various time frames, from contracts for several years ahead to same-day trading markets and fixed periods (for example, specified half-hours or seasons).

The wholesale electricity market trades across three sub-markets:

- the long-term forward market, allowing contracts to be struck up to several years ahead of delivery in response to market participants' requirements;
- the short-term market, operated predominantly through power exchanges, which gives market participants the opportunity to fine tune their contractual positions; and
- the real-time market, through which the System Operator accepts offers and bids for electricity to enable it to balance supply and demand on the system.

Electricity cannot be easily stored in large volumes at present and so, to ensure a secure supply of electricity to end users, the volume of generated electricity must match the volume being consumed. The System Operator matches, on a real-time basis, the generation and consumption of electricity in Great Britain to ensure the stability of the electricity system and maintenance of satisfactory voltage and frequency. Where necessary, the System Operator pays sources of generation or consumption to increase or decrease their generation or consumption.

Electricity is traded in 30-minute blocks and each generator and supplier (except for certain smaller market participants) has metering that measures, or estimates, its total generation or aggregate consumption in each 30-minute block. Generators and suppliers (together with other entities) trade voluntarily with each other until the hour before the start of a 30-minute block (a point in time referred to as "gate closure"). At gate closure, ideally the volume of electricity that generators have contracted to generate and that suppliers have contracted to consume should be equal, resulting in a balanced electricity system. After gate closure, it is the System Operator's responsibility to ensure that the electricity system is balanced.

Generators and suppliers of electricity are incentivised to contract accurately for the volume of electricity they intend to generate or consume in any 30-minute block. Any imbalance in volume between generators and suppliers results in an "imbalance charge" on the difference between the contractual volume and the metered volume in that 30-minute block. This imbalance charge is generally at a less favourable (and less certain) price than the wholesale market price for that particular 30-minute block, which further incentivises generators and suppliers to contract as accurately as possible. Imbalance charges are intended to reflect the costs incurred by the System Operator on behalf of the electricity industry when it has to increase or reduce electricity generation or consumption to balance the electricity system.

Wholesale prices

The market price for wholesale electricity is affected by a number of factors, including the prices of underlying commodities such as oil, natural gas, coal and biomass; the price of emission allowances; availability of generating capacity on the electricity system; the physical positions taken by individual market participants; and wider economic conditions.

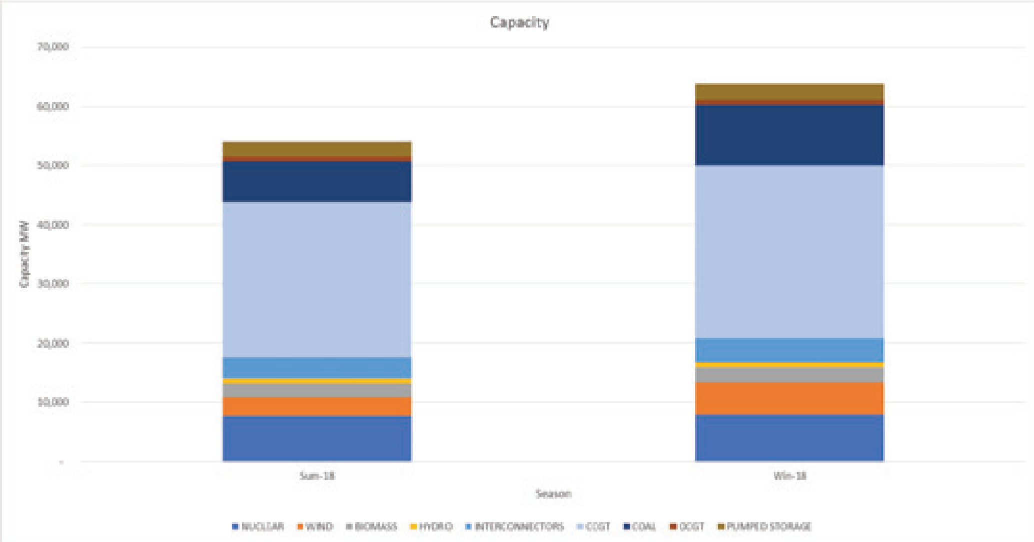
A power station needs to achieve enough revenue per MWh to cover its variable costs, including fuel, carbon and some variable operation and maintenance costs, to be economically viable to operate in the short term. Electricity prices are set by the intersection of demand and supply, which is demonstrated by the "merit order" principle. The merit order describes the short-run marginal cost of available electricity generation in ascending order for a particular market, against the corresponding amount of energy that will be generated.

Power stations available to generate can be modelled, according to their different costs of generation, as a stack, which is overlaid with forecast demand for electricity. The available power stations are drawn on to supply electricity to fulfil this demand, starting with the power stations that have the lowest cost of generation. At the point in the demand stack where forecast demand intersects with available supply, the power station supplying electricity at the point of intersection is known as the "marginal plant". The marginal price at which the marginal plant is willing to generate therefore dictates the prevailing market price.

The fuel type of the marginal plant is the fundamental driver of the market price. A power station's cost of generation is determined largely by the cost of the type of fuel used, which cost can be susceptible to market forces and can fluctuate widely. Some power stations have negative costs of generation, such as those which use wind or solar, since the subsidies provided to renewable generators are greater than their minimal cost of generation.

A power station's cost of generation is also affected by its efficiency. Among power stations that depend on the same source of fuel, the range of efficiencies fluctuates depending on each power station's technology and level of underlying investment. The cost of generation can therefore vary significantly between plants, despite the same type of fuel being used.

In the illustrative example of a demand stack below for Summer 2018, if demand were forecast as 48GW, a coal-fired power station would be the marginal plant and would set the market price. If, however, demand was forecast between 18GW and 44GW, a CCGT power station would be the marginal plant and would set the market price.



The price for generated electricity can therefore fluctuate in line with the merit order, reflecting different efficiencies, fuel costs and renewable capacity available in the market.

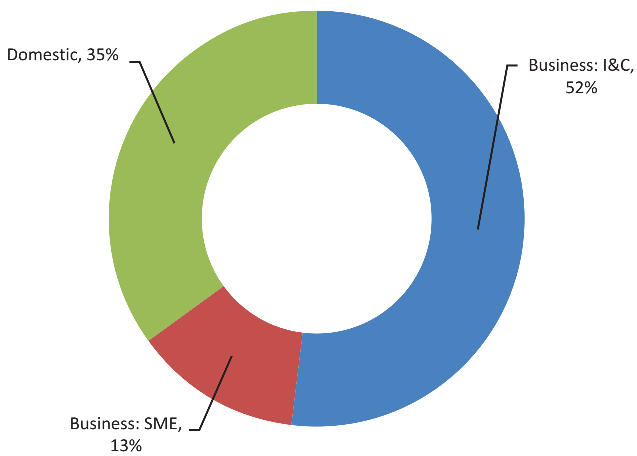
Supply

Total electricity demand in the UK is approximately 300 TWh each year, with approximately one-third relating to domestic demand and two-thirds to non-domestic demand. As of June 2017, businesses had 2.5 million electricity meter points and 860,000 gas meter points, compared to 28.0 million electricity meter points and 23.1 million gas meter points for household meter points.

In the domestic market, contracts for electricity supply are often combined with domestic gas supply in dual fuel contracts. The types of these contracts are varied but tend to be simple rolling tariff or fixed-term contracts, sometimes with an automatic roll over into an open-ended, variable price contract at the end of the fixed term.

The non-domestic market can broadly be divided into two sub-sectors: the SME sector comprising smaller companies and micro-enterprises; and the I&C sector. Contract types and pricing structures vary greatly, particularly in the larger I&C market, where contracts may be bespoke.

Retail Market Share of Consumption by Market



Source: Cornwall Insights, October 2015

As of October 2015, there were approximately 1.8 million SME electricity meters and approximately 0.9 million I&C electricity meters, with 37TWh and 151TWh electricity consumption, respectively. Compared to the I&C segment, the SME market has a lower energy consumption per meter and higher gross margins per MWh.

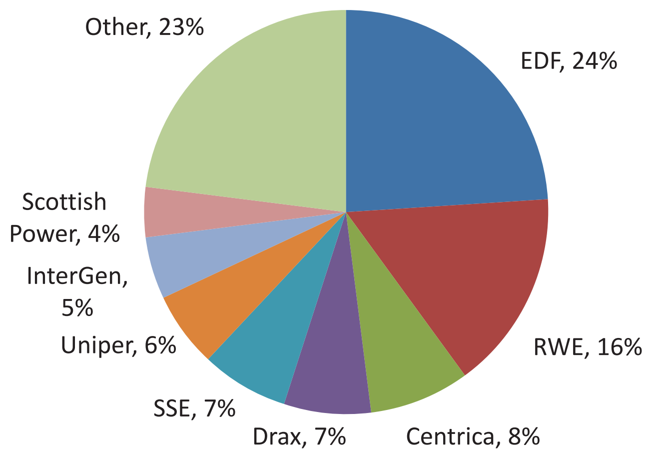
Customers may require that all, or a defined proportion, of the electricity for which they contract is generated from renewable sources. The fungible nature of electricity makes it impossible to trace a particular volume of electricity back to its source of generation, so instead the provenance of the renewable electricity is demonstrated by the supplier acquiring various renewables certificates. The extra cost of renewable electricity is ordinarily passed through to the customer as part of the contract (whether expressly stated or otherwise) and so electricity sold pursuant to these products tends to be more costly than the corresponding volumes of non-renewable electricity. The extra cost of renewable electricity, however, is also mitigated, and often offset, by various exemptions from charges applied to non-renewable electricity.

The Big Six

The UK electricity market was privatised in 1990, introducing competition among those companies that succeeded the nationalised Electricity Boards into both the generation and, to a limited extent, the supply markets. Competition in the supply market increased in stages until it was fully developed by 1999, at which point no geographical franchises remained.

Following a period of consolidation among suppliers and generators and, in many cases, subsequent acquisition by large overseas utilities groups, the wholesale market is now dominated by the "Big Six" vertically-integrated energy companies which have a large market share in both generation and supply: British Gas (owned by Centrica), EDF Energy, npower (owned by Innogy SE), E.ON (which recently demerged to E.ON and Uniper), SSE and Scottish Power (the latter of which is owned by Iberdrola). In November 2017 it was announced that npower and SSE are in the preliminary stages of a proposed merger. As of December 2016, the Big Six together supplied energy to approximately 86 per cent. of domestic customers in the UK and generated approximately 65 per cent. of total electricity generation. In 2016, Drax generated a higher share of wholesale (i.e. electricity that is not embedded in the distribution grid, such as residential solar panels) electricity than each of E.ON and Scottish Power.

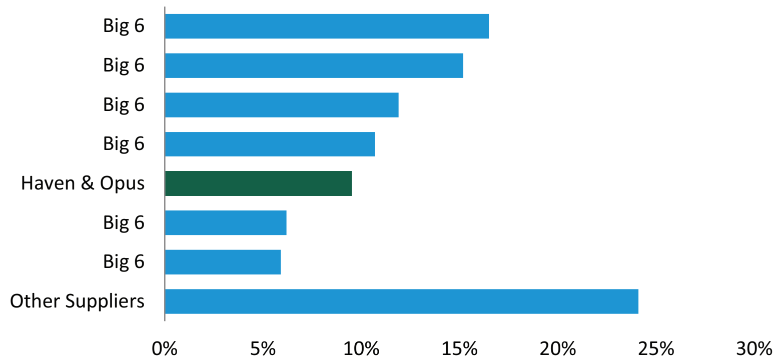
Wholesale electricity generation market share by company in 2016



Source: Ofgem

Over recent years, the Big Six have lost market share in the non-domestic segment to other energy generators and stand-alone suppliers, including to Drax through Haven Power and Opus. As of October 2017, the Big Six held a 66 per cent. market share in the non-domestic segment compared to 82.4 per cent. in October 2012.

UK Non Domestic Electricity Market Share by Volume



As of 31 October 2017
Source: Cornwall Insights

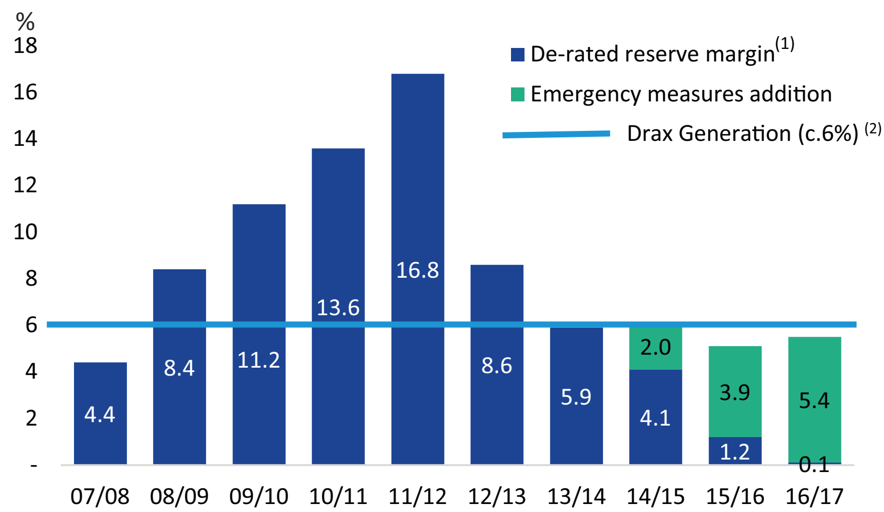
Electricity market: regulatory context

Capacity Constraints

The UK electricity market, which had approximately 73.7GW of electricity generation capacity in the winter of 2016/2017, faces a challenging period of significant structural change. As additional intermittent renewable generation capacity is commissioned, the market share of such capacity is expected to increase while, at the same time, a substantial proportion of conventional electricity generation comes offline. While some retirements are attributable to the end of operating life, in the case of coal, the prohibitive costs of complying with emissions targets and other environmental regulations have reduced their economic viability. The feasibility of projects has been further affected by the low wholesale price environment that has been experienced in the energy market since 2014. In addition the capacity market favours lowest capex and low load factor generation, resulting in no significant new thermal plants. The constraints imposed on the Transmission System by this structural change are evidenced by the System Operator's recent issue of Notifications of Inadequate System Margin as the supply/demand balance has tightened in the UK electricity market.

As shown on the below graph, the De-rated Reserve Margin for 2016/2017 was 5.5 per cent. (including contingency balancing reserve services procured by the System Operator for the winter). The System Operator has estimated the De-rated Reserve Margin for 2017/18 to be 11.5 per cent., which is high relative to recent years due to a number of plants unexpectedly remaining operational without capacity market agreements, a trend that may not continue in the future.

UK generation: Spare Electricity Capacity



(1) The excess of available capacity over and above the capacity needed to meet normal peak demand.
(2) Calculated based on DUKES data and management data as of September 2017.
Source: National Grid

Due to Government initiatives implemented in an effort to meet EU regulation and recent international developments (such as during the COP-21 conference in 2015), a significant share of the UK's CO_2 intensive generation capacity is expected to be taken offline, as the UK's power stations age and as EU environmental legislation, notably the Industrial Emissions Directive ("**IED**"), impose stricter standards. This primarily relates to coal-fired and oil-fired plants, which may not be able to comply with new regulation in respect of CO_2 emissions in certain circumstances. The IED was enacted to reduce emissions of SO_2, oxides of nitrogen and dust from large combustion plants. A number of coal-fired and oil-fired plants that did not comply with the IED's predecessor, the Large Combustion Plant Directive, were required to close by the end of 2015, driving the need for new generation plants to be commissioned in order to maintain the UK's security of electricity supply.

DBEIS forecasts that approximately 4GW of existing nuclear power (approximately 8 per cent. of peak demand) will be taken out of production by 2020. DBEIS projections also suggest an increase in generation capacity of 32GW from all technologies by 2035 compared to 2017, including an increase in nuclear generation capacity of 5GW.

The UK is currently in the process of developing a new range of nuclear power stations with the decision on Hinkley Point C approving what will be the first nuclear power station built in the UK since 1995. Hinkley Point C will have capacity of 3.2GW, with total expected costs of approximately £18 billion with a secured CfD strike price of £92.5/MWh (as of 2012, subject to adjustment for consumer price inflation) for a term of 35 years following the commissioning of each generation unit. Furthermore, Wylfa in Wales and Moorside in Cumbria are also being considered as sites for new nuclear developments. However, the development of new nuclear generation units in the UK remains complex, with Hinkley Point C, according to news sources, running over budget and behind schedule (as of July 2017, by £1.5 billion and 15 months, respectively), and other nuclear plants potentially requiring partial public financing.

Global and European Context For Renewable Energy

The global and national markets for renewable energy are policy-driven markets resulting from initiatives designed to generate economic incentives for the reduction of greenhouse gas ("**GHG**") emissions, thereby mitigating the onset of climate change and helping to improve security of energy supply.

At an international level, the regulation of GHG, including CO_2, is directed by the United Nations Framework Convention on Climate Change (the "**UNFCCC**") and the Kyoto Protocol to that Convention (the "**Kyoto Protocol**"). The Kyoto Protocol came into force in 2005, and provides an international framework for the reduction of GHG emissions, legally committing the ratifying countries to making these reductions.

The UK is a party to the UNFCCC and has signed and ratified the Kyoto Protocol as part of the EU commitment for the reduction of GHG emissions. The first commitment period for the Kyoto Protocol ended in 2012. A second commitment period was agreed at the Doha Conference in December 2012 (the "**Doha Amendment**") and runs from 1 January 2013 to 31 December 2020. In 2015, the UNFCCC's 195 member countries signed the Paris Agreement at the COP-21 conference, which committed them to the target of holding the increase in the global average temperature to below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C, which effectively committed the world to becoming carbon-neutral after 2050. In August 2017, the US formally notified its intention to withdraw from the Paris Agreement, however, other signatory countries have not followed suit, with many re-affirming their commitments.

European Clean Energy Legislative Framework

In 2008, following the international commitments made under the Kyoto Protocol, the European Commission presented the second Strategic Energy Review package, a set of energy and climate change measures for the EU known as the "20-20-20" initiative, aimed at achieving a 20 per cent. reduction in GHG emissions, a 20 per cent. share for renewables in final energy consumption, and a 20 per cent. reduction in future energy demand by 2020.

One of the main pieces of legislation supporting renewable generation at the EU level is the Renewable Energy Directive (2009/28/EC) (the "**Renewable Energy Directive**"). Under the Renewable Energy Directive, EU Member States are required to adopt national targets for renewables that are consistent with reaching the European Commission's overall EU target of a 20 per cent. share of energy from renewable sources relative to final energy consumption from all sources by 2020. In October 2014, the European Council agreed on a new 2030 framework for climate change and energy, including EU-wide targets and policy objectives for the period between 2020 and 2030. This framework sets an EU-wide target of 27 per cent. for the share of renewable energy consumed in the EU in 2030. This target is binding at the EU level but has not yet been translated into specific national targets. In January 2018, the European Parliament endorsed committee proposals for binding EU-level targets of a 35 per cent. improvement in energy efficiency and a minimum 35 per cent. share of energy from renewable sources in gross final consumption of energy by 2030. To meet these overall targets, EU member states are asked to set their own national targets. As in many sectors, it is difficult to predict the impact of Brexit on energy regulation.

The Push Towards Renewable Energy

According to DBEIS, the increase in the UK lower carbon technologies will be largely driven by the capacity growth in wind, solar, nuclear and gas. To meet the UK's target of 15 per cent. primary consumption from renewable sources, without compromising the security of supply in the system, the UK power system may become increasingly reliant upon the construction of new CCGTs and OCGTs, expand in non-intermittent renewable energy (e.g. biomass) and depend on increased imports of power through interconnectors.

The desire to address climate change, along with supply pressures, has led to a number of regulatory and market initiatives in the UK. In particular, successive Governments have been supportive of the growth of renewable energy, as demonstrated by the legislation passed and policies issued in recent years.

The EU emissions trading system

In 2005, the EU ETS, a cap-and-trade scheme for EU Allowances ("**EUAs**") was introduced. The system operates by placing a cap on the total CO_2 emissions from industrial sectors and energy-intensive industries which are covered by the scheme. At the end of each phase of the scheme, each installation needs to submit a number of EUAs, equal to its CO_2 emissions in the period. The scheme is now in its third phase, which runs from 2013 to 2020 (Phase One ran from 2005 to 2007, and Phase Two ran from 2008 to 2012).

The fourth phase, which runs from 2021 to 2030, is currently under review on the basis of the European Commission's legislative proposal presented in July 2015. The revision suggests a more aggressive pace of emission cuts, declining the total emission allowances at an annual rate of 2.2 per cent. compared to 1.7 per cent. currently. Additionally, it is proposed to better target carbon leakage rules and encourage low-carbon innovation and modernisation of the energy sector. The continued application to the UK of this fourth phase is uncertain given the impact of Brexit.

The largest sector covered by the EU ETS is the electricity sector. The marginal cost of a generator with high CO_2 emissions (typically fossil fuel generators) is therefore increased by the cost of purchasing EUAs to cover the amount of carbon emissions over each compliance period. As such, while non-renewable generation is the price-setter, the value of emissions is reflected in the price of wholesale electricity, as adjusted for the carbon intensity of that form of electricity generation. The wholesale electricity price is therefore generally considered to include the cost of carbon emissions, in addition to fuel and other costs incurred by the generator.

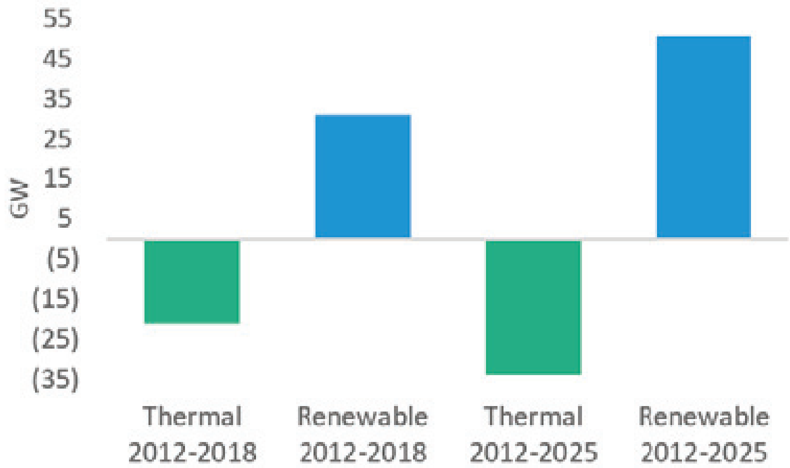
The ability to trade excess emission allowances is an incentive to companies to reduce overall emissions by investing in more efficient technology or shifting to less carbon-intensive energy sources, in return for receiving additional revenue. Consequently, the carbon price fluctuates based on the supply and demand of emission allowances. Historically, in depressed economic conditions, the market was oversupplied with unused emission allowances, trading at a significantly lower price, and thereby minimising any disincentive for the energy market to generate electricity from more carbon-intensive coal-fired plants.

UK Clean Energy Legislation

The Renewable Energy Directive sets a target for the UK of 15 per cent. for primary energy consumption from renewables by 2020. The Government released a Renewable Energy Roadmap (last updated in November 2013) designed to achieve that objective. It follows on from the Renewable Energy Strategy issued in June 2009, the UK's National Renewables Energy Action Plan submitted to the European Commission in July 2010 and the original Renewable Energy Roadmap published in July 2011. The 2011 Roadmap highlighted eight technologies which the Government expects to provide over 90 per cent. of the UK's 2020 15 per cent. renewable energy target. These technologies include onshore and offshore wind, biomass electricity, biomass heat, marine (wave and tidal), ground source heat pumps, air source heat pumps and renewable transport. The electricity generation sector has seen the fastest growth in renewable share.

During the last decade, the UK energy market has changed significantly due to the increase in flexible, renewable generation technology, the increase in the amount of self-supply and embedded generation and the closure of significant volumes of thermal plants. This trend is expected to continue, as illustrated in the chart below:

Change in UK generation capacity



A large proportion of renewable generation is intermittent in nature and, accordingly, the Government estimates that approximately 30 per cent. of the UK's electricity capacity will need to come from renewable sources by 2020 in order to ensure that the 15 per cent. overall renewable energy target is met. As such, the Government has introduced incentive and support schemes to help achieve that target.

Renewable Energy Supplier Schemes in the UK

To incentivise the move to electricity generation from renewables, the UK has introduced a number of support measures, principally:

(i) the Climate Change Act 2008 ("**CCA**");

(ii) the RO Scheme;

(iii) the Carbon Price Floor;

(iv) the CfD Regime, including Investment Contracts; and

(v) the Small-Scale Feed-in Tariffs ("**SS-FiT**") scheme.

Both the Carbon Price Floor and the CfD Regime were measures introduced under the wider proposals for Electricity Market Reform discussed below.

The Climate Change Act 2008

The CCA was introduced to establish a framework to develop an economically credible emissions reduction path. The CCA commits the UK to an 80 per cent. reduction in GHG emissions by 2050, relative to 1990 levels. The CCA also established the Committee on Climate Change ("**CCC**"), which advises the Government and devolved administrations on progress towards this target. The CCA requires the Government to set legally binding carbon budgets (a cap on the amount of GHG emitted in the UK over a five-year period). These budgets are established to serve as a pathway to the final legally binding target for 2050, to reduce emissions by at least 80 per cent. compared to 1990 levels. In June 2016, the Government has committed to CCC's fifth carbon budget to reduce UK GHG emissions in 2030 by 57 per cent. relative to 1990 levels.

The CCC's advice to the Government on carbon budgets and targets is presented to Parliament by the Government with the ultimate aim of enacting the advice into law.

The international, supranational and national commitments described above are enshrined in law and underpin the UK's efforts to mitigate climate change through the deployment of renewable energy. To facilitate investment in renewable energy and hence meet these legal commitments, the Government has developed support regimes which sit within and alongside the UK power market.

The Renewables Obligation

The RO Scheme is a market-based mechanism which has been the main source of financial support from the Government to large-scale renewable electricity generation in the UK since 2002. The powers required to establish the RO were included in the Utilities Act 2000, and the detailed mechanics are defined in Renewables Obligation Orders, which are implemented periodically and the most recent of which came into force on 1 April 2014.

As a result of the proposed transition to the CfD Regime under the Electricity Market Reform, the Renewables Obligation Closure Order came into force on 9 September 2014, which has closed the RO to new generation capacity that seeks to be accredited on or after 1 April 2017. As of 1 April 2017, existing projects already accredited under the RO Scheme are expected to remain under the RO Scheme for the remainder of their period of support until at least 2027 (unless they move onto the CfD Regime instead). See "*Risk Factors—Risk Factors Relating to Our Business and Industry—The reduction or abandonment of governmental support for generation of electricity from biomass or other relevant changes in governmental energy policy may materially adversely affect our business, operations, financial condition and results of operations*".

Operation of the renewables obligation

The RO operates in England and Wales, with parallel obligations in Scotland and Northern Ireland. The RO places an obligation on licensed electricity suppliers either to source a proportion of the electricity they provide to customers from eligible renewable sources or to make a buy-out payment. The sourcing of renewable energy is demonstrated by the supplier presenting ROCs (equivalent in number to the supplier's individual obligation) to the administrator of the RO Scheme, Ofgem.

ROCs are issued by Ofgem to renewable generators for each MWh of renewable electricity generated in different proportions based on the type of technology used. Electricity suppliers can source ROCs from renewable electricity generators. ROCs are tradable commodities that have no fixed price and therefore the amount an electricity supplier pays for a ROC is a matter for negotiation between the supplier and generator.

If a supplier fails to purchase sufficient ROCs to fulfil its obligation to source renewable electricity, then it must make a buy-out payment for each of the ROCs it should otherwise have submitted. Buy-out payments are in turn recycled back to the suppliers in proportion to the amount of ROCs submitted by those suppliers. As such, the price of ROCs is inversely related to the amount of renewable energy produced: the greater the shortfall below the target, the greater the buy-out payments to those who did submit ROCs.

DBEIS sets the level of the obligation to source renewable electricity each year using a headroom calculation. The headroom calculation provides a set margin between the predicted generation (supply of ROCs) and the level of the obligation (demand for ROCs). This helps reduce the possibility of supply exceeding the obligation in any given year and therefore the market value of a ROC being diminished. See "*Risk Factors Relating to Our Business—and Industry—Fluctuations in the demand for and supply of ROCs could result in the revenues we receive from the sale of ROCs to third party suppliers being substantially lower than anticipated*".

The RO provides for the price of buy-out payments to increase with the retail price index each year, beginning at £30/MWh in 2002 and now at £47.22/MWh for the compliance period ending in March 2019.

Each RO compliance period begins on 1 April and lasts one year. Suppliers must comply with their obligation by submitting ROCs for that compliance period (or ROCs for the immediately preceding compliance period that were not previously submitted) by the September following the end of the compliance period. Ofgem then collects all the buy-out payments and makes the payment to suppliers approximately one month later.

There is a delay of approximately three months between the generation of a unit of renewable electricity and the accreditation of the associated ROC in Ofgem's Renewables and Combined Heat and Power Register. After this accreditation, the ROC can be traded.

From the generator's perspective, the revenue received for each unit of electricity sold under the RO comprises three main elements, which together constitute the RO all-in price. Each of these three elements has an independent value and can be sold separately. The three elements are:

- *the revenue realised in the wholesale electricity market*: the market price of electricity generated;
- *the revenue realised for selling the ROC*: a fixed amount paid by a supplier for the ROC in question (traditionally a percentage of the buy-out payment avoided by the supplier as a result of having acquired the ROC instead); and

- *the revenue realised from recycling*: a share of the buy-out fund which is recycled back to suppliers and then typically passed on to generators under the terms of the sale of ROCs.

The price realised for each of these elements must be bilaterally negotiated between the relevant generator and its counterparty, or counterparties, in the market. Historically, the price of ROCs has been similar to, and followed the price of, buy-out payments.

Grandfathering of support under the Renewables Obligation

A banding system was introduced to regulate the RO in April 2009. This system provides that the numbers of ROCs received by a generator per MWh of electricity produced differs depending on the type of renewable generation technology deployed, the principle being that less developed technologies should receive a greater number of ROCs to encourage their development. However, to mitigate the disturbance that could arise from banding (and changing ROC awards for projects already in operation or under construction), the banding levels for most technologies are grandfathered. Grandfathering is a Government policy that allows, once a generating station is accredited and receiving support under the RO, the level of support received to remain unchanged for the lifetime of its support. Grandfathering gives generators sufficient certainty of income to make investment in new renewable generation capacity.

The latest comprehensive banding review occurred in 2012 and provided a level of 1.0 ROC for every MWh of renewable generation from converted biomass units and 0.9 ROC for every MWh of renewable generation from high-range, or enhanced, co-firing units. Enhanced co-firing units are defined as units co-firing at least 85 per cent. biomass with fossil fuels such as coal. In April 2013, grandfathering was extended to the biomass conversion and mid-range co-firing bands and also to the high-range co-firing band in April 2014. For these bands, grandfathering operates so that, once the generating station has been accredited under the RO, grandfathering applies to the level of support at the date that the combustion unit moves into the mid-range, high-range or biomass conversion band. Grandfathering then applies for so long as the combustion unit stays in that band and ceases to apply as soon as the combustion unit moves into another band. A combustion unit is treated as moving into a new band from the moment it starts generating electricity in respect of which ROCs under that new band are issued. However, since 12 December 2014, new biomass conversion units and combustion units already receiving support under the RO Scheme that move for the first time into the mid-range co-firing, high-range co-firing or biomass conversion bands, will no longer be covered by the Government's grandfathering policy.

In January 2018, the Government announced an intended change to the RO regime whereby generators would be able to optimise their levels of biomass-fired generation across all RO-accredited units subject to an annual cap of ROCs received at the power station level. For each power station with existing grandfathered units, the cap would be equal to (i) the forecast level of ROCs to be generated from existing grandfathered units (such forecast to be determined by DBEIS in line with its RO headroom calculation detailed above); plus (ii) a unit allowance of 125,000 ROCs per annum per non-grandfathered unit. If and to the extent that a power station receives fewer ROCs from its grandfathered units than DBEIS forecast for the relevant year, then this shortfall in ROCs may instead be issued with respect to biomass-fired generation from the non-grandfathered units in excess of the 125,000 ROCs per annum allowance. This would allow generators to flex generation between grandfathered and non-grandfathered units within the confines of the overall power station cap.

The January 2018 announcement did not change the Government's grandfathering policy and the Government can issue a public consultation to implement an emergency review of the banding levels at any time. A banding review for biomass co-firing or conversion could be carried out if certain conditions were met; for example, if the Government were satisfied that the costs had fallen significantly.

The Renewables Obligation after 2017

The RO closed to newly accredited renewable generation on 1 April 2017, following which generators are not able to apply for support under the RO in respect of any new renewable generation (subject to certain grace periods for certain projects and earlier closure dates for certain projects). All renewable generation plants which have been accredited before this time are able to continue to receive ROCs based on their grandfathered bands (if grandfathered) and the headroom principle continues to apply. The Government has recently confirmed that the RO regime will apply an RO cap at the Power Station level across all RO accredited units, rather than impose a cap on RO support for future biomass unit conversions. See "*UK clean energy legislation—Grandfathering of support under the Renewables Obligation*".

From 1 April 2027 to 31 March 2037, the current buy-out fund system is no longer intended to be in effect, and all accredited projects that are still receiving ROCs at that time (for many projects, these are scheduled to end in 2027) will simply receive a fixed payment of 110 per cent. of the buy-out price for their ROCs from a central body. This procedure is still being finalised. The 2027 buy-out price will be fixed at this point but will continue to be indexed to the retail price index throughout the remaining 10 years of the RO.

Climate Change Levy

The Climate Change Levy ("**CCL**") is a tax on energy (electricity, gas, solid fuels) being supplied to non-domestic customers in the UK, introduced in 2001. Non-domestic customers—to which the CCL applies—are in the following sectors: industry, commerce, agriculture or public services. The objective of the CCL is to create an incentive for efficiency in energy usage and reduce CO_2 emissions. In its initial form, the CCL exempted electricity generated from renewable and approved combined heat and power schemes. This exemption was, however, removed from the regime in 2015. Until 1 August 2015, generators of renewable source electricity received from Ofgem a specific number of levy exemption certificates (the "**LECs**") per MWh of renewable source electricity produced. Renewable energy generators could sell their LECs to electricity suppliers who presented these to HMRC as proof that the electricity they supplied is CCL-exempt. CCL accredited generators with remaining LECs have to retire those that are not associated with export to the national transmission and/or distribution network. On 13 February 2018 Ofgem published guidance on how to retire these certificates.

Carbon Price Floor

The Carbon Price Floor was designed to incentivise investment in low-carbon electricity generation by providing greater support and certainty to the carbon price in the UK's electricity generation sector. It was introduced in response to fluctuations in the price of carbon (in the form of EU ETS allowances) which resulted in uncertainty for investors in low-carbon technologies. With effect from April 2013, the UK implemented a system of Carbon Price Support which is intended to give investors long-term visibility of a rising carbon price in the UK, which will be reflected in the future price of UK electricity.

The Carbon Price Support had an original starting level of £4.94/tonne of CO_2 for 2013/14. It was originally expected that the Carbon Price Support level would rise to £30/tonne of CO_2 by 2020; however, it is currently capped at £18/tonne of CO_2 until it is uprated with inflation in 2020/2021. In November 2017, the Government confirmed that the UK will maintain a total carbon price (the combined UK Carbon Price Support – Carbon Price Support and the EU ETS) at around the current level until unabated coal is no longer used.

Small-Scale Feed-in Tariffs

The SS-FiT scheme is a Government programme designed to promote the uptake of a range of small-scale renewable and low-carbon electricity generation technologies and is available through licensed electricity suppliers. The SS-FiT scheme requires tariff payments on both generation and supply of renewable and low-carbon electricity to be made by certain suppliers. Tariff payment rates are index-linked and therefore increase or decrease with inflation.

Overview of Electricity Market Reform

The Electricity Market Reform package was announced in 2010 and is being steadily implemented over time. Electricity Market Reform was designed to decarbonise electricity generation in the UK, secure the UK's energy supply in a capacity-constrained market place and minimise the cost of electricity to customers.

The four main components of the Electricity Market Reform package are:

- *the Carbon Price Support*: this measure is already implemented (see "*UK clean energy legislation—Carbon Price Floor*");
- *CfDs*: long-term contracts to support investment in new renewable energy projects;
- *the Capacity Market*: this involves the award of capacity market agreements to generators which receive payments in return for committing to generate at times of system stress; it also aims to encourage investment in demand-side response capacity; and
- *the Emissions Performance Standard ("**EPS**")*: this will cap the amount of carbon emissions that a new fossil fuel generation plant can emit.

The budget for low-carbon electricity investment across the various support schemes was originally controlled by a Government framework, the Levy Control Framework. However, in Autumn 2017, the Government announced a new Control for Low Carbon Levies, which replaced the existing Levy Control Framework. The LCL Control covers all existing and new low-carbon electricity levies, including the RO Scheme, CfD Regime and SS-FiT and affirms the current subsidy support for existing projects but based on the current projection of levy spend on such low carbon schemes it is anticipated that there will be no new low carbon electricity levies until 2025.

Contracts for Difference

In 2011, the Government announced its intention to move from the RO to a scheme based on CfDs in "Planning our electric future: a White Paper for secure, affordable and low-carbon electricity". CfDs were introduced to provide efficient and long-term support for low-carbon generation, and to increase revenue certainty for generators.

A CfD provides a variable top-up to the wholesale electricity price that a generator can theoretically achieve by selling its electricity in the wholesale market. The CfD is entered into between a renewable electricity generator and the Low Carbon Contracts Company Limited, a limited company owned by the Government (the "**LCCC**"), as CfD counterparty, under which payments are made by reference to a fixed price for each MWh of electricity produced by the generator, known as the strike price. The generator sells the electricity in the wholesale market outside the CfD. When a specified market price (which, for a baseload generator is calculated with a market reference wholesale electricity price based on season-ahead prices) is:

- **below** the strike price, if the generator generates, the generator receives a top-up payment from the LCCC for the difference between the market reference electricity wholesale price and the strike price;

- **above** the strike price, if the generator generates, the generator must pay back to the LCCC the difference between the market reference electricity wholesale price and the strike price.

Strike prices under a CfD are indexed for inflation (CPI). The LCCC is funded by electricity suppliers, which pass the cost on to customers.

As a result, the generator has stability in respect of the price of the electricity that it generates from renewable sources for the term of the CfD, normally expected to be 15 years. The Government intends that the stabilisation of revenue under CfDs will increase the rate of investment and lower the cost of capital, thereby reducing costs to customers.

CfDs are awarded through "allocation rounds", each of which has a pre-determined budget for CfDs divided into three "pots", one each for established technologies, less-established technologies and biomass conversions, respectively.

The first allocation round of CfDs allocation concluded in February 2015 and resulted in the procurement of 2.1GW of capacity at an annual cost of £315 million. The second allocation round of CfD (Pot 2) concluded in September 2017 and resulted in 3.3GW of capacity at an annual cost of £176 million. Biomass conversion projects were not eligible to bid in the second allocation round of CfDs. A third allocation round is planned for 2019.

Investment contracts

To bridge the temporal gap between the RO Scheme and the awarding of CfDs under the CfD Regime, the Government decided to issue an early form of CfDs called Investment Contracts pursuant to the FIDeR regime in advance of the full implementation of the CfD Regime. Investment Contracts were introduced to avoid any major hiatus in investment during the changes to the market under the Electricity Market Reform ahead of implementation of CfDs. Investment Contracts were awarded if the Government considered that, without the Investment Contract, there was a significant risk that the electricity generation to which that Investment Contract relates would not occur or would be significantly delayed.

In April 2014, DECC announced that eight renewable electricity projects received Investment Contracts, with strike prices based on December 2013 strike prices. We received one of these Investment Contracts in respect of our third biomass unit providing a visible earning stream out to 2027.

Capacity market

The capacity market is designed to help address concerns about the future security of electricity supply. In capacity market auctions, participants bid for capacity market agreements under which they commit to generate at times of system stress. Under the capacity market agreements, the generators are entitled to fixed monthly payments which provide valuable guaranteed revenue for the investors of generation plants. Generators are, however, subject to penalties if they do not deliver energy during a system stress event, which occurs when the system operator has to resort to emergency actions in order to balance supply. A forecast of future demand is made four years in advance. The net capacity required to meet a Government-set reliability standard will then be procured through a capacity market auction.

Generation units which benefit from a CfD or an Investment Contract or which receive support under the RO Scheme are not eligible to participate in the capacity market at the same time. Consequently, our biomass units are not eligible for the capacity market, but two of our coal-fired units (i.e., the units that are not stated for conversion to biomass generation in summer 2018) currently participate in the capacity market.

The auctions run under a descending clock format, starting with offers of £75/kW and gradually reducing until the minimum price is reached at which the supply of capacity offered by bidders is equal to the volume required. Capacity market agreements at the clearing price are offered to those generators and demand-side responders that were successful in the auction. The length of agreement can vary depending on the nature of the project, with new plants being entitled to long-term agreements (15 years), to encourage investment in new generation assets; refurbished plants being offered three-year agreements; and existing generators and demand side response being offered one-year contracts. During the delivery year, capacity providers will receive monthly payments for their agreed obligation at the auction clearing price. Providers are expected to be available to respond with their agreed generation volumes or to reduce their demand when called on by the System Operator at times of system stress.

The Government has acknowledged with respect to previous T-4 Capacity Market Auctions that clearing prices were not sufficient to incentivise new electricity generating capacity to be built, in particular the inability to secure proposals of new, large-scale, lower emission gas generation. In response, the Government has proposed to introduce several changes to the capacity market mechanism. To reduce "speculative bids", in 2016 the Government doubled the level of credit cover per MW each bidder must have in place for the capacity it proposes, and raised termination fees for plants that wished to exit the capacity market mechanism prior to the end of its existing capacity market agreements. Furthermore, the System Operator revised upward its demand target for the upcoming auctions, leading to the market anticipating higher capacity payments outturn.

The T-4 Capacity Market Auction in December 2016 secured 52.4GW of capacity for delivery in 2020-2021, at a clearing price of £22.50/kW (in 2015/2016 prices). Although higher than expected, consensus views the clearing price as insufficient to trigger investments in new gas-fired generation. The first capacity market agreements awarded in a T-4 Capacity Market Auction had been intended to begin in Winter 2018/19, but, citing a need for additional security of supply in Winter 2017/18, the System Operator held a T-1 Capacity Market Auction earlier than scheduled in January 2017 with the stated aim of procuring capacity for the immediately following winter. This auction secured 54.4GW of capacity for delivery at a clearing price of £6.95/kW (kilowatt). The T-1 Capacity Market Auction, which concluded in February 2018, secured a further 5.78GW of capacity for delivery in Winter 2018/19 at a clearing price of £6.00/kW. The T-4 Capacity Market Auction in February 2018 for delivery in 2021/2022 secured 50.4GW at a clearing price of £8.40/kW (in 2016/2017 prices), representing a significant reduction on previous T-4 Capacity Market Auction clearing prices. The tables below summarise the terms of recent capacity market auctions.

T-1 Capacity Market Auction	Delivery Date	Capacity	Price
T-1 Capacity Market Auction in January 2017	2017/2018	54.4GW	£6.95/kW (in 2017 prices)
T-1 Capacity Market Auction in February 2018	2018/2019	5.78GW	£6.00/kW (in 2018 prices)

T-4 Capacity Market Auction	Delivery Date	Capacity	Price
T-4 Capacity Market Auction in December 2014	2018/2019	49.3GW	£19.4/kW (in 2012 prices)
T-4 Capacity Market Auction in December 2015	2019/2020	46.4GW	£18.0/kW (in 2014/2015 prices)
T-4 Capacity Market Auction in December 2016	2020/2021	52.4GW	£22.50/kW (in 2015/2016 prices)
T-4 Capacity Market Auction in February 2018	2021/2022	50.4GW	£8.40/kW (in 2016/2017 prices)
Weighted Average	—	—	£17.94/kW (in 2017 prices)[1]

(1) Calculated by indexing each T-4 Capacity Market Auction closing price to the 2017 equivalent then calculating an average price per kW across the four auctions.

The emissions performance standard

The Energy Act 2013 introduced the EPS, which limits emissions from new fossil fuel power stations with an electricity generating capacity above 50MW and received development consent after 18 February 2014. The EPS will effectively ensure that no new coal-fired power stations may be developed, unless equipped with carbon capture and storage ("**CCS**") technology. CCS technology enables CO_2 emissions from industrial plants to be captured and stored permanently deep underground, thereby removing carbon emissions created by power stations from the atmosphere.

The operator of any new fossil fuel plant at or over 50MW will have a total tonnage allowance of CO_2 within which it must ensure that emissions from the plant remain. The EPS has initially been set at an annual limit equivalent to 450g of CO_2 per kWh for a baseload (continuously operating) generating plant. The limit is intended to be reviewed every three years, but plants operating at that point will remain subject to that standard until 2045.

The Energy Act 2013 and the Emissions Performance Standard Regulations 2015 also set out detailed circumstances in which the EPS may be modified or suspended in order to maintain the UK's security of supply, and provide powers for an appropriate national authority to establish a monitoring and enforcement regime.

OUR BUSINESS

Overview

We are an innovative vertically-integrated electricity generation and supply business with operations in the UK and the US. We own and operate the largest power plant in the UK by generation capacity with an installed capacity of approximately 4GW, mainly via our six 645MW generation units. Our business comprises three segments with an integrated strategy where we source and produce fuel in the form of sustainable wood pellets, generate electricity, and supply electricity and gas to end customers.

We are an important part of the UK's energy infrastructure, generating approximately 6 per cent. of the UK's total electricity, and approximately 15 per cent. of the UK's renewable electricity in the twelve months ended 30 September 2017. Based on the 2016-2017 compliance period, we are also the UK's largest single-site generator of renewable energy. We provide flexible and reliable generation and produced 20.0 TWh and 19.6 TWh of electricity in 2017 and 2016, respectively, of which 65 per cent. was generated from sustainable biomass in each year, making us a core part of the UK's decarbonisation strategy. Our three 645MW biomass-fired generation units receive regulatory support, leading to enhanced earnings streams with a significant component of stable and predictable revenue. Furthermore, we anticipate converting an additional coal-fired generation unit to biomass-fired generation in summer 2018. Our biomass-fired generation assets are served by an efficient and reliable biomass supply chain comprising dedicated port handling infrastructure and rail paths, thereby enhancing security of supply of fuel for our electricity generation activities. Currently, our three 645MW capacity coal-fired generation units provide important support services to the UK's electricity system, including greater reliability and flexibility at times of low De-rated Reserve Margins and system stress. In response to the growth in inflexible, intermittent renewable capacity on the electricity grid, we are developing four 299MW rapid-response standalone OCGT projects and also developing options to repower up to two of our coal-fired generation units with supporting battery storage technology. Each of these projects are subject to a positive investment decision, would need to be underpinned by a 15-year capacity market agreement and have the potential to provide flexible and reliable electricity to the UK electricity system and diversify our future energy generation capability.

Our B2B energy supply segment, comprising Haven Power and Opus, is the fifth largest supplier of electricity to businesses in the UK by volume supplied as of 31 October 2017 and had over 375,000 electricity and gas connections as of 31 December 2017. Our B2B Energy Supply segment provides us with a direct route to market for much of the electricity we generate. We believe that B2B counterparties place fewer credit restrictions on us than wholesale market counterparties and selling to this market provides us with a more diversified counterparty base with less overall counterparty credit risk.

We produce compressed wood pellets from sustainable sources in three plants in the southern US and use those pellets as fuel for our biomass-fired generation, which provided 12.3 per cent. of our biomass need in the year ended 31 December 2017. Two of these plants can currently manufacture wood pellets at their nameplate capacity. The third wood pellet manufacturing facility, our LaSalle facility, located in Urania, Louisiana, was acquired in April 2017 and commissioning of the plant commenced in November 2017 with a view to significantly increasing our production throughout 2018, with full commissioning expected by the first quarter of 2019. In addition to self-supply from our manufacturing facilities, we have a network of third party suppliers of wood pellets and to this end we have entered into long-term contracts with other wood pellet suppliers in North America and Europe to support a long-term, stable supply of biomass.

Drax Group plc is listed on the Main Market of the London Stock Exchange under stock ticker "DRX", and is part of the FTSE 250 Index. Drax Group plc's market capitalisation as at 5 April 2018 was approximately £1,127 million. In 2017 our EBITDA grew across all three segments of our business to £228.9 million and our consolidated net debt as at 31 December 2017 was £367 million.

The three segments of our business are:

- *Power Generation*: Through our Power Generation segment, we play a significant role in providing reliable renewable baseload electricity generation capacity as well as important system support services, enhancing the security of the UK's electricity supply and supporting the UK's transition to a low-carbon future. In the twelve months ended 30 September 2017, we generated approximately 6 per cent. of the UK's electricity needs and our sustainable biomass-fired generation units generated approximately 15 per cent. of the UK's renewable electricity. In 2016 and 2017, approximately 65 per cent. of electricity generated by the Power Station (located near Selby, Yorkshire) was from sustainable biomass. In 2017, less than 10 per cent. of the Group's revenue was attributable to sales of electricity from our coal-fired generation units.

The Power Station benefits from regulatory support via the CFD and RO regimes which provide the Power Station with financial support to facilitate the production of baseload electricity. In January 2018, the Government announced that the RO regime will be changed in 2018. These changes will enable us to convert a fourth unit to biomass-fired generation in summer 2018, subject to legislative implementation of these changes. The estimated incremental cost of converting the fourth unit to biomass-fired generation is up to £30 million, which is considerably less than the cost of conversion for each of the three previous biomass-fired generation units. The unit we propose converting is not expected to provide the same incremental return as the existing biomass-fired generation units because the announced change to the RO regime effectively caps the ROCs for which this unit is eligible, but this conversion would allow us the flexibility to optimise our generation in a way that maximises the ROCs available to the Power Station as a whole under the modified RO regime. Under the current RO Scheme, the first, second and, if successfully converted, fourth generation units converted to biomass are eligible to receive ROCs until March 2027.

The six generation units at the Power Station are the largest in their class in the UK, with an output capacity of up to 645MW each, compared with the typical coal-fired thermal generation unit size for larger power stations in the UK of approximately 500MW. Each of the generation units is operated independently and has the flexibility to generate electricity between 200MW and 645MW. The System Operator has a growing need for system support services (for example, predicting that within five years over 60 per cent. of settlement periods for electricity may require corrective action) and we have signed and renewed a number of contracts with the System Operator to supply Ancillary Services systems support. Furthermore, we are developing four new 299MW OCGT plants in England and Wales with the potential to provide flexible and reliable electricity to the UK electricity system and diversify our future energy generation capability subject to being underpinned by a 15-year capacity market agreement. We expect the first two of our four OCGT projects to participate in the next Capacity Market auction (expected to be in February 2019). When commissioned, each of these plants will provide fast, flexible gas generation to support the UK electricity system at times of peak demand. The remaining two OCGT plants are progressing through planning permission and are expected to participate in future capacity market auctions when the projects are sufficiently developed. Any 15-year capacity market agreements awarded to our OCGT plants would provide us with stable and predictable earnings over the life of the agreement.

We are also developing options to repower up to two coal-fired generation units to gas and build supporting battery storage at the Power Station. The project could replace the existing c.1.3GW of coal-fired generation capacity with up to 3.6GW of gas generation capacity (capable of running in open cycle and combined cycle modes) and up to 200MW of supporting battery storage, subject to a positive investment decision, obtaining consent and other approvals and the award of one or more 15-year capacity market agreements in future capacity market auctions.

- *B2B Energy Supply*: We supply electricity to businesses through Haven Power and electricity and gas to businesses through Opus, the latter of which we acquired in February 2017 for total consideration of £367.3 million. Both Haven Power and Opus provide us with a credit-efficient route to market for a proportion of the electricity we generate and the ROCs that our Power Generation segment earns. The majority of Haven Power's sales volumes are with larger I&C customers, while Opus is focused on SMEs. Our B2B Energy Supply segment is the fifth largest supplier of electricity to businesses in the UK by volume as of 31 October 2017. Opus was awarded Utility Provider to Small Business of the Year 2017 at the British Business Awards and the standard of service recognised by this award is one we have focused on integrating within the Group as we continue to deliver a strong level of customer service across our B2B Energy Supply segment. As a leading challenger brand to the largest energy suppliers in the UK, in the SME market, Opus enhances and broadens our retail offering in the SME market with a wider product range than we previously offered, including, for example, gas. In line with our strategy to focus on our core B2B energy market, in October 2017 we successfully completed the sale of Billington Bioenergy, a biomass pellet supplier to businesses and households, for total consideration of £2 million.

- *Pellet Production*: Through our Pellet Production segment based in the US Gulf region, we manufacture and supply compressed wood pellets from sustainably managed forests. We take low-grade wood and residues from other wood processing industries and transform them into pellets that can be transported to the Power Station to generate low-carbon energy. We operate three wood pellet manufacturing facilities in the US Gulf region: Amite BioEnergy in Gloster, Mississippi, Morehouse BioEnergy in Bastrop, Louisiana and LaSalle BioEnergy in Urania, Louisiana. In 2017, our wood pellet manufacturing facilities produced 821,764 tonnes of sustainable biomass and supplied 12.3 per cent. of our internal requirements for generation from sustainable biomass. Our wood pellet manufacturing facilities have a combined annual nameplate production capacity of 1,500,000 tonnes, following an increase in annual production capacity of 75,000 tonnes at each of our Amite and Morehouse facilities in 2017 and the acquisition of our LaSalle facility in April 2017 which added 450,000 tonnes of annual nameplate production capacity. Our Amite and Morehouse facilities are both able to produce wood pellets at their nameplate capacity, while commissioning of our LaSalle plant commenced in November 2017 and we expect to significantly increase our production through 2018, with full commissioning expected by the first quarter of 2019. This capacity, if fully utilised, would enable us to supply approximately 20 per cent. of our internal requirements for generation from sustainable biomass in 2018. We aim to increase the share of internally sourced pellets to up to 30 per cent. in the future. Our Amite and Morehouse facilities are certified under the Sustainable Biomass Program, an industry standard, demonstrating that their biomass is legally and sustainably sourced. Our recently acquired LaSalle facility is working toward the same certification. We operate a port facility in Baton Rouge, Louisiana, which includes two 40,000 tonne storage domes to transport pellets from our own manufacturing facilities and from approved third party suppliers to the UK for use by our Power Generation segment. The port facility can load more than 15,000 tonnes of pellets per day and can accommodate Panamax Vessels.

Our History

The Power Station was originally built, owned and operated by the Central Electricity Generating Board and was constructed in two phases, with the first three electricity generation units installed by 1974 and the second three units installed by 1986. In 1988, flue-gas desulphurisation ("**FGD**") equipment was fitted to all six units, enabling the Power Station to operate within sulphur dioxide ("$\mathbf{SO_2}$") emissions restrictions.

The Power Station was transferred to National Power as part of the structuring and privatisation of the UK electricity supply industry under the Electricity Act 1989. In 1999, National Power sold the Power Station to AES Corporation, which financed the acquisition partly with bank debt.

In 2003, we underwent a restructuring, with AES Corporation withdrawing from its ownership position. The creditors voted to retain their interest and the final restructuring proposal was implemented in December 2003, with Drax Group Limited as the ultimate holding company and our creditors as owners of Drax Group Limited.

In 2005, we completed a refinancing and Drax Group plc's ordinary shares were listed and admitted to trading on the London Stock Exchange on 15 December 2005.

In 2009, we acquired Ipswich-based Haven Power, which was launched in 2006 specifically to serve the electricity needs of SME customers and to provide an alternative to the large multinational electricity suppliers. Since 2009, Haven Power has grown its SME business and established a business in the large I&C sector.

In 2015, we commissioned two wood pellet manufacturing facilities in the US Gulf region as well as the port facility in Baton Rouge, Louisiana required to load and ship wood pellets to the Power Station.

In December 2016, we acquired four OCGT projects.

In February 2017, we acquired Opus, a UK business-to-business supplier of electricity and gas which is focused on the SME market.

In April 2017, we acquired a third wood pellet manufacturing facility in Urania, Louisiana.

Conversion to Sustainable Biomass

Since 2012, we have transformed the Power Station into a predominantly biomass-fuelled generator, and have converted three of our six generation units to burn sustainable biomass instead of coal. The first of the Power Station's six generation units was converted to run on sustainable biomass in April 2013 with support under the RO Scheme. The second unit ran as a high-range co-firing unit (burning more than 85 per cent. sustainable biomass) from May 2014 and was fully converted to sustainable biomass in October 2014 (with support under the RO Scheme). A third unit, which had been operating as a high-range co-firing unit since October 2015, fully converted to generate using sustainable biomass on 21 December 2016 under the CfD Regime after the European Commission granted state aid approval of our CfD for this unit conversion. For further information on the RO Scheme and the CfD Regime, see "*Industry Overview—UK clean energy legislation—The Renewables Obligation*" and "*Industry Overview—Overview of Electricity Market Reform—Contracts for Difference*".

With the recent commitment of Government support for further biomass generation at the Power Station, we plan to continue our work to develop a low cost solution for a fourth biomass unit, to replace one of the three remaining coal-fired units during summer 2018. The incremental cost of converting the fourth unit to biomass-fired generation is expected to be up to £30 million, which is considerably less than the cost of conversion for each of the three previous biomass-fired generation units. The unit proposed to be converted is not expected to provide the same incremental return as the existing biomass-fired generation units because the announced change to the RO Regime effectively caps the ROCs for which this unit is eligible, but will allow us the flexibility to optimise our generation in a way that maximises the ROCs received by the Power Station as a whole under the RO Regime.

Strengths

We are an important part of the UK's energy infrastructure

We are a major provider of electricity in the UK, generating approximately 6 per cent. of the UK's requirements for the twelve months ended 30 September 2017. We generated approximately 15 per cent. of the UK's renewable energy in the twelve months ended 30 September 2017. Based on the 2016-2017 compliance period, we are also the largest single-site UK renewable energy generator through our biomass-fired generation units. As a vertically-integrated business active in each of the sourcing, electricity generation and supply businesses, we are a significant participant in the overall UK energy landscape.

Our primary generation facility, the Power Station, is the largest power station in the UK by generation capacity, with approximately 4GW of installed capacity. The Power Station has six generation units of which three currently generate electricity from sustainable biomass and three from coal, meaning that we are not dependent on a single fuel source. We are currently working towards delivering the low cost conversion of a further coal-fired generation unit to a fourth biomass-fired generation unit, accelerating the removal of coal-fired generation from the UK electricity system, while supporting security of supply. The conversion is planned to be completed in summer 2018, at an estimated incremental cost of up to £30 million, which is lower than the cost of converting each of the previous three biomass-fired generation units. We are also developing options to repower the remaining two coal-fired generation units to gas and build supporting battery storage at the Power Station which will, if successful, extend the operating life of the Power Station and increase its installed capacity up to approximately 6.5GW.

Our existing generating units currently have an output capacity of up to 645MW each, compared to a typical coal-fired thermal generation unit size of approximately 500MW in the UK, and are the most efficient units in their class in the UK, enabling them to run profitably at times when others cannot. Each of the generation units can be operated independently to provide baseload electricity and has the flexibility to generate between 200MW and 645MW, enabling them to provide a range of generation and system support services to the electricity network.

During the last decade, the UK energy market has changed significantly due to the increase in inflexible, renewable generation technology, the increase in the amount of self-supply and embedded generation and the closure of significant volumes of thermal plants. De-rated Reserve Margins are lower now than they were five years ago. As a result, there is a need for generation assets in the UK which can generate at any point in time and which can alter their generation profiles to support the changing levels of intermittent generation. The flexible, responsive and reliable characteristics of our biomass-fired and coal-fired generation units allow us to meet this need and play an important role in the UK's security of supply. Once operational, our OCGT plants will be well suited to support the system at times of peak demand and, in addition, will be able to provide various Ancillary Services. Similarly, the options we are developing to repower up to two of our existing coal assets to gas-fired generation (and supporting battery storage) are expected to provide flexible generation in support of the UK energy system.

Our earnings benefit from a high degree of stability and visibility

Our earnings have a high degree of stability as a result of:

- the support for our biomass-fired generation units under the RO Scheme and CfD Regime;
- capacity market payments for two of our existing coal-fired generation units;
- long-term fixed price formula biomass contracts providing visibility of cash flows;
- retail margins; and
- a strong hedging policy.

Based on our recent performance, we expect our gross margin to be derived predominantly from non-commodity exposed sources of earnings in the future. As a consequence of this, the volatility of our earnings which characterised the cash flows in previous years should be substantially reduced.

Biomass-fired generation

Generation from the Power Station's existing biomass generation units benefits from a UK legislative and contractual framework designed to support renewable energy sources. Our third biomass-fired generation unit receives support through the CfD Regime, while our other two biomass-fired generation units are supported under the RO Scheme. Our support under both regimes extends out to 2027. As a renewable fuel, biomass is exempt from the EU ETS and Carbon Price Support.

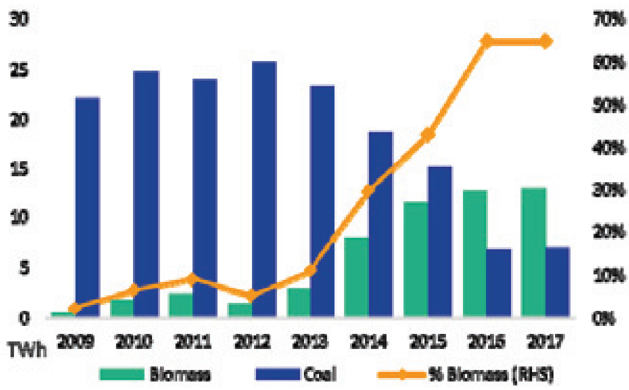
Our CfD is a private law contract between Drax Power and a Government-owned entity, the Low Carbon Contracts Company Limited. Under our CfD we are paid any shortfall, and repay any excess, between a strike price and a market reference price calculated as the average market price for electricity in the UK market over a given period. Our CfD is indexed to UK consumer price index and extends to March 2027. It provides an effective hedge against the electricity price at current market prices and thereby supports earnings stability and visibility for our business.

The RO Scheme, established in 2002 to encourage the development of large-scale renewable electricity capacity in the UK, places an obligation on licensed electricity suppliers either to source a proportion of the electricity they provide to customers from eligible renewable sources or to make a payment equal to the buy-out price. The buy-out price increases in line with UK retail price index each year. The sourcing of renewable energy is demonstrated by the supplier presenting ROCs (equivalent in number to the supplier's individual obligation) to the administrator of the RO Scheme, Ofgem. ROCs are issued by Ofgem to renewable generators for each MWh of renewable electricity generated in different proportions based on the type of technology used. Electricity suppliers can source ROCs from renewable electricity generators. ROCs are tradable certificates with no fixed price and therefore the amount an electricity supplier pays for a ROC is a matter for negotiation between the supplier and generator. However, DBEIS sets the level of the obligation of a supplier to source renewable electricity each year using a headroom calculation which provides a set margin between the predicted generation (supply of ROCs) and the level of the obligation (demand for ROCs). This aims to reduce the possibility of supply exceeding the obligation in any given year and therefore provides some stability to the price of ROCs. As a result of the RO Scheme, our Power Generation segment receives ROCs that, as a vertically-integrated renewable energy generator, we can use in our B2B Energy Supply segment or sell to third parties.

We currently receive one ROC for each MWh of generation from our first two biomass-fired generation units, on top of the purchase price for the sale of electricity produced. ROC support for these two units extends until March 2027 and through this period is grandfathered by the Government at the level of one ROC for each MWh of generation. The buy-out price for ROCs includes an element of inflation indexation. A proportion of the underlying electricity that these two units produce is sold on a forward basis in order to improve the stability and visibility of our cash flows.

In January 2018, the Government announced that the RO regime would be changed so as to enable generators to optimise their levels of biomass-fired generation across all RO-accredited units at a power station (whether grandfathered or not) subject to an overall cap at the power station level (see "*Industry Overview—UK clean energy legislation—Grandfathering of support under the Renewables Obligation*"), for example by increasing biomass-fired generation in one unit to compensate for unplanned outages or reduced availability in another unit (subject to the overall cap). The expected implementation of this decision will enable us to convert a fourth unit to biomass-fired generation in summer 2018, further reducing our ongoing operational and earnings and cash flow volatility.

Biomass Generation Transformation



Generation capacity and system support

With increasing levels of intermittent renewables we are continuing to see opportunities to extract value from flexibility, such as short-term power and balancing market activity, the provision of Ancillary Services and the increased margin achieved from coal-fired generation due to the use of out-of-specification fuels. To capture value in this market we continue to focus resources on optimising availability and flexibility of both our coal- and biomass-fired generation units. The System Operator is required to balance supply and demand and to ensure the secure and stable operation of the transmission system. In addition to its operation of the Balancing Mechanism, it routinely contracts with generators to provide various Ancillary Services. We are able to provide Ancillary Services to the System Operator such as frequency response (altering output to ensure the frequency of electricity on the grid is within statutory limits) and “reactive power” services (enabling the System Operator to manage the voltage profile of the transmission system within certain parameters). Only a limited number of generators can provide some of these services in Great Britain, and we expect this number of generators to reduce over time as further large thermal plants close. We believe that the large, flexible characteristics of the generating assets we currently operate are well suited to offer these services, providing an opportunity for further contract-based revenues. In addition, the OCGT plants that we are developing and the options that we are developing to repower up to two of our coal-fired generation units at the Power Station to gas-fired generation, as well as supporting battery storage, would also improve our ability to provide many of these services.

The UK has established a capacity market system to support security and reliability of supply for the end consumer. The capacity market guarantees selected generators a fixed price for maintaining a specified generation capacity for a given period of time through an auction system. Generators receive either a one-year capacity market agreement or 15-year capacity market agreement depending on whether they are entering the auction for existing or potential new plants, respectively. Existing plants requiring significant refurbishment may also be eligible for three-year capacity market agreements.

All of our generation units which do not benefit from support under the RO Scheme or CfD Regime are currently eligible to participate in future capacity market auctions. We currently have index-linked capacity market agreements for two coal-fired generation units and the three small ancillary gas turbines located at the Power Station, which are expected to result in contract-based revenues in excess of £90 million between 2018 and 2022 in the aggregate. To the extent that these coal-fired generation units are repowered to gas-fired generation, we expect that any repowering will only take effect after our obligations under existing capacity market agreements (which currently run to 30 September 2022) have been fulfilled.

Retail

The Opus Acquisition, which completed in February 2017, added an established and profitable energy supplier in the SME market to our Group, in addition to our Haven Power business. Opus has been successfully integrated within the Group allowing us to realise various operational benefits.

Opus enjoys good customer retention levels and the potential for further growth, for example by allowing our Group to provide a dual fuel offering for the first time, while Haven Power is well established in the I&C market and is seeking to increase its number of SME customers. Opus enhances and broadens our offering in the SME market which is characterised by higher gross margins per MWh compared to the I&C market. Haven Power and Opus provide a direct route into the market for a significant amount of the electricity we generate and a significant proportion of the ROCs issued to us.

Hedging policy

The earnings of our Power Generation segment are further supported by our strong hedging policy under which we sell electricity generated by the Power Station up to two years ahead. This allows us to secure a margin on such electricity at times when bark spreads or dark green spreads are attractive, thereby increasing visibility with respect to our future Power Generation segment earnings. As of 20 February 2018, we had contracted fixed price power sales (including forward sold electricity and gas proxy hedges) of approximately 16.6 TWh, 7.3 TWh and 3.0 TWh for delivery in 2018, 2019 and 2020, respectively.

Contracted at 20 February 2018	**2018**	**2019**	**2020**
Power sales (TWh)	**16.6**	**7.3**	**3.0**
—Fixed price power sales (TWh)	15.9	6.0	2.2
At an average achieved price (per MWh)	£ 43.8	£ 43.1	£ 42.0
—Gas hedges (TWh)	0.6	1.4	0.8
At an achieved price per therm	**41.3p**	**45.0p**	**48.0p**

Our business is subject to risks due to fluctuations in currency exchange rates. Most of the biomass we purchase is priced in US dollars, Canadian dollars or euro. We operate a strong hedging policy with a five-year hedging period to manage the risk of a change in the relative values of the US dollar, Canadian dollar or euro, or relative to other currencies (including the pound sterling), which may increase our suppliers' cost of business and ultimately our cost of goods sold with respect to biomass.

We enjoy relatively low levels of volatility in our fuel input costs through active management of our supply chain

We actively manage our biomass supply chain to enhance security of supply and support sufficient sourcing of wood pellet volumes to generate electricity. Our wood pellet manufacturing facilities have a combined annual nameplate capacity of 1,500,000 tonnes, following an increase in annual production capacity of 75,000 tonnes at each of our Amite and Morehouse facilities in 2017 and the acquisition of our LaSalle facility in April 2017 which will, when fully commissioned by first quarter of 2019, add 450,000 tonnes of annual production capacity. Our US port facility that we operate in Baton Rouge, Louisiana has an annual export capacity of 2,100,000 tonnes (with the scope to expand further to 3,000,000 tonnes) and exceeds our current self-supply, allowing us to consolidate supply from third parties to drive further supply chain efficiencies.

Our Pellet Production segment manufactures compressed wood pellets, from sustainably sourced feedstock, for use as a low-carbon, renewable fuel in our biomass-fired generation units. The US operations are strategically positioned near one another for operational efficiencies including optimising the time and cost of wood pellet deliveries to our Baton Rouge port facility.

In 2017, our wood pellet manufacturing facilities produced 821,764 tonnes of wood pellets and our US port facility shipped 943,594 tonnes of wood pellets to the Power Station. In 2017, wood pellets manufactured at our own facilities accounted for 12.3 per cent. of the biomass used at the Power Station (compared with 7.7 per cent. of self-supply in 2016) with the balance sourced from third party suppliers based in North America and Europe under a series of predominantly long-term contracts from sources also certified as sustainable. We aim to increase the share of internally sourced pellets to up to 30 per cent. in the future.

Our ability to source an increasing proportion of our biomass requirements internally via self-supply allows us to better manage the quality of feedstock and the timing of deliveries. This self-supply enables us to optimise generation and reduce the risk of fuel shortages and supply chain issues curtailing generation from the Power Station and to better ensure a stable cost of biomass, thus reducing exposure to commodity price fluctuations. At the same time, we maintain the flexibility to participate in the biomass spot market when biomass prices are attractive.

Our exposure to commodity prices is managed through a commercial hedging strategy which seeks to enter into forward sales of electricity and purchases of associated fuel and the carbon emissions allowances. Additionally, to manage the currency risks associated with our biomass purchase contracts, which are mainly in US dollars, we actively hedge our position and have put in place a rolling five-year hedging strategy to that effect.

Due to the conversion of three of our coal-fired generation units to biomass (and the expected conversion of a fourth coal-fired unit to biomass) and our expected lower need for coal in the future, we have reduced the level of coal stocks held on-site, and intend to further reduce such stocks over time until such time as coal-fired generation at the Power Station has ceased.

We operate the most efficient coal/biomass-fired power station in its class in the UK

The Power Station's biomass-fired and coal-fired generation units are the most efficient in their class in the UK, based on the proportion of the energy content of the fuel that is ultimately converted into electricity. Our successful conversion of three coal-fired generation units to biomass demonstrates our technological capabilities while proving our ability to take action in light of changes in the regulatory framework.

The changes in the UK regulatory environment over the past decade provided a catalyst to upgrade our generation assets by converting three of our six electricity generation units to biomass.

We continue to invest regularly in our asset base. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Capital and Operating Expenditure*". For example, over the next three years we plan to continue to invest in replacing and upgrading the high pressure turbines in our biomass-fired units to improve efficiency, reduce maintenance costs and increase unit flexibility.

Following the successful conversion of our third coal-fired generation unit to biomass in 2016, we are the UK's largest single-site renewable generator based on capacity and generated approximately 15 per cent. of the UK's renewable energy in the 12 months ended 30 September 2017. We have been able to achieve this without compromising our ability to operate each unit independently, and we remain flexible to ensure we can continue to provide the essential services required by the System Operator and can maximise the value of our generation business.

The health and safety of all our employees, contractors and visitors is of paramount importance to us. We believe that a safe, compliant and sustainable business model is critical to the delivery of our strategy and crucial for sustained long-term performance. Safety is at the heart of our operational philosophy and we continue to work across the Group to maintain high standards and a culture of safe working. Each business unit and corporate team has local arrangements in place, reflecting the operating environment and hazards inherent in the various workplaces, to ensure that high standards are set and maintained.

Strong financial metrics and conservative financial policy

We have a conservative financial policy and have maintained a low leverage since we listed on the London Stock Exchange in December 2005.

Over the last three calendar years, our reported net leverage has been between 0.7x and 1.6x. After the completion of the Opus Acquisition in February 2017, our consolidated net leverage as at 31 December 2017 only increased to 2.7x, decreasing to 1.6x by the end of the calendar year. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Factors affecting Results of Operations*" for a discussion of factors affecting comparability of 2016 and 2017. We are committed to maintaining leverage at a level that is consistent with our current credit rating, which supports our trading strategy.

We announced a new dividend policy in June 2017, which will pay a sustainable dividend consistent with our commitment to a strong balance sheet and our ambitions for growth.

We are focused on targeted selective investments which we expect to help us to continue to diversify our earnings and cash flow sources within the framework of our conservative financial policy.

Given that electricity generation from unabated coal is expected to cease in the UK by 2025 and that our anticipated future output of coal-fired generation is expected to be far lower than historical levels, we have adapted the maintenance and upgrade schedule for our coal-fired generation units and expect our annual maintenance capital expenditures with respect to these units to continue to decrease to levels lower than those seen in past years. Furthermore, we expect to convert one of our coal-fired generation units to biomass in summer 2018 and are developing options for coal-to-gas repowering and supporting battery storage technology for the other two remaining coal-fired generation units. We expect our future maintenance capital expenditures to primarily consist of investments to upgrade our facilities to, among other things, comply with applicable regulatory regimes, which we expect to translate into greater operating cash flow going forward. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital and Operating Expenditure*".

We have robust credit policies in place to limit the amount of concentration risk we have with any particular counterparty (noting that the counterparty's appetite to trade with us is itself based on its assessment of our credit profile). Sales to the B2B Energy Supply segment (as opposed to third parties) also reduce the Power Generation segment's exposure to third parties by spreading credit risk across a wider customer base.

We and our management team have proven experience in leading our business through an evolving regulatory and commodity market environment

We and our management team has proven experience in leading our business through an evolving regulatory and commodity market environment and are complemented by a skilled operating team who are at the forefront of biomass conversion technology, including the mechanical, engineering, electrical and civil works required for conversion. We have successfully transformed what was initially a pure coal generation business into a vertically-integrated generator and supplier of predominantly renewable electricity and now have industry-leading experience and knowledge with respect to biomass and its related supply chain logistics, as well as in relation to the conversion from coal to biomass generation.

We believe the conversion of three of our generation units to biomass remains Europe's largest decarbonisation project and was delivered on budget. We believe this experience positions us to deliver the planned low cost conversion of a fourth biomass-fired generation unit and options to repower the two remaining coal-fired generation units to gas generation.

Our operational experience in handling biomass is also market-leading. We have developed innovative fuel-handling systems, logistics and storage solutions for biomass fuel as well as a bespoke technically-advanced covered rail wagon with a specialised door design and a patented product flow control system to manage biomass during discharge.

As a result of the conversion project, we have developed an in-depth understanding of the scientific and technological effects of burning a range of biomass fuels, as well as of the critical combustion characteristics of such fuels.

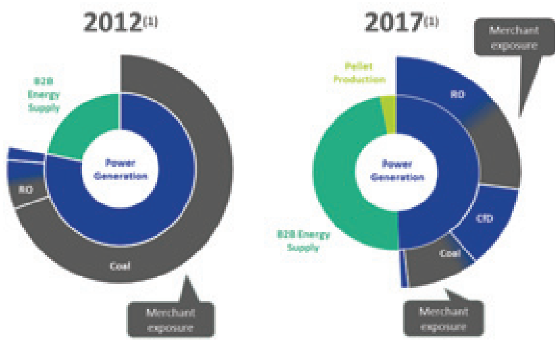
We have also put in place a biomass sustainability policy, which includes comprehensive carbon foot-printing across our biomass supply chain, regular independent supplier audits and the use of third party sustainability certification. All of our biomass is procured in accordance with this sustainability policy and details of these audit results are published as part of our annual report.

Strategy

Our strategy is to deliver a stronger, more predictable, long-term financial performance for the Group along with greater diversification in the markets in which we operate. By doing so, we seek to continue to play an important role in the way energy is generated, supplied and used as the UK moves to a low-carbon future.

Maintain stable earnings visibility by focusing on contractual revenue streams

Historically, the vast majority of the Group's earnings were derived from the operation of the Power Station as a merchant plant, selling wholesale power independently to third parties. Accordingly the Group's earnings were volatile and exposed to commodity (principally power, coal and carbon) price or merchant risk. In recent years, the Group's earnings have diversified and the Group's exposure to commodity price risk has substantially reduced as detailed in the chart below.



(1) Based on revenues that have not been adjusted to exclude intra-group transactions nor power purchases.

In the Power Generation segment, we plan to significantly further improve the visibility of future earnings and cash flows by increasing the proportion of our contracted earnings through capacity market and Ancillary Services payments. We expect this, combined with the support we receive under the CfD Regime and ROC Scheme, will result in a reduced level of commodity markets exposure and increased stability and visibility of earnings.

We have secured a number of one-year capacity market agreements worth in excess of £90 million between 2018 and 2022 in aggregate in respect of two of our coal-fired generation units and the three small gas turbines located at the Power Station.

We believe that more rapid response power plants will be required to keep the UK's electricity system stable in the future. We are developing four new 299MW OCGT plants in England and Wales with the potential to provide flexible and reliable electricity to the UK electricity system and diversify our future energy generation capability, subject to the award of a 15-year capacity market agreement. We expect the first two of our four OCGT projects to participate in the next T-4 Capacity Market Auction (expected to be in February 2019). The other two OCGT plants are progressing through the planning process and are expected to participate in future capacity market auctions if and when they have been granted a development consent order. Any capacity market agreements awarded to our OCGT plants will provide us with stable and predictable earnings over the life of the agreement. When commissioned, each of these plants will provide fast, flexible gas generation to support the UK electricity system at times of peak demand. Once complete, these OCGT plants will together add the potential for more than approximately 1.2GW of rapid response OCGT generation into our generation portfolio.

With increasing levels of intermittent renewables we are continuing to see opportunities to extract value from flexibility, such as short-term power and balancing market activity, the provision of Ancillary Services and the increased margin achieved from coal-fired generation due to the use of out-of-specification fuels. To capture value in this market we continue to focus resources on optimising availability and flexibility of both our coal- and biomass-fired generation units. The flexible, dispatchable and responsive nature of our generation assets positions us well to compete in the market and the development of our OCGT plants will further bolster our offering in this market. With the changing grid dynamic, this market could grow significantly.

Both capacity market agreements and agreements for the provision of Ancillary Services ensure the stability of the UK electricity system and provide us with revenue streams independent of electricity price fluctuations.

Profitably grow our B2B Energy Supply segment

One of our objectives is to increase the proportion of revenue and earnings generated by our B2B Energy Supply segment by increasingly focusing on the SME market, which has higher margins than the I&C market, and by evaluating options for further margin enhancement, such as product alternatives and efficiency enhancement. For example, we have through the Opus Acquisition further enhanced and broadened our retail offering with a wider product range, including gas. Opus has been successfully integrated within the Group allowing us to realise various operational benefits, for example, third party power and gas supply arrangements have been replaced with cheaper internal arrangements.

We have a strong platform for growth in the B2B Energy Supply segment. Our B2B Energy business has seen a 12 per cent. increase in customer meter points to more than 375,000 and was the fifth largest B2B power supplier by volume in the UK as at 31 October 2017. As the power system transforms, we will be working closely with our customers to help them adapt to more decentralised and decarbonised power. We see this as a significant opportunity for the Group in the medium and long term.

Opus' expertise in SME electricity and gas sales, combined with Haven Power's track record in the I&C market and our generation capacity and commodity risk management expertise, we expect the B2B Energy Supply business to deliver new products and services and enhanced market coverage to drive market share growth across both the I&C and the SME markets.

Expand wood pellet self-supply and increase operational and supply chain efficiencies

We intend to supply the Power Station with up to 30 per cent. of its annual demand for wood pellets from our own production in the future. Our wood pellet manufacturing facilities supply all of their output to the Power Station and supplied 12.3 per cent. of our internal requirements for generation from sustainable biomass in 2017. We expect output to increase throughout 2018 due to the increase in annual production capacity of each of our Amite and Morehouse manufacturing facilities by 75,000 tonnes in 2017 and the increasing production at our LaSalle facility, with full commissioning expected by first quarter of 2019. Once fully commissioned, the LaSalle facility will add a total of 450,000 tonnes of annual production capacity, for a combined annual nameplate capacity of 1,500,000 tonnes. Our wood pellet manufacturing facilities are strategically located close to one another in the US Gulf region for operational and supply chain efficiencies. We intend to consolidate supply from third parties at our Baton Rouge port facility to utilise unused export capacity and to drive further supply chain efficiencies.

We have continued to identify opportunities to improve efficiencies in our supply chain. For example, in 2017 we have reduced the amount of downtime and cost associated with the replacement of dyes. These components press wood residues into sustainable wood pellets. By utilising double-sided components we have doubled the useful life of these parts. In March 2018 we entered into an agreement to allow a biomass fibre supplier to build a sawmill adjacent to our LaSalle facility, which we expect will reduce raw material transport costs and the overall biomass cost as a result.

More generally, we are actively focused on reducing the amount of wood pellet degradation or "fines" that arise during the transportation of our wood pellets from our wood pellet manufacturing facilities to the Power Station, thereby increasing the proportion of good quality wood pellets received at the Power Station and reducing the amount of dust in our supply chain. We have a number of active internal workstreams to reduce fines and our progress on this front is a key focus for the Group.

We further intend to optimise supply chain and logistics operations for our Power Generation segment, and to utilise the flexibility of self-supply to manage production, to allow it to benefit from attractively priced biomass cargoes in the spot market.

Continue to focus on operational excellence

We continue to work at improving our performance across all segments. Having established ourselves as a leader in managing sustainable biomass-based electricity generation across the entire value chain, we aim to leverage this expertise to continue developing our business.

We are focused on improving the operational gains from our wood pellet manufacturing facilities, responding to planned and unplanned events at the Power Station through seamless teamwork to maintain high availability and ensure an excellent standard of customer service at our B2B Energy Supply segment. Safety and sustainability remain at the centre of our operational philosophy, recognising that excellent safety performance at the Power Station and our wood pellet manufacturing facilities drives efficiency and improves the productivity of our assets, and we are a consistent top quartile performer for safety performance. All of our biomass is procured in line with our industry-leading sustainability criteria ensuring that the wood pellets we use for electricity generation are sustainable and low carbon.

Recent Developments

In January 2018, the Government announced that the RO Scheme will be changed in 2018. These changes will enable us to convert a fourth unit to biomass-fired generation in summer 2018, subject to legislative implementation of such changes. We expect that these changes will enable Drax to optimise its levels of biomass-fired generation across all RO-accredited units subject to an annual cap of ROCs received at the power station level. See "*Industry Overview—UK clean energy legislation—Grandfathering of support under the Renewables Obligation*".

On 27 February 2018, Drax Group plc announced a £50 million share buy-back programme consistent with its capital allocation policy, which will commence in the first half of 2018.

Principal Activities and Markets

Our three principal activities are:

- the generation of electricity, which is carried out through our Power Generation segment;
- the supply of electricity (predominantly low-carbon renewable energy) and gas to business customers in the business-to-business market, which is carried out through our B2B Energy Supply segment; and
- the production and supply of sustainable wood pellets at our processing facilities in the US, which is carried out through our Pellet Production segment.

Power Generation

We currently generate our electricity via our main asset, the Power Station, which is owned by Drax Power.

The Power Station: general

The Power Station is located in North Yorkshire, on the banks of the River Ouse, between the towns of Selby and Goole. The Power Station site, comprising approximately 1,850 acres, is close to supplies of cooling water and has convenient road and rail access to nearby port capacity.

The Power Station is the largest power station in the UK, with approximately 4GW of connected installed capacity from its six main generation units, each of which can be operated independently. Each of the Power Station's six electricity generation units has a capacity of up to 645MW of electricity. Between 2008 and 2012, all the high pressure and low pressure turbines were upgraded to increase the efficiency of generation, reducing fuel consumption and carbon emissions and we plan to upgrade the high pressure turbines in our biomass units over the next three years to further increase efficiency and reduce maintenance costs. Between 2013 and 2016, three of the six generation units were converted to run on sustainable biomass. In January 2018, the Government announced that the RO regime will be changed in 2018 in a manner that we expect will enable us to convert a fourth unit to biomass-fired generation in summer 2018 in anticipation of the legislative implementation of these changes in autumn 2018. Three ancillary OCGT generation units, each with a capacity of 32MW, provide standby power to start up the main generating plant and to supply power to the Transmission System if necessary. See "*Risk Factors Relating to Our Business and Industry—The reduction or abandonment of governmental support for generation of electricity from biomass or other relevant changes in governmental energy policy may materially adversely affect our business, operations, financial condition and results of operations*".

The Power Station's main generation units are able to burn a range of fuels, with three units currently burning coal and coal derivatives, such as petroleum coke and coal mining residue "pond fines" (waste by-products of the quarrying process), and three units currently running on sustainable biomass in the form of wood pellets. We plan to convert one of the coal-fired units to biomass-fired generation in summer 2018. We are also developing options to repower up to two coal-fired generation units to gas and build supporting battery storage at the Power Station. The project could replace the existing c.1.3GW of coal-fired generation capacity with up to 3.6GW of gas generation capacity (capable of running in open cycle and combined cycle modes) and up to 200MW of supporting battery storage, subject to a positive investment decision, obtaining consent and other approvals and the award of 15-year capacity market agreements in future capacity market auctions. This diversification of fuel avoids reliance on a single fuel, enables us to capture value from commodity market cycles and, in the case of sustainable biomass, avoids costs associated with purchasing carbon emissions allowances under the EU ETS. In the years ended 31 March 2016 and 31 March 2017, for each MWh of electricity generated from sustainable biomass, the Power Station emitted 36g of CO_2 over the full carbon lifecycle (the UK limit for 2015-2020 is 79g of CO_2), 86 per cent. less CO_2 compared to electricity generated from the Power Station's coal fired units and 64 per cent. less than the CO_2 emitted from gas generation. This calculation compares the supply chain emissions for all biomass used by us against the CO_2 emissions which would have been created through the combustion of coal. For the purposes of this calculation, the biogenic CO_2 emissions from burning sustainable biomass at the Power Station are considered to be zero in line with the methodology developed by the UNFCCC and reflecting that the CO_2 released in the process of burning sustainable biomass has been absorbed from the atmosphere during the growth of the feedstock. We currently have three generation units converted to biomass, which are capable of burning approximately seven to eight million tonnes of sustainable biomass per year. For further information on carbon emissions, see "*Industry Overview—Electricity market: regulatory context—The EU Emissions Trading System*" and "*Industry Overview—UK clean energy legislation*".

The UK electricity market that we operate in is changing. A greater amount of intermittent generating capacity is becoming available to the market and at the same time older and less efficient thermal plants with the ability to generate electricity more consistently are withdrawing. In this context, there is a greater need for forms of generation which are flexible and responsive to the needs of the electricity grid. Generation systems that are able to turn up at times of peak demand and turn down at times of excess supply provide certainty of electricity availability and flexibility, if necessary. All generation units at the Power Station are capable of operating independently and flexibly with a high level of availability, making them an important component of a stable, secure and well-functioning electricity grid.

Our acquisition of four OCGT development projects in December 2016 will, if fully developed, provide us with gas-fired generation capabilities, in addition to the standby OCGT units at the Power Station. Each plant is expected to provide 299MW of fast, flexible gas generation to support the system at times of peak demand, and are able to fire up from cold and produce power in minutes rather than hours and so be used to provide quick response flexible generation to support the electricity system, and to provide Ancillary Services. We expect the first two of our four OCGT projects, the Progress Power Station at Eye, Suffolk and Hirwaun Power Station at Hirwaun, South Wales, to participate in the next T-4 Capacity Market Auction (expected to be in February 2019). A new control desk at the Power Station will allow engineers to have real time remote control of each plant via a fibre-optic cable when generation at Progress Power Station and Hirwaun Power Station commences. The final two plants, Millbrook and Abergelli, are progressing through planning permission and are expected to participate in future capacity market auctions (expected to be in December 2019) when the projects are sufficiently developed. There is no guarantee that we will be able to secure these capacity market agreements at an economically attractive price in the capacity market, and if not, we may choose not to develop the projects and our initial investment could be impaired.

The generation process

To generate electricity from either sustainable biomass or coal, the underlying fuel is pulverised into a powder and then blown into boilers, where the fuel is burned like gas. The heat generated by the boiler turns de-mineralised water into super-heated steam at 568 degrees Celsius, which is fed at high pressure through a series of turbines. The shafts of these turbines are coupled to large cylindrical electromagnets known as rotors, which produce electricity as the turbine rotates. The electricity generated is then increased from 23.5kV to 400kV, allowing for the export of electricity onto the Transmission System. The electricity is eventually reduced to 230V for use by customers.

The de-mineralised water in the boilers forms part of a closed system and, once turned into super-heated steam, is subsequently condensed and recycled back into the boiler to increase the overall efficiency of the generation process. Excess heat in the form of water vapour is released into the atmosphere by way of cooling towers.

Due to the Power Station's design, each unit can operate full time as a baseload generator, or can turn up or down or be taken off line and put back on line with minimal effect on the operating capabilities of the other units. Generation increases when demand is high, units are available and it is economic for a unit, whether coal or sustainable biomass, to run. In the competitive UK wholesale electricity market, the economics of running a unit are determined by the short-run marginal cost of each technology, which is based on the variable cost of generating a unit of electricity for the relevant half-hour. When there is demand for electricity supply, the generators that are available with the lowest short-run marginal cost operate until the projected demand in that half-hour is met. As a result of lower wholesale electricity prices in the UK market over the last two years, the Power Station's coal-fired generation units are increasingly run to provide system support services—turning up to meet peak demand periods or being available to provide flexible capacity (headroom and footroom), and turning up or down according to the requirements of the System Operator. This is evidenced by the number of starts of the coal-fired generation units increasing from approximately 150 in 2015 to approximately 400 in 2016 and approximately 300 in 2017. In contrast, the biomass-fired generation units, which benefit from renewable energy support under either the RO Scheme or the CfD Regime, are predominantly delivering baseload electricity.

We are developing an option for up to 3.6GW of gas generation on the site of two of our remaining coal units. This would utilise existing infrastructure to deliver a lower-cost solution for new gas-fired generation (capable of running in open cycle or combined cycle modes) and reduce carbon emissions versus coal, with a wide operating range covering baseload and peaking generation, in addition to system support services. Alongside this we are developing an option for up to 200MW of supporting battery storage capability through which we could provide immediate system support services to the electricity system and customers. These developments are progressing through a public consultation and could participate in future T-4 Capacity Market Auctions, seeking 15-year capacity market agreements.

Availability

Availability of the Power Station's units is influenced by planned maintenance outages, as well as unplanned or forced outages, which are required from time to time to rectify malfunctions or other failures. During 2017, the Power Station's availability was below our target, principally due to more unplanned outages than anticipated, albeit the one major planned outage in the year was completed to schedule.

We are currently undertaking a planned outage of a coal-fired generation unit, and we anticipate a further planned outage to convert a fourth generation unit from coal- to biomass-fired generation in summer 2018. We also anticipate a further planned outage on our other coal unit in summer 2018. We expect that none of these outages will have a notable impact on profitability given that coal-fired generation units are generally not able to generate profitably during summer periods. See "*Risk Factors – Risk Factors Relating to Our Business and Industry – We are dependent on continued output from our facilities, in particular the Power Station, and outages at the Power Station or any of our other facilities could negatively affect our business, operations, prospects, financial condition and results of operations*".

To comply with the Pressure Systems Safety Regulations of 2000, our maintenance regime typically includes a major planned outage for each of the six units once every four years to enable a detailed examination of each part of the pressure system plant. Planned outages are usually undertaken during the summer months, when electricity demand is lower. There is consequently an irregular pattern to planned outages and associated expenditure, since typically in two of every four years two units will each undergo a major planned outage. Following the Government's consultation on an end to unabated electricity generation from coal by 2025, we put in place a leaner maintenance schedule for the three coal-fired generation units and deferred certain maintenance work. In addition, a major outage on one of our coal-fired generation units that was originally planned for 2017 was deferred and will now be undertaken in 2018.

Unplanned maintenance or forced outages occur on all units due to unexpected plant breakdown, such as boiler tube leaks. Preventative maintenance is carried out to control and reduce forced outage rates. This work includes the monitoring, inspection and replacement of operating equipment. The frequency of such work is dependent on the operating and failure history of each equipment type and takes into account historical maintenance schedules and procedures, manufacturers' recommendations and statutory inspection requirements. This approach is typical of the industry.

Fuel procurement

The Power Station uses coal and sustainable biomass as fuel. In the Power Generation segment, cost of fuel is the principal driver of total cost of sales and represents the cost of purchasing the coal (including the cost of carbon) and sustainable biomass that is used to generate electricity in the Power Station (net of any ROC and LEC support earned). Fuel costs increased by £202.6 million, or 17.6 per cent., from £1,154.2 million in 2016 to £1,356.8 million in 2017.

Sustainable biomass

In 2017, approximately 6.8 million tonnes of sustainable biomass were burned for electricity generation at the Power Station. Our wood pellet manufacturing facilities supplied 12.3 per cent. of our internal requirements for generation from sustainable biomass in 2017 and will have the capacity to supply approximately 20 per cent. of our internal requirements when operating at their maximum capacity. It is our strategic target to increase the share of sustainable biomass pellets sourced from our manufacturing facilities to up to 30 per cent. in the future. To make up the shortfall between our own production capacity for sustainable biomass pellets and our requirements for sustainable biomass pellets, we have negotiated a portfolio of predominantly long-term biomass fuel supply contracts. Our top five suppliers are contracted to provide the majority of the 2018 volume that we currently anticipate our operations to require. We do not depend on a sole supplier, and we own three pellet manufacturing facilities. Two of these facilities, Amite and Morehouse, are now able to manufacture wood pellets at a capacity of 525,000 tonnes per year, having recently each increased capacity by 75,000 tonnes per year. The LaSalle plant acquired in 2017 has a nameplate production capacity of 450,000 tonnes per year. Its commissioning began in November 2017 and we expect its production to increase throughout 2018, with full commissioning expected by the first quarter of 2019.

In addition, where liquidity permits, we purchase supplemental volumes of sustainable biomass on the spot market each year and also purchase additional volumes for delivery within 18 months of contract execution. Self-supply enables us to manage biomass supply with our planned outages at the Power Station and to benefit from biomass cargoes in the short-term spot market.

The sustainable biomass pellets sourced by us are required to meet the Power Station's fuel specification which, in turn, is designed to meet the Power Station's operating requirements and certain sustainability criteria for the electricity produced from them to be eligible for ROCs and CfD support. The RO Scheme and CfD Regime require, among other things, that the wood pellets are sourced from sustainably managed sources.

In addition to investment in the wood pellet manufacturing process, we also continue to seek to identify ways of investing in supporting infrastructure to improve the wider efficiency of the facilities. For example, by investing in large hydraulic platforms, the operators at the facilities can unload trucks containing fuel faster, reducing the cost of processing and increasing the use of lower cost residues. This additional capacity allows these plants to handle a greater volume of lower-cost residue material, supporting our efforts to produce good quality pellets at the lowest cost. We expect further efficiencies from our agreement to allow a biomass fibre supplier to build a sawmill next to our LaSalle facility, which we anticipate will reduce raw material transport costs and overall biomass cost.

Supply contracts include penalty mechanisms if the fuel does not meet such specification. We also impose contractual obligations on our sustainable biomass pellet suppliers requiring them to satisfy the relevant sustainability criteria and conduct supplier audits using third party auditors. Alternatively, suppliers can evidence that they comply with the necessary sustainability requirements through Sustainable Biomass Program ("**SBP**") certification, as SBP-compliant material has been benchmarked by Ofgem to fully meet the UK sustainability requirements. We encourage our suppliers to move towards SBP certification and we aim to achieve 100 per cent. SBP compliance of our biomass fuel by the end of 2018. In 2017, 34 of the 56 pellet mills we source wood pellets from became SBP certified and were audited by an independent third party. In addition, we carried out five first party audits of suppliers by Drax staff and six third party audits by independent auditors. We do not contract with counterparties who do not meet our biomass sustainability requirements.

More generally, we are a UK member of UN Global Compact, an organisation promoting responsible corporate citizenship to realise a sustainable and inclusive global economy.

Most sustainable biomass pellets used by us are sourced from outside the UK and priced in US dollars, Canadian dollars or euro. In 2017, 58 per cent. and 24 per cent. of our sustainable biomass supply was imported from the US and Canada, respectively (compared with 59 per cent. and 22 per cent. in 2016, respectively). The remainder was sourced from various European countries, including Latvia (10 per cent.), Estonia (4 per cent.), Portugal (2 per cent.), Brazil (1 per cent.) and the UK (1 per cent.). For further information with respect to foreign currency exchange exposures inherent within the cost of biomass, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Factors Affecting Results of Operations—Derivative Financial Instruments*".

Biomass supply chain

Biomass pellets are hygroscopic and so readily absorb moisture from the environment. As a result, pellets must be kept dry and cannot be stored outside. These characteristics required us to develop and construct specialist storage and transport facilities.

We import wood pellets into the UK via biomass import facilities at each of the ports of Tyne, Hull, Liverpool and Immingham, together providing a combined total import capacity of more than 11 million tonnes per year. The development of these large, specialised biomass storage and rail loading facilities at ports supports biomass in transit from the supplier to the Power Station. Such biomass import facilities are scaled to provide for contingencies should there be rail problems en route or plant problems at the Power Station.

Our total port storage capacity in the UK is approximately 400,000 tonnes. In addition to storage at ports, we have approximately 300,000 tonnes of additional storage space available close to the ports and 300,000 tonnes available at the Power Station.

Wood pellets are transported from ports to the Power Station primarily by rail. Rail paths between UK ports and the Power Station have been secured to match the total import capacity described above. We have, in partnership with industry specialists, developed a bespoke biomass rail wagon capable of carrying large volumes of biomass with capacity of almost one-third more than that of a coal rail wagon converted to transport biomass. The wagons have covers to ensure that the biomass pellets are kept dry during transit and have fully automated top and bottom doors, which will allow loading and unloading to be carried out while the trains are in motion, increasing efficiency in the rail transport operation. At our UK port facilities and at the Power Station, the pellets are stored in technically advanced storage spaces with dust control infrastructure to reduce the risk of fire and explosions.

The location of our Pellet Production segment assets allows us to leverage the benefits of multiple assets for operational efficiencies. Our four sites in the US (our three pellet manufacturing facilities and our Baton Rouge port facility) are located within a 200-mile radius, allowing for flexibility through the outage cycle at the manufacturing plants, sharing spares of key equipment across the facilities and the efficient use of human capital. The facilities also share logistic connections to our port assets at Baton Rouge and benefit from complementary fibre sourcing, allowing for the optimisation of supply between plants.

While our own production has increased significantly, we have retained operational flexibility, which means we are able to take advantage of spot market opportunities and manage the flow of our biomass supply chain as part of the major planned biomass outage programme in the Power Generation segment.

Coal

In 2017, approximately 2.8 million tonnes of coal was burned for electricity generation at the Power Station. The proportion of our generation from coal and coal derivatives has declined over the past four years as we converted three of the Power Station's six generation units to run on sustainable biomass. With the remaining three units currently generating electricity from coal, we have the ability to burn up to five million tonnes of coal per year. This is expected to decrease over the coming years with our planned conversion of a fourth unit to sustainable biomass and the options we are developing to repower the other two coal-fired generation units.

We purchase coal on both a forward basis and in the spot market to enable us to take advantage of favourable market conditions, if available. Due to the lower utilisation of the coal units, we have reduced the level of coal stocks held on-site, and intend to further reduce such stocks in the future, until such time as coal-fired generation at the Power Station has ceased. Coal is more readily available than sustainable biomass and the storage requirements are less stringent, so stock can be held in smaller volumes to allow us to take advantage of short-term spot opportunities in the power market with spot purchases and deliveries of coal scheduled throughout the year to supplement stocks should electricity demand require it.

With increasing levels of intermittent renewables in use in the UK, we are continuing to see opportunities for system support services in the Balancing Market and Ancillary Services market. Our coal units are well placed to generate earnings from the Balancing Mechanism (in addition to the provision of Ancillary Services) by running less often but capturing better prices.

We purchase coal from a range of sources with the objective of managing our commercial and credit exposure, environmental obligations such as the IED and diversity of supply. In 2017, approximately 36 per cent. of the coal we used was sourced from mines in the UK and the remainder was sourced from major supply basins from the US, Colombia and Russia. The proportion of coal sourced domestically has steadily decreased over recent years due to, among other things, air emissions and other environmental regulations and declining domestic production volumes. In the future, we expect that the vast majority of coal will continue to be sourced from international suppliers. For further information, see "*Industry Overview—Electricity market: regulatory context—Capacity constraints*". We try to avoid buying generic coals where the origin is uncertain, but we continue to source attractively priced fuel cargoes such as out-of-specification coals (coal that does not meet another buyer's contracted specification) and distressed cargoes (cargoes without a buyer) which help keep costs down for the business.

We hedge our exposure against fluctuations in prices in this respect through financial derivatives contracts. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Factors Affecting Results of Operations—Derivative Financial Instruments*".

Our repowering project relating to the coal-to-gas repower of up to two of our coal-fired generation units at the Power Station was notified to the Planning Inspectorate in September 2017. Local community consultations began in November 2017 and continued until February 2018 on options including replacing the existing c.1.3GW of coal-fired capacity from these units with up to 6GW of gas-fired generation capacity (capable of running in open cycle and combined cycle modes), a gas pipeline and up to 200MW of supporting battery storage. These options could compete for one or more 15-year capacity market agreements, which agreements would guarantee revenues for the Power Station into the 2030s.

Electricity and ROC sales and trading strategy

Electricity generated by the Power Station is sold to the wholesale market and via the B2B Energy Supply segment. In 2017 and 2016, the Power Generation segment derived revenues of £1,805.4 million and £1,879.9 million, respectively, from electricity sales. Inter-segment sales from the Power Generation segment to the B2B Energy Supply segment accounted for £744.5 million or 41.2 per cent. and £686.5 million or 36.5 per cent. of the revenue generated from electricity sales in 2017 and 2016, respectively. In the wholesale market, the majority of our revenues from the sale of electricity and ROCs is derived from sales to the Big Six. These companies have a more robust credit profile than smaller independent suppliers with an average investment-grade credit rating of BBB and Baa2 from S&P and Moody's, respectively. Their large supply portfolios dictate that they naturally have demand for the output from the Power Station. We have robust credit policies in place to limit the amount of concentration risk we have with any particular counterparty (noting that the counterparty's appetite to trade with us is itself based on its assessment of our credit profile) and sales to the B2B Energy Supply segment (as opposed to third parties) reduces the Power Generation segment's exposure to third parties by spreading credit risk across a wider customer base. For further information on the Big Six, see "*Industry Overview—The Big Six*". We derived revenues of £319.8 million and £289.0 million in 2017 (£541.5 million and £399.3 million in 2016) from our top two customers in the Power Generation segment, representing approximately 8.6 per cent. and 7.8 per cent. of our consolidated revenue in 2017, respectively.

The price of electricity is affected by fluctuations in both supply and demand, which in turn are affected by, among other things, weather conditions (particularly the availability of wind generation assets) and fluctuations in the market price of other commodities. To optimise our electricity trading, we utilise all three sub-markets of the wholesale electricity market: (i) the long-term (predominantly bilateral) forward market, (ii) the short-term (predominantly exchange-traded) market (or spot market), and (iii) the real-time market (the Balancing Mechanism). For further information, see "*Industry Overview—Wholesale—Overview of the wholesale electricity market*".

Trading sustainable biomass units

Our strategy for trading our sustainable biomass units seeks to mitigate the volumetric and pricing risks associated with the nascent third party biomass supply market by entering into a long-term fuel hedge on sustainable biomass fuel costs. Sustainable biomass is predominantly acquired on long-term contracts and the basis risk inherent in that contract (for example, fluctuations in currency arising due to the purchase of volumes in US dollars and/or fluctuations in fuel or freight costs on transporting the sustainable biomass to the UK) is hedged to the extent we are able to do so, taking into account market availability. Fibre costs and inflation risks are generally unhedged due to the lack of available hedging products; however, wherever possible, costs are capped in fibre contracts. The support provided by ROCs and our CfD is indexed to UK inflation (RPI and CPI, respectively) and so provides a partial hedge against inflation.

Our margin is only secured, subject to underlying credit exposure, when the underlying electricity generated by the Power Station (and, where applicable, the associated ROC) is sold, either on the wholesale markets or through our B2B Energy Supply segment. This electricity will often be sold on a forward basis, although we retain flexibility to make electricity sales based on the attractiveness of pricing, liquidity and collateral/credit efficiency. For further information, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Factors Affecting Results of Operations—Bark Spread and Dark Green Spread*".

For the first two generation units that have been converted to biomass under the RO Scheme, the ROCs arising from the sustainable biomass generation are either utilised by the B2B Energy Supply segment or sold to third parties (on a forward basis where liquidity and pricing permit). ROCs may also be purchased from the market to be utilised by the B2B Energy Supply segment. For further information on the RO Scheme and ROCs, see "*Industry Overview—UK clean energy legislation—Operation of the Renewables Obligation*".

For the third unit that has been converted to biomass and benefits from our CfD, our trading strategy aims to ensure that the price achieved from such sales is broadly aligned to the CfD reference price.

The Power Generation segment sells a significant proportion of its ROCs to our B2B Energy Supply segment. 41.2 per cent. of ROCs received by the Power Generation segment for the last full ROC compliance period were sold to our B2B Energy Supply segment.

For the sustainable biomass-fired generation unit that receives subsidy support via the CfD Regime, the mechanics of the CfD provide a quasi-hedge against fluctuations in the long-term electricity price.

Trading coal units

Our strategy for trading our coal units is focused on obtaining attractive dark green spreads when available and having the units available to capture value from providing Ancillary Services and from the Balancing Mechanism. Ancillary Services are a mix of mandatory services, and bilateral agreements with the System Operator. We currently seek to keep the capacity of one unit for trading close to the time for physical delivery, thereby reducing the risk that electricity is not delivered in periods of a forced outage. The generation capacity of the two remaining coal-fired generation units is generally offered in mid-term and short-term markets. Our trading strategy is currently being re-assessed to cater for the anticipated conversion of a fourth generating unit to biomass. For further information, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Factors Affecting Results of Operations—Bark Spread and Dark Green Spread*".

Trading ROCs

Two of our sustainable biomass-fired generation units receive support under the RO Scheme and the Power Station (other than the unit receiving support under the CfD Regime) is accredited by Ofgem as a qualifying renewable plant. The ROCs issued by Ofgem to the Power Station are held electronically on Ofgem's registry and are transferred to purchaser registry accounts when sales are completed.

We are eligible to receive ROCs in respect of our generation from sustainable biomass in our first and second converted generation units until 2027. We expect the planned conversion of a fourth generation unit to biomass to allow us to generate up to 125,000 additional ROCs per year, give us the flexibility to optimise ROC awards across our ROC-accredited units and generate and receive additional ROCs from the fourth unit, to the extent that the number of ROCs received from other generating units under the RO Scheme at the Power Station is lower than the amount forecast annually by DBEIS. For further information on ROCs, see "*Industry Overview—UK clean energy legislation—Operation of the Renewables Obligation*". During the compliance period between 1 April 2016 and 31 March 2017, the Power Station received more ROCs than any other single generation site in the UK. Historically, we have sold the majority of our ROCs to third party electricity suppliers. In 2017 our external revenue from ROC sales was £368 million and our revenue from internal sales to our B2B Energy Supply segment was £258.9 million (compared to £366.7 million and £181.7 million in 2016, inclusive of LECs). The Opus Acquisition has increased the internal demand for ROCs and so reduced the number of ROCs that we sell on the external wholesale market.

Ancillary services and capacity market payments

In the Power Generation segment, we also derive revenues from Ancillary Services, which amounted to £30.7 million in 2017 compared to £47.3 million in 2016. Ancillary Services comprise the provision of a range of system support services contracted directly with the System Operator (other than the Balancing Mechanism). The type, length and value of these Ancillary Services will depend on the requirements of the System Operator, but we expect that these services will become increasingly important due to the evolving capacity dynamic with an increase in intermittent generation systems such as wind and solar power and a reduction in flexible capacity.

We are also able to participate in capacity market auctions based on the capacity of our coal units. In capacity market auctions, participants bid for capacity market agreements under which they commit to generate at times of system stress. We have capacity market agreements for two of our coal-fired units. For further information on the capacity market, see "*Industry Overview—Overview of Electricity Market Reform—Capacity Market*".

We currently hold the following one-year capacity market agreements in relation to our existing coal-fired generation units:

1. a capacity market agreement paying £6.95 for each kW of capacity of two of the Power Station's coal units and three on-site ancillary OCGTs for the year commencing 1 October 2017;
2. a capacity market agreement paying £19.40, in 2012 prices, for each kW of capacity of two of the Power Station's coal units and three on-site ancillary OCGTs for the year commencing 1 October 2018;
3. a capacity market agreement paying £18.00, in 2014/15 prices, for each kW of capacity of two of the Power Station's coal units and three on-site ancillary OCGTs for the year commencing 1 October 2019;
4. a capacity market agreement paying £22.50, in 2015/16 prices, for each kW of capacity of two of the Power Station's coal units and three on-site ancillary OCGTs for the year commencing 1 October 2020; and
5. a capacity market agreement paying £8.40, in 2016/17 prices, for each kW of capacity of two of the Power Station's coal units and three on-site ancillary OCGTs for the year commencing 1 October 2021.

B2B Energy Supply

Our B2B Energy Supply segment is active in the markets for electricity and gas supply through Haven Power (electricity) and Opus (electricity and gas). Our B2B Energy Supply segment, comprising Haven Power and Opus, is the fifth largest supplier of electricity to businesses in the UK by volume supplied and had over 375,000 electricity and gas connections as of 31 December 2017. In 2017, the Group's B2B Energy Supply segment had revenues of £1,999.0 million compared to £1,326.4 million in 2016 and EBITDA of £29.4 million in 2017, representing 12.8 per cent. of the Group's EBITDA for 2017.

Our B2B Energy Supply segment supplied approximately 18.1 TWh of electricity and 2.0 TWh of gas to customers in 2017 and had a market share in the non-domestic electricity supply sector of 9.5 per cent. by volume of supply as at 31 October 2017.

The B2B market remains competitive with over 60 different suppliers across the market as of 31 October 2017. Our Haven and Opus businesses offer customer-centric power, gas and renewable products and services. At the smaller microbusiness-end of the market, which is closer in proximity to domestic, most of our customers are on fixed-price tariffs that they actively review on a regular basis. Many of our larger customers are signed up to flexible contracts where the customer either decides when to fix the price of their power at a given point in time or leaves it to vary according to market prices on a day or month ahead basis. We offer simplicity and flexibility across our products and actively engage with customers to help them manage their energy requirements and reduce carbon emissions.

Haven Power

Haven Power focuses on providing businesses with 100 per cent. renewable electricity supply contracts from a range of simple, flexible and tailored contracts designed to meet businesses' power requirements, backed by high standards of customer service. Haven Power originally operated solely in the non-domestic SME sector, but since 2010 started supplying customers in the I&C sector.

Haven Power acquires a significant proportion of its electricity from the Power Station. This arrangement provides a credit-efficient alternative route to market for electricity generated by the Power Station and for ROCs for electricity generated from renewable sources. It also provides Haven Power with the ability to contract for electricity on a forward basis in a market where independent suppliers can face liquidity issues in the absence of sole-offtake agreements.

In the SME sector, Haven Power offers contracts with diverse pricing to meet the needs and risk profile of its SME customer base. Examples include the Haven Complete product, which has a fully fixed price designed to provide maximum budget certainty, and the Haven Pass-Through product, which has a fixed energy cost but passes on certain third party charges to the customer entirely. The length of the contracts generally varies from 12 to 60 months.

In addition, Haven Power offers a number of more complex flexible products in the I&C sector, which allow the customer to choose when to lock-in their electricity prices. Customers using such products may have the ability to fix prices for electricity for up to five years in advance or to purchase their power at the prevailing market rates for the day or month ahead.

Opus

We acquired Opus, a UK supplier of electricity and gas with a focus on the SME market, on 10 February 2017 for total consideration of £367.3 million.

Opus currently procures the electricity it supplies to its customers from within the Group, and from a large number of small generators with whom it contracts at profitable levels compared to wholesale rates. Some legacy transactions with other third party suppliers remain to be delivered to Opus in the future. The move to purchasing predominantly within the Group creates an additional, credit-efficient route to market for the electricity and ROCs generated in the Power Generation segment. In the renewable power purchase agreement sector, Opus offers one- to three-year contracts to generators to purchase electricity from them. These contracts are fixed-price for smaller generators or bespoke for larger generators.

In the year ended 31 March 2017, 90 per cent. of the electricity supplied by Opus was generated from renewable sources. Opus also buys energy from renewable generators across the UK, from sources including wind turbines, solar panels and anaerobic digestion plants. In 2017, this amounted to 995GWh of renewable energy generated from 2,300 generators.

Our B2B Energy Supply segment has an active network of TPIs, which routinely introduce new customers to suppliers. The majority of our B2B Energy Supply segment's customers are obtained via a network of TPIs supported by our B2B Energy Supply Segment's own customer services department. See "*Risk Factors—Risk Factors Relating to Our Business and Industry—Following the Opus Acquisition, our reliance on TPIs has increased. Increased reliance on TPIs and termination of relations with them might have an adverse impact on our reputation and operations*."

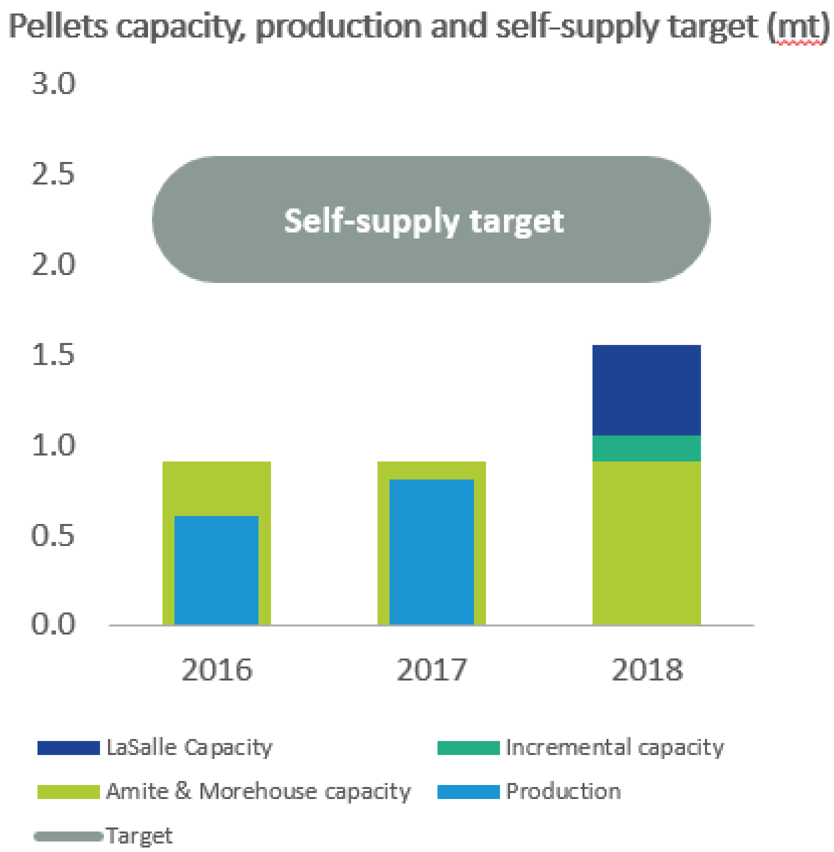
Opus offers business customers electricity and gas supply contracts and renewable power purchase agreements on standard terms. In the SME sector, Opus offers gas and electricity contracts on a diverse price basis to suit its customers' risk profiles. The terms of these products range from one to four years and are designed to pass on third party charges to customers. In the I&C sector, Opus offers electricity on a fixed and flexible contract basis on terms of up to three years. Corporate gas customers are offered fixed-price products only. Renewable generators are offered either a fixed or floating price for their electricity and share any embedded benefits from savings against customer costs.

In recognition of its customer service, Opus Energy was awarded Utility Provider to Small Businesses of the year 2017 at the British Business Awards.

Opus is based primarily in Northampton, where in March 2017 we completed the acquisition of a new office building, consolidating four offices into one and centralising operational teams. It also has premises in Oxford and Cardiff.

Pellet Production

Currently, three of our generation units have been converted to burn only sustainable biomass. To support this demand, we own and operate three wood pellet manufacturing facilities and a port export facility in the US. In 2017, our own pellet facilities supplied 821,764 tonnes or approximately 12.3 per cent. of our internal requirements for generation from sustainable biomass. Once our third pellet facility is fully commissioned by Q1 2019, our total capacity, if fully utilised, would enable us to supply approximately 20 per cent. of our internal requirements for generation from sustainable biomass in 2018. We intend to increase the share of sustainable biomass pellets sourced internally from our own production facilities to up to 30 per cent. in the future. In 2017, we also sought to improve our cost profile through productivity gains, carefully managed raw fibre costs and increased asset utilisation.



The US operations principally seek to optimise supply chain and logistics operations of the Power Generation segment and ensure the timely delivery of sustainable biomass fuel to the Power Station. The headquarters of the Pellet Production segment is located in Atlanta, Georgia. We expect to move the headquarters of this segment to Monroe, Georgia in the second half of 2018. The operations of the Pellet Production segment are located primarily in the US Gulf region, geographically close to both large and growing sustainably managed forests and deep-water ports to optimise the transportation of both feedstock and biomass pellets within the US and ultimately across the Atlantic Ocean to the Power Station. The facilities are all within a 200-mile radius, allowing them to benefit from operational and logistical efficiencies. Our original two pellet manufacturing facilities are located near Bastrop, Louisiana and Gloster, Mississippi, and have a combined annual capacity of 1,050,000 tonnes. In April 2017, we successfully completed the acquisition of our LaSalle BioEnergy facility near Urania, Louisiana. This facility has an annual nameplate capacity of 450,000 tonnes and is expected to be fully commissioned by Q1 2019.

Wood pellets are produced from sustainably sourced biomass in the form of primary sources such as thinnings, tops and harvesting residues sourced from the surrounding forests or secondary sources such as wood chips, shavings or sawdust sourced from other wood-based manufacturing facilities. Our Amite and Morehouse facilities are certified under the Sustainable Biomass Program, an industry standard, demonstrating that biomass is legally and sustainably sourced and our recently acquired LaSalle facility is working toward the same certification. Although this certification is an industry standard, the facilities could still fulfil the sustainability specifications of the RO and CfD Schemes without this certification if they meet certain other requirements.

Procurement of raw materials is the main driver of costs in our Pellet Production segment. The fibre is sourced from a range of suppliers local to the manufacturing facilities ("Fibre Basket"), with a range of contract tenors. The plants are sited within Fibre Baskets with well-established commercial forestry operations, which principally service the construction and manufacturing markets and provide a large amount of the lower-value residue material typically used for sustainable wood pellets.

Wood pellets are transported by road and rail from our manufacturing facilities to our own port export facility located on the banks of the Mississippi river in Baton Rouge, Louisiana. This export facility consists of port-side storage and loading capabilities, on property leased from the Port of Greater Baton Rouge. The export facility includes two 40,000 tonne storage domes, which can store pellets, arriving by road or rail, from our manufacturing facilities and from third party suppliers. Our storage and loading facility dispatched ships to the UK carrying approximately 943,594 tonnes of pellets in 2017.

Property, Plant and Equipment

The table below provides an overview of our main facilities:

Basic Site Description	Owner	Type of Interest	Use of Site
Drax Power Station, Drax, Selby, UK	Drax Power	Freehold	Power Station
Drax Group Offices, London, UK	Drax Power and Drax Corporate	Leasehold	Offices
Amite Pellet Plant, Gloster, Mississippi, USA	Amite Bioenergy LLC	Leasehold	Wood Pellet Manufacturing Facility
Morehouse Pellet Plant, Bastrop, Louisiana, USA	Morehouse Bioenergy LLC	Freehold	Wood Pellet Manufacturing Facility
LaSalle Pellet Plant, Urania, Louisiana, USA	LaSalle Bioenergy LLC	Freehold	Wood Pellet Manufacturing Facility
Haven Power Head Office, Ipswich, UK	Haven Power Limited	Leasehold	Offices
Opus Group Head Office, Northampton, UK	Opus Energy Limited	Long Leasehold	Offices

Research and Development

We have a long history of innovation as part of our transition away from coal to sustainable biomass. Since 2003, we have deepened our understanding of biomass combustion chemistry by investing significant resources in scientific and technological research aimed at increasing the usable range of sustainable biomass fuels in response to the prospective demand for such fuels. This has led to, among other things, a patented mitigant system which injects pulverised fuel ash (which is a by-product of coal combustion and therefore readily available) at a specific point in the combustion zone to reduce corrosion in the boilers when operating on biomass.

In August 2016, we established a new Research and Innovation team to specifically assess how new technology can support the sustainable growth of the Group and allow us to achieve our purpose. This team has over 50 research and innovation streams in progress (for example, supporting the B2B Energy Supply segment with a new technology strategy, developing options to repower our remaining coal units and identifying ways to reduce the cost of sustainable wood pellet production in the Pellet Production segment).

We are strengthening our ties with academia and work with a number of universities in the UK. We are also funding postgraduate research at Sheffield University's Centre for Doctoral Training, covering topics such as vehicle-to-grid electricity systems, reciprocating engine emissions clean-up technology and future battery technology.

We continue to work across all parts of the Group to maintain and enhance our position as one of the world's leading authorities on large-scale carbon neutral sustainable biomass generation. In recent years, we have worked on the commercial development of sustainable biomass technology in large-scale industrial coal plants, working towards safe and reliable production of electricity from sustainable biomass and the wider resource, infrastructure and supply chain innovations that contribute to improved technology and reduced costs.

We have also developed alternate low carbon technologies that continue to offer low-cost, low-emissions generation capacity to meet the UK's changing energy needs, the most prominent example of this being the options we are developing to repower two remaining coal-fired generation units to allow for up to 3.6GW of gas generation, with up to 200MW of supporting battery storage.

Environment

Environmental Performance of the Power Station

We strive towards reducing our impact on the environment and regard compliance with legislative and regulatory requirements as the minimum level of achievement. Fossil fuel-derived CO_2 emissions from the Power Station fell from 22.7 million tonnes in 2012 to 6.2 million tonnes in 2017.

EU environmental legislation, notably the IED, imposes limits on, among other things, emissions of SO_2 and NOx from our generation units.

Effective January 2016, the IED sets an annual limit on the amount of NOx and SO_2 that we can emit from the Power Station. We must either ensure that our coal and biomass units operate within this limit or else purchase additional emissions allowances from other generators equal to the shortfall.

The Power Station is also subject to short-term (24-hourly and monthly) emission limit values for SO_2, NOx and particulate matter. These limits reflect achievable emissions rates from plants such as the Power Station, and the Power Station has been, and expects to remain, materially compliant with them. Additionally, we are focused on meeting the requirements of the Best Available Techniques Reference document (BREF) developed under the IED that will further reduce air emission limits when it enters into force no later than mid-2021.

The FGD system is designed to remove approximately 90 per cent. of SO_2 emissions, enabling the Power Station to operate within the SO_2 emissions restrictions of the IED and to efficiently burn a mixture of fuels, including coal, sustainable biomass and petroleum coke, in a manner that satisfies environmental requirements. NOx emissions are reduced further through the boosted over-fire air technology that is fitted on the boilers, allowing the Power Station to operate within the NOx restrictions of the IED. In addition, five of the Power Station's six generation units have been fitted with selective non-catalytic reduction technology. The installation of this new equipment, together with the increased use of sustainable biomass and low-NOx coal as well as lower electricity output, contributed to a 53 per cent. reduction in NOx emissions from the Power Station in 2016 compared to 2015.

By-products of the coal-combustion and FGD operations such as ash and gypsum are sold to the construction industry, which both reduces disposal costs and creates revenue. Ash can also be used as mitigant to be fed into the Power Station's boilers along with biomass to reduce corrosion and slagging.

For further information, see "*Industry Overview—Electricity Market: regulatory context—Capacity constraints*".

Environmental Performance and Compliance

During 2017, we continued to increase the amount of sustainable biomass burnt in place of coal and significantly reduced our carbon footprint, having completed the conversion of our third generation unit to burn sustainable biomass in December 2016. Thus we achieved our goal of predominantly generating using sustainable biomass. We currently generate 65 per cent. of our electricity from burning sustainable biomass. The recent Government announcement that the RO regime will be changed in 2018 in a manner that we expect will enable us to convert a fourth unit to biomass-fired generation during summer 2018, subject to legislative implementation of these changes, and consequently enable us to increase the amount of sustainable biomass burnt in place of coal.

We are required to disclose emissions from biologically sequestered carbon, which includes emissions released through burning sustainable biomass to generate electricity (11,766kt in 2017 and 11,455kt in 2016). Through the strategy to generate more power through sustainable biomass-fuelled generators instead of coal-fuelled generators, there will be a rise in biologically sequestered carbon emissions.

Environmental compliance at the Power Station and associated landfill site is managed through an environmental management system that is externally certified to the international standard ISO 14001. It is audited twice every year. There have been no material breaches of our environmental consents in the last three years.

Health and safety

We are committed to ensuring a safe working environment. In 2017, our safety statistics demonstrated good performance over six million hours worked with a 0.13 lost time injury rate (lost time injuries / hours worked x 100,000), and a 0.27 total recordable injury rate ((lost time injuries + worse than first aid injuries) / hours worked x 100,000), compared to a 0.31 and 0.22 total recordable injury rate in 2015 and 2016 respectively.

We retained our certification for the Health and Safety Management System to the internationally recognised Occupational Health and Safety Standard, OHSAS 18001, at the Power Station. The standard is approved by Lloyd's Register Quality Assurance. Our US operations are managed through integrated management systems ISO 9000 and 14000 to ensure employees operate in a safe working environment, and at Drax Biomass the safety management systems meet the US certification ANSI Z10.

In addition, in 2017, the Power Station was awarded the Royal Society for the Prevention of Accidents Gold Award for the 13th consecutive year. In 2017, we achieved the President's Award for outstanding performance in health and safety at work over the course of 2016. Safety performance is reported and reviewed regularly by local management teams, the Drax Group plc executive committee and the Board. Each incident is comprehensively analysed and reviewed, lessons learnt are shared with the employees and actions are taken to mitigate against future occurrences. At Drax Power, a weekly safety update is uploaded to our intranet and at Drax Biomass, information is made available to employees through a dedicated environment, health and safety (EHS) online portal.

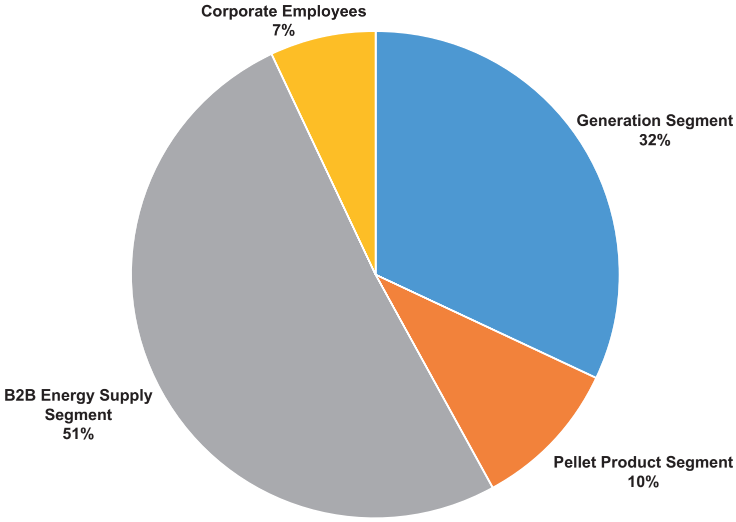
Insurance

We have in place insurance policies with major insurance companies covering items such as property damage and business interruption, third party liability, credit risk (at Opus only), terrorism, marine cargo, charterers and other financial risks such as commercial crime and pension trustee liability. These insurance policies are maintained at a level that we believe is reasonable. Other than as described below, we have not experienced any losses under our insurance policies due to any significant supply event, interruption to our business or damage to our facilities due to fire, explosion or other causes. We currently have an active claim under our business interruption insurance for lost revenue arising from reduced generation due to a longer than anticipated planned outage of one of our biomass generation units and other unplanned outages reducing the availability of the Power Station's biomass generation units in the second half of 2016. We are assessing whether to make a further claim under our business interruption insurance for lost revenue arising from two recent unplanned outages. There can be no assurances that we will proceed with this further claim. Our insurance policies are with major insurance companies.

Employees

As of 31 December 2017, we employed 2,558 people, an increase of approximately 8.7 per cent. compared to the previous year (taking into account the Opus employees as at 31 December 2016). Most of the workforce is employed full time on permanent contracts. The number of employees by business segment as at 31 December 2017 are shown below:

Group Employees as at 31 December 2017



Approximately 22 per cent. of our employees are covered by collective bargaining agreements. For the remainder, we have representative employee consultation and information arrangements in place.

Licences

Our UK operating companies hold a number of licences issued by Ofgem relating to their activities in the UK energy sector, most notably:

Drax Power holds a generation licence in respect of its generation from the Power Station. This licence contains, among other things, provisions relating to compliance with the grid code, the balancing and settlement code and other industry codes and a requirement to offer terms for the provision of Ancillary Services when requested to do so by the System Operator (albeit with no requirement to offer services at a price which is uneconomical). Drax Power also holds a gas shipper licence to enable it to trade gas in wholesale markets.

Both companies in our B2B Energy Supply segment hold licences for the supply of electricity to their customers. These licences contain, among other things, provisions relating to continuity of supply, compliance with industry codes and customer relations, including the provision of certain information to customers and a general duty to treat certain of their customers fairly.

Opus holds a licence for the supply of gas to its customers. This licence contains, among other things, provisions relating to the continuity of supply, compliance with industry codes and the provision of certain information to customers.

Competition

For competitive conditions with respect to our business, see "*Industry Overview—The Big Six*" and "*Industry Overview – Supply*".

Legal Proceedings

We are routinely involved in a number of lawsuits in the ordinary course of business involving employment, commercial, intellectual property, environmental, and personal injuries and damages issues, among other matters. We are currently not involved in any legal or administrative proceeding which we believe would reasonably be expected to have a material adverse effect on our business, operations, prospects, financial condition and results of operations.

MANAGEMENT

Board of Directors of the Issuer

The Issuer was incorporated as a public limited company under the laws of England and Wales on 10 March 2017, with company number 10664639. The registered address of the Issuer is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

As at the date of this Offering Memorandum, the board of directors of the Issuer is as follows:

Name	Age	Position
Will Gardiner	53	Director
Andy Koss	47	Director
Chris King	42	Director

The business address of each member of the board of directors of the Issuer is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

The Issuer is not aware of any potential conflicts of interest between the duties of the persons listed in the board of directors table above and their private interests or other duties.

Set forth below is a brief biography of Chris King. Brief biographies for the other board members are set forth later in this section.

Chris King

Chris was appointed to the board of directors of the Issuer on 10 March 2017. He joined us in November 2016 as Group Treasurer. Chris previously held various roles within corporate finance at private equity backed Vita Group, a polymer manufacturing company, leaving as the Deputy Chief Financial Officer to join us. Prior to that, Chris held various commercial finance roles at Astra Zeneca, a pharmaceutical company, and McCann-Erickson, an advertising agency. He is currently a non-executive director at VPC Group Inc, a polymer manufacturing company. Chris holds a BEng Hons in Mechanical Engineering and is a Fellow of the Institute of Chartered Accountants in England and Wales, and a Fellow of the Association of Chartered Treasurers.

Board of Directors of DGHL

DGHL was incorporated as a private limited company under the laws of England and Wales on 24 November 2015, with company number 09887429. The registered address of DGHL is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

The Issuer is a direct, wholly-owned subsidiary of DGHL.

As at the date of this Offering Memorandum, the board of directors of DGHL is as follows:

Name	Age	Position
Will Gardiner	53	Director
Andy Koss	47	Director

The business address of each member of the board of directors of DGHL is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

DGHL is not aware of any potential conflicts of interest between the duties of the persons listed in the board of directors table above and their private interests or other duties.

Board of Directors of Drax Group plc

Drax Group plc was incorporated as a public limited company under the laws of England and Wales on 13 September 2005, with company number 05562053. The registered address of Drax Group plc is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

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

DGHL is a direct, wholly-owned subsidiary of Drax Group plc.

As at the date of this Offering Memorandum, the members of the Board are as follows:

Name	Age	Position
Philip Cox CBE	66	Chairman
Tim Cobbold	55	Independent non-executive director
Will Gardiner	53	Chief Executive Officer
Nicola Hodson	51	Independent non-executive director
Andy Koss	47	Chief Executive, Drax Power
David Lindsell	70	Senior independent non-executive director
David Nussbaum	59	Independent non-executive director
Tony Thorne	67	Independent non-executive director

Following Will Gardiner's appointment as the new Chief Executive Officer, Den Jones was appointed as Interim Group Chief Financial Officer. A process is underway for appointing a permanent Group Chief Financial Officer.

The business address of each member of the Board is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Drax Group plc is not aware of any potential conflicts of interest between the duties of the persons listed in the board of directors table above and their private interests or other duties. Set forth below is a brief biography of each of member of the Board.

Philip Cox CBE

Philip was appointed to the Board in January 2015 and was appointed as Chairman in April 2015. He previously held executive roles as Chief Executive Officer at International Power plc, an electricity generation company, Senior Vice President, Operational Planning at Invensys plc, a technology company, and Finance Director at Siebe PLC, an engineering and electronics company, as well as non-executive roles at Meggitt PLC, an engineering company, PPL Corporation, an energy company, Wm Morrison Supermarkets PLC, a supermarket retailer, Wincanton plc, a logistics company and Talen Energy, an energy company. Philip is currently non-executive Chairman of Kier Group plc, a property, residential, construction and services group. He holds an MA in Geography and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Tim Cobbold

Tim was appointed to the Board in September 2010. He previously held Chief Executive roles at De La Rue plc, a banknote manufacturer and printer, and Chloride Group plc, a power company, and a number of senior financial and operational management positions at Smiths Group plc, a technology company. Tim is currently Chief Executive of UBM plc, a business-to-business event organiser. Tim holds a BSc (Hons) in Mechanical Engineering and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Will Gardiner

Will was appointed to the Board in November 2015. He was appointed Chief Executive Officer on 1 January 2018, having previously held the role of Chief Financial Officer since 16 November 2015. He previously held executive roles as Chief Financial Officer at CSR plc, a technology company, Divisional Financial Director at BSkyB, a broadcasting company, Chief Financial Officer at Easynet Group plc, a service provider, and various senior roles in the investment banking division at JP Morgan, an investment bank. Will is currently a non-executive director of Qardio plc, a medical technology company, a board member at Energy UK, the trade association for the UK energy industry, a member of the UK Board at the Institute for War & Peace Reporting, a charity, and a member of the Board and Treasurer at Groton School. Will holds a BA in Russian and Soviet Studies and an MA in International Relations.

Nicola Hodson

Nicola was appointed to the Board in January 2018. She previously held executive roles as Chief Operating Officer and General Manager Public Sector at Microsoft, a technology company, and General Manager FS, PS, Manufacturing, Sales and Marketing Director at Siemens, a technology company. In a non-executive capacity, Nicola was a non-executive director at Ofgem, the government regulator for the electricity and downstream natural gas markets in Great Britain, and a board member at both the UK Council for Child Internet Safety and the Child Exploitation and Online Protection group, both internet safety action groups. Nicola is currently Vice-

President, Global Sales and Marketing, Field Transformation at Microsoft and a board member at techUK, a technology organisation. Nicola holds a BSc in Chemistry and Materials Science, a Ph.D in Materials Engineering and an MBA in Business Administration, Management and Operations.

Andy Koss

Andy was appointed to the Board in January 2016, having joined the Group in June 2005. Prior to his appointment, he held various executive roles within the Group, including Director of Strategy, Head of Investor Relations, Group Treasurer and Head of Risk. He previously held roles as Deputy Group Treasurer at Provident Financial plc, a supplier of personal credit products, various investment banking roles at UBS, Dresdner Kleinwort Benson and Lehman Brothers, all financial services firms, and as a chartered accountant at Coopers & Lybrand, a professional services firm. Andy holds a BSc (Hons) in Mathematics, Operational Research, Statistics and Economics and is a Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the Association of Corporate Treasurers.

David Lindsell

David was appointed to the Board in December 2008 and is the Senior Independent Director. He previously held roles as a partner at Ernst & Young LLP, a professional services firm, Deputy Chairman of the Financial Reporting Review Panel, non-executive director and Chairman of the Audit and Risk Committee at Premier Oil plc, an oil and gas company, and a non-executive director of HellermannTyton Group PLC, a manufacturer of cable management products. David is currently Trustee and Chairman of the Audit Committee at Cancer Research UK, a charity, and Deputy Chair of Governors at University of the Arts, London. David holds an MA in History and is a Fellow of the Institute of Chartered Accountants in England and Wales.

David Nussbaum

David was appointed to the Board in August 2017. He previously held executive roles as the Chief Executive of the World Wide Fund for Nature UK, a wilderness preservation NGO, Chief Executive of Transparency International UK, a global anti-corruption organisation, Finance Director and a Deputy Chief Executive of Oxfam, a global aid and development charity, and Finance Director of Field Group plc. In a non-executive capacity, David was Vice-Chairman of the Shared Interest Society, a fairtrade organisation, Chairman of Traidcraft plc, a fairtrade company, and non-executive director of Low Carbon Accelerator Limited. David is currently Chief Executive of The Elders, an independent group of global leaders promoting peace and human rights, and Deputy Chair of the International Integrated Reporting Council, a global coalition of regulators, investors, companies, standard setters, accounting professionals and NGOs. David holds an MA and MTh in Theology and an MSc in Finance and is a Member of the Institute of Chartered Accountants of Scotland.

Tony Thorne

Tony was appointed to the Board in June 2010. He previously held roles as Chief Executive of DS Smith plc and President of SCA Packaging Limited, both packaging companies, and various senior management roles at Shell International, an energy and petrochemicals company. In a non-executive capacity, Tony was the non-executive Chairman of the South East Coast Ambulance Service. Tony holds a BSc (Hons) in Agricultural Economics.

Executive Committee

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.

Each Drax business unit runs under its own management team and the shared services needed to support them are provided centrally through our corporate function. The Executive Committee focuses on our strategy, financial structure, planning and performance, succession planning, organisational development and Group-wide policies.

As at the date of this Offering Memorandum, the members of the executive team of Drax Group plc (the "**Executive Committee**") are as follows:

Name	Age	Position
Will Gardiner	53	Chief Executive Officer
Clare Harbord	61	Director of Corporate Affairs
Jonathan Kini	38	Chief Executive, Drax Retail
Andy Koss	47	Chief Executive, Drax Power
Pete Madden	53	Chief Executive, Drax Biomass

Set forth below is a brief biography of Jonathan Kini, Clare Harbord and Pete Madden.

Jonathan Kini

Jonathan was appointed to the Executive Committee in September 2016, having joined the Group in January 2016. He previously held a role as director of SME at Vodafone, a telecommunications firm, and various commercial roles at Virgin Media, a telecommunications firm. Jonathan holds a BSc (Hons) in Mathematics and an MBA and is an Associate of the Chartered Institute of Management Accountants.

Clare Harbord

Clare was appointed to the Executive Committee in May 2017, having joined the Group at the same time as Director of Corporate Affairs. Previously, Clare was Director of Corporate Affairs at Heathrow Airport, Director of Communications at the Ministry of Justice and Head of UK Communications at E.ON UK, an energy company. Claire holds a BA (Hons) in Archaeology.

Pete Madden

Pete was appointed to the Executive Committee in January 2016, having joined the Group in March 2015. He previously held a number of roles at Plum Creek (USA), a forestry company, including: Vice President, Renewable Energy and Supply Chain; Vice President, Operations Support; and Director, Regional Marketing, Operations, Resource Management, Materials Management and Corporation Planning. Pete is currently a member of the advisory board of the University of Georgia Center for Forest Business and a member of the board at the US Industrial Pellet Association and the Forest History Society. Pete holds a BA and an MS in Forestry and MBA.

Committees of the Board

Nominations Committee

The Nominations Committee is chaired by Philip Cox CBE and also includes Tim Cobbold, David Lindsell, Tony Thorne, David Nussbaum and Nicola Hodson as committee members. The Nominations Committee's principal responsibilities are to:

- keep under review the structure, size and composition of the Board (including the skills, knowledge and experience required by it);
- conduct the search and selection process for new directors, taking advice from independent search consultants as appropriate; and
- ensure a rigorous succession planning process for the directors and other senior managers, including the identification of candidates from both within and outside the Group.

Audit Committee

The Audit Committee is chaired by David Lindsell and also includes Tim Cobbold, Tony Thorne, David Nussbaum and Nicola Hodson as committee members. The Audit 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 judgments contained in the financial statements;
- advise the Board on whether the Audit Committee believes the annual report and accounts are fair, balanced and understandable;

- maintain an appropriate relationship with the Group's external auditors and review the effectiveness and objectivity of the external audit process;
- review the systems of internal control and risk management;
- monitor and review the effectiveness of the internal audit function, review all internal audit reports and review and monitor management's responses to the findings and recommendations of the internal audit function; and
- make recommendations to the Board (to put to Shareholders for approval) regarding the appointment of the external auditor.

Remuneration Committee

The Remuneration Committee is chaired by Tony Thorne and also includes Tim Cobbold, Philip Cox CBE, David Lindsell, David Nussbaum and Nicola Hodson as committee members. The Remuneration Committee's principal responsibilities are to:

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

Compensation of Directors

During the year ended 31 December 2017, the aggregate compensation (including salary and fees, pension, bonus, incentive plan and other benefits) paid to the executive and non-executive directors of the Board was £3.1 million.

Management remuneration

Our key management personnel receive remuneration comprising salaries and short-term benefits, amounts receivable under share-based incentive schemes and Group contributions to money purchase pension schemes (being the categories specified in IAS 14 as "related party disclosures"). The aggregate remuneration paid to the Board and the Executive Committee under these categories totalled: £6.2 million in the year ended 31 December 2015; £6.2 million in the year ended 31 December 2016; and £6.2 million in the year ended 31 December 2017.

PRINCIPAL SHAREHOLDERS

The Issuer is a wholly-owned subsidiary of DGHL, which, in turn, is a wholly-owned subsidiary of Drax Group plc.

Drax Group plc is listed on the London Stock Exchange. As of 4 April 2018, Drax Group plc had 407,039,575 ordinary shares outstanding.

The following table sets forth certain information regarding the substantial shareholders of Drax Group plc as notified to Drax Group plc pursuant to the UK Listing Authority's Disclosure and Transparency Rules. We do not have any information other than publicly available information that would confirm the below shareholdings. The actual shareholdings of Drax Group plc's shareholders may differ from the below based upon information not disclosed to the public or us.

Shareholder(1)	Ordinary Shares	Percentage of Share Capital(2)
Invesco Limited	84,800,663(3)	20.83
Schroders plc	61,025,919(4)	14.99
Woodford Investment Management Limited	21,703,125(5)	5.33
Artemis Investment Management LLP	20,329,815(6)	4.99
Orbis Holdings Limited	20,241,875(7)	4.97
Investec Asset Management	20,204,001(8)	4.96
Old Mutual plc	20,310,972(9)	4.99
BlackRock, Inc.	18,743,028(10)	4.60

(1) Each group of entities and/or affiliated funds is treated as one shareholder for the purposes of this table, and the names set out in certain cases reflect the name of the relevant parent entity or investment adviser (as applicable).

(2) Percentages are based on the issued ordinary share capital as of 4 April 2018, being 407,039,575.

(3) Based on notification to us on 16 February 2017.

(4) Based on notification to us on 4 April 2018.

(5) Based on notification to us on 19 August 2014.

(6) Based on notification to us on 21 June 2017.

(7) Based on notification to us on 30 November 2016.

(8) Based on notification to us on 19 December 2016.

(9) Based on notification to us on 27 September 2017.

(10) Based on notification to us on 19 March 2018.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In the course of our ordinary business activities, we enter into agreements with or render services to related parties from time to time. In turn, such related parties may render services or deliver goods to us as part of their business. Purchase and supply agreements, for example, for sale of electricity or ROCs from the Power Generation segment to the B2B Energy Supply segment and for sale of sustainable biomass from the Pellet Production segment to the Power Generation segment, between subsidiaries and affiliated companies are entered into on a regular basis within the ordinary course of business. We also enter into intra-group financing arrangements within the ordinary course of business. In addition to the foregoing ordinary course transactions, we have also entered into the following transactions with related parties:

Key Management Personnel

Our Board and members of our Executive Committee are considered to be the key management personnel of the Group. For the twelve-months ended 31 December 2017, the aggregate remuneration paid to such key management personnel was £6.2 million. See "*Management—Management Remuneration*".

Shareholder Support Agreement

The Shareholder Support Agreement was originally entered into between Drax Group plc and its indirect wholly-owned subsidiaries, Drax Corporate Limited and Drax Power, on 20 December 2005 and has since been amended from time to time. The Shareholder Support Agreement is entered into to cover the costs and expenses of Drax Group plc that it incurs in its capacity as the ultimate holding company of the Group and as a company with securities listed on the London Stock Exchange. Under the terms of the agreement, Drax Corporate Limited and Drax Power agree to pay amounts due by Drax Group plc on its behalf from time to time, and to loan to Drax Group plc such amounts as it requires from time to time to be able to perform its obligations as and when they fall due. Payments to Drax Group plc under the Shareholder Support Agreement amounted to £3.8 million in 2017, £3.1 million in 2016 and £2.9 million in 2015.

DESCRIPTION OF CERTAIN FINANCING ARRANGEMENTS

The following summary of the material terms of certain financing arrangements to which certain members of the Group are a party does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. For further information regarding our existing indebtedness, see "Use of Proceeds" and "Capitalisation".

Capitalised terms used in this section that are not otherwise defined in "Definitions" or "Business and Industry Glossary" shall have the meanings assigned to them in this section, except that, for the avoidance of doubt, the "Notes" will be described as the "Notes the subject of the Offering".

Certain members of the Group have entered into financing arrangements, which are summarised below.

2022 Fixed Rate Notes and 2022 Floating Rate Notes

Overview

On 5 May 2017 the Issuer issued £350.0 million aggregate principal amount of 4.250% Senior Secured Notes due 2022 (the "**2022 Fixed Rate Notes**") and £200.0 million aggregate principal amount of Senior Floating Rate Secured Notes due 2022 (the "**2022 Floating Rate Notes**" and, together with the 2022 Fixed Rate Notes, the "**2022 Notes**"). The 2022 Notes were issued under an indenture dated as of 5 May 2017, as amended and restated from time to time (the "**2022 Indenture**"), in a private transaction that was not subject to the registration requirements of the US Securities Act. The 2022 Indenture was not qualified under, or subject to, the US Trust Indenture Act of 1939, as amended.

The 2022 Fixed Rate Notes and the 2022 Floating Rate Notes will mature on 1 May 2022. The 2022 Notes were issued in minimum denominations of £100,000 and in integral multiples of £1,000 in excess thereof. The 2022 Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market thereof.

The 2022 Notes are currently guaranteed on a senior secured basis by the Guarantors. The 2022 Notes and the guarantees thereof are secured by first priority liens on the Collateral. The 2022 Notes may be secured by further security interests from time to time subject to certain Agreed Security Principles set out in the Senior Facilities Agreement. See "*—Senior Facilities Agreement—Agreed Security Principles*".

The 2022 Indenture and the 2022 Notes are subject to the terms of the Intercreditor Agreement. See "*—Intercreditor Agreement*" for a description of certain terms of the Intercreditor Agreement.

Drax Corporate Limited will repay the 2022 Floating Rate Notes with the proceeds from the issuance of the Notes pursuant to the Transactions.

Description of 2022 Fixed Rate Notes and the 2022 Fixed Rate Note Guarantees

The Fixed Rate Notes

The 2022 Fixed Rate Notes are general senior obligations of the Issuer and:

- rank *pari passu* in right of payment with all existing and future obligations of the Issuer that are not expressly subordinated in right of payment to the 2022 Fixed Rate Notes, including indebtedness incurred under the Senior Facilities Agreement and certain Hedging Obligations (including the obligations under the Secured Trading Line);
- are senior in right of payment to all existing and future obligations of the Issuer that are expressly subordinated in right of payment to the 2022 Fixed Rate Notes;
- are secured by the same Collateral that on and from the Issue Date the Notes the subject of the Offering will be secured by, and like the Holders of the Notes the subject of the Offering, the Holders of the 2022 Fixed Rate Notes will only receive proceeds from the enforcement over the Collateral and certain distressed disposals after certain obligations of DGHL and its Subsidiaries, including the indebtedness under the Senior Facilities Agreement and certain Hedging Obligations (including the obligations under the Secured Trading Line), have been repaid and discharged in full;
- are effectively subordinated to any existing and future obligations of the Issuer that are secured by property or assets that do not secure the 2022 Fixed Rate Notes, to the extent of the value of the property and assets securing such obligations; and
- are structurally subordinated to all existing and future obligations of the non-Guarantor Subsidiaries of DGHL.

The 2022 Fixed Rate Notes are subject to the provisions of the Intercreditor Agreement. Under the terms of the Intercreditor Agreement, in the event of an enforcement of the Collateral, the Holders of the 2022 Fixed Rate Notes will receive proceeds from the enforcement of the Collateral or from certain distressed disposals of the Collateral *pari passu* with the Holders of the Notes the subject of the Offering and only after (i) the lenders under the Senior Facilities Agreement, (ii) counterparties to certain Hedging Obligations (including the obligations under the Secured Trading Line), (iii) lenders or creditors under certain other Indebtedness permitted to be incurred on a super priority basis under the 2022 Indenture (including any indebtedness that refinances the Senior Facilities Agreement) and (iv) certain amounts owing to the Security Agent, any receiver and certain creditor representatives (including the trustee in relation to 2022 Fixed Rate Notes) have been repaid in full. See "*—Intercreditor Agreement*".

The 2022 Fixed Rate Notes are guaranteed by the Guarantors on a senior secured basis.

Restricted Subsidiaries and Unrestricted Subsidiaries

As of the date of this Offering Memorandum, all of DGHL's Subsidiaries are "Restricted Subsidiaries" for purposes of the 2022 Indenture, except for Drax Ouse and Drax GCo Limited, which are "Unrestricted Subsidiaries". Drax Ouse and Drax GCo Limited are currently in liquidation. In certain circumstances, the Issuer is permitted to designate certain of its Subsidiaries as further "Unrestricted Subsidiaries". Unrestricted Subsidiaries of the Issuer are not subject to any of the restrictive covenants in the 2022 Indenture. Further, Unrestricted Subsidiaries of the Issuer do not guarantee the Notes.

Certain Restricted Subsidiaries, which include Drax Biomass Holdings Limited, Drax Holdings Limited, Drax Pension Trustees Limited, Drax Group Project Services Limited, Drax CCS Limited, Drax Generation (Selby) Limited, Abergelli Power Limited, Hirwaun Power Limited, Millbrook Power Limited, Pike Bioenergy LLC Progress Power Limited, Opus Energy Marketing Limited, Opus Gas Limited, Select Energy Limited, Domus Energy Limited and Opus Water Limited do not guarantee the 2022 Fixed Rate Notes and will not guarantee the Notes that are the subject of the Offering. It is possible that such Restricted Subsidiaries may guarantee the 2022 Fixed Rate Notes (and the Notes that are the subject of the Offering) in the future.

Interest

Interest on the 2022 Fixed Rate Notes accrues at a rate of 4.250 per cent. per annum and is payable in cash semi-annually in arrear on 1 May and 1 November of each year.

Prepayments and Redemptions

At any time prior to 1 May 2019, the Issuer may on any one or more occasions redeem up to 40 per cent. of the original principal amount of the 2022 Fixed Rate Notes, subject to the terms of, and at the redemption prices specified in, the 2022 Indenture, plus accrued and unpaid interest and additional tax amounts to the redemption date, with the proceeds of an equity offering provided that:

(1) at least 60 per cent. of the original principal amount of the 2022 Fixed Rate Notes issued under the 2022 Indenture remain outstanding after each such redemption; and

(2) the redemption occurs within 180 days after the closing of such equity offering.

At any time prior to 1 May 2019, the Issuer may redeem all or, from time to time, part of the 2022 Fixed Rate Notes, subject to the terms of the 2022 Indenture, and at a redemption price equal to 100 per cent. of the principal amount of the 2022 Fixed Rate Notes, plus the applicable premium plus accrued and unpaid interest and additional tax amounts to the redemption date.

On and after 1 May 2019, the Issuer may redeem all or, from time to time, part of the 2022 Fixed Rate Notes, subject to the terms of, and at the redemption prices specified in, the 2022 Indenture, plus accrued and unpaid interest and additional tax amounts to the redemption date.

Optional Redemption upon Certain Tender Offers

In connection with any tender offer for, or other offer to purchase, all of the 2022 Fixed Rate Notes, in the event that holders of not less than 90 per cent. of the aggregate principal amount of the outstanding 2022 Fixed Rate Notes validly tender and do not validly withdraw such 2022 Fixed Rate Notes in such tender offer or offer to purchase and the Issuer or a third party making such tender offer or offer to purchase all the 2022 Fixed Rate Notes held by such holders, within 60 days of such purchase, the Issuer will have the right, upon not less than 10 and no more than 60 days' prior notice, to redeem all (but not less than all) the 2022 Fixed Rate Notes of the same series that remain outstanding following such purchase at a redemption price equal to the highest price (excluding any early tender premium or similar payment) paid to each other holder in such tender offer or offer to purchase, plus, to the extent not included in the tender offer or offer to purchase payment, accrued and unpaid interest to the date of such redemption.

Change of Control

Upon the occurrence of certain events constituting a Change of Control (as defined in the 2022 Indenture), the Issuer may be required to make an offer to repurchase the 2022 Fixed Rate Notes at a redemption price equal to 101 per cent. of the principal amount of the 2022 Fixed Rate Notes repurchased, plus accrued and unpaid interest and additional tax amounts to the date of purchase.

Redemption for Taxation Reasons

The Issuer may redeem the 2022 Fixed Rate Notes in whole, but not in part, at any time in certain circumstances if the Issuer determines in good faith that, as a result of any change in tax law in any applicable tax jurisdiction, the Issuer would become obligated to pay additional amounts on payments on the 2022 Fixed Rate Notes.

General

Subject to the provisions of the Intercreditor Agreement (or any Additional Intercreditor Agreement), the Issuer may repurchase 2022 Fixed Rate Notes at any time and from time to time in the open market or otherwise.

If the Issuer effects an optional redemption of any 2022 Fixed Rate Notes, it will, for so long as such 2022 Fixed Rate Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, inform the Luxembourg Stock Exchange of such optional redemption and confirm the aggregate principal amount of the 2022 Fixed Rate Notes that will remain outstanding immediately after such redemption.

Covenants and Events of Default

The 2022 Indenture contains a number of covenants that, among other things, restrict, subject to certain exceptions, the ability of DGHL, the Issuer and the Restricted Subsidiaries to:

(1) incur or guarantee additional indebtedness;

(2) make investments or other restricted payments;

(3) pay dividends or make other distributions or purchase or redeem stock;

(4) enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends;

(5) transfer or sell assets;

(6) engage in transactions with affiliates;

(7) create or permit to exist liens on assets to secure indebtedness; and

(8) impair or consolidate with or into another company.

Each of these covenants is subject to significant exceptions and qualifications.

In addition, the 2022 Indenture imposes certain requirements as to future subsidiary guarantors, including an affirmative undertaking in relation to guarantor coverage (by reference to 80 per cent. of consolidated EBITDA and our consolidated total assets), subject to certain exceptions, and contains certain customary events of default.

Governing Law

The 2022 Indenture and the 2022 Fixed Rate Notes, and the rights and duties of the parties thereunder, will be governed by and construed in accordance with the laws of the State of New York.

Senior Facilities Agreement

We entered into a revolving credit facility agreement on 20 December 2012 between, among others, Drax Power, Barclays Bank PLC as facility agent and Drax Corporate Limited which was amended and restated pursuant to an amendment and restatement agreement on 21 April 2017, with effect from 5 May 2017 (as amended and restated, the "**Senior Facilities Agreement**"). The Senior Facilities Agreement comprises a £315 million committed multicurrency working capital and ancillary facility, including, without limitation, a letter of credit facility (the "**Revolving Facility**") and a £35 million term facility (the "**Term Loan**"). The Revolving Facility can be drawn in pound sterling, euro or US dollars. The Term Loan was fully drawn on 5 May 2017.

The original borrower under the Senior Facilities Agreement is Drax Corporate Limited. The Senior Facilities Agreement provides for the flexibility of acceding (and subsequently resigning) subsidiaries of DGHL incorporated in the UK or in the US (subject to certain customary conditions) as additional borrowers.

Purpose

Each loan under the Revolving Facility may be used (i) to provide cash collateral in favour of certain permitted counterparties; (ii) to provide cash cover in favour of an issuing bank of a letter of credit or in respect of an ancillary facility under the Senior Facilities Agreement; and (iii) for the other general corporate purposes of the Group, including, but not limited to, financing working capital requirements. There is a separate sub-limit of £200 million on cash drawings for general corporate purposes under limb (iii) above.

Interest and Fees

Interest is payable under the Revolving Facility at a rate of LIBOR or, in the case of loans in euro, EURIBOR (in each case subject to a zero floor) plus the applicable margin. Save for in circumstances where an event of default has occurred and is continuing or the borrower has failed to notify the facility agent of a change in rating, the applicable margin is determined by reference to a ratings matrix, ranging from a maximum of 2.75 per cent. where the rating of the debt incurred under the Revolving Facility is BB-/Ba3 or lower to a minimum of 1.25 per cent. where such rating is BBB/Baa2 or higher.

A commitment fee is payable quarterly in arrear on the available but unused commitments under the Revolving Facility at a rate of 35 per cent. of the applicable margin. A utilisation fee is payable quarterly in arrear at a rate of (i) 0.20 per cent. per annum for each day on which the aggregate amount of the utilised commitments under the Revolving Facility exceeds 50 per cent. of the total commitments under the Revolving Facility; or (ii) 0.40 per cent. per annum for each day on which the aggregate amount of the utilised commitments under the Revolving Facility exceeds 75 per cent. of the total commitments under the Revolving Facility.

Interest is payable under the Term Loan at a rate calculated by multiplying a fixed rate of 4.158 per cent. per annum by the index ratio applicable to the relevant interest payment date multiplied by the outstanding principal amount of the Term Loan. The relevant index for calculation of the index ratio is the Non-revised Retail Price Index All Items in the United Kingdom as published by the Office of National Statistics.

Availability and Maturity

The Revolving Facility is available to be drawn until one month prior to the final maturity date and letters of credit may be issued up until the final maturity date (in each case, as such may be extended). The Revolving Facility has an initial maturity date of 30 April 2021, with an option to extend to 30 April 2022. The Term Loan has a maturity date of 31 March 2022.

The Revolving Facility may be utilised by way of letter of credit, reducing the amount available for cash drawings under the Revolving Facility by an amount equivalent to the letters of credit issued.

Prepayment

The Senior Facilities Agreement contains customary provisions for the prepayment and cancellation of a particular lender's commitments in the case of a defaulting lender, additional payments being charged for tax reasons or increased costs.

Subject to certain conditions, the borrowers under the Revolving Facility may voluntarily prepay their utilisations or permanently cancel all or part of the available commitments under the Revolving Facility. Amounts voluntarily prepaid may be re-borrowed during the availability period applicable to the Revolving Facility. Subject to certain conditions, the borrower of the Term Loan may voluntarily prepay all or part of the Term Loan at an amount equal to the principal amount so prepaid multiplied by the index ratio as at the relevant prepayment date, plus a make-whole amount (as described below).

Subject to certain thresholds and other qualifications, there are mandatory prepayments required to be made in respect of the Senior Facilities upon the occurrence of certain events such as change of control, illegality and sale of all or substantially all of the assets of the Group. The Senior Facilities Agreement also contains provisions for mandatory prepayment on the occurrence of a Note Purchase Condition, as described below. There is also a mandatory prepayment required to be made in respect of the Term Loan in the event that the applicable index ceases to be published and no appropriate successor index can be determined. The applicable make-whole amount, as described further below, is payable in respect of prepayments under the Term Loan.

The Senior Facilities Agreement provides that no members of the Group may repay, purchase, defease or redeem (or otherwise retire for value) any of the 2022 Notes using the proceeds of an Asset Disposition unless:

- either:
  - the aggregate principal amount of all 2022 Notes prepaid, purchased, defeased, redeemed (or otherwise retired for value) or acquired since the issue date of those notes (5 May 2017) is less than or equal to 50% of the aggregate principal amount of the 2022 Notes issued as of the issue date; or
  - to the extent that members of the Group make prepayments, purchases, defeasances, redemptions (or other retirements for value) or acquisitions that in the aggregate exceed 50% of the aggregate principal amount of the 2022 Notes issued as of the issue date of those notes, the Group is obligated to match the prepayment, purchase, defeasance, redemption (or other retirement for value) by a simultaneous cancellation and, if necessary, repayment of an equal amount under the Senior Facilities Agreement in order that the total commitments under the Senior Facilities Agreement are reduced by the same proportion as the debt so repurchased relative to aggregate principal amount of 2022 Notes issued as of the issue date; and
- no default continuing or resulting from the prepayment, purchase, defeasance, redemption (or other retirement for value).

The applicable make-whole amount in respect of prepayments under the Term Loan is calculated by reference to the excess, if any, of the discounted value of the remaining scheduled payments of principal and interest under the Term Loan with respect to the principal amount prepaid, over the amount of such principal prepaid. The applicable discount factor is calculated by reference to the applicable percentage (which is determined by reference to the nature of the relevant prepayment) plus the yield to maturity of the specified reference gilt.

Undertakings and Covenants

The Senior Facilities Agreement contains certain negative undertakings that are substantially similar to those in the 2022 Indenture governing the 2022 Notes. The Senior Facilities Agreement also contains customary negative covenants, subject to certain agreed exceptions, including, but not limited to, (i) restrictions on change of business, (ii) centre of main interests, (iii) share capital, (iv) purchase or redemption of the 2022 Notes, (v) activities of DGHL, (vi) incurrence of certain indebtedness by non-obligor subsidiaries, (vii) certain disposals of assets to non-obligor subsidiaries, (viii) change to Drax Group plc's year end, and (ix) parameters of the Secured Trade Line. The Senior Facilities Agreement also requires each obligor to observe certain affirmative undertakings subject to materiality and other customary and agreed exceptions.

These affirmative undertakings include, but are not limited to, undertakings related to (i) compliance with relevant laws, rules and regulations (including environmental, sanctions and anti-corruption), (ii) payment of taxes, (iii) the delivery of certain financial statements, (iv) information reporting obligations in respect of the Secured Trading Line, (v) rating, (vi) notice of default and material litigation, (vii) right to request information relating to our financial condition, (viii) insurance, (ix) maintenance of assets, and (x) compliance with and maintenance of material authorisations. There is also an affirmative undertaking in relation to guarantor coverage (by reference to 85 per cent. of consolidated EBITDA and our consolidated total assets), subject to certain exceptions.

The Senior Facilities Agreement also requires us to ensure compliance with a financial covenant requiring our consolidated EBITDA for the prior 12-month period to be no less than £170 million as at any applicable semi-annual testing date. This covenant will be tested only where either: (i) drawings of cash within the £200 million sub-limit on cash drawings for general corporate purposes described above are 25 per cent. or more of the total commitments as at the relevant semi-annual testing date; or (ii) any Term Loan is outstanding.

Events of Default

The Senior Facilities Agreement contains customary events of default (subject in certain cases to agreed thresholds, grace periods and qualifications), including non-payment, breach of other obligations, misrepresentation, cross-default, insolvency, insolvency proceedings, creditors' process, cessation of business, effectiveness of finance documents, ownership of obligors and proceedings. In addition to these customary events of default, the Senior Facilities Agreement contains events of default reflective of the nature of our business, relating to the generation licence granted to Drax Power pursuant to the Electricity Act 1989, nationalisation, and the Secured Trading Line. At any time after the occurrence of an event of default, the facility agent may, and on the instruction of majority lenders must, cancel all or any part of the total commitments and/or declare that amounts outstanding are immediately due and payable and/or payable on demand. In addition, after the occurrence of an event of default following a breach of the financial covenant described above, the lenders under the Term Loan and the majority lenders under the Revolving Facility each have a separate right (in respect of the Term Loan and the Revolving Facility, respectively) to cancel all or any part of the commitments and/or declare that amounts outstanding are immediately due and payable and/or payable on demand.

Security, Guarantee and Indemnity

The Senior Facilities are secured by the same Collateral as for the Notes and the 2022 Notes as set out under "*Description of Notes—Security*".

Under the terms of the Intercreditor Agreement, the proceeds from any distressed disposal and from any enforcement of the Collateral will be applied to repayment of the Senior Facilities and certain hedging obligations (including our obligations under the Secured Trading Line in priority to repayment of the Notes (and the 2022 Fixed Rate Notes)).

The provision and the terms of the Collateral will in all cases be subject to certain limitations and are at all times and in all cases subject to the requirements of applicable law and the other matters set out in the Senior Facilities Agreement. Please see "*Risk Factors—Risks Related to the Notes, the Guarantees and Our Capital Structure—Each Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defences that may limit its validity and enforceability*".

The Senior Facilities are guaranteed by the Guarantors (other than Drax Corporate Limited) and the Issuer. Each guarantor under the Senior Facilities Agreement irrevocably and unconditionally jointly and severally:

- guarantees to each finance party punctual performance by each other obligor of all that obligor's obligations under the Senior Facilities Agreement;
- undertakes with each finance party that whenever another obligor does not pay any amount when due under or in connection with any finance document relating to the Senior Facilities Agreement, that Guarantor shall immediately on demand pay that amount as if it were the principal obligor; and
- indemnifies each finance party immediately on demand against any cost, loss or liability suffered by that finance party if any amount claimed by a finance party under the guarantee is not recoverable from the guarantor on the basis of the guarantee. The amount of the cost, loss or liability shall be equal to the amount which that finance party would otherwise have been entitled to recover.

Governing Law

The Senior Facilities Agreement is governed by and construed and enforced in accordance with English law, although the incurrence covenants contained therein, which largely replicate the relevant covenants from the Notes, shall be interpreted in accordance with the laws of the State of New York.

Agreed Security Principles

The Agreed Security Principles embody recognition by all parties to the Senior Facilities Agreement that there may be certain legal and practical difficulties in obtaining security and guarantees from all the guarantors under the Senior Facilities Agreement in every jurisdiction in which such guarantors are incorporated. The Agreed Security Principles provide that guarantees will not be given and security shall not be granted in certain circumstances, in particular to the extent that:

- it would result in a breach of general statutory limitations, financial assistance, corporate benefit, fraudulent preference, "thin capitalisation", "earnings stripping", "controlled foreign corporation", transfer pricing, capital maintenance, retention of title claims and similar principles, laws or regulations;

- it would result in costs (including tax disadvantages) to the Group that would be disproportionate to the benefit accruing to the secured parties;
- the relevant assets are subject to third party arrangements which prevent those assets from being charged or would give a third party termination or other rights in respect of arrangements relating to those assets; or
- it is not within the legal capacity of the relevant member of the Group or would conflict with any relevant fiduciary duties or contravene any legal or regulatory prohibition.

The Agreed Security Principles also set out certain additional factors which will apply when determining the extent of the guarantees and the security to be provided and certain additional principles which will be reflected in any security taken.

Secured Trading Line and Hedging

Drax Power has entered into ISDA agreements (the "**STL Master Agreements**") with a number of financial institutions (the "**STL Counterparties**"), under which Drax Power can trade UK power, dark green spreads and gas on a senior secured basis without the requirement for Drax Power to post collateral (the "**Secured Trading Line**"). Certain minimum rating requirements are imposed on the STL Counterparties under the ISDA agreements, and STL Counterparties that fail to meet such requirements shall post collateral to Drax Power to the extent of any exposure Drax Power faces on transactions with that STL Counterparty.

The tradable volumes and maximum exposure permitted under the Secured Trading Line are set on a seasonal basis, based upon parameters set out in the Senior Facilities Agreement. Trading is limited at any time to five consecutive six-monthly seasons, commencing with winter 2017/18 and subject to extension by Drax Power at its discretion at the end of each season, within the parameters of the Senior Facilities Agreement. Under the terms of the Senior Facilities Agreement, the potential future exposure under the Secured Trading Line for each combination of tradable products must be less than £200 million as determined on a seasonal basis, with the maximum seasonal trading volume being up to 600MW (or equivalent). The £200 million cap, for each combination of tradable products, remains in effect to control the voting rights of the STL Counterparties only, and does not limit their super senior secured claims under the STL, which will be determined in accordance with the terms of the underlying STL documents and which are uncapped.

Potential future exposure under the Secured Trading Line is calculated on the basis of the net aggregate mark-to-market exposure of all transactions entered into under the Secured Trading Line and the net aggregate forecast mark-to-market exposure as if the maximum seasonal trading volume were to be traded for each of the relevant seasons. However, the actual day-to-day level of exposure will fluctuate and may cross the £200 million threshold should the forecast exposure fall short of actual levels.

The STL Counterparties' right to terminate all or any part of a transaction entered into with Drax Power under the relevant STL Master Agreement is prescribed by the Intercreditor Agreement and the Senior Facilities Agreement. These extend beyond the usual termination rights under an ISDA agreement, for instance the right to terminate if Drax Power enters into a transaction under the STL Master Agreement which results in the maximum seasonal trading volume threshold being exceeded.

The STL Counterparties benefit from the same Collateral as the 2022 Notes and the Senior Facilities Loan, and such Collateral will also secure the Notes as referred to above and set out under "*Description of Notes—Security*".

In addition, we have outstanding currency rate hedging arrangements and have the ability to enter into additional currency, interest rate and inflation rate hedging arrangements on a secured basis, with the Hedge Counterparties also benefiting from the same Collateral as referred to above.

These arrangements are in addition to any commodities and/or currency and interest rate trading that we undertake on an unsecured and/or title transfer collateral basis.

Drax Biomass Inc. Uncommitted Line of Credit

Pursuant to an uncommitted line of credit agreement dated 7 April 2017, which was further extended by agreements dated 18 January 2018 and 21 March 2018, Bank of America N.A. makes available to Drax Biomass Inc. a US$15 million uncommitted line of credit. As of 31 December 2017, the total facility size was US$25 million. As at the date of this Offering Memorandum, the uncommitted line of credit was fully drawn. Proceeds of any loans under the uncommitted line of credit are to be used for general working capital purposes.

Interest is payable on loans under the uncommitted line of credit at a rate per annum initially equal to the applicable LIBOR plus 250 basis points. The interest rate is subject to change at the lender's sole discretion at any time. The uncommitted line of credit matures on 30 June 2018 and may be terminated early in the case of a payment default by, or insolvency, bankruptcy or similar proceeding being filed by or against, Drax Biomass Inc. The uncommitted line of credit is supported by a comfort letter from Drax Group plc.

Intercreditor Agreement

General

In connection with the issuance of the 2022 Notes (the "**Senior Secured Notes**") and the entering into the Senior Facilities Agreement, the Issuer, the Guarantors and certain other subsidiaries of the Issuer entered into an intercreditor agreement on 5 May 2017 to govern the relationships and relative priorities among: (i) Deutsche Bank AG, London Branch acting as security agent for the secured parties (the "**Security Agent**"); (ii) Barclays Bank plc acting as agent under the Senior Facilities Agreement (the "**Original Credit Facility Agent**"); (iii) the lenders under the Senior Facilities Agreement (the "**Original Lenders**"); (iv) the trustee under the 2022 Indenture, on its behalf and on behalf of the holders of the Senior Secured Notes (the "**Senior Secured Noteholders**") (the "**Senior Secured Notes Trustee**"); (v) the counterparties to certain hedging arrangements (the "**Hedging Agreements**"), such persons being referred to in such capacity as the "**Hedge Counterparties**"; (vi) the counterparties to certain Secured Trading Line arrangements (the "**STL Agreements**"), such persons being referred to in such capacity as the "**STL Counterparties**"; (vii) Intra-Group creditors and debtors; (viii) Drax Group plc (the "**Parent**") and the Group; and (ix) those persons who accede to the Intercreditor Agreement in accordance with its terms.

The Trustee, on its behalf and on behalf of the holders of the Notes (the "**Noteholders**"), will accede to the Intercreditor Agreement on or around the Issue Date.

DGHL and each of its subsidiaries that incurs liabilities above a prescribed limit or provides any guarantee under the Senior Facilities Agreement or the Indenture are each referred to in this description as a "**Debtor**" and are referred to collectively as the "**Debtors**".

The Intercreditor Agreement sets out:

- the relative ranking of certain indebtedness of the Debtors;
- the relative ranking of certain security granted by the Debtors;
- when payments can be made in respect of certain indebtedness of the Debtors;
- when enforcement actions can be taken in respect of that indebtedness;
- the terms pursuant to which that indebtedness will be subordinated upon the occurrence of certain insolvency events;
- provisions in respect of control of the enforcement process (if undertaken);
- turnover provisions; and
- when security and guarantees will be released to permit a sale of any assets subject to transaction security (the "**Collateral**").

For the purposes of this section only:

- the Senior Facilities Agreement and "**Credit Facility**" means, on or prior to the later of the date on which (i) the Senior Facilities Agreement, and (ii) any additional credit facility (an "**Additional Credit Facility**") not prohibited under the Indenture and entered into with the consent of the Original Lenders, is discharged (the "**Original Lender Discharge Date**"), the Senior Facilities Agreement and any Additional Credit Facility, and thereafter, any credit facility as permitted under the Pari Passu Debt Documents (as defined below);
- the "**Group**" means Drax Group Holdings Limited ("**DGHL**") and its Restricted Subsidiaries; and
- "**Creditor Representative**" means:
  - in relation to certain of the Original Lenders, the Original Credit Facility Agent;
  - in relation to the Credit Facility lenders under any other Credit Facility, the facility agent (or equivalent) in respect of that Credit Facility;

- in relation to the Senior Secured Noteholders, the Senior Secured Notes Trustee; and
- in relation to any other Pari Passu Creditors (as defined below), the entity that accedes to the Intercreditor Agreement as the "Creditor Representative" of such Pari Passu Creditors.

The Intercreditor Agreement contains provisions relating to future indebtedness that may be incurred by the Issuer and the Guarantors that is permitted by the Intercreditor Agreement, the Hedging Agreements, the STL Agreements, any Finance Document under and as described in the Credit Facility Agreement (the "**Credit Facility Documents**"), the Pari Passu Debt Documents (as defined below), the Security Documents (as defined below) and any agreement evidencing the terms of any Parent Liabilities (as defined below) or Intra-Group Liabilities as well as any document designated as such by the applicable Security Agent and DGHL (together, the "**Debt Documents**") that are not subordinated in right of payment to any Super Senior Liabilities (as defined below) or the Pari Passu Liabilities (as defined below), to be secured by the Collateral, subject to the terms of the Intercreditor Agreement.

Such future indebtedness may be incurred pursuant to an indenture or a facility agreement, and with the Senior Secured Indenture are referred to as "**Pari Passu Debt Agreements**". Each document required to implement the issuance of Senior Secured Notes (the "**Senior Secured Note Documents**") and such future indebtedness (together with the Senior Secured Note Documents, the "**Pari Passu Debt Documents**") evidence the liabilities owed by the Debtors to the holders of the Senior Secured Noteholders (the "**Senior Secured Note Liabilities**") and creditors (together with the Senior Secured Noteholders, the "**Pari Passu Creditors**") under such future indebtedness (together with the Senior Secured Note Liabilities, the "**Pari Passu Liabilities**").

On accession by the Trustee to the Intercreditor Agreement, the Indenture will form part of the Pari Passu Debt Agreements and each document required to implement the issuance of the Notes will form part of the Pari Passu Debt Documents. The Noteholders will be Pari Passu Creditors and the liabilities owed by the Debtors to the Noteholders will form part of the Pari Passu Liabilities.

The liabilities owed by the Debtors to creditors under the Super Senior Documents (as defined below) are referred to as the "**Super Senior Liabilities**", and the creditors under those documents are referred to as the "**Super Senior Creditors**".

The Intercreditor Agreement contains provisions empowering the Security Agent to appoint a delegate or co-security agent to perform its obligations under the Intercreditor Agreement.

Unless expressly stated otherwise in the Intercreditor Agreement, the provisions of the Intercreditor Agreement override anything in the Credit Facility Documents, the Hedging Agreements and STL Agreements (together, the "**Super Senior Documents**") or the Pari Passu Debt Documents. By accepting a Note, holders of the Notes shall be deemed to have agreed to, and accepted the terms and conditions of, the Intercreditor Agreement and to have authorised the Trustee of the Notes to enter into the Intercreditor Agreement on their behalf.

The following description is a summary of certain provisions, among others, contained in the Intercreditor Agreement. It does not restate the Intercreditor Agreement in its entirety, and we urge you to read that document because it, and not the description that follows, defines your rights as holders of the Notes.

Ranking and Priority

Subject to the terms of the Intercreditor Agreement, the liabilities owed by Debtors to the Super Senior Creditors and the Pari Passu Creditors (the "**Primary Creditors**") shall rank in right and priority of payment *pari passu* and without any preference between them. The liabilities owed by the Debtors to the Parent or intra-Group shall be postponed and subordinated to the liabilities owed by the Debtors to the Primary Creditors. The Intercreditor Agreement does not purport to rank any of the liabilities owed by the Debtors to the Parent or intra-Group as between themselves. Subject to the order of payment set out in "*—Application of Proceeds*", nothing in the Intercreditor Agreement prevents payment by the Parent or any Debtor of fees, costs and expenses payable to Creditor Representatives (the "**Creditor Representative Amounts**").

Transaction Security

The parties to the Intercreditor Agreement will agree in the Intercreditor Agreement that the security provided by the Debtors and the Parent for the Super Senior Liabilities and the Pari Passu Liabilities (the "**Transaction Security**") will, subject to the order of payment set out under "*—Application of Proceeds*", rank and secure all such liabilities *pari passu* and without any preference between them. The Transaction Security will be subject to customary limitations on security as set out under "*—Agreed Security Principles*".

Application of Proceeds

All amounts from time to time received or recovered by the Security Agent pursuant to the terms of any Debt Document or in connection with the realisation or enforcement of all or any part of the Transaction Security shall be held by the Security Agent on trust and applied in the following order of priority:

(a) in discharging any sums owed to the Security Agent, any receiver or delegate and in payment of the Creditor Representative Amounts to the Creditor Representatives;

(b) in discharging all costs and expenses incurred by any Primary Creditor in connection with any realisation or enforcement of the Transaction Security taken in accordance with the terms of the Intercreditor Agreement or any action taken at the request of the Security Agent;

(c) in payment or distribution to:

(i) each Creditor Representative in respect of any liabilities owed by any Debtor under the Credit Facility Documents (the "**Credit Facility Liabilities**");

(ii) the Hedge Counterparties in respect of any liabilities owed by any Debtor under the Hedging Agreements (the "**Hedging Liabilities**"); and

(iii) the STL Counterparties in respect of any liabilities owed by any Debtor under the STL Agreements (the "**STL Liabilities**"),

for application towards the discharge of:

(iv) the Credit Facility Liabilities (in accordance with the terms of the Credit Facility Documents) on a *pro rata* basis between the Credit Facility Liabilities incurred under separate Credit Facility Agreements;

(v) the Hedging Liabilities (on a *pro rata* basis between the Hedging Liabilities of each Hedge Counterparty); and

(vi) the STL Liabilities (on a *pro rata* basis between the STL Liabilities of each STL Counterparty),

on a *pro rata* basis between paragraph (A), paragraph (B) and paragraph (C) above;

(d) in payment or distribution to the Creditor Representatives in respect of any Pari Passu Liabilities on its own behalf and on behalf of the Pari Passu Creditors for which it is the Creditor Representative for application towards the discharge of:

(i) the Pari Passu Liabilities (in accordance with the terms of the relevant Pari Passu Debt Documents) on a *pro rata* basis between Pari Passu Liabilities under separate Pari Passu Facility Agreements; and

(ii) the Pari Passu Liabilities (in accordance with the terms of the relevant Pari Passu Debt Documents) on a *pro rata* basis between Pari Passu Liabilities under separate Pari Passu Note Indentures,

on a *pro rata* basis between paragraph (i) and paragraph (ii) above;

(e) if none of the Debtors is under any further actual or contingent liability under any Super Senior Document or Pari Passu Debt Document, in payment or distribution to any person to whom the Security Agent is obliged to pay or distribute in priority to any Debtor; and

(f) the balance, if any, in payment or distribution to the relevant Debtor or other person entitled to it (which other person shall include the trustees of the Drax Pension Scheme where required pursuant to the Pension Trustee Priority Deed).

Permitted Payments

Permitted Payments: Credit Facility Liabilities and Pari Passu Debt Liabilities

The Intercreditor Agreement permits the Debtors to make payments in respect of the Credit Facility Liabilities and the Pari Passu Debt Liabilities (which includes the Senior Secured Note Liabilities) at any time in accordance with the terms of the relevant Debt Documents if at the time of payment no acceleration event has occurred, at which point payments may only be made from the proceeds of enforcement in the order of payment set out in "—*Application of Proceeds*" other than any distribution or dividend out of any Debtor's unsecured asset (*pro rata* to each unsecured creditor's claim) made by a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer appointed in respect of any Debtor or any of its assets.

Permitted Payments: Hedging Liabilities

(a) Prior to the Credit Facility Lender Discharge Date as defined in the Intercreditor Agreement (the "**Credit Facility Lender Discharge Date**"), the Debtors may not pay, and no Hedge Counterparty may receive and retain payment of, any amount under a Hedging Agreement unless the payment is due and payable under that Hedging Agreement and made in accordance with the Intercreditor Agreement. On or following an acceleration event, if any amount (following application of payment netting, close-out netting and cross-affiliate netting) falls due from a Hedge Counterparty to any Debtor under the Hedging Agreements, that amount shall be paid to the Security Agent and applied in accordance as set out in *"—Application of Proceeds*". Following the occurrence of an acceleration event, no member of the Group may make payments of the Hedging Liabilities except from enforcement proceeds distributed as set out in *"—Application of Proceeds*" other than any distribution or dividend out of any Debtor's unsecured asset (*pro rata* to each unsecured creditor's claim) made by a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer appointed in respect of any Debtor or any of its assets. The Intercreditor Agreement prevents the Hedge Counterparties and the Debtors, prior to the Credit Facility Lender Discharge Date, terminating or closing out any part of any hedging transaction prior to its originally stated maturity date unless it is able to do so under the relevant Hedging Agreement or with the agreement of the other party thereto and:

   (i) (***Non-payment***) the termination or close-out is by a Hedge Counterparty in circumstances where any Hedging Liabilities have not been paid to that Hedge Counterparty on the due date for payment under that Hedging Agreement and the non-payment has not been remedied or waived (x) within 10 business days after the Hedge Counterparty gave notice of the non-payment in writing to the Security Agent and the Debtor which failed to make the payment, and (y) by the time of such termination or close-out;

   (ii) (***Overhedging***) the net aggregate amount of notional amounts of any interest rate Hedging Transactions is in respect of any secured obligations exceeds 100 per cent. of the principal amount of all loans, notes, bonds or other similar debt instruments other than drawings by way of "Letters of Credit" as defined in the Credit Facility Agreement (in each case which carries a floating rate of interest), outstanding in respect of that Secured Obligation (such excess, the "**Overhedged Amount**"), in which case:

      (A) the relevant Debtor may terminate all or any part of the relevant Overhedged Amount; and

      (B) a Hedge Counterparty may terminate such proportion of the Overhedged Amount (not otherwise terminated pursuant to paragraph (A) above within three business days of the Hedge Counterparty giving notice to the relevant Debtor of its intention to terminate pursuant to this paragraph (B)) as the net aggregate of notional amounts of its interest rate Hedging Transactions in respect of that Secured Obligation bears to the net aggregate of the notional amounts of all interest rate Hedging Transactions in respect of that Secured Obligation;

   (iii) (***Refinancing***) the termination or close-out occurs on or immediately following a refinancing (or repayment) and cancellation in full of any Credit Facility Liabilities or Pari Passu Liabilities;

   (iv) (***Net Receipt by a Debtor***) subject to compliance by the Debtors with their obligations (if any) relating to hedging transactions in the Credit Facility Documents, if the termination or close-out of such hedging transaction (or such part thereof) is by a Debtor and would result in a net termination or close-out amount in respect of such termination or close-out being payable to the relevant Debtor;

(v) (***Other termination by a Debtor***) subject to compliance by the relevant Debtor with its obligations (if any) relating to hedging transactions under the Credit Facility Documents, the termination or close-out is by a Debtor and:

(A) an event of default (however described) has occurred and is continuing in respect of the Hedge Counterparty (or the Hedge Counterparty's "Credit Support Provider" (as defined in the relevant Hedging Agreement), if any) under the relevant Hedging Agreement;

(B) an Additional Termination Event (as defined in the relevant Hedging Agreement) has occurred and is continuing as a result of the relevant Hedge Counterparty failing to procure the provision of a guarantee, collateral or other credit support document in accordance with the terms of the relevant Hedging Agreement; or

(C) is made with the consent of the relevant Hedge Counterparty;

(vi) (***Following a Distress Event***) if a Distress Event has occurred;

(vii) (***Following certain Termination Events***) if the payment arises from a termination or close-out in respect of an Affected Transaction (as defined the relevant Hedging Agreement) as a result of *force majeure* with respect to that hedging transaction, such as an Illegality, Tax Event, Tax Event Upon Merger or Force Majeure Event (each as defined in the relevant Hedging Agreement);

(viii) (***Bankruptcy***) if the relevant Debtor's obligation to make the payment arises as a result of a close-out or termination instituted by the Hedge Counterparty and an event of default has occurred and is continuing under the relevant Hedging Agreement as a result of an event or circumstance described in:

(A) section 5(a)(vii) (*Bankruptcy*) of the 1992 ISDA Master Agreement (if the relevant Hedging Agreement is based on a 1992 ISDA Master Agreement);

(B) section 5(a)(vii) (*Bankruptcy*) of the 2002 ISDA Master Agreement (if the relevant Hedging Agreement is based on a 2002 ISDA Master Agreement); and

(C) any provision of a Hedging Agreement which is similar in meaning and effect to any provision listed in paragraphs (A) or (B) above (if the Hedging Agreement is not based on an ISDA Master Agreement);

(ix) (***Instruction from the Security Agent***) if the termination or close-out is by a Hedge Counterparty and the Security Agent has instructed it to terminate or close-out in accordance with paragraph (b) below; or

(x) if, prior to a Distress Event (as defined below), DGHL has certified to the Hedge Counterparty that that termination or close-out would not result in a breach of any term of a Credit Facility Document or a Pari Passu Debt Document.

(b) Prior to the Credit Facility Lender Discharge Date, a Hedge Counterparty must not demand or receive payment for, and the Debtors will not pay or otherwise discharge, any of the Hedging Liabilities in cash or in kind except for:

(i) scheduled payments due under and in accordance with the Hedging Agreements paid by the Debtors in cash;

(ii) payments to the extent that the relevant Debtor's obligation to make the payment arises as a result of the operation of:

(A) any of sections 2(d) (*Deduction or Withholding for Tax*), 2(e) (*Default Interest; Other Amounts*), 8(a) (*Payment in the Contractual Currency*), 8(b) (*Judgments*) and 11 (*Expenses*) of the 1992 ISDA Master Agreement (if the Hedging Agreement is based on a 1992 ISDA Master Agreement);

(B) any of sections 2(d) (*Deduction or Withholding for Tax*), 8(a) (*Payment in the Contractual Currency*), 8(b) (*Judgments*), 9(h)(i) (*Prior to Early Termination*) and 11 (*Expenses*) of the 2002 ISDA Master Agreement (if the Hedging Agreement is based on a 2002 ISDA Master Agreement); or

(C) any provision of a Hedging Agreement which is similar in meaning and effect to any provision listed in paragraphs (A) or (B) above (if the Hedging Agreement is not based on an ISDA Master Agreement);

(iii) payments due out of the proceeds of enforcement of the security in accordance with the terms of the Intercreditor Agreement; or

(iv) payments due under the relevant Hedging Agreement in relation to any termination or close-out permitted as set out above,

and provided that:

(a) subject to sub-paragraph (b) below, in the event of any termination or close-out by a Hedge Counterparty pursuant to paragraph (a)(i) (*Non-payment*), above, which results in a termination or closeout amount payable by the relevant Debtor (after the application of close-out netting) which exceeds £20 million (or its currency equivalent), without prejudice to the Hedge Counterparty's right to demand payment, the Debtors must not pay or otherwise discharge, and the Hedge Counterparty must not receive payment for, such termination or close-out amount unless and until 10 business days have elapsed from the date of such termination or close-out; and

(b) on or following the occurrence of a Distress Event, without prejudice to a Hedge Counterparty's right to demand payment, no Hedging Liabilities shall be paid or otherwise discharged (in the case of an insolvency event, to the extent the Hedging Liabilities are owed by the insolvent Debtor) except pursuant to the receipt of payments referred to in sub-paragraph (iii) above and, in the event of any such payment or discharge other than pursuant to the receipt of payments referred to in sub-paragraph (iii) above, the turnover arrangements in the Intercreditor Agreement shall apply.

(c) Prior to the Credit Facility Lender Discharge Date, a Hedge Counterparty must not make any demand against a Debtor in relation to any guarantee, indemnity or other assurance against loss received by that Hedge Counterparty in respect of the Hedging Liabilities owing to it (other than any indemnity contained in an ISDA Master Agreement), before the termination or close-out of all hedging transactions of that Hedge Counterparty.

(d) Prior to the Credit Facility Lender Discharge Date, no Hedge Counterparty or Debtor may, subject to paragraph (e) below, allow any Hedging Liabilities or any amounts owing from a Hedge Counterparty to a Debtor under or in connection with the Hedging Agreements to which they are a party to be discharged by set-off, any right of combination of accounts or otherwise.

(e) Paragraph (d) above does not apply to any such discharge:

(i) pursuant to the exercise of any payment netting, close-out netting or cross-affiliate netting;

(ii) pursuant to the exercise by a Debtor of any right of set-off or netting:

(A) in circumstances where an event of default (however described) has occurred in respect of that Hedge Counterparty (or that Hedge Counterparty's "Credit Support Provider" (as defined in the relevant Hedging Agreement), if any) under the Hedging Agreements to which it is a party and where no event of default (however described) is outstanding under the Credit Facility Documents or Pari Passu Debt Documents; and

(B) other than against any Credit Facility Debt or Pari Passu Debt owing to that Hedge Counterparty,

and, for the purposes of sub-paragraph (A) above, a Hedge Counterparty shall be entitled to assume that no event of default (however described) is outstanding under the Credit Facility Documents or Pari Passu Debt Documents unless and until it has received written notice of an event of default from a Debtor or from the Security Agent; or

(iii) following an acceleration event, pursuant to the exercise by the Security Agent or by a Debtor at the request of the Security Agent or by the Hedge Counterparty (in each case if the Majority Super Senior Creditors (as defined below) have consented) of any right of set-off or netting of a Debtor or Hedge Counterparty.

"**Majority Super Senior Creditors**" means, at any time, those Super Senior Creditors whose credit participations with respect to Super Senior Liabilities at that time aggregate more than 50 per cent. of the total credit participations with respect to Super Senior Liabilities at that time.

"**Majority Pari Passu Creditors**" means, at any time, those Pari Passu Creditors whose credit participations with respect to Pari Passu Liabilities at that time aggregate more than 50 per cent. of the total credit participations with respect to Pari Passu Liabilities at that time.

Permitted Payments: STL Liabilities

(a) Prior to the Credit Facility Lender Discharge Date, the Debtors may not pay, and no STL Counterparty may receive and retain payment of, any amount under a STL Agreement unless the payment is due and payable under that STL Agreement and made in accordance with the Intercreditor Agreement. On or following an acceleration event, if any amount (following application of payment netting, close-out netting and cross-affiliate netting) falls due from a STL Counterparty to any Debtor under the STL Agreements, that amount shall be paid to the Security Agent and applied in accordance the provisions of the Intercreditor Agreement as set out in *"—Application of Proceeds*". Following the occurrence of an acceleration event, no member of the Group may make payments of the STL Liabilities except from enforcement proceeds distributed as set out in *"—Application of Proceeds*" other than any distribution or dividend out of any Debtor's unsecured asset (*pro rata* to each unsecured creditor's claim) made by a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer appointed in respect of any Debtor or any of its assets. The Intercreditor Agreement prevents the STL Counterparties and the Debtors, prior to the Credit Facility Lender Discharge Date, terminating or closing out any part of any hedging transaction prior to its originally stated maturity date unless it is able to do so under the relevant STL Agreement or with the agreement of the other party thereto and:

(i) (***Non-payment or non-delivery***) the termination or close-out is by a STL Counterparty in circumstances where any STL Liabilities have not been paid or any delivery under a STL Agreement has not been made to that STL Counterparty on the due date for payment or delivery under that STL Agreement and the non-payment or non-delivery has not been remedied or waived (x) within 10 business days after the STL Counterparty gave notice of the non-payment or non-delivery in writing to the Security Agent and the Debtor which failed to make the payment, and (y) by the time of such termination or close-out;

(ii) (***Net receipt by a Debtor***) the termination or close-out is by a Debtor and would result in a net termination or close-out amount in respect of such termination or close-out being payable to the relevant Debtor;

(iii) (***Other termination by a Debtor***) the termination or close-out is by a Debtor and an event of default (however described) has occurred and is continuing in respect of the STL Counterparty (or that STL Counterparty's Credit Support Provider (as defined in the relevant STL Agreement), if any) under the relevant STL Agreement;

(iv) (***Following a Distress Event***) the termination or close-out is by a STL Counterparty and a Distress Event has occurred;

(v) (***Following certain Termination Events***) the termination or close-out is in respect of an Affected Transaction (as defined in the relevant STL Agreement) as a result of *force majeure* with respect to that hedging transaction, such as an Illegality, Tax Event, Tax Event Upon Merger or Force Majeure Event (each as defined in the relevant STL Agreement);

(vi) (***Bankruptcy***) the termination or close-out is by a STL Counterparty and an event of default (however described) has occurred and is continuing under the relevant STL Agreement as a result of an event or circumstance described in:

(A) section 5(a)(vii) (*Bankruptcy*) of the 1992 ISDA Master Agreement (if the relevant STL Agreement is based on a 1992 ISDA Master Agreement);

(B) section 5(a)(vii) (*Bankruptcy*) of the 2002 ISDA Master Agreement (if the relevant STL Agreement is based on a 2002 ISDA Master Agreement); and

(C) any provision of a STL Agreement which is similar in meaning and effect to any provision listed in paragraphs (A) or (B) above (if the STL Agreement is not based on an ISDA Master Agreement);

(vii) (***Other termination by a STL Counterparty***) the termination or close-out is by a STL Counterparty and an Additional Termination Event (as defined in the relevant STL Agreement) has occurred and is continuing under the relevant STL Agreement as a result of:

(A) (***Relevant Intercreditor Agreement undertakings***) a failure by a Debtor to comply with certain of its obligations with respect to Intra-Group liabilities or Parent Liabilities, provided that such failure is continuing after 30 days have elapsed from the date the STL Counterparty first notified the Security Agent and the relevant Debtor in writing of such failure;

(B) (***Illegality in respect of the Security Documents or the Intercreditor Agreement***) it being or becoming unlawful for any Debtor or DGHL to perform any of its material obligations under the security documents or the Intercreditor Agreement, provided that 10 business days have elapsed from the date the STL Counterparty first notified the Security Agent and the relevant Debtor in writing of such event or circumstance;

(C) (***Invalidity***) any security document, the Intercreditor Agreement or a STL Agreement to which that STL Counterparty is a party not being effective in accordance with its terms or being alleged by a Debtor or DGHL to be ineffective in accordance with its terms for any reason (in each case other than as a result of any release of Transaction Security given by the Security Agent in accordance with the Intercreditor Agreement), provided that 10 business days have elapsed from the date the STL Counterparty first notified the Security Agent and the relevant Debtor in writing of such event or circumstance; or

(D) (***Repudiation***) any Debtor or DGHL repudiating a security document, the Intercreditor Agreement or a STL Agreement to which that STL Counterparty is a party or evidencing an intention to repudiate a security document, the Intercreditor Agreement or a STL Agreement to which that STL Counterparty is a party, provided that 10 business days have elapsed from the date the STL Counterparty first notified the Security Agent and the relevant Debtor in writing of such event or circumstance;

(viii) (***Instruction from the Security Agent***) the termination or close-out is by a STL Counterparty and the Security Agent has instructed it to terminate or close-out in accordance the terms of the Intercreditor Agreement;

(ix) if, prior to a Distress Event, DGHL has certified to the STL Counterparty that that termination or close-out would not result in a breach of any term of a Credit Facility Document or a Pari Passu Debt Document; or

(x) (***Other STL events***) the termination or close-out is:

(A) by a Debtor and is made with the consent of the STL Counterparty or in relation to remedying breach of any volume, capacity or hedging limit breach or any similar event;

(B) by a STL Counterparty and is made in relation to breach of any volume, capacity or hedging limit breach or any similar event or breach by a Debtor of any representation, information undertaking or other covenant or undertaking under a STL Agreement; or

(C) is expressly contemplated under the Senior Facilities Agreement (or the Next Credit Facility Agreement),

and, in each case, is permitted under the Senior Facilities Agreement (as in effect on or around the Issue Date or as may be amended with the consent of the STL Counterparties) or any equivalent provision in the Next Credit Facility Agreement provided that such equivalent provision is approved by the STL Counterparties.

For the purposes of this sub-paragraph (x), "**Next Credit Facility Agreement**" means the first other Credit Facility Agreement entered into after the Additional Credit Facility Lender/

Original Lender Discharge Date (as defined in the Intercreditor Agreement) in respect of which the Credit Facility Liabilities have not been fully and finally discharged to the satisfaction of the relevant Creditor Representative (acting reasonably) whether or not as the result of an enforcement, and/or the Credit Facility Lenders are under a further obligation to provide financial accommodation to any of the Debtors under the relevant Credit Facility Documents.

(b) Prior to the Credit Facility Lender Discharge Date, a STL Counterparty must not demand or receive payment for, and the Debtors will not pay or otherwise discharge, any of the STL Liabilities in cash or in kind except for:

(i) scheduled deliveries due under and in accordance with the STL Agreements, satisfied by the relevant Debtor by delivery;

(ii) scheduled payments due under and in accordance with the STL Agreements, paid by the relevant Debtor in cash;

(iii) payments to the extent that the relevant Debtor's obligation to make the payment arises as a result of the operation of:

(A) any of sections 2(d) (*Deduction or Withholding for Tax*), 2(e) (*Default Interest; Other Amounts*), 8(a) (*Payment in the Contractual Currency*), 8(b) (*Judgments*) and 11 (*Expenses*) of the 1992 ISDA Master Agreement (if the STL Agreement is based on a 1992 ISDA Master Agreement);

(B) any of sections 2(d) (*Deduction or Withholding for Tax*), 8(a) (*Payment in the Contractual Currency*), 8(b) (*Judgments*), 9(h)(i) (*Prior to Early Termination*) and 11 (*Expenses*) of the 2002 ISDA Master Agreement (if the STL Agreement is based on a 2002 ISDA Master Agreement); or

(C) any provision of a STL Agreement which is similar in meaning and effect to any provision listed in paragraphs (A) or (B) above (if the STL Agreement is not based on an ISDA Master Agreement);

(iv) payments due out of the proceeds of enforcement of the Transaction Security in accordance with the terms of the Intercreditor Agreement; or

(v) payments due under the relevant STL Agreements in relation to any termination or close-out permitted as set out above,

and provided that:

(A) subject to sub-paragraph (B) below, in the event of any termination or close-out by a STL Counterparty pursuant to paragraph (a)(i) (*Non-payment or non-delivery*), above, which results in a termination or close-out amount payable by the relevant Debtor (after the application of close-out netting) which exceeds £20 million (or its currency equivalent), without prejudice to the STL Counterparty's right to demand payment, the Debtors must not pay or otherwise discharge, and the STL Counterparty must not receive payment for, such termination or close-out amount unless and until 10 business days have elapsed from the date of such termination or close-out; and

(B) on or following the occurrence of a STL Trigger Event, without prejudice to a STL Counterparty's right to demand payment, no STL Liabilities shall be paid or otherwise discharged (in the case of an event or circumstance referred to in limb (c) of the definition of STL Trigger Event, to the extent the STL Liabilities are owed by the insolvent Debtor) except pursuant to the receipt of payments referred to in sub-paragraph (iv) above and, in the event of any such payment or discharge other than pursuant to the receipt of payments referred to in sub-paragraph (iv) above, the provisions in the Intercreditor Agreement in respect of redistribution shall apply.

For the purposes of this sub-paragraph (B), "**STL Trigger Event**" means:

(a) an acceleration event;

(b) the close-out of a Secured Trading Line Transaction by a STL Counterparty pursuant to paragraph (a)(vi) (*Bankruptcy*), above; or

(c) any:

(i) resolution is passed or order or judgment made for an insolvency of any Debtor; or

(ii) Debtor becomes subject to any insolvency proceedings whether voluntary or involuntary,

in each case unless:

(X) the action is a petition for winding-up presented by a creditor which is being contested in good faith and with diligence and is discharged or struck out within 21 days of the relevant Debtor being served with or otherwise becoming aware of the same; or

(Y) the action is for a voluntary solvent liquidation, dissolution, reorganisation or analogous proceedings permitted under the terms of the Credit Facility Documents.

(c) Prior to the Credit Facility Lender Discharge Date, a STL Counterparty must not make any demand against a Debtor in relation to any guarantee, indemnity or other assurance against loss received by that STL Counterparty in respect of the STL Liabilities owing to it (other than any indemnity contained in an ISDA Master Agreement), before the termination or close-out of all Secured Trading Line transactions of that STL Counterparty.

(d) Prior to the Credit Facility Lender Discharge Date, no STL Counterparty or Debtor may, subject to paragraph (e) below, allow any STL Liabilities or any amounts owing from a STL Counterparty to a Debtor under or in connection with the STL Agreements to which they are a party to be discharged by set-off, any right of combination of accounts or otherwise.

(e) Paragraph (d) shall not apply to any such discharge:

(i) pursuant to the exercise of any payment netting, close-out netting or cross-affiliate netting;

(ii) pursuant to the exercise by a Debtor of any right of set-off or netting:

(A) in circumstances where an event of default (however described) has occurred in respect of that STL Counterparty (or that STL Counterparty's Credit Support Provider (as defined in the relevant STL Agreement), if any) under the STL Agreements to which it is a party and where no event of default (however described) is outstanding under the Credit Facility Documents or Pari Passu Debt Documents; and

(B) other than against any Credit Facility Liabilities or Pari Passu Liabilities owing to that STL Counterparty,

and, for the purposes of sub-paragraph (A) above, a STL Counterparty shall be entitled to assume that no "Event of Default" is outstanding unless and until it has received written notice of an of an event of default from a Debtor or from the Security Agent; or

(iii) following an acceleration event, pursuant to the exercise by the Security Agent or by a Debtor at the request of the Security Agent or by the STL Counterparty (in each case if the Majority Super Senior Creditors have consented) of any right of set-off or netting of a Debtor or STL Counterparty.

Permitted Payments: Intra-Group Liabilities

The Intercreditor Agreement permits payments of the Intra-Group Liabilities from time to time when due if at the time of payment no acceleration event has occurred in respect of the Debt Documents. If an acceleration event has occurred, payment may be made if: (i) the Required Super Senior Creditors and Required Pari Passu Creditors consent to that payment being made; (ii) that payment is made to facilitate payment of Super Senior Liabilities or Pari Passu Liabilities or is made at the request of the Security Agent pursuant to instructions from the Instructing Group; or (iii) any director or officer or any Debtor or Intra-Group lender is required by mandatory law to make or demand payment to avoid personal or criminal liability.

"**Required Pari Passu Creditors**" means:

(a) prior to any enforcement action being taken, solely if the Pari Passu Debt Document under which it is a Creditor Representative prohibits the action (the "**Pari Passu Relevant Action**") in respect of which the consent of the "Required Pari Passu Creditors" is required (the "**Engaged Pari Passu Debt Documents**"), each Creditor Representative under Engaged Pari Passu Debt Documents acting on behalf of any Pari Passu Creditors (and for this purpose a Pari Passu Debt Document will be an Engaged Pari Passu Debt Document if the Pari Passu Relevant Action is not regulated by that Pari Passu Debt Document); and

(b) on and following any Enforcement Action being taken, each Creditor Representative acting on behalf of any Pari Passu Creditors.

"**Required Super Senior Creditors**" means:

(a) prior to any enforcement action being taken, solely if the Super Senior Documents under which it is a Creditor Representative, Hedge Counterparty or STL Counterparty prohibits the action (the "**Super Senior Relevant Action**") in respect of which the consent of the "Required Super Senior Creditors" is required (the "**Engaged Super Senior Documents**"), at any time:

    (i) each Creditor Representative under Engaged Super Senior Documents acting on behalf of the relevant Credit Facility Creditors (and for this purpose a Super Senior Document will be an Engaged Super Senior Document if the Super Senior Relevant Action is not regulated by that Super Senior Document); and

    (ii) those Hedge Counterparties and/or STL Counterparties with Hedging Liabilities or STL Liabilities, as applicable, under Engaged Super Senior Documents whose Credit Participations with respect to Super Senior Liabilities under Engaged Super Senior Documents at that time aggregate more than 66⅔ per cent. of the total Hedging Liabilities and STL Liabilities under Engaged Super Senior Documents at that time; and

(b) on and following any enforcement action being taken, at any time, those Super Senior Creditors whose credit participations with respect to Super Senior Liabilities at that time aggregate more than 66⅔ per cent.

Permitted Payments: Parent Liabilities

The Intercreditor Agreement permits payments of the Parent Liabilities from time to time when due if the payment is not prohibited under the Credit Facility Agreement(s) or the Pari Passu Debt Agreements, or the Required Super Senior Creditors and the Required Pari Passu Creditors consent to that payment being made.

Restrictions on Enforcement and Permitted Enforcement

Restrictions on Enforcement: Ancillary Lenders and Issuing Banks

Save as set out below in "*—Permitted Enforcement: Ancillary Lenders and Issuing Banks*", so long as any of the Super Senior Liabilities (other than any liabilities owed to the lenders who make an ancillary facility available pursuant to the terms of a Credit Agreement (the "**Ancillary Lenders**") or Issuing Banks (under and as defined in the relevant Credit Facility Agreement, the "**Issuing Banks**")) are or may be outstanding, none of the Ancillary Lenders nor the Issuing Banks shall be entitled to take any enforcement action in respect of any of the liabilities owed to it in such a capacity.

Permitted Enforcement: Ancillary Lenders and Issuing Banks

The Ancillary Lenders and the Issuing Banks may take enforcement action if:

(a) at the same time as, or prior to, that action, enforcement action has been taken in respect of the Credit Facility Liabilities (excluding the liabilities owing to the Ancillary Lenders and Issuing Banks), in which case the Ancillary Lenders and the Issuing Banks may take the same enforcement action;

(b) after the Original Lender Discharge Date, that action is contemplated by the relevant Credit Facility agreement or the terms of the Intercreditor Agreement;

(c) that enforcement action is taken in respect of credit facility cash cover which has been provided in accordance with the relevant Credit Facility Agreement;

(d) at the same time as, or prior to, that action, the consent of the Required Super Senior Creditors is obtained; or

(e) an insolvency event has occurred in relation to any member of the Group, in which case after the occurrence of that insolvency event, each Ancillary Lender and each Issuing Bank shall be entitled (if it has not already done so) to exercise any right it may otherwise have in respect of that member of the Group to:

  (i) accelerate any of that member of the Group's Credit Facility Liabilities or declare them prematurely due and payable on demand;

  (ii) make a demand under any guarantee, indemnity or other assurance against loss given by that member of the Group in respect of any Credit Facility Liabilities;

  (iii) exercise any right of set-off or take or receive any payment in respect of any Credit Facility Liabilities of that member of the Group; or

  (iv) claim and prove in the liquidation of that member of the Group for the Credit Facility Liabilities owing to it.

Restrictions on Enforcement: Intra-Group Lenders

Save as set out below in "*—Permitted Enforcement: Intra-Group Lenders*", no Intra-Group Lender shall be entitled to take any enforcement action in respect of any of the Intra-Group Liabilities at any time prior to the Final Discharge Date.

"**Intra-Group Lender**" means each member of the Group which has made a loan available to, granted credit to or made any other financial arrangement having similar effect with another member of the Group or which becomes a party to the Intercreditor Agreement in that capacity.

"**Intra-Group Liabilities**" means the liabilities owed by any member of the Group to any of the Intra-Group Lenders (other than proceeds loans).

"**Final Discharge Date**" means the first date on which all Super Senior Liabilities and Pari Passu Liabilities have been fully and finally discharged to the satisfaction of the relevant Creditor Representative(s) (acting reasonably) (in the case of the Credit Facility Liabilities and Pari Passu Liabilities), each Hedge Counterparty (acting reasonably) (in the case of its Hedging Liabilities) and each STL Counterparty (acting reasonably) (in the case of its STL Liabilities), whether or not as the result of an enforcement, and the Super Senior Creditors and Pari Passu Creditors are under no further obligation to provide financial accommodation to any of the Debtors under the Super Senior Documents or Pari Passu Documents.

Permitted Enforcement: Intra-Group Lenders

Prior to the Final Discharge Date and after the occurrence of an insolvency event in relation to any member of the Group, each Intra-Group Lender may (unless otherwise directed by the Security Agent or unless the Security Agent has taken, or has given notice that it intends to take, action on behalf of that Intra-Group Lender in accordance with the terms of the Intercreditor Agreement), exercise any right it may otherwise have against that member of the Group to:

(a) accelerate any of that member of the Group's Intra-Group Liabilities or declare them prematurely due and payable or payable on demand;

(b) make a demand under any guarantee, indemnity or other assurance against loss given by that member of the Group in respect of any Intra-Group Liabilities;

(c) exercise any right of set-off or take or receive any payment in respect of any Intra-Group Liabilities of that member of the Group; or

(d) claim and prove in the liquidation of that member of the Group for the Intra-Group Liabilities owing to it.

Restrictions on Enforcement: Parent

Save as set out below in "*—Permitted Enforcement: Parent*", no Parent Entity shall be entitled to take any enforcement action in respect of any of the Parent Liabilities at any time prior to the Final Discharge Date.

"**Parent Entity**" means the Parent or any other person in respect of which DGHL at any time is or becomes a direct subsidiary after the date of the Intercreditor Agreement.

Permitted Enforcement: Parent

Prior to the Final Discharge Date and after the occurrence of an insolvency event in relation to any member of the Group, a Parent Entity may (unless otherwise directed by the Security Agent or unless the Security Agent has taken, or has given notice that it intends to take, action on behalf of a Parent Entity in accordance with the Intercreditor Agreement), exercise any right it may otherwise have against that member of the Group to:

(a) accelerate any of that member of the Group's Parent Liabilities or declare them prematurely due and payable or payable on demand;

(b) make a demand under any guarantee, indemnity or other assurance against loss given by that member of the Group in respect of any Parent Liabilities;

(c) exercise any right of set-off or take or receive any payment in respect of any Parent Liabilities of that member of the Group; or

(d) claim and prove in the liquidation of that member of the Group for the Parent Liabilities owing to it.

Enforcement of Transaction Security

Enforcement Instructions

The Intercreditor Agreement provides that the Security Agent may refrain from enforcing the Transaction Security or taking any other enforcement action unless instructed otherwise by the Instructing Group.

Subject to "*—Enforcement Decisions*" below, the Instructing Group may give or refrain from giving instructions to the Security Agent to take action as to enforcement in accordance with the Enforcement Principles as they see fit by way of giving instructions to the Security Agent.

"**Instructing Group**" means:

(a) subject to paragraph (b) below, the Majority Super Senior Creditors and the Majority Pari Passu Creditors; and

(b) in relation to instructions as to enforcement, the group of Primary Creditors entitled to give instructions as to Enforcement as set out in "*—Enforcement Decisions*".

Manner of Enforcement

If the Transaction Security is being enforced or other action as to enforcement is being taken as set out in "*—Enforcement Instructions*" above, the Security Agent shall enforce the Transaction Security or take other action as to enforcement in such manner (including, without limitation, the selection of any administrator (or any analogous officer in any jurisdiction) of any Debtor to be appointed by the Security Agent) as the Instructing Group shall instruct, provided that such instructions are consistent with the Enforcement Principles or, in the absence of any such instructions, as the Security Agent considers in its discretion to be appropriate and consistent with the Enforcement Principles. For the avoidance of doubt, in the absence of instructions from an Instructing Group, the applicable Security Agent will not be required to take any action.

Enforcement Decisions

(a) If either the Majority Super Senior Creditors or the Majority Pari Passu Creditors wish to issue enforcement instructions as described in "*—Enforcement Instructions*" above, the Creditor Representatives (and, if applicable, Hedge Counterparties and/or STL Counterparties) representing the Primary Creditors comprising the Majority Super Senior Creditors or Majority Pari Passu Creditors (as the case may be) shall deliver a copy of those proposed enforcement instructions (an "**Initial Enforcement Notice**") to the Security Agent and the Security Agent shall promptly forward such Initial Enforcement Notice to each Creditor Representative, each Hedge Counterparty and each STL Counterparty which did not deliver such Initial Enforcement Notice.

(b) Subject to paragraphs (c), (d) and (e) below, the Security Agent will act in accordance with enforcement instructions received from the Majority Pari Passu Creditors.

(c) If:

(i) the Majority Pari Passu Creditors have not either:

(A) made a determination as to the method of enforcement they wish to instruct the Security Agent to pursue (and notified the Security Agent of that determination in writing); or

(B) appointed a financial adviser to assist them in making such a determination,

within three months of the date of the Initial Enforcement Notice; or

(ii) the Super Senior Discharge Date has not occurred within six months of the date of the Initial Enforcement Notice,

then the Security Agent will act in accordance with Enforcement Instructions received from the Majority Super Senior Creditors until the Super Senior Discharge Date has occurred.

(d) If an insolvency event (other than an insolvency event directly caused by any enforcement action taken by or at the request or direction of a Super Senior Creditor or Pari Passu Creditor) is continuing with respect to a Debtor then the Security Agent will, to the extent the Majority Super Senior Creditors elect to provide such enforcement instructions, act in accordance with enforcement instructions received from the Majority Super Senior Creditors until the Super Senior Discharge Date has occurred.

(e) If the Majority Pari Passu Creditors have not either:

(i) made a determination as to the method of enforcement they wish to instruct the Security Agent to pursue (and notified the Security Agent of that determination in writing); or

(ii) appointed a financial adviser to assist them in making such a determination,

and the Majority Super Senior Creditors:

(A) determine in good faith (and notify the other Creditor Representatives, the Hedge Counterparties, the STL Counterparties and the Security Agent) that a delay in issuing enforcement instructions could reasonably be expected to have a material adverse effect on the ability to effect a Distressed Disposal (as defined below) or on the expected realisation proceeds of any enforcement; and

(B) deliver enforcement instructions which they reasonably believe to be consistent with the Enforcement Principles and necessary or advisable to enhance the prospects of achieving the Enforcement Objective before the Security Agent has received any Enforcement Instructions from the Majority Pari Passu Creditors,

then the Security Agent will act in accordance with the enforcement instructions received from the Majority Super Senior Creditors until the Super Senior Discharge Date has occurred.

"**Super Senior Discharge Date**" means the first date on which all Super Senior Liabilities have been fully and finally discharged to the satisfaction of the relevant Creditor Representative(s) (acting reasonably) (in the case of the Credit Facility Liabilities), each Hedge Counterparty (acting reasonably) (in the case of its Hedging Liabilities) and each STL Counterparty (acting reasonably) (in the case of its STL Liabilities), whether or not as the result of an enforcement, and the Super Senior Creditors are under no further obligation to provide financial accommodation to any of the Debtors under the Super Senior Documents.

Enforcement Principles

The Instructing Group may only give enforcement instructions that are consistent with certain security enforcement principles (the "**Enforcement Principles**"), including that:

(a) It shall be the primary and overriding aim of any enforcement to maximise, to the extent consistent with a prompt and expeditious realisation of value, the value realised from enforcement (the "**Enforcement Objective**").

(b) The Transaction Security will be enforced and other action as to enforcement will be taken such that either:

(i) to the extent the Instructing Group is the Majority Super Senior Creditors, all proceeds of enforcement are received by the Security Agent in cash for distribution as set out in "*—Application of Proceeds*"; or

(ii) to the extent the Instructing Group is the Majority Pari Passu Creditors, either:

(A) all proceeds of enforcement are received by the Security Agent in cash for distribution as set out in "— *Application of Proceeds*"; or

(B) sufficient proceeds from enforcement will be received by the Security Agent in cash to ensure that, when the proceeds are applied as set out in "—*Application of Proceeds*", the Super Senior Discharge Date will occur (unless the Majority Super Senior Creditors agree otherwise).

(c) On:

(i) a proposed enforcement in relation to assets subject to Transaction Security other than shares in a member of the Group, where the aggregate book value of such assets exceeds £5 million (or its equivalent in any other currency or currencies); or

(ii) a proposed enforcement in relation to assets subject to Transaction Security comprising some or all of the shares in a member of the Group,

which, in either case, is not being effected through a public auction, the Security Agent shall, if requested by the Majority Super Senior Creditors or the Majority Pari Passu Creditors, appoint a financial adviser to provide an opinion that the proceeds received or recovered in connection with that enforcement are fair from a financial point of view taking into account all relevant circumstances (a "**Fairness Opinion**") in relation to that enforcement, provided that the Security Agent shall not be required to appoint a financial adviser nor obtain a Fairness Opinion if a proposed enforcement:

(A) would result in the receipt of sufficient enforcement proceeds in cash by the Security Agent to ensure that, after application as set out in "—*Application of Proceeds*":

(1) in the case of an enforcement requested by the Majority Super Senior Creditors, the Final Discharge Date would occur; or

(2) in the case of an enforcement requested by the Majority Pari Passu Creditors, the Super Senior Discharge Date would occur;

(B) is in accordance with any applicable law; and

(C) complies with the process set out in "—*Distressed Disposals*" below.

(d) The Security Agent shall be under no obligation to appoint a financial adviser or to seek the advice of a financial adviser unless expressly required to do so by the Intercreditor Agreement.

(e) The Fairness Opinion will be conclusive evidence that the Enforcement Objective has been met.

Option to Purchase and Hedge/STL Transfer: Pari Passu Creditors

Some or all of the Pari Passu Creditors (the "**Purchasing Secured Creditors**") may, following any of: (a) an acceleration event in relation to a Credit Facility or Pari Passu Debt; or (b) the enforcement of any Transaction Security (a "**Distress Event**"), after having given all Pari Passu Creditors the opportunity to participate in such purchase, by giving not less than ten days' notice to the Credit Facility Agent, require the transfer to them (or to a nominee or nominees) of all (but not part only) of the rights, benefits and obligations in respect of the Credit Facility Liabilities under the Credit Facility Documents.

If more than one Purchasing Secured Creditor wishes to exercise the option to purchase the Credit Facility Liabilities, each such Purchasing Secured Creditor shall acquire the Credit Facility Liabilities *pro rata*, in the proportion that its credit participation under the Pari Passu Debt Documents bears to the aggregate credit participations under the Pari Passu Debt Documents of all the Purchasing Secured Creditors.

The Purchasing Secured Creditors may, at the same time as effecting a Credit Facility Liabilities transfer, or at any time on or after the Credit Facility Lender Discharge Date, by giving not less than ten days' notice to the Security Agent, require the transfer of all or, with the agreement of the relevant Hedge Counterparty or STL Counterparty, as applicable, some, of the Hedging Agreements and STL Agreement and all rights in respect of the Hedging Liabilities and STL Liabilities.

Release of the Security

Non-Distressed Disposals

The Intercreditor Agreement provides that, in the case of a Non-Distressed Disposal (as defined below) the Security Agent is irrevocably authorised (A) to release the Transaction Security or any other claim (relating to a Debt Document) over that asset; (B) where that asset consists of shares in the capital of a member of the Group (or a holding company of any member of the Group, which holding company is itself a member of the Group), to release the Transaction Security (as applicable) or any other claim (relating to a Debt Document) over that member of the Group's and its subsidiaries' property; and (C) to execute and deliver or enter into any release of Transaction Security (as applicable) or any claim described in sub-paragraphs (A) and (B) above and issue any certificates of non-crystallisation of any floating charge or any consent to dealing that may, in the discretion of the Security Agent, be considered necessary or desirable.

If a member of the Group is designated as an Unrestricted Subsidiary in accordance with the terms of each of the Credit Facility Documents and Pari Passu Debt Documents, the Security Agent is irrevocably authorised and obliged to release the Transaction Security or any other claim (relating to a Debt Document) over that member of the Group and its subsidiaries' assets.

If a guarantor of a Credit Facility is released from its guarantee liabilities in accordance with the terms of each of the Credit Facility Documents and the Pari Passu Debt Documents and does not have any actual or prospective borrowing liabilities, the Security Agent is irrevocably authorised and obliged (at the request in writing by, and at the cost of, the relevant Debtor or DGHL) and without any consent, sanction, authority or further confirmation from any Creditor or Debtor to release the Transaction Security or any other claim (relating to a Debt Document) over that guarantor of Credit Facility assets.

In the event of a Non-Distressed Disposal or designation of an Unrestricted Subsidiary, each release of Transaction Security or any claim described above shall be contingent upon that Non-Distressed Disposal or resignation being effected, and in the event that such Non-Distressed Disposal is not effected or the conditions for such release are not fulfilled (as relevant), the Transaction Security shall not be released.

In the event that any security granted pursuant to the Security Documents is permitted to be released pursuant to the terms of each of the Credit Facility Documents and the Pari Passu Debt Documents, the Security Agent is irrevocably authorised and obliged (at the request in writing by, and at the cost of, the relevant Debtor or DGHL and without any consent, sanction, authority or further confirmation from any Creditor or Debtor) to release such Transaction Security or any other claim (relating to a Debt Document).

If any disposal proceeds are required to be applied in mandatory prepayment of the Credit Facility Liabilities or the Pari Passu Liabilities, then those disposal proceeds shall be applied in accordance with the relevant debt documents and the consent of any other party to the Intercreditor Agreement shall not be required for that application.

A "**Non-Distressed Disposal**" is a disposal of an asset of a member of the Group or an asset which is subject to the Transaction Security to:

(x) a member of the Group which is not a guarantor of the Credit Facility and which will not be required to become a guarantor of the Credit Facility as a consequence of, or in connection with, the disposal, or (y) a person or persons outside the Group, in each case, where:

(i)

(1) DGHL confirms in writing to the Security Agent that such disposal, and if the disposal is of assets subject to the Transaction Security, the release of Transaction Security, is not prohibited by the terms of any Credit Facility Document or Pari Passu Debt Document (or, if such disposal and/or release is prohibited by the terms of any such Debt Document, that it has requested that the relevant Creditor Representative(s) in respect of such Debt Document under which such disposal and/or release is prohibited notify the Security Agent that such disposal and/or release is authorised); and

(2) the Creditor Representative in respect of each Credit Facility Document and Pari Passu Debt Document that prohibits such disposal, and/or release of Transaction Security, notifies the Security Agent that that disposal and/or release is authorised under its Debt Document; and

(ii) that disposal is not a Distressed Disposal.

Distressed Disposals

The Intercreditor Agreement provides that, in circumstances where a disposal of an asset subject to the Transaction Security which is being: (a) effected at the request of the relevant Instructing Group in circumstances where the Transaction Security has become enforceable; (b) effected by enforcement of the Transaction Security; or (c) initiated, after the occurrence of a Distress Event, by a Debtor to a person or persons which is, or are, not a member of the Group (a "**Distressed Disposal**") the Security Agent is irrevocably authorised:

(a) to release the Transaction Security, or any other claim over that asset and execute and deliver or enter into any release of that Transaction Security, or claim and issue any letters of non-crystallisation of any floating charge or any consent to dealing that may, in the discretion of the Security Agent, be considered necessary or desirable;

(b) if the asset which is disposed of consists of shares in the capital of a Debtor, to release: (1) that Debtor and any subsidiary of that Debtor from all or any part of its borrowing, guarantee or other liabilities; (2) any Transaction Security granted by that Debtor or any subsidiary of that Debtor over any of its assets; and (3) any other claim of a Parent Entity, an Intra-Group Lender, or another Debtor over that Debtor's assets or over the assets of any subsidiary of that Debtor, on behalf of the relevant Creditors and Debtors;

(c) if the asset which is disposed of consists of shares in the capital of any holding company of a Debtor, to release: (1) that holding company and any subsidiary of that holding company from all or any part of borrowing, guarantee or other liabilities; (2) any Transaction Security granted by any subsidiary of that holding company over any of its assets; and (3) any other claim of a Parent Entity, an Intra-Group Lender or another Debtor over the assets of any Subsidiary of that holding company, on behalf of the relevant Creditors and Debtor; and

(d) to dispose of certain intra-group liabilities in order to facilitate a Distressed Disposal comprising a share sale.

Turnover of Receipts

Turnover by the Primary Creditors

Subject to the terms of the Intercreditor Agreement, if at any time prior to the Final Discharge Date any Primary Creditors receives or recovers the proceeds of any enforcement of any Transaction Security except as set out in "— *Application of Proceeds*" above, that Primary Creditor will:

(a) in relation to receipts and recoveries not received or recovered by way of set-off:

  (i) hold an amount of that receipt or recovery equal to the Relevant Liabilities (or, if less, the amount received or recovered) on trust for the Security Agent and promptly pay or distribute that amount to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and

  (ii) promptly pay or distribute an amount equal to the amount (if any) by which the receipt or recovery exceeds the Relevant Liabilities to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and

(b) in relation to receipts and recoveries received or recovered by way of set-off, promptly pay an amount equal to that recovery to the Security Agent for application in accordance with the terms of the Intercreditor Agreement.

"**Relevant Liabilities**" means:

(a) in the case of a Creditor:

  (i) the liabilities owed to Creditors ranking (in accordance with the terms of the Intercreditor Agreement) *pari passu* with or in priority to that Creditor (as the case may be); and

  (ii) all present and future liabilities and obligations, actual and contingent, of the Debtors to the Security Agent; and

(b) in the case of a Debtor, the liabilities owed to the Creditors together with all present and future liabilities and obligations, actual and contingent, of the Debtors to the Security Agent.

Turnover by Hedge Counterparties and STL Counterparties

(a) Each Hedge Counterparty, STL Counterparty, Intra-Group Lender and Parent Entity shall, subject to paragraph (b) below:

(i) hold any Hedge/STL Turnover Receipt received or recovered by it on trust for the Primary Creditors;

(ii) notify the Security Agent of the amount of any Hedge/STL Turnover Receipt received or recovered by it; and

(iii) within five business days of its receipt of a notification from the Security Agent, pay to the Security Agent for application, as set out in "—*Application of Proceeds*" above, an amount determined by the Security Agent to be equal to the lesser of:

(A) if on or prior to the Credit Facility Lender Discharge Date, the outstanding balance of the Super Senior Debt Liabilities; and

(B) the amount of such Hedge / STL Turnover Receipt,

less the third party costs and expenses (if any) reasonably incurred by it in receiving or recovering such Hedge/STL Turnover Receipt.

(b) In relation to any Hedge/STL Turnover Receipt in respect of certain payments prohibited under the Intercreditor Agreement, the relevant Hedge Counterparty or, as the case may be, STL Counterparty shall hold and apply that Hedge/STL Turnover Receipt in the manner provided under paragraph (a) above, save that:

(i) any amount paid by the Hedge Counterparty or, as the case may be, STL Counterparty to the Security Agent pursuant to paragraph (a) above in respect of that Hedge/STL Turnover Receipt shall not be held by the Security Agent for application as set out in "—*Application of Proceeds*" above unless and until a Distress Event has occurred by the expiry of the 10 Business Day period referred to in "—*Permitted Payments: Hedging Liabilities*" and "—*Permitted Payments: STL Liabilities*", as applicable; and

(ii) if a Distress Event does not occur by the expiry of the 10 business day period referred to in "—*Permitted Payments: Hedging Liabilities*" and "—*Permitted Payments: STL Liabilities*", as applicable:

(A) the Security Agent shall promptly return to the relevant Hedge Counterparty or, as the case may be, STL Counterparty any amount paid by that Hedge Counterparty or, as the case may be, STL Counterparty to the Security Agent pursuant to paragraph (a) above in respect of that Hedge/STL Turnover Receipt; and

(B) Paragraph (A) above shall cease to apply to that Hedge/STL Turnover Receipt.

"**Hedge/STL Turnover Receipt**" means any cash or in-kind receipt or recovery (including by way of set-off or combination of accounts) received or recovered by any Hedge Counterparty, STL Counterparty, Intra-Group Lender or a Parent Entity of Hedging Liabilities or STL Liabilities which is prohibited by the Intercreditor Agreement as set out in "—*Permitted Payments: Hedging Liabilities*" and "—*Permitted Payments: STL Liabilities*", as applicable.

Turnover by the other Creditors

Subject to the terms of the Intercreditor Agreement, if at any time prior to the Final Discharge Date, any Creditor other than a Primary Creditor receives or recovers:

(a) any payment or distribution of, or on account of or in relation to, any of the liabilities which is neither:

(i) permitted under the Intercreditor Agreement; nor

(ii) made as set out in "—*Application of Proceeds*" above;

(b) other than by way of set-off permitted under the Intercreditor Agreement, any amount by way of set-off in respect of any of the liabilities owed to it which does not give effect to a payment permitted under the Intercreditor Agreement;

(c) notwithstanding paragraphs (a) and (b) above, and other than by way of set-off permitted under the Intercreditor Agreement, any amount:

(i) on account of, or in relation to, any of the liabilities:

(A) after the occurrence of a Distress Event; or

(B) as a result of any other litigation or proceedings against a member of the Group (other than after the occurrence of an insolvency event in respect of that member of the Group); or

(ii) by way of set-off in respect of any of the liabilities owed to it after the occurrence of a Distress Event,

other than, in each case, any amount received or recovered as set out in "—*Application of Proceeds*" above;

(d) the proceeds of any enforcement of any Transaction Security except as set out in "—*Application of Proceeds*" above; or

(e) other than by way of set-off permitted under the Intercreditor Agreement, any distribution or payment of, or on account of or in relation to, any of the liabilities owed by any member of the Group which is not as set out in "—*Application of Proceeds*" above and which is made as a result of, or after, the occurrence of an insolvency event in respect of that member of the Group,

that Creditor will:

(i) in relation to receipts and recoveries not received or recovered by way of set-off:

(A) hold an amount of that receipt or recovery equal to the Relevant Liabilities (or if less, the amount received or recovered) on trust for the Security Agent and promptly pay or distribute that amount to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and

(B) promptly pay or distribute an amount equal to the amount (if any) by which the receipt or recovery exceeds the Relevant Liabilities to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and

(ii) in relation to receipts and recoveries received or recovered by way of set-off, promptly pay an amount equal to that recovery to the Security Agent for application in accordance with the terms of the Intercreditor Agreement.

Consents, Amendments and Override

Required consents

Subject to agreed exceptions as to consent requirements of other parties or majority requirements, the Intercreditor Agreement may be amended or waived with the consent of the Security Agent and all relevant primary creditors (or, as applicable, their representatives), provided that to the extent an amendment, waiver or consent could not reasonably be expected to adversely affect the interests of any other class of secured parties, only written agreement from any affected class shall be required.

Agreement to override

Unless expressly stated otherwise in the Intercreditor Agreement, in the case of any conflict between the Intercreditor Agreement and any other debt document, the Intercreditor Agreement shall prevail.

Governing law

The Intercreditor Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

Proceeds Loan

The proceeds loan with respect to the Notes (the "**Proceeds Loan**") will be documented under an English law governed loan agreement made between the Issuer, as lender, and Drax Corporate Limited, as borrower (the "**Proceeds Loan Agreement**"). Pursuant to the Proceeds Loan Agreement, the Issuer will lend to Drax Corporate Limited the proceeds from the issuance of the Notes.

The Proceeds Loan will be denominated in US dollars and will bear interest at a rate at least equal to the interest rate of the Notes.

Interest on the Proceeds Loan will be payable in cash semi-annually, concurrently or prior to the relevant interest payment dates for the Notes. All amounts payable under the Proceeds Loan will be payable to such account or accounts with such person or persons as the Issuer may designate from time to time. The maturity date of the Proceeds Loan will be the same date as the maturity date of the Notes. The Proceeds Loan will be unsecured obligations of Drax Corporate Limited.

Except as otherwise required by law, all payments under the Proceeds Loan Agreement will be made without deductions or withholding for, or on account of, any applicable tax. In the event that Drax Corporate Limited is required to make any such deduction or withholding, it shall pay such additional amounts to the Issuer as may be necessary to ensure that the Issuer receives and retains, in the aggregate, a net payment equal to the payment which it would have received under the Proceeds Loan Agreement had no such deduction or withholding been made.

The Proceeds Loan Agreement will provide that, subject to the Intercreditor Agreement, Drax Corporate Limited shall repay the Proceeds Loan in such amounts and on such days so as to ensure that the Issuer can make payments in respect of repayments, redemptions or repurchases of the Notes. The Proceeds Loan Agreement will provide that, subject to the Intercreditor Agreement, Drax Corporate Limited shall pay the Issuer on demand any amounts under the Proceeds Loan required to allow the Issuer to pay additional amounts due under the Indenture governing the Notes. See "*Description of the Notes—Security—Proceeds Loan*".

The Proceeds Loan will be assigned by way of security to the Security Agent for the benefit of holders of the Notes and the 2022 Fixed Rate Notes, the lenders under the Senior Facilities Agreement and counterparties to certain hedging agreements (including under the Secured Trading Line). See "*Description of Notes—Security—Proceeds Loan*".

2022 Proceeds Loans

The proceeds loan with respect to the 2022 Fixed Rate Notes (the "**2022 Fixed Rate Proceeds Loan**") is documented under an English law governed loan agreement made between the Issuer, as lender, and Drax Corporate Limited, as borrower (the "**2022 Fixed Rate Proceeds Loan Agreement**"). Pursuant to the 2022 Fixed Rate Proceeds Loan Agreement, the Issuer has lent to Drax Corporate Limited the proceeds from the issuance of the 2022 Fixed Rate Notes. The proceeds loan with respect to the 2022 Floating Rate Notes (the "**2022 Floating Rate Proceeds Loan**") is documented under an English law governed loan agreement made between the Issuer, as lender, and Drax Corporate Limited, as borrower (the "**2022 Floating Rate Proceeds Loan Agreement**" and, together with the 2022 Fixed Rate Proceeds Loan Agreement, the "**2022 Proceeds Loan Agreements**"). Pursuant to the 2022 Floating Rate Proceeds Loan Agreement, the Issuer has lent to Drax Corporate Limited the proceeds from the issuance of the 2022 Floating Rate Notes. Drax Corporate Limited will repay the 2022 Floating Rate Proceeds Loan with the proceeds from the issuance of the Notes pursuant to the Transactions.

The 2022 Fixed Rate Proceeds Loan is denominated in pounds sterling and bears interest at a rate at least equal to the interest rate of the 2022 Fixed Rate Notes.

Interest on the 2022 Fixed Rate Proceeds Loan is payable in cash semi-annually, concurrently or prior to the relevant interest payment dates for the 2022 Fixed Rate Notes. All amounts payable under the 2022 Fixed Rate Proceeds Loan are payable to such account or accounts with such person or persons as the Issuer may designate from time to time. The maturity date of the 2022 Fixed Rate Proceeds Loan is the same date as the maturity date of the 2022 Fixed Rate Notes. The 2022 Fixed Rate Proceed Loan is an unsecured obligation of Drax Corporate Limited.

Except as otherwise required by law, all payments under the 2022 Fixed Rate Proceeds Loan Agreement will be made without deductions or withholding for, or on account of, any applicable tax. In the event that Drax Corporate Limited is required to make any such deduction or withholding, it shall pay such additional amounts to the Issuer as may be necessary to ensure that the Issuer receives and retains, in the aggregate, a net payment equal to the payment which it would have received under the 2022 Fixed Rate Proceeds Loan Agreement had no such deduction or withholding been made.

The 2022 Fixed Rate Proceeds Loan Agreement provides that, subject to the Intercreditor Agreement, Drax Corporate Limited shall repay the 2022 Fixed Rate Proceeds Loan in such amounts and on such days so as to ensure that the Issuer can make payments in respect of repayments, redemptions or repurchases of the 2022 Fixed

Rate Notes. The 2022 Fixed Rate Proceeds Loan Agreement provides that, subject to the Intercreditor Agreement, Drax Corporate Limited shall pay the Issuer on demand any amounts under the 2022 Fixed Rate Proceeds Loan required to allow the Issuer to pay additional amounts due under the Indenture governing the Notes.

The 2022 Fixed Rate Proceeds Loan is assigned by way of security to the Security Agent for the benefit of holders of the 2022 Fixed Rate Notes, the lenders under the Senior Facilities Agreement and counterparties to certain hedging agreements (including under the Secured Trading Line) and, from the Issue Date, for the benefit of holders of the Notes.

ROC Agreements

Drax Power has entered into separate receivable purchase agreements with each of HSBC Bank plc, Lloyds Bank Commercial Finance Limited and Deutsche Bank AG, London Branch (the "**ROC Agreements**"), pursuant to which Drax Power may, on an uncommitted, non-recourse basis, sell to these counterparties receivables relating to ROCs issued to Drax Power and sold by it to third parties.

Haven Power MRTSA

Haven Power has entered into a master receivables and transfer and servicing agreement ("**Haven Power MRTSA**"), under which Haven Power as seller and servicer, sells trade receivables (on a non-recourse basis) to Ester Finance Titrisation as purchaser, with Crédit Agricole Corporate and Investment Bank as the arranger and calculation agent and Eurotitrisation as the programme agent. The Haven Power MRTSA currently expires in June 2022 with a break right in favour of the purchaser in June 2019.

Drax Power guarantees Haven Power's obligations under the Haven Power MRTSA.

Pension Trustee Priority Deed

The trustees of the Group's defined benefit pension scheme (the "**Pension Trustees**") have been granted second-ranking security over the Collateral pursuant to second-ranking security documents (on substantially similar terms as the Existing Security Documents, save for ranking) (the "**Second Ranking Security**").

The ranking of the Second Ranking Security is governed by the terms of an amended and restated second ranking security priority deed (the "**Pension Trustee Priority Deed**") entered into by the Pension Trustees, the Security Agent and Drax Group plc and certain of its subsidiaries.

Ranking

The security constituted by the Security Documents, which secures the 2022 Notes, the Senior Facilities and the secured hedging obligations (including the obligations under the Secured Trading Line), and on and from the Issue Date shall secure the Notes and the Guarantees, ranks senior in order of priority to the Second Ranking Security.

Undertakings

Under the terms of the Pension Trustee Priority Deed, the Group has the flexibility to incur further indebtedness to the extent permitted by either the fixed charge coverage ratio or the permitted debt baskets in each case as set out in the Senior Facilities Agreement, or otherwise with the prior written consent of the Pension Trustees. As such, the Second Ranking Security does not impose any further restrictions on the Group's ability to incur further indebtedness than those restrictions contained in the Senior Debt Documents (as defined in the Pension Trustee Priority Deed).

The Second Ranking Security shall not be amended in a manner which might reasonably be expected to adversely affect the interests of the Security Agent or the security constituted by the Security Documents, except with the prior written consent of the Security Agent.

The Pension Trustees must be given at least five business days' prior written notice of disposals of assets subject to the Second Ranking Security the proceeds of which would exceed £50,000,000.

Subject to the limitations set out in the Pension Trustee Priority Deed, any additional Senior Security (as defined in the Pension Trustee Priority Deed) granted in priority to the Second Ranking Security will require additional second ranking security to be granted in favour of the Pension Trustees.

Enforcement and Release

Prior to the discharge of the Senior Debt (as defined in the Pension Trustee Priority Deed) secured by the Collateral, the Pension Trustees shall not take any action to enforce the Second Ranking Security without the prior written consent of the Security Agent.

The Pension Trustee Priority Deed provides for an order of application of the proceeds of enforcement and, prior to the discharge of the Senior Security, for the Pension Trustees to deliver any proceeds of enforcement however recovered to the Security Agent for application in that order, ensuring that such proceeds are applied first toward the discharge of the Senior Debt in accordance with the terms of the Intercreditor Agreement. See "*—Intercreditor Agreement—Application of Proceeds*".

The Second Ranking Security over all the shares in a chargor or of an asset of a chargor is to be released on disposal of those shares or that asset, and the Pension Trustees grant a further assurance to give effect to this release.

Changes to Senior Debt and Protection of Priority

On the incurrence of new Senior Debt or refinancing of Senior Debt, the Pension Trustees can be requested to re-confirm by deed that the Second Ranking Security is junior in priority to that new Senior Debt, enter into deeds to give effect to the incurrence of the new Senior Debt, and release and immediately retake the Second Ranking Security over the same assets as before.

The priority established in the Pension Trustee Priority Deed is continuing and is not affected by intermediate discharge of any security, and the order of priority set out therein is not affected by the nature of any security granted, the date of receipt of notice of the same, fluctuations in amounts of liabilities, insolvency proceedings or the provision of any document related to the security, among other things.

Changes to the Parties

The Pension Trustees may not assign their rights under the Pension Trustee Priority Deed unless one of them ceases to be a Pension Trustee, in which case a new Pension Trustee will accede to the Pension Trustee Priority Deed to replace the discharged trustee, or unless the transfer is to the Pension Protection Fund under the Pensions Act 2004. Any new holder of security senior to the Second Ranking Security other than the Security Agent must accede to the Pension Trustee Priority Deed.

DESCRIPTION OF NOTES

You will find definitions of certain capitalised terms used in this "*Description of Notes*" under the heading "*—Certain Definitions*". For the purposes of this "*Description of Notes*", references to (i) the Issuer refer to Drax Finco plc only and not to its Subsidiaries (if any) and (ii) DGHL refer to Drax Group Holdings Limited only and not to any of its Subsidiaries.

The Issuer will issue $300.0 million aggregate principal amount of 6⅝% Senior Secured Notes due 2025 (the "**Notes**"). The Notes will be issued under an indenture to be dated as of the Issue Date (the "**Indenture**"), among the Issuer, the Guarantors, BNY Mellon Corporate Trustee Services Limited, as trustee (the "**Trustee**"), Deutsche Bank AG, London Branch, as security agent (the "**Security Agent**"), The Bank of New York Mellon, London Branch, as paying agent and The Bank of New York Mellon SA/NV, Luxembourg Branch, as transfer agent (the "**Transfer Agent**") and as registrar (the "**Registrar**"), in a private transaction that is not subject to the registration requirements of the U.S. Securities Act. The Indenture will not be qualified under, or be subject to, the U.S. Trust Indenture Act of 1939, as amended.

The following description is a summary of the material provisions of the Indenture and the Notes and refers to the Security Documents and the Intercreditor Agreement. It does not restate those agreements in their entirety. The Issuer urges you to read the Indenture, the Notes, the Intercreditor Agreement and the Security Documents, because they, and not this description, define your rights as Holders of the Notes. Copies of the Indenture, the forms of the Notes, the Security Documents and the Intercreditor Agreement are available as set forth in this Offering Memorandum under the caption "*Available Information*".

The proceeds of the offering of the Notes sold on the Issue Date will be used by the Group to consummate the Transactions as set forth in this Offering Memorandum under the caption "*Use of Proceeds*".

The Issuer may from time to time after this Offering issue an unlimited principal amount of additional Notes having identical terms and conditions as the Notes (the "**Additional Notes**"). The Issuer will only be permitted to issue Additional Notes in compliance with the covenants contained in the Indenture, including the covenant restricting the Incurrence of Indebtedness and the covenant restricting the Incurrence of Liens (as described below under "*—Certain Covenants—Limitation on Indebtedness*" and "*—Certain Covenants—Limitation on Liens*", respectively). Except as otherwise provided in the Indenture, the Notes issued on the Issue Date and any Additional Notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, with respect to waivers, amendments, redemptions and offers to purchase. Unless the context otherwise requires, in this "*Description of Notes*", references to the "Notes" include any Additional Notes that are actually issued.

The Indenture will be subject to the terms of the Intercreditor Agreement and any Additional Intercreditor Agreements. The terms of the Intercreditor Agreement are important to understanding the relative ranking of Indebtedness and security, the ability to make payments in respect of the Indebtedness, the procedures for undertaking enforcement action, the subordination of certain Indebtedness, turnover obligations, release of security and guarantees and the payment waterfall for amounts received by the Security Agent. See "*Description of Certain Financing Arrangements—Intercreditor Agreement*" for a description of certain terms of the Intercreditor Agreement.

The registered Holder of a Note will be treated as the owner of it for all purposes. Only registered Holders will have rights under the Indenture.

Brief Description of the Notes and the Note Guarantees

The Notes

The Notes will be general senior obligations of the Issuer and will:

- rank *pari passu* in right of payment with all existing and future obligations of the Issuer that are not expressly subordinated in right of payment to the Notes, including the obligations of the Issuer under the Existing Notes, Indebtedness Incurred under the Senior Facilities Agreement and certain Hedging Obligations (including the obligations under the Secured Trading Line);
- be senior in right of payment to all existing and future obligations of the Issuer that are expressly subordinated in right of payment to the Notes;
- be secured by the Collateral on and from the Issue Date, but the Holders of the Notes will only receive proceeds from the enforcement over the Collateral and certain distressed disposals after certain

obligations of DGHL and its Subsidiaries, including the Indebtedness under the Senior Facilities Agreement and certain Hedging Obligations (including the obligations under the Secured Trading Line), have been repaid and discharged in full;

- be effectively subordinated to any existing and future obligations of the Issuer that are secured by property or assets that do not secure the Notes, to the extent of the value of the property and assets securing such obligations; and
- be structurally subordinated to all existing and future obligations of the non-Guarantor Subsidiaries of DGHL.

The Notes will be represented by one or more registered Notes in global registered form, but in certain circumstances may be represented by Definitive Registered Notes. See "*Book-Entry; Delivery and Form*".

Under the terms of the Intercreditor Agreement, in the event of an enforcement of the Collateral, the Holders of the Notes will receive proceeds from the enforcement of the Collateral or from certain distressed disposals of the Collateral only after (i) the lenders under the Senior Facilities Agreement, (ii) counterparties to certain Hedging Obligations (including the obligations under the Secured Trading Line), (iii) lenders or creditors under certain other Indebtedness permitted to be Incurred on a super priority basis under the Indenture (including any Indebtedness that refinances the Senior Facilities Agreement) and (iv) certain amounts owing to the Security Agent, any receiver and certain creditor representatives (including the Trustee) have been repaid in full. Any remaining amounts from the proceeds of the enforcement of the Collateral will then be applied, *pari passu* and pro rata, to amounts due under the Existing Notes, the Notes and any *pari passu* additional indebtedness incurred in the future. See "*Description of Certain Financing Arrangements—Intercreditor Agreement*".

The Note Guarantees

The Notes will be guaranteed by the Guarantors on the Issue Date. In addition, if required by the covenant described under "*—Certain Covenants—Additional Guarantees*", certain other Restricted Subsidiaries may provide a Note Guarantee in the future.

The Note Guarantee of each Guarantor will be a general, joint and several, senior obligation of that Guarantor and will:

- rank *pari passu* in right of payment with all existing and future obligations of that Guarantor that are not expressly subordinated in right of payment to such Note Guarantee, including the guarantees in respect of the Existing Notes, Indebtedness Incurred under the Senior Facilities Agreement and certain Hedging Obligations (including the obligations under the Secured Trading Line);
- rank senior in right of payment to all existing and future obligations of such Guarantor that are expressly subordinated in right of payment to such Note Guarantee;
- (subject to the Agreed Security Principles) be secured by the Collateral as set forth under "*—Security*", but the Holders of the Notes will only receive proceeds from the enforcement over the Collateral and certain distressed disposals after certain obligations of DGHL and its Subsidiaries, including the Indebtedness under the Senior Facilities Agreement and certain Hedging Obligations (including the obligations under the Secured Trading Line), have been repaid and discharged in full;
- be structurally subordinated to all existing and future obligations of any Subsidiaries of DGHL that are not Guarantors or the Issuer; and
- be effectively subordinated to all existing and future obligations of such Guarantor that are secured by property or assets that do not secure such Note Guarantee, to the extent of the value of the property and assets securing such obligations.

The obligations of each Guarantor under its Note Guarantee and the Security Interests it has granted to secure its Note Guarantee, if any, will be contractually limited to reflect limitations under applicable law with respect to maintenance of share capital, corporate benefit, fraudulent conveyance, financial assistance and other legal restrictions applicable to the Guarantors and their respective shareholders, directors and general partners. For a description of such contractual limitations, see "*Certain Insolvency Considerations and Limitations on Validity and Enforceability of Guarantees and Security*". By virtue of these limitations, a Guarantor's obligation under its Note Guarantee and its Security Interests, if any, could be significantly less than amounts payable with respect to the Notes. See also "*Risk Factors—Risks Related to the Notes, the Guarantees and Our Capital Structure—Each Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defences that may limit its validity and enforceability*".

General

The Issuer is a special purpose vehicle and has no material liabilities or assets other than its liabilities under the Existing Notes and the Existing Indenture, its guarantee under the Senior Facilities Agreement and certain hedging obligations (including the obligations under the Secured Trading Line), its claims under the Existing Notes Proceeds Loan Agreement pursuant to which the proceeds from the issue of the Existing Notes have been on lent to Drax Corporate Limited and, following the Issue Date, its liabilities under the Notes and the Indenture and its claims under the Proceeds Loan Agreement pursuant to which the proceeds from the issue of the Notes will be on lent to Drax Corporate Limited. Accordingly, the Issuer is dependent on payments under the Proceeds Loan and the Existing Notes Proceeds Loan to meet its obligations, including under the Indenture and the Notes. All of the operations of Drax Corporate Limited are conducted through its Subsidiaries and, therefore, Drax Corporate Limited in turn depends on the cash flow of its Subsidiaries to meet its obligations, including its obligations under its Note Guarantee, the Proceeds Loan Agreement and the Existing Notes Proceeds Loan Agreement.

Certain Restricted Subsidiaries, which include Drax Biomass Holdings Limited, Drax Holdings Limited, Drax Pension Trustees Limited, Drax Group Project Services Limited, Drax CCS Limited, Drax Generation (Selby) Limited, Abergelli Power Limited, Hirwaun Power Limited, Millbrook Power Limited, Pike Bioenergy LLC, Progress Power Limited, Opus Energy Marketing Limited, Opus Gas Limited, Select Energy Limited, Domus Energy Limited and Opus Water Limited will not guarantee the Notes. Our Unrestricted Subsidiaries, which include Drax Ouse and Drax GCo Limited, are in the process of being liquidated and will not guarantee the Notes. Any right of the Issuer or any Guarantor to receive assets of any of the non-Guarantor Subsidiaries upon that non-Guarantor Subsidiary's bankruptcy, liquidation or reorganisation (and the consequent right of the Holders of Notes to participate in those assets) will be structurally subordinated to that non-Guarantor Subsidiary's Indebtedness and other obligations (including trade payables, preference shares and lease obligations, if any), except to the extent that the Issuer or such Guarantor is itself recognised as a creditor of the non-Guarantor Subsidiary, in which case the claims of the Issuer or such Guarantor, as the case may be, would still be effectively subordinated to any obligations secured over the assets of the non-Guarantor Subsidiary and subordinated in right of payment to any Indebtedness of the non-Guarantor Subsidiary that is senior to the claims held by the Issuer or such Guarantor. See "*Risk Factors—Risks Related to the Notes, the Guarantees and Our Capital Structure—The Notes and each of the Guarantees will be structurally subordinated to present and future liabilities of DGHL's non-Guarantor subsidiaries*".

For the year ended 31 December 2017, the Guarantors generated £233 million, representing 102%, of the Group's EBITDA. As of 31 December 2017, the total assets of the Guarantors were £3,319 million (excluding goodwill), representing 94 per cent. of the Group's total assets (excluding goodwill). As of 31 December 2017, after giving *pro forma* effect to the Transactions as if they had occurred on that date, DGHL and its Restricted Subsidiaries would have had £627 million of Indebtedness outstanding, of which £222 million is represented by the Notes, £350.0 million is represented by the Existing Notes and £35.9 million is represented by the Senior Facilities Agreement. As of 31 December 2017, after giving pro forma effect to the Transactions as if they had occurred on that date, the Restricted Subsidiaries of DGHL that will not guarantee the Notes would have had no outstanding third-party Indebtedness. The Guarantees of the Guarantors may be released as set forth under "*Note Guarantees—Releases of the Note Guarantees*".

Restricted Subsidiaries and Unrestricted Subsidiaries

As of the Issue Date, all of DGHL's Subsidiaries (other than Drax Ouse and Drax GCo Limited, which are in the process of being liquidated) will be "Restricted Subsidiaries" for purposes of the Indenture. However, under the circumstances described below under the definition of "*Unrestricted Subsidiaries*," the Issuer will be permitted to designate certain of its Subsidiaries as additional "Unrestricted Subsidiaries." Unrestricted Subsidiaries of the Issuer are not subject to any of the restrictive covenants in the Indenture. Further, Unrestricted Subsidiaries of the Issuer will not guarantee the Notes.

Principal and Maturity

The Issuer will issue $300.0 million in aggregate principal amount of Notes on the Issue Date. The Notes will mature on 1 November 2025 and will be redeemed at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest and Additional Amounts, if any. The Notes will be issued in minimum denominations of $200,000 and in integral multiples of $1,000 in excess thereof.

Interest

Interest on the Notes will accrue at a rate of 6.625% per annum and will:

- be payable in cash semi-annually in arrear on 1 May and 1 November of each year, commencing on 1 November, 2018;
- be payable to the Holder of record of such Notes on 15 April or 15 October of each year, immediately preceding the related interest payment date; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

The rights of Holders to receive the payments of interest on the Notes are subject to the applicable procedures of the Depository Trust Company ("**DTC**").

Methods of Receiving Payments on the Notes

Principal, interest and premium and Additional Amounts, if any, on the Global Notes will be payable by one or more Paying Agents by wire transfer of immediately available funds to the account specified by the registered Holder thereof (being DTC or its nominee).

Principal, interest and premium and Additional Amounts, if any, on any certificated securities ("**Definitive Registered Notes**") will be payable at the specified office or agency of one or more Paying Agents maintained for such purposes. In addition, interest on the Definitive Registered Notes may be paid, at the option of the Issuer, by cheque mailed to the address of the Holder entitled thereto as shown on the register of Holders of Notes for the Definitive Registered Notes. See "*—Paying Agent and Registrar for the Notes*".

The rights of Holders to receive the payments of interest on such Notes are subject to applicable procedures of DTC. If the due date for any payment in respect of any Note is not a Business Day at the place at which such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day at such place, and will not be entitled to any further interest or other payment as a result of any such delay.

Paying Agent and Registrar for the Notes

The Issuer will maintain a Paying Agent for the Notes in the City of London. The initial Paying Agent will be The Bank of New York Mellon, London Branch.

The Issuer will also maintain a Registrar (a "**Registrar**") in Luxembourg and a Transfer Agent in Luxembourg. The initial Registrar will be The Bank of New York Mellon SA/NV, Luxembourg Branch, and the initial Transfer Agent will be The Bank of New York Mellon SA/NV, Luxembourg Branch. The Registrar, the Paying Agent and Transfer Agent, as applicable, will maintain a register reflecting ownership of the Notes outstanding from time to time, if any, and will make payments on and facilitate transfers of the Notes on behalf of the Issuer.

The Issuer may change the Paying Agent, Registrar or Transfer Agent for the Notes without prior notice to the Holders of Notes. However, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish notice of any change of Paying Agent, Registrar or Transfer Agent in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*). The Issuer, DGHL or any of its other Subsidiaries may act as Paying Agent or Registrar in respect of the Notes.

Transfer and Exchange

The Notes will be issued in global registered form without interest coupons, as follows:

- Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the U.S. Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the "**144A Global Notes**"). The 144A Global Notes will, on the Issue Date, be deposited with The Bank of New York Mellon as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC; and
- Notes sold outside the United States pursuant to Regulation S under the U.S. Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the

"**Regulation S Global Notes**"). The Regulation S Global Notes will, on the Issue Date, be deposited with a custodian for DTC and registered in the name of the nominee of DTC.

The 144A Global Notes and the Regulation S Global Notes are collectively referred to as the "**Global Notes**". Ownership of interests in the Global Notes ("**Book-Entry Interests**") will be limited to Persons that have accounts with DTC or Persons that may hold interests through such participants. Beneficial interests in the Regulation S Global Notes will initially be credited within DTC to Euroclear and Clearstream, on behalf of the owners of such interests.

Investors may hold their interests in the Regulation S Global Notes directly through Euroclear or Clearstream, if they are participants in those systems, or indirectly through organizations that are participants in those systems. Investors may also hold their interests in the Regulation S Global Notes through organizations other than Euroclear or Clearstream that are DTC participants. Each of Euroclear and Clearstream will appoint a DTC participant to act as its depositary for the interests in the Regulation S Global Notes that are held within DTC for the account of each settlement system on behalf of its participants.

Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarised below and described more fully under "*Notice to Investors*". Transfers between participants in DTC will be effected in accordance with DTC rules and will be settled in immediately available funds. In addition, transfers of Book-Entry Interests between participants in Euroclear or participants in Clearstream will be effected by Euroclear and Clearstream pursuant to customary procedures and subject to the applicable rules and procedures established by Euroclear or Clearstream and their respective participants.

Book-Entry Interests in the 144A Global Notes (the "**144A Book-Entry Interests**") may be transferred to a person who takes delivery in the form of Book-Entry Interests in the Regulation S Global Notes (the "**Regulation S Book-Entry Interests**") only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S under the U.S. Securities Act. Book-Entry Interests in the Regulation S Global Note may be transferred to a person who takes delivery in the form of Book-Entry Interests in the 144A Global Note only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "*Notice to Investors*" and such transfer is in compliance with applicable securities laws of any jurisdiction.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book-Entry Interest in the Global Note from which it was transferred and will become a Book-Entry Interest in the Global Note to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred.

If any Definitive Registered Notes are issued in exchange for a Book-Entry Interest in the Global Notes, they will be issued only in minimum denominations of $200,000 in principal amount and integral multiples of $1,000 in excess thereof, in each case upon receipt by the Registrar of instructions relating thereto and any certificates, opinions and other documentation required by the Indenture. It is expected that such instructions will be based upon directions received by DTC from the participant which owns the Book-Entry Interests. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Issuer in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarised below and described more fully under "*Notice to Investors*".

Subject to the restrictions on transfer referred to above, Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of $200,000 in principal amount and integral multiples of $1,000 in excess thereof. In connection with any such transfer or exchange, the Indenture will require the transferring or exchanging Holder to, among other things, furnish appropriate endorsements and transfer documents, to furnish information regarding the account of the transferee at DTC, where appropriate, to furnish certain certificates and opinions, and to pay any Taxes in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the Holder, other than any Taxes payable in connection with such transfer.

Notwithstanding the foregoing, the Registrar and the Transfer Agent are not required to register the transfer or exchange of any Definitive Registered Notes:

(1) for a period of 15 days prior to any date fixed for the redemption of the Notes;

(2) for a period of 15 days prior to the date fixed for selection of the Notes to be redeemed in part;

(3) for a period of 15 days prior to the record date with respect to any interest payment date with respect to such Notes; or

(4) which the Holder has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer or an Asset Disposition Offer.

The Issuer, the Trustee, the Paying Agent, the Transfer Agent, the Security Agent and the Registrar will be entitled to treat the registered Holders of the Notes as the owners thereof for all purposes.

Note Guarantees

General

The Notes will be guaranteed by the Guarantors on the Issue Date. The Guarantors and their respective jurisdictions of organisation will be as follows:

Drax Corporate Limited	England and Wales
Drax Group Holdings Limited	England and Wales
Drax Smart Generation Holdco Limited	England and Wales
Drax Fuel Supply Limited	England and Wales
Drax Power Limited	England and Wales
Drax Smart Supply Holdco Limited	England and Wales
Haven Power Limited	England and Wales
Haven Heat Limited	England and Wales
Drax Retail Developments Limited	England and Wales
Opus Energy Group Limited	England and Wales
Opus Energy Limited	England and Wales
Abbott Debt Recovery Limited	England and Wales
Opus Energy (Corporate) Limited	England and Wales
Opus Gas Supply Limited	England and Wales
Opus Energy Renewables Limited	England and Wales
Farmoor Energy Limited	England and Wales
Donnington Energy Limited	England and Wales
Drax Research and Innovation Holdco Limited	England and Wales
Drax Corporate Developments Limited	England and Wales
Drax Smart Sourcing Holdco Limited	England and Wales
Drax Innovation Limited	England and Wales
Drax Biomass Transit LLC	Delaware
Morehouse BioEnergy LLC	Delaware
Drax Biomass International Holdings LLC	Delaware
Drax Biomass Holdings LLC	Delaware
Drax Biomass Inc.	Delaware
Baton Rouge Transit LLC	Delaware
DBI O&M Company LLC	Delaware
Amite BioEnergy LLC	Delaware
Tyler BioEnergy LLC	Delaware
Jefferson Transit LLC	Delaware
LaSalle BioEnergy LLC	Delaware

Releases of Note Guarantees

The Note Guarantee of any Subsidiary Guarantor will be released automatically:

- upon a sale or other disposition (including by way of consolidation or merger) of the Capital Stock of the relevant Subsidiary Guarantor (whether by direct sale or sale of a holding company) or the sale or other disposition (including by way of a consolidation or merger) of all or substantially all the assets of the Subsidiary Guarantor, if the sale or other disposition does not violate the covenant described below under "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*" and the Subsidiary Guarantor ceases to be a Restricted Subsidiary of DGHL as a result of the sale or other disposition;

- upon written notice from DGHL to the Trustee, so long as no Event of Default has occurred and is continuing; *provided that* prior to or substantially concurrently with such release, such Subsidiary Guarantor is unconditionally released and discharged from its liabilities, if any, with respect to the Senior Facilities Agreement and the Existing Notes; *provided further that*, after giving effect to such release, the earnings before interest, tax, depreciation and amortisation calculated on the same basis as Consolidated EBITDA (as defined in the Existing Indenture) attributable to the Guarantors (determined separately for each Guarantor and excluding all intra-group items and investments in Subsidiaries of DGHL and its Restricted Subsidiaries) is at least 80% of the Consolidated EBITDA (as defined in the Existing Indenture) of DGHL and its Restricted Subsidiaries and the aggregate gross assets of the Guarantors (calculated on an unconsolidated basis and excluding all intra-group items, goodwill and investments in Subsidiaries of DGHL or any of its Restricted Subsidiaries) is at least 80% of the Total Assets (as defined in the Existing Indenture) (excluding goodwill) of DGHL and its Restricted Subsidiaries, in each case, calculated in accordance with, and in the manner provided by and subject to the same exceptions as those set forth in, Section 4.15 of the Existing Indenture as in effect on the Issue Date;

- upon the designation in accordance with the Indenture of the Subsidiary Guarantor as an Unrestricted Subsidiary;

- upon payment in full of principal, interest and all other obligations on the Notes, legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture, as provided in "*—Defeasance*" and "*—Satisfaction and Discharge*";

- in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement, including upon an enforcement action;

- as described under "*—Amendments and Waivers*";

- as described in the covenant described below under "*—Certain Covenants—Additional Guarantees*";

- upon written notice from DGHL to the Trustee, so long as no Event of Default has occurred and is continuing; *provided* that, after giving *pro forma* effect to such release, DGHL and its Restricted Subsidiaries are in compliance with the covenant described below under "*—Certain Covenants—Additional Guarantees*";

- in connection with a Permitted Reorganisation; or

- as a result of any transaction permitted by "*—Certain Covenants—Merger and Consolidation*".

The Note Guarantee of DGHL will be released automatically:

- upon payment in full of principal, interest and all other obligations on the Notes, legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture, as provided in "*—Defeasance*" and "*—Satisfaction and Discharge*";

- in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement, including upon an enforcement action;

- as described under "*—Amendments and Waivers*";

- in connection with a Permitted Reorganisation; or

- as a result of any transaction permitted by "*—Certain Covenants—Merger and Consolidation*".

The Trustee and the Security Agent shall take all necessary actions, if any, including the granting of releases or waivers under the Intercreditor Agreement or any Additional Intercreditor Agreement, reasonably requested by DGHL to effectuate any release of a Note Guarantee in accordance with these provisions, subject to customary protections and indemnifications. Each of the releases set forth above shall be effected by the Trustee without the consent of the Holders or any other action or consent on the part of the Trustee (and each holder of the Notes will be deemed to have irrevocably authorised the Trustee and the Security Agent to execute and deliver (and, at the request and cost of DGHL, each of the Trustee and the Security Agent will execute and deliver) any document to the extent necessary or reasonably requested by DGHL to evidence such release and termination).

Security

General

On the Issue Date, the Notes and the Note Guarantees will be secured by first-ranking security interests over the following:

- the shares of DGHL and certain receivables owed to Drax Group plc by DGHL;
- substantially all of the assets of the Issuer, including the receivables owed to the Issuer in respect of the Proceeds Loan pursuant to which the proceeds of the Notes are on-lent;
- the shares of the Issuer and each Subsidiary Guarantor;
- substantially all of the assets of each Guarantor incorporated or organised under the laws of England and Wales; and
- substantially all of the assets of each Guarantor located in the United States other than any real property located in the United States.

The Collateral will be pledged pursuant to the Security Documents to the Security Agent on behalf of the Holders of the Notes and holders of certain other secured obligations that are secured by the Collateral (including obligations under the Existing Notes, the Senior Facilities Agreement and certain Hedging Obligations (including the obligations under the Secured Trading Line)). Any additional security interests that may in the future be pledged to secure obligations under the Notes and the Note Guarantees would also constitute Collateral. The Collateral is also pledged on a junior basis to the Notes to the pension trustee under the Drax Power Group section of the Electricity Supply Pension Scheme. See "*Description of Certain Financing Arrangements—Pension Trustee Priority Deed*".

Subject to certain conditions, including compliance with the covenants described under "*—Certain Covenants—No Impairment of Security Interest*" and "*—Certain Covenants—Limitation on Liens*", DGHL and its Restricted Subsidiaries will be permitted to grant security over the Collateral in connection with certain future issuances of Indebtedness of DGHL, the Issuer or Restricted Subsidiaries, including any Additional Notes, in each case, as permitted under the Indenture and the Intercreditor Agreement.

The Liens on the Collateral will be limited as necessary to recognise certain limitations arising under or imposed by local law and defences generally available to providers of Collateral (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose or benefit, capital maintenance or similar laws, regulations or defences affecting the rights of creditors generally) or other considerations under applicable law. For a brief description of such limitations, see "*Certain Insolvency Considerations and Limitations on Validity and Enforceability of Guarantees and Security*".

The proceeds from the sale of the Collateral may not be sufficient to satisfy the obligations owed to the Holders of Notes and the creditors of other obligations secured thereby. No appraisals of any Collateral have been prepared by or on behalf of the Issuer, the Security Agent or the Trustee in connection with the offering of the Notes. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, the Collateral may not be able to be sold in a short period of time, or at all. See "*Risk Factors—Risks Related to the Notes, the Guarantees and Our Capital Structure—The Collateral may not be sufficient to secure the obligations under the Notes*".

Agreed Security Principles

In determining the giving of a Note Guarantee and what Liens will be provided in support of the Notes and the Note Guarantees and the extent of its perfection, the Agreed Security Principles will apply. The Agreed Security Principles embody a recognition that there may be certain practical and legal difficulties in obtaining effective Guarantees and Security from members of the DGHL Group in every jurisdiction in which DGHL and its Restricted Subsidiaries are located. Subject as referred to in the third paragraph below, Note Guarantees will not be given and Security Interests shall not be created or perfected to the extent that:

(1) it would result in a breach of general statutory limitations, financial assistance, corporate benefit, fraudulent preference, "thin capitalisation", "earnings stripping", "controlled foreign corporation", transfer pricing, capital maintenance, retention of title claims and similar principles, laws or regulations, *provided* that DGHL will use reasonable endeavours to (a) assist in demonstrating that adequate corporate benefit accrues to each relevant Guarantor and (b) complete any whitewash or similar procedure required under any relevant financial assistance laws;

(2) the provision and/or perfection of such Note Guarantees or Security Interests would result in costs (including interest deductability, stamp duty, notarisation or registration fees) to the DGHL Group or a significant tax disadvantage that, in either case, would be disproportionate to the benefit accruing to the Holders of the Notes;

(3) such assets are subject to third party arrangements which are permitted by the Indenture and which prevent those assets from being charged (or assets which, if charged, would give a third party the right to terminate or otherwise amend any rights, benefits and/or obligations of the DGHL Group in respect of those assets or require any member of the DGHL Group to take any action materially adverse to the interests of the DGHL Group or any member thereof). Such assets will be excluded from any relevant Security Document (other than from any floating charge granted pursuant to a Security Document governed by English law), *provided* that reasonable endeavours to obtain consent to charging any such assets shall be used by the relevant Restricted Subsidiary if the facility agent under the Senior Facilities Agreement determines the relevant asset to be material and (taking into account DGHL's view on any likely impact on commercial relationships with third parties) reasonably requests, consistent with current and customary market practice in the relevant jurisdiction, DGHL to do so, and *provided further*, that such requirement to use reasonable endeavours shall not apply:

    (a) in respect of any asset owned or acquired by the Issuer or any Guarantor that is subject to a Security Interest securing a purchase money, Project Finance Indebtedness, capital or finance lease obligation or Acquired Indebtedness permitted to be incurred pursuant to the Indenture (or a refinancing of any of the foregoing) if the contract or other agreement in which such Security Interest is granted (or the documentation providing for such purchase money, project financing, capital or finance lease obligation or Acquired Indebtedness or such refinancing) prohibits or restricts the creation of any other Security Interest on such assets (including if the grant of any other Security Interest would constitute a breach or default under, result in the termination of, or give rise to a right on the part of any party thereto to terminate or materially modify, such contract or agreement or such documentation); or

    (b) in the case of any capital stock of any Person that is not a Wholly-Owned Subsidiary, if such Security Interest is prohibited or restricted (including if the grant of a Security Interest would constitute a breach or default under, result in the termination of, or give rise to a right on the part of any party thereto to terminate or materially modify, any such document, contract or other agreement) by any organisational or governance documents of such Person, any applicable shareholder or similar agreement or any contract or other agreement governing Indebtedness of such Person; or

(4) it is not within the legal capacity of the relevant member of the DGHL Group to give the Note Guarantee or enter into the Security Document or it would conflict with the fiduciary duties of the Issuer's or Guarantor's directors or officers and/or contravene any legal or regulatory prohibition or could reasonably be expected to result in personal or criminal liability on the part of any director or officer provided that the relevant Issuer or Guarantor shall use reasonable endeavours to overcome any such obstacle.

No Note Guarantee, indemnity or Security Interest will be required to be provided by (i) any Unrestricted Subsidiary, (ii) any Receivables Subsidiary, or (iii) any Project Finance Subsidiary.

Where appropriate to overcome any of the matters referred to the first paragraph above, the obligations arising under Note Guarantees and the obligations secured under a Security Interest will be limited:

(1) to avoid any breach of corporate benefit, financial assistance, fraudulent preference, "thin capitalisation", "earnings stripping", "controlled foreign corporation", transfer pricing, capital

maintenance, retention of title claims and similar principles, rules or the laws or regulations (or analogous restrictions) of any applicable jurisdiction; and

(2) to avoid any risk to officers of the relevant member of the DGHL Group that is granting a Lien of contravention of their fiduciary duties and/or civil or criminal or personal liability.

The following factors will apply when determining the extent of the Note Guarantees and the Liens to be provided:

(1) the maximum amount guaranteed or secured may be limited to minimise stamp duty, notarisation, registration or other applicable fees, taxes and duties where the benefit to the Holders of the Notes of increasing the guaranteed or secured amount is disproportionate to the level of such fee, taxes and duties;

(2) each Note Guarantee will be an upstream, cross-stream and downstream guarantee and each Note Guarantee and Lien will be for all liabilities of the Issuer and Guarantors under the Notes and the Indenture in accordance with, and subject to, the requirements of each relevant jurisdiction;

(3) where a class of assets to be secured includes material and immaterial assets, if the cost of granting Liens over the immaterial assets is disproportionate to the benefit of such Lien, Liens will be granted over the material assets only;

(4) Liens will be taken in respect of all insurance policies of the Issuer and the Guarantors (other than third party insurance, public liability insurance, director's and officer's insurance and insurance of Guarantors incorporated or organised under the laws of Delaware or any other U.S. state or territory), *provided* that such insurance policy does not prohibit such Lien to be so granted and *provided further* that no perfection of Liens or notification to any third party shall be required in respect of insurance policies until the Notes have been accelerated as set out under "*—Events of Default*";

(5) where Liens are granted over an insurance policy, no loss payee or other endorsement shall be made on the insurance policy;

(6) Liens will be granted over all intellectual property of the Issuer and the Guarantors, *provided* that no Lien shall be granted over any intellectual property which cannot be secured under the terms of the relevant licensing agreement and *provided further* that no perfection or registration of Liens or notification to any third party shall be required in respect of intellectual property until the Notes have been accelerated as set out under "*—Events of Default*";

(7) where the Issuer or a Guarantor grants Liens over its intellectual property it shall be free to deal with those assets in the course of its business (including, without limitation, allowing its intellectual property to lapse if no longer material to its business);

(8) Liens will be granted over all real estate owned by the Issuer or a Guarantor, *provided* that perfection or registration of any Lien over real estate prior to the Lien becoming enforceable will only be required in respect of real estate which is material to the DGHL Group (taken as a whole) and no perfection or registration will be required in respect of leasehold property. Other than where real property of the Issuer or a Guarantor is secured by a floating charge or other similar all-asset security, Liens need only be granted over after-acquired real property where the value of such property is in excess of £2.5 million (unless the aggregate value of after-acquired property not secured would exceed £5.0 million). Notwithstanding the foregoing, no Liens will be granted over real estate in the United States;

(9) where the Issuer or a Guarantor grants Liens over real estate, there will be no obligation to investigate title, provide surveys or other insurance or environmental due diligence;

(10) Liens will be taken in respect of contracts of the Issuer or a Guarantor, *provided* that no Lien will be granted over any contract which cannot be secured under the terms of the relevant contract and *provided further* that no perfection of Liens or assignment by way of security or notification to any third party shall be required in respect of contracts until the Notes have been accelerated as set out under "*—Events of Default*";

(11) Liens shall be granted over all intercompany and trade receivables, *provided* that no Lien will be granted over any such receivables which cannot be secured under the terms of the relevant contract and *provided further* that no Lien will be required to be granted or perfected with respect to Receivables Assets that are subject to a Permitted Lien, and *provided further* that no perfection of Liens or assignment by way of security or notification to any third party in respect of such receivables shall be required until the Notes have been accelerated as set out under "*—Events of Default*";

(12) where the Issuer or a Guarantor grants a Lien over its receivables it shall be free to deal with those receivables in the course of its business until the Notes have been accelerated as set out under "*—Events of Default*";

(13) Liens will be taken in respect of shares of the Issuer and the Guarantors, but, other than where shares owned by the Issuer or a Guarantor in a subsidiary that is not the Issuer or a Guarantor are secured by a floating charge or other similar all-asset security, Liens will not be granted over such shares in subsidiaries of the Issuer or a Guarantor that are not the Issuer or a Guarantor;

(14) where the Issuer or a Guarantor grants Liens over shares, it will be permitted to retain and to exercise voting rights appertaining to any shares charged by it until the Notes have been accelerated as set out under "*—Events of Default*", *provided* that such voting rights are not exercised in a manner which materially adversely affects the validity or enforceability of the Lien;

(15) Liens will be granted over all bank accounts of the Issuer and the Guarantors other than those which are specifically identified and not required to be secured under the terms of the Senior Facilities Agreement, *provided* that no perfection of Liens or notification to any third party shall be required in respect of bank accounts until the Notes have been accelerated as set out under "*—Events of Default*" and *provided further* that no Lien will be required to be granted or perfected over any (A) bank or securities accounts, and assets credited thereto, used solely to hold funds in trust for any director, officer or employee of DGHL or any of its Restricted Subsidiaries or any employee benefit plan maintained by DGHL or any of the Restricted Subsidiaries, (B) bank or securities accounts, and assets credited thereto, the funds and assets in which consist solely of cash earnest money deposits, deposits to defease or to satisfy and discharge any Indebtedness or deposits under escrow or similar arrangements in connection with any letter of intent or agreement for any acquisition or investment permitted under this Agreement or that represent Escrowed Proceeds and (C) bank accounts used solely for collections of receivables under Qualified Receivables Financings;

(16) subject to paragraph (20) below, where the Issuer or a Guarantor pledges shares or bank accounts, the Security Document will (subject to any other provision of these Agreed Security Principles) be governed by the law of the country of incorporation of the Issuer or Guarantor whose shares are being pledged or the law of the country in which the bank account is located;

(17) subject to paragraph (8) above, where the Issuer or a Guarantor acquires assets of material value and/ or significance after the date on which it initially grants security, the Issuer or such Guarantor shall enter into Liens in accordance with the Agreed Security Principles in respect of such assets if they are of a type which, if owned at the Issue Date, Liens would have been created in accordance with the Agreed Security Principles and to the extent that such assets are not subject to the existing Liens created by the Issuer or such Guarantor;

(18) no perfection action will be required in jurisdictions where the Issuer or the Guarantors are not incorporated, but perfection action may be required in the jurisdiction of the Issuer or one Guarantor in relation to Liens granted by the Issuer or another Guarantor, respectively, incorporated in a different jurisdiction;

(19) no Note Guarantee or Lien will be granted to the extent to which the grant or terms of such Note Guarantee and Lien, and (prior to the Lien becoming enforceable) the extent of the perfection requirements in respect of such Lien, would materially and adversely impact the ability of DGHL, the Issuer or the affected Guarantor to conduct its operations and business in the ordinary course of business or as otherwise permitted under the Note Documents (including, without limitation, notification of security to third parties) until the Notes have been accelerated as set out under "*—Events of Default*"; and

(20) unless granted under a global security document governed by the law of the jurisdiction of DGHL, the Issuer or a Guarantor or under English law, all security (other than security over shares in the

Issuer or Guarantors) shall be governed by the law of and secure assets located in the jurisdiction of incorporation of DGHL, the Issuer or that Guarantor.

The following principles will be reflected in any Lien taken in respect of the Notes and the Note Guarantees:

(1) perfection of Liens, when required, and other legal formalities will be completed as soon as practicable and, in any event, within the time periods specified in the relevant Security Document or (if earlier or to the extent no such time periods are specified in the relevant Security Document) within the time periods specified by applicable law in order to ensure due perfection;

(2) the provisions of each Security Document will not be unduly burdensome on DGHL and its Restricted Subsidiaries or interfere unreasonably with the operation of its business, will be limited to those required by local law to perfect the Lien and will not impose commercial obligations;

(3) save where it is inappropriate under applicable law, Liens will not be enforceable until the Notes have been accelerated as set out under "*—Events of Default*";

(4) representations and undertakings shall be strictly limited to those necessary for the creation, perfection or maintenance of the Lien (and other matters to be agreed (all parties acting reasonably)) with respect to third party Liens given by the direct Parent Entity and shall not be included to the extent that the subject matter thereof is the same as the corresponding representation or undertaking in the Senior Facilities Agreement;

(5) information, such as lists of assets, will be provided if, and only to the extent required by local law to be provided to perfect or register the Lien and, when required, shall be provided no more frequently than annually (unless required more frequently by local law) or, following an Event of Default which is continuing, on the Security Agent's reasonable request;

(6) Liens will, where practicable and legally possible, automatically create security over future assets of the same type as those already secured; where local law requires supplemental pledges to be delivered in respect of future acquired assets in order for effective Liens to be created over that class of assets, such supplemental pledges shall be provided no more frequently than annually (unless required more frequently under local law or where required to create valid security of equivalent strength and ranking as that expressed to be created pursuant to the supplemental pledge or any existing Lien);

(7) in respect of the share pledges, the customary limitations on the exercise of voting rights to the extent these purport to protect the validity and enforceability of the Liens over shares shall apply. In addition, until the Notes have been accelerated as set out under "*Events of Default*", the pledgors will be permitted to retain and to exercise voting rights to any shares pledged by them in a manner which does not adversely affect the validity or enforceability of the Liens or cause an Event of Default to occur and the pledgors will be permitted to pay dividends upstream on pledged shares to the extent permitted by the Indenture;

(8) no control arrangements or perfection by control shall be required with respect to U.S. collateral other than with respect to certificated equity interests of other Guarantors and Significant Subsidiaries; and

(9) each party to a Security Document other than the Issuer or a Guarantor shall only be able to exercise a power of attorney after (i) notice of intention to enforce has been given following the occurrence of an Event of Default which is continuing or (ii) if the Issuer or the relevant Guarantor has failed to comply with a further assurance or perfection obligation (and any grace period applicable thereto has expired), but, in the case of (ii), only to the extent necessary in order to complete such further assurance or perfection requirement.

The Issuer and each Guarantor shall be free to deal with any assets over which it grants Liens (to the extent not otherwise prohibited by the Indenture) until the Notes have been accelerated as set out under "*Events of Default*".

Priority

The Collateral also secures liabilities under the Existing Notes, the Senior Facilities Agreement and the Secured Trading Line. In addition, subject to certain conditions, including compliance with the covenant described under *"—Certain covenants—Limitation on Indebtedness*" and "*—Certain covenants—Limitation on*

Liens," the Issuer is permitted to grant security over the Collateral in connection with future Indebtedness of the Issuer or its Restricted Subsidiaries, including certain Hedging Obligations and any Additional Notes, in each case, as permitted under the Indenture, the Existing Indenture, the Senior Facilities Agreement, the Intercreditor Agreement and any Additional Intercreditor Agreement.

The relative priority with regard to the security interests in the Collateral that are created by the Security Documents (the "**Security Interests**") as between (in no particular order) (a) the lenders under the Senior Facilities Agreement, (b) the counterparties under certain Hedging Obligations (including the obligations under the Secured Trading Line), (c) certain other Indebtedness entitled to be secured by the Collateral, including Indebtedness entitled to priority on enforcement, (d) Holders of the Notes, (e) holders of the Existing Notes and (f) the Trustee, certain other creditor representatives and the Security Agent, respectively, is established by the terms of the Intercreditor Agreement, which provides, among other things, that the obligations under the Senior Facilities Agreement, certain Hedging Obligations (including the obligations under the Secured Trading Line), the Existing Notes and the Notes are secured on a *pari passu* basis by first-priority Security Interests; *provided, however*, that the Holders of the Notes and the holders of the Existing Notes will receive proceeds from the enforcement of the Collateral and certain distressed disposals only after the lenders under the Senior Facilities Agreement, counterparties to certain Hedging Obligations (including the obligations under the Secured Trading Line), lenders or creditors under certain other Indebtedness permitted to be Incurred on a super priority basis under the Indenture and certain amounts owing to the Security Agent, any receiver and certain creditor representatives (including the Trustee) have been repaid and discharged in full. The Indenture, the Existing Indenture and the Intercreditor Agreement will restrict the ability of the Holders or the Trustee to enforce the Security Interests and provide for the release of the Security Interests created by the Security Documents in certain circumstances upon enforcement by the lenders under the Senior Facilities Agreement and certain hedge counterparties (including the hedge counterparties under the Secured Trading Line). The ability to enforce may be restricted by similar arrangements in relation to future Indebtedness that is secured on the Collateral in compliance with the Indenture, the Existing Indenture and the Intercreditor Agreement or any Additional Intercreditor Agreement. See "*Description of Certain Financing Arrangements—Intercreditor Agreement*" and "*Risk Factors—Risks Related to the Notes, the Guarantees and Our Capital Structure—Creditors under the New Senior Facilities, certain hedging obligations and other priority debt are entitled to be repaid with the proceeds of the Collateral sold in any enforcement sale in priority to the Notes*".

The Collateral is also subject to second-priority Liens in favour of the pension trustees for the Drax Power Group under the Electricity Supply Pension Scheme (the "**Second Ranking Security**"). In connection with the granting of the Second Ranking Security, the pension trustees, Deutsche Bank AG, London Branch, as security agent, DGHL and certain of its subsidiaries have entered into an amended and restated second ranking security priority deed (the "**Pension Trustee Priority Deed**"). The Pension Trustee Priority Deed provides, among other things, that (i) the Security Interests constituted by the Security Documents, which secure the Notes, the Existing Notes, the Senior Facilities Agreement and certain hedging obligations (including the obligations under the Secured Trading Line), shall rank senior in order of priority to the Second Ranking Security; (ii) prior to the discharge of the Notes, the Existing Notes, the Senior Facilities Agreement and certain hedging obligations (including the obligations under the Secured Trading Line) secured by the Collateral, the pension trustees shall not take any action to enforce the Second Ranking Security without the prior written consent of the Security Agent and (iii) the Second Ranking Security shall not be amended in a manner which might reasonably be expected to adversely affect the interests of the Security Agent or the security constituted by the Security Documents, except with the prior written consent of the Security Agent.

Security Documents

Under the Security Documents, DG plc, the Issuer and the Guarantors will grant or confirm security over the Collateral to secure the payment when due of, among others, the Issuer's and the Guarantors' payment obligations under the Notes, the Note Guarantees and the Indenture. The Security Documents have been or will be entered into by the relevant security provider and the Security Agent as agent for the secured parties. When entering into the Security Documents, the Security Agent acts in its own name, but for the benefit of the secured parties (including the Trustee and the Holders of Notes from time to time). Under the Intercreditor Agreement, the Security Agent also acts as security agent of the lenders under the Senior Facilities Agreement and the counterparties under certain Hedging Obligations (including the obligations under the Secured Trading Line) in relation to the Security Interests created in favour of such parties.

The Indenture will provide that, subject to the terms thereof and of the Security Documents and the Intercreditor Agreement, the Notes and the Note Guarantees, as applicable, will be secured by the Security

Interests in the Collateral. However, the Security Interests with respect to the Notes and the Note Guarantees may be released under certain circumstances as provided under "*—Release of Liens*" below. See "*Risk Factors—Risks Related to the Notes, the Guarantees and Our Capital Structure—Creditors under the Senior Facilities, certain hedging obligations and other priority debt are entitled to be repaid with the proceeds of the Collateral sold in any enforcement sale in priority to the Notes.*" and "*—Holders of the Notes will not control decisions regarding the Collateral in certain circumstances*". The validity and enforceability of the Security Interests will be subject to, inter alia, the limitations described in "*Certain Insolvency Considerations and Limitations on Validity and Enforceability of Guarantees and Security*".

Holders of the Notes may not, individually or collectively, take any direct action to enforce any rights in their favour under the applicable Security Documents. The Holders of the Notes may only act through the Security Agent in accordance with the terms of the Indenture, the Intercreditor Agreement and any Additional Intercreditor Agreement.

In the event that the Issuer, the Guarantors, DGHL or its other Subsidiaries enter into insolvency, bankruptcy or similar proceedings, the Security Interests created under or confirmed by the Security Documents or the rights and obligations enumerated in the Intercreditor Agreement could be subject to potential challenges. If any challenge to the validity of the Security Interests or the terms of the Intercreditor Agreement were successful, the Holders of Notes might not be able to recover any amounts under the Security Documents. See "*Risk Factors—Risks Related to the Notes, the Guarantees and Our Capital Structure—The Collateral may not be sufficient to secure the obligations under the Notes*".

Subject to the terms of the Indenture, the relevant Security Documents, the Intercreditor Agreement and any Additional Intercreditor Agreement, the Issuer and the Guarantors will have the right to remain in possession and retain exclusive control of the Collateral securing the Notes, to freely operate the property and assets constituting Collateral and to collect, invest and dispose of any income therefrom (including any and all dividends, distributions or similar cash and non-cash payments in respect of Capital Stock of the Guarantors that is part of the Collateral).

Intercreditor Agreement; Additional Intercreditor Agreements; Security Documents; Agreement to be Bound

The Indenture will provide that each Holder of the Notes, by accepting such Note, will be deemed to have:

(1) consented and agreed to the terms of the Security Documents, the Intercreditor Agreement and any Additional Intercreditor Agreement entered into in compliance with the covenant described under "*—Certain Covenants—Additional Intercreditor Agreements*" (including, without limitation, the provisions providing for foreclosure and release of the Note Guarantees and the Collateral, including upon an enforcement, and authorising the Security Agent to enter into the Security Documents on its behalf), as the same may be in effect or may be amended from time to time in accordance with its terms;

(2) authorised the Trustee and the Security Agent, as applicable, to enter into the Security Documents and, if applicable, to accede to the Intercreditor Agreement and to be bound thereby and to perform their respective obligations and exercise their respective rights thereunder in accordance therewith; and

(3) have appointed and authorised the Security Agent and the Trustee to give effect to the provisions in the Intercreditor Agreement and any Additional Intercreditor Agreement.

Please see the section entitled "*Description of Certain Financing Arrangements—Intercreditor Agreement*".

Similar provisions to those described above may be included in any Additional Intercreditor Agreement entered into in compliance with the covenant described under "*—Certain Covenants—Additional Intercreditor Agreements*".

Release of Liens

DGHL, the Issuer and the Subsidiary Guarantors will be entitled to release Security Interests in respect of the Collateral owned by DGHL, the Issuer or any such Subsidiary Guarantor under any one or more of the following circumstances:

(1) in connection with any sale or other disposition of Collateral to (a) a Person that is not DGHL or a Restricted Subsidiary (but excluding any transaction subject to "*—Certain Covenants—Merger and Consolidation*"), if such sale or other disposition does not violate the covenant described below

under "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*" or (b) to DGHL or any Restricted Subsidiary, *provided* that, in the case of this sub-clause (b), after giving *pro forma* effect to such release, the relevant Collateral will become promptly subject to a substantially equivalent Lien in favor of the Security Agent securing the Notes;

(2) in the case of a Guarantor that is released from its Note Guarantee pursuant to the terms of the Indenture, the release of the property and assets, and Capital Stock, of such Guarantor;

(3) in respect of any Collateral, automatically, without any action by the Trustee, if the Lien granted in favor of the Senior Facilities Agreement in respect of such Collateral is released (only to the extent that there is no other Indebtedness secured by a Lien on the assets constituting such Collateral that would result in the requirement for the Notes and/or the Note Guarantees to be secured on such property or assets pursuant to the covenant described under the caption "*—Certain Covenants—Limitations on Liens*", it being understood that the foregoing limitation will not be applicable to the extent that such Indebtedness is secured by a Permitted Lien), *provided that*, for the purposes of this provision only, clause (13) of the definition of "Permitted Liens" shall not apply and clause (16) of the definition of "Permitted Liens" shall not apply to any Indebtedness that was outstanding on the Issue Date;

(4) as described under "*—Amendments and Waivers*";

(5) upon payment in full of principal, interest and all other obligations on the Notes or legal defeasance, covenant defeasance or satisfaction and discharge of the Notes, as provided in "*—Defeasance*" and "*—Satisfaction and Discharge*";

(6) if DGHL designates any Restricted Subsidiary to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture, the release of the property and assets, and Capital Stock, of such Unrestricted Subsidiary;

(7) in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement;

(8) in connection with the granting of Liens on such property or assets, which may include Collateral, or the sale of such property or assets, which may include Collateral, pursuant to a Qualified Receivables Financing;

(9) as permitted by the covenant described under "*—Certain Covenants—No Impairment of Security Interest*";

(10) to release and/or re-take any Lien on any Collateral to the extent otherwise permitted by the terms of the Indenture, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement, including as part of any Permitted Reorganisation;

(11) pursuant to the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Liens*"; or

(12) as otherwise permitted in accordance with the Indenture.

DG plc will be entitled to release the Security Interests in respect of the Collateral owned by it under the circumstances described in clauses (3), (5), (7), (9), (10) and (12) of the preceding paragraph.

The Security Agent and the Trustee (to the extent action is required by it in order to effectuate such release) will take all necessary action reasonably requested by the Issuer in writing to effectuate any release of Collateral securing the Notes and the related Note Guarantees in accordance with the provisions of the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement and the relevant Security Document, subject to customary protection and indemnities. Each of the releases set forth above shall be effected by the Security Agent without the consent of the Holders of Notes or any action on the part of the Trustee (unless action is required by it to effect such release).

Proceeds Loan

Upon the issuance of the Notes, the Issuer, as lender, and Drax Corporate Limited, as borrower, will enter into the Proceeds Loan Agreement pursuant to which the Issuer will loan to Drax Corporate Limited the proceeds from the issuance of the Notes. See "*Description of Certain Financing Arrangements—The Proceeds Loan*".

The Proceeds Loan will be denominated in US dollars and will bear interest at a rate per annum at least equal to the interest rate of the Notes. Interest on the Proceeds Loan will be payable in cash semi-annually, concurrently with or prior to the relevant interest payment date for the Notes. The maturity date of the Proceeds Loan will be the same date as the maturity date of the Notes. The Proceeds Loan will be an unsecured obligation of Drax Corporate Limited.

Except as otherwise required by law, all payments under the Proceeds Loan Agreement will be made without deductions or withholding for, or on account of, any applicable Tax. In the event that Drax Corporate Limited is required to make any such deduction or withholding, it shall gross-up each payment to the Issuer to ensure that the Issuer retains a net payment equal to the payment which it would have received had no such deduction or withholding been made.

The Proceeds Loan Agreement will provide that Drax Corporate Limited will make all payments pursuant thereto on a timely basis in order to ensure that the Issuer can satisfy its payments obligations under the Notes and the Indenture, taking into account the administrative and timing requirements under the Indenture with respect to amounts payable on the Notes.

The Proceeds Loan will be assigned by way of security to the Security Agent for the benefit of the holders of the Notes, the holders of the Existing Notes, the creditors under the Senior Facilities Agreement and certain hedging obligations (including the obligations under the Secured Trading Line) on a first priority basis.

Optional Redemption

Except as described below and except as described under "*—Redemption for Taxation Reasons*", the Notes are not redeemable until 1 May 2021.

At any time prior to 1 May 2021, the Issuer may on any one or more occasions redeem up to 40% of the original principal amount of the Notes (including the original principal amount of any Additional Notes), upon not less than 10 nor more than 60 days' notice, with funds in an aggregate amount not exceeding the Net Cash Proceeds of one or more Equity Offerings at a redemption price of 106.625% of the principal amount of the Notes so redeemed, plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided* that:

(1) at least 50% of the original principal amount of the Notes (including the original principal amount of any Additional Notes) issued under the Indenture remain outstanding after each such redemption; and

(2) the redemption occurs within 180 days after the closing of such Equity Offering.

At any time prior to 1 May 2021, the Issuer may redeem all or, from time to time, part of the Notes upon not less than 10 nor more than 60 days' notice at a redemption price equal to 100% of the principal amount of the Notes, plus the Applicable Premium plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On and after 1 May 2021, the Issuer may redeem all or, from time to time, part of the Notes upon not less than 10 nor more than 60 days' notice, at the following redemption prices (expressed as a percentage of principal amount) plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period beginning on 1 May of the years indicated below:

Year	Redemption Price
2021	103.313%
2022	101.656%
2023 and thereafter	100.000%

Optional Redemption upon Certain Tender Offers

In connection with any tender offer for, or other offer to purchase, all of the Notes, in the event that holders of not less than 90% of the aggregate principal amount of the outstanding Notes validly tender and do not validly withdraw such Notes in such tender offer or offer to purchase and the Issuer or a third party making such tender offer or offer to purchase all the Notes held by such holders, within 60 days of such purchase, the Issuer will have the right, upon not less than 10 and no more than 60 days' prior notice, to redeem all (but not less than all) the

Notes that remain outstanding following such purchase at a redemption price equal to the highest price (excluding any early tender premium or similar payment) paid to each other holder in such tender offer or offer to purchase, plus, to the extent not included in the tender offer or offer to purchase payment, accrued and unpaid interest, if any, thereon, to, but excluding, the date of such redemption (subject to the right of Holders of record on a record date to receive interest on the relevant interest payment date).

General

Subject to the provisions of the Intercreditor Agreement or any Additional Intercreditor Agreement, the Issuer may repurchase Notes at any time and from time to time in the open market or otherwise.

Notice of redemption will be provided as set forth under "—*Selection and Notice*" below.

If the Issuer effects an optional redemption of any Notes, it will, for so long as such Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, inform the Luxembourg Stock Exchange of such optional redemption and confirm the aggregate principal amount of the Notes that will remain outstanding immediately after such redemption.

Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the Notes or portions thereof called for redemption on and after the redemption date. If the optional redemption date is on or after an interest record date and on or before the related interest payment date, the accrued and unpaid interest will be paid to the Person in whose name the Note is registered at the close of business on such record date, and no additional interest will be payable to Holders whose Notes are subject to redemption by the Issuer.

In connection with any redemption of any Notes (including with the proceeds from an Equity Offering), any such redemption may, at the Issuer's discretion, be subject to one or more conditions precedent. In addition, if such redemption or notice is subject to satisfaction of one or more conditions precedent, such notice may state that, in the Issuer's discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied (*provided, however*, that, in any case, such redemption date shall be no more than 60 days from the date on which such notice is first given, except that redemption notices may be given more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture), or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied by the redemption date, or by the redemption date so delayed.

Sinking Fund

The Issuer is not required to make mandatory redemption payments or sinking fund payments with respect to the Notes.

Selection and Notice

If less than all of the Notes are to be redeemed at any time, the Paying Agent or the Registrar will select the Notes for redemption in compliance with the requirements of the principal securities exchange, if any, on which such Notes are listed, and in compliance with the applicable procedures of DTC, or if such Notes are not so listed or such exchange prescribes no method of selection and such Notes are not held through DTC, or DTC prescribes no method of selection, on a pro rata basis (or, in the case of Notes issued in global form as discussed under "*Book-Entry; Delivery and Form*", based on a method that most nearly approximates a pro rata selection); *provided, however*, that no such partial redemption shall reduce the outstanding aggregate principal amount of any Note not redeemed to less than $200,000. None of the Paying Agent, the Registrar or the Trustee will be liable for any selections made in accordance with this paragraph.

For so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish notice of redemption in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*). In addition to such publication, if such Notes are in definitive certificated form, not less than 10 nor more than 60 days prior to the redemption date, the Issuer will mail such notice to Holders by first-class mail, postage prepaid, at their respective addresses as they appear on the registration books of the Registrar (with a copy to the Trustee and the Paying Agent).

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note shall state the portion of the principal amount thereof to be redeemed. In the case of a Definitive Registered Note, a new

Definitive Registered Note in principal amount equal to the unredeemed portion of any Definitive Registered Note redeemed in part will be issued in the name of the Holder thereof upon cancellation of the original Definitive Registered Note. In the case of a Global Note, an appropriate notation will be made on such Global Note to decrease the principal amount thereof to an amount equal to the unredeemed portion thereof. Subject to the terms of the redemption notice, Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of Notes called for redemption.

Redemption for Taxation Reasons

The Issuer may redeem the Notes in whole, but not in part, at any time upon giving not less than 10 nor more than 60 days' prior notice to the Holders of the Notes (which notice will be irrevocable) at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed for redemption (a "**Tax Redemption Date**") (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date) and all Additional Amounts (as defined below under "*—Withholding Taxes*"), if any, then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise, if the Issuer determines in good faith that, as a result of:

(1) any change in, or amendment to, the law or treaties (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction (as defined below) affecting taxation; or

(2) any amendment to, or change in, an official application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction or a change in published practice or revenue guidance) (each of the foregoing in clauses (1) and (2), a "**Change in Tax Law**"),

a Payor (as defined below) is, or on the next interest payment date in respect of the Notes would be, required to pay Additional Amounts with respect to the Notes (but, in the case of a Guarantor, only if the payment giving rise to such requirement cannot be made by the Issuer or another Guarantor who can make such payment without the obligation to pay Additional Amounts), and such obligation cannot be avoided by taking reasonable measures available to the Payor (including, for the avoidance of doubt, the appointment of a new Paying Agent where this would be reasonable). Such Change in Tax Law must be formally announced and become effective on or after the Issue Date (or if the applicable Relevant Tax Jurisdiction became a Relevant Tax Jurisdiction on a date after the Issue Date, such later date). The foregoing provisions shall apply (a) to a Guarantor only after such time as such Guarantor is obligated to make at least one payment on the Notes and (b) *mutatis mutandis* to any successor Person, after such successor Person becomes a party to the Indenture, with respect to a Change in Tax Law occurring after the time such successor Person becomes a party to the Indenture.

Notice of redemption for taxation reasons will be published in accordance with the procedures described under "*—Selection and Notice*". Notwithstanding the foregoing, no such notice of redemption will be given earlier than 60 days prior to the earliest date on which the Payor would be obligated to make such payment of Additional Amounts and unless at the time such notice is given, the obligation to pay Additional Amounts remains in effect. Prior to the publication or mailing of any notice of redemption of any Notes pursuant to the foregoing, the Issuer will deliver to the Trustee (a) an Officer's Certificate stating that it is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to its right so to redeem have been satisfied and that the Issuer or relevant Guarantor (but, in the case of a Guarantor, only if the payment giving rise to such requirement cannot be made by the Issuer or another Guarantor without the obligation to pay Additional Amounts) cannot avoid its obligation to pay Additional Amounts by taking reasonable measures available to it and (b) a written opinion of an independent tax counsel of recognised standing qualified under the laws of the Relevant Taxing Jurisdiction and reasonably satisfactory to the Trustee to the effect that the Payor has been or will become obligated to pay Additional Amounts as a result of a Change in Tax Law. The Trustee will accept and shall be entitled to rely on such Officer's Certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, without further inquiry, in which event it will be conclusive and binding on the Holders.

Withholding Taxes

All payments made by or on behalf of the Issuer or any Guarantor (including, in each case, any successor entity) (each, a "**Payor**") in respect of the Notes or with respect to any Note Guarantee, as applicable, will be made free and clear of and without withholding or deduction for, or on account of, any Taxes unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of:

(1) any jurisdiction from or through which payment on any such Note is made, or any political subdivision or governmental authority thereof or therein having the power to tax, by or on behalf of any Payor or the Paying Agent; or

(2) any other jurisdiction in which a Payor is organised, engaged in business for tax purposes, or otherwise considered to be a resident for tax purposes, or any political subdivision or governmental authority thereof or therein having the power to tax (each of clause (1) and (2), a "**Relevant Taxing Jurisdiction**"),

will at any time be required by law to be made from any payments made by or on behalf of the Payor or the Paying Agent with respect to any Note or Note Guarantee, including payments of principal, redemption price, interest or premium, if any, the Payor will pay (together with such payments) such additional amounts (the "**Additional Amounts**") as may be necessary in order that the net amounts received in respect of such payments, after such withholding, or deduction (including any such deduction or withholding from such Additional Amounts), will not be less than the amounts which would have been received in respect of such payments on any such Note or Note Guarantee in the absence of such withholding or deduction; *provided*, *however*, that no such Additional Amounts will be payable for or on account of:

(1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant Holder (or between a fiduciary, settlor, beneficiary, member, partner or shareholder of, or possessor of power over the relevant Holder, if the relevant Holder is an estate, nominee, trust, partnership, limited liability company or corporation) and the Relevant Taxing Jurisdiction (including, without limitation, being resident for tax purposes, or being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, the Relevant Taxing Jurisdiction) but excluding, in each case, any connection arising solely from the acquisition, ownership or holding of such Note or a Note Guarantee or the receipt of any payment or the exercise or enforcement of rights under such Note, the Indenture or a Note Guarantee;

(2) any Tax that is imposed or withheld by reason of the failure by the Holder or the beneficial owner of the Note to comply with a written request of the Payor addressed to the Holder, after reasonable notice (such notice to be provided at least 30 days before any such withholding or deduction would be made), to provide certification, information, documents or other evidence concerning the nationality, residence or identity of the Holder or such beneficial owner or to make any declaration or similar claim or satisfy any other reporting requirement relating to such matters, which is required by a statute, treaty, regulation or administrative practice of the Relevant Taxing Jurisdiction as a precondition to exemption from all or part of such Tax but only to the extent the Holder or beneficial owner is legally entitled to provide such certification or documentation;

(3) any Taxes, to the extent that such Taxes were imposed as a result of the presentation of the Note for payment (where the Notes are in the form of Definitive Registered Notes and presentation is required) more than 30 days after the relevant payment is first made available for payment to the Holder (except to the extent that the Holder would have been entitled to Additional Amounts had the Notes been presented on the last day of such 30 day period);

(4) any Taxes that are payable otherwise than by deduction or withholding from a payment on or with respect to the Notes or any Note Guarantee;

(5) any estate, inheritance, gift, sales, transfer, personal property or similar tax, assessment or other governmental charge;

(6) any withholding or deduction required pursuant to section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to sections 1471 through 1474 of the Code (or any amended or successor version that is substantively comparable and not more onerous to comply with), any current or future regulations or agreements thereunder, official

interpretations thereof, any intergovernmental agreement entered into in connection therewith, or any law, regulation or other official guidance enacted in any other jurisdiction implementing any such intergovernmental agreement; or

(7) any combination of the items (1) through (6) above.

In addition, no Additional Amounts shall be paid with respect to a Holder who is a fiduciary or a partnership or any person other than the beneficial owner of the Notes, to the extent that the beneficiary or settler with respect to such fiduciary, the member of such partnership or the beneficial owner would not have been entitled to Additional Amounts had such beneficiary, settler, member or beneficial owner held such Notes directly.

The Payor will (i) make any required withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant taxing authority in the Relevant Taxing Jurisdiction in accordance with applicable law. The Payor will use all reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Relevant Taxing Jurisdiction imposing such Taxes and will provide such certified copies, or if, notwithstanding the Payor's reasonable efforts to obtain such tax receipts, such tax receipts are not available, certified copies of other reasonable evidence of such payments as soon as reasonably practicable to the Trustee. Such copies shall be made available to the Holders upon reasonable request and will be made available at the offices of the Paying Agent. The Payor will attach to each certified copy a certificate or other reasonable evidence stating that the amount of withholding Taxes evidenced by the certified copy was paid in connection with payments in respect of the principal amount of Notes then outstanding or any interest with respect thereto.

If any Payor in good faith becomes aware that it is obligated to pay Additional Amounts under or with respect to any payment made on any Note or any Note Guarantee, at least 30 days prior to the date of such payment, the Payor will deliver to the Trustee an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable and such other information necessary to enable the Paying Agent to pay Additional Amounts to Holders on the relevant payment date (unless such obligation to pay Additional Amounts arises less than 45 days prior to the relevant payment date, in which case the Payor may deliver such Officer's Certificate as promptly as practicable after the date that is 30 days prior to the payment date). The Trustee shall be entitled to rely solely, without further inquiry, on such Officer's Certificate as conclusive proof that such payments are necessary.

Wherever in the Indenture, the Notes or this "Description of Notes" there is mentioned, in any context:

(1) the payment of principal;

(2) purchase prices in connection with a purchase of Notes;

(3) interest; or

(4) any other amount payable on or with respect to any of the Notes or any Note Guarantee,

such reference shall be deemed to include payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Payor will pay or reimburse the Holders or beneficial owners, the Trustee and the Paying Agent for any present or future stamp, issue, registration, court or documentary taxes, or similar charges or levies (including any related interest or penalties with respect thereto) or any other excise, property or similar taxes or similar charges or levies (including any related interest or penalties with respect thereto) that arise in a Relevant Taxing Jurisdiction (or, in the case of enforcement, any jurisdiction) from the execution, delivery, registration or enforcement of, or receipt of payments with respect to, any Notes, any Note Guarantee, the Indenture, or any other document or instrument in relation thereto and upon the original issuance and initial resale of the Notes (other than in each case, in connection with a transfer of the Notes after this offering (other than the initial resale by the Initial Purchasers) and limited, solely to the extent of such taxes or similar charges or levies that arise from the receipt of any payments of principal or interest on the Notes, to any such taxes or similar charges or levies that are not excluded under any of clauses (1) through (3) and (5) through (6) of the proviso of the first paragraph under this heading "*Withholding Taxes*", or any combination thereof).

The foregoing obligations will survive any termination, defeasance or discharge of the Indenture, transfer by a Holder or a beneficial owner, and will apply *mutatis mutandis* to any jurisdiction in which any successor to a Payor is organised, engaged in business for tax purposes or otherwise resident for tax purposes, or any jurisdiction from or through which any payment under, or with respect to, the Notes or the Note Guarantees is made by or on behalf of such Payor, or any political subdivision or taxing authority or agency thereof or therein.

Change of Control

If a Change of Control occurs, subject to the terms of the covenant described under this heading "*Change of Control*", each Holder will have the right to require the Issuer to repurchase all or any part (equal to $200,000 or integral multiples of $1,000 in excess thereof, *provided* that Notes of $200,000 or less may only be redeemed in whole and not in part) of such Holder's Notes at a purchase price in cash equal to 101% of the principal amount of the Notes repurchased, plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided*, *however*, that the Issuer shall not be obligated to repurchase any Notes as described under this heading "*Change of Control*", in the event and to the extent that it has unconditionally exercised its right to redeem all of the Notes and given notice of redemption as described under "*—Optional Redemption*" and that all conditions to such redemption have been satisfied or waived.

Unless the Issuer has unconditionally exercised its right to redeem all the Notes and given notice of redemption as described under "*—Optional Redemption*" and all conditions to such redemption have been satisfied or waived, no later than the date that is 60 days after any Change of Control, the Issuer will send a notice (the "**Change of Control Offer**") to the Paying Agent (with a copy to the Trustee) who will send such notice to each Holder of any Notes:

(1) stating that a Change of Control has occurred or may occur and that such Holder has the right to require the Issuer to purchase all or any part of such Holder's Notes at a purchase price in cash equal to 101% of the principal amount of such Notes plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the date of purchase (subject to the right of Holders of record on a record date to receive interest on the relevant interest payment date) (the "**Change of Control Payment**");

(2) stating the repurchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "**Change of Control Payment Date**");

(3) stating that any Note accepted for payment pursuant to the Change of Control Offer will cease to accrue interest on the Change of Control Payment Date unless the Change of Control Payment is not paid, and that any Notes or part thereof not tendered will continue to accrue interest;

(4) describing the circumstances and relevant facts regarding the transaction or transactions that constitute the Change of Control;

(5) describing the procedures determined by the Issuer, consistent with the Indenture, that a Holder must follow in order to have its Notes repurchased; and

(6) if such notice is mailed prior to the occurrence of a Change of Control, stating that the Change of Control Offer is conditional on the occurrence of such Change of Control.

On the Change of Control Payment Date, if the Change of Control shall have occurred, the Issuer will, to the extent lawful:

(1) accept for payment all Notes or portion thereof properly tendered pursuant to the Change of Control Offer;

(2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions thereof so tendered; and

(3) deliver or cause to be delivered to the Trustee an Officer's Certificate stating the aggregate principal amount of Notes or portions of the Notes being purchased by the Issuer in the Change of Control Offer.

If any Definitive Registered Notes have been issued, the Paying Agent will promptly mail to each Holder of Definitive Registered Notes so tendered the Change of Control Payment for such Notes, and the Trustee (or an authenticating agent) will, at the cost of the Issuer, promptly authenticate and mail (or cause to be transferred by book-entry) to each Holder of Definitive Registered Notes a new Definitive Registered Note equal in principal amount to the unpurchased portion of the Notes surrendered, if any; *provided* that each such new Note will be in a principal amount that is at least $200,000 and integral multiples of $1,000 in excess thereof.

For so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, the Issuer will publish notices relating to the Change of Control Offer in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notices on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Except as described above with respect to a Change of Control, the Indenture will not contain provisions that permit the Holders to require the Issuer to repurchase or redeem the Notes in the event of a takeover, recapitalisation or similar transaction. The existence of a Holder's right to require the Issuer to repurchase such Holder's Notes upon the occurrence of a Change of Control may deter a third party from seeking to acquire DGHL or its Subsidiaries in a transaction that would constitute a Change of Control.

The Issuer will not be required to make a Change of Control Offer with respect to the Notes upon a Change of Control or repurchase any Notes as described under this heading "Change of Control" if (1) a third party makes the Change of Control Offer for the Notes in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer or (2) a notice of redemption in respect of the Notes has been given in accordance with the terms of the Indenture. Notwithstanding anything to the contrary contained herein, a Change of Control Offer with respect to any Notes may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control if a definitive agreement is in place providing for the Change of Control at the time the Change of Control Offer is made.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the U.S. Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the Indenture by virtue of such compliance.

The Issuer's ability to repurchase Notes pursuant to a Change of Control Offer may be limited by a number of factors. The occurrence of certain events that constitute a Change of Control would require a mandatory prepayment of Indebtedness under the Senior Facilities Agreement and the Existing Indenture. In addition, certain events that may constitute a change of control under the Senior Facilities Agreement and require a mandatory prepayment of Indebtedness under such agreement may not constitute a Change of Control under the Indenture. Future Indebtedness of DGHL or its Subsidiaries may also contain prohibitions of certain events that would constitute a Change of Control or require such Indebtedness to be repurchased upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Issuer to repurchase the Notes could cause a default under, or require a repurchase of, such Indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on the Issuer. Finally, the Issuer's ability to pay cash to the Holders upon a repurchase may be limited by the Issuer's then existing financial resources, including the financial resources of DGHL and its Restricted Subsidiaries. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases. See "*Risk Factors—Risks Related to the Notes, the Guarantees and Our Capital Structure—The Issuer may not be able to finance a change of control offer*".

The definition of "Change of Control" includes a disposition, in one or a series of related transactions, of all or substantially all of the assets of DGHL and its Restricted Subsidiaries taken as a whole to specified other Persons. Although there is a limited body of case law interpreting the phrase "substantially all" there is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the property or assets of DGHL and its Restricted Subsidiaries taken as a whole. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder may require the Issuer to make an offer to repurchase the Notes as described above.

The provisions of the Indenture relating to the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the written consent of Holders of a majority in outstanding principal amount of the Notes.

Certain Covenants

Limitation on Indebtedness

DGHL will not, and will not permit any of its Restricted Subsidiaries to, Incur any Indebtedness (including Acquired Indebtedness); *provided, however*, that DGHL and any Restricted Subsidiary may Incur Indebtedness (including Acquired Indebtedness) if on the date of such Incurrence, after giving *pro forma* effect to the

Incurrence of such Indebtedness (including *pro forma* application of the proceeds thereof), for the most recently ended two full fiscal half-years for which internal financial statements are available immediately preceding the date on which such Indebtedness is Incurred, the Fixed Charge Coverage Ratio for DGHL and its Restricted Subsidiaries would have been at least 2.0 to 1.0.

The first paragraph of this covenant will not prohibit the Incurrence of the following Indebtedness ("**Permitted Debt**"):

(1) Indebtedness Incurred by DGHL or any Restricted Subsidiary pursuant to any Credit Facility (including in respect of letters of credit or bankers' acceptances issued or created thereunder), and any Refinancing Indebtedness in respect thereof and Guarantees in respect of such Indebtedness, in a maximum aggregate principal amount at any time outstanding not exceeding (i) £350.0 million *plus* (ii) in the case of any refinancing of any Indebtedness permitted under this clause (1) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing;

(2) (a) Guarantees by DGHL or any Restricted Subsidiary of Indebtedness of DGHL or any Restricted Subsidiary, so long as the Incurrence of such Indebtedness being guaranteed is permitted to be Incurred by another provision of this covenant; *provided* that, if the Indebtedness being guaranteed is subordinated to or *pari passu* with the Notes or a Note Guarantee, then the guarantee must be subordinated to or *pari passu* with the Notes or such Note Guarantee to the same extent as the Indebtedness being guaranteed; or

(b) without limiting the covenant described under "—*Limitation on Liens*", Indebtedness arising by reason of any Lien granted by or applicable to such Person securing Indebtedness of DGHL or any Restricted Subsidiary so long as the Incurrence of such Indebtedness is permitted under the terms of the Indenture;

(3) Indebtedness of DGHL owing to and held by any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owing to and held by DGHL or any Restricted Subsidiary; *provided*, *however*, that:

(a) if the Issuer or a Guarantor is the obligor on any such Indebtedness and the lender is not the Issuer or a Guarantor, such Indebtedness is (i) unsecured and (ii) expressly subordinated in right of payment to the prior payment in full in cash of all obligations with respect to the Notes, in the case of the Issuer, or the applicable Note Guarantee, in the case of a Guarantor to the extent legally permitted (DGHL and the Restricted Subsidiaries having completed all procedures required in the reasonable judgment of directors or officers of the obligee or obligor to protect such Persons from any penalty or civil or criminal liability in connection with the subordination of such Indebtedness), except, in the case of this clause (ii), in respect of the intercompany current liabilities Incurred in the ordinary course of business or in connection with the cash management operations of DGHL and the Restricted Subsidiaries or if the aggregate amount of such Indebtedness of the Issuer or Guarantor does not exceed £10.0 million; and

(b) (x) any subsequent issuance or transfer of Capital Stock or any other event which results in any such Indebtedness being beneficially held by a Person other than DGHL or a Restricted Subsidiary and (y) any sale or other transfer of any such Indebtedness to a Person other than DGHL or a Restricted Subsidiary, shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (3) by DGHL or such Restricted Subsidiary, as the case may be;

(4) (a) Indebtedness represented by the Notes (other than any Additional Notes) and the related Note Guarantees (including any future Note Guarantees) and any related "parallel debt" obligations under the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents, (b) any Indebtedness of DGHL or any Restricted Subsidiary (other than Indebtedness Incurred under the Senior Facilities Agreement or Indebtedness described in clause (3) of this paragraph) outstanding on the Issue Date after giving effect to the Transactions, (c) Refinancing Indebtedness Incurred in respect of any Indebtedness described in clauses (4)(a), (4)(b), (4)(c) and (5) of this paragraph or Incurred pursuant to the first paragraph of this covenant, (d) Management Advances, (e) any loan or other instrument contributing the proceeds of the Notes to DGHL or any Restricted Subsidiary and (f) any loan or other instrument contributing the proceeds of any Indebtedness Incurred in accordance with the Indenture;

(5) Indebtedness (a) of any Person outstanding on the date on which such Person becomes a Restricted Subsidiary or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) DGHL or any Restricted Subsidiary or (b) Incurred to provide all or a portion of the funds utilised to consummate the transaction or series of related transactions pursuant to which any Person became a Restricted Subsidiary or was otherwise acquired by DGHL or a Restricted Subsidiary; *provided* that, with respect to this clause (5), at the time of such acquisition or other transaction, either (x) DGHL would have been able to Incur £1.00 of additional Indebtedness pursuant to the first paragraph of this covenant after giving *pro forma* effect to the relevant acquisition and the Incurrence of such Indebtedness pursuant to this clause (5) or (y) the Fixed Charge Coverage Ratio for DGHL and its Restricted Subsidiaries for the most recently ended two full fiscal half-years for which internal financial statements are available immediately preceding such date would not be less than it was immediately prior to giving effect to such acquisition or other transaction and related Incurrence of Indebtedness pursuant to this clause (5);

(6) Indebtedness under Currency Agreements, Interest Rate Agreements, Inflation Agreements and Commodity Hedging Agreements Incurred for a bona fide business purpose (as determined in good faith by an Officer of DGHL);

(7) Indebtedness consisting of (a) Capitalised Lease Obligations, Purchase Money Obligations, mortgage financings or other financings, which in the case of mortgage financings or other financings are Incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of property, plant or equipment used in a Similar Business or (b) Indebtedness otherwise Incurred to finance the purchase, lease, rental or cost of design, construction, installation or improvement of property (real or personal) or equipment that is used or useful in a Similar Business, whether through the direct purchase of assets or the Capital Stock of any Person owning such assets, and any Indebtedness which refinances, replaces or refunds such Indebtedness, in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (7) and then outstanding, will not exceed at any time (i) the greater of £50.0 million and 1.45% of Total Assets *plus* (ii) in the case of any refinancing of any Indebtedness permitted under this clause (7) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing, together with any VAT comprised in such fees, costs and expenses;

(8) Indebtedness in respect of (a) workers' compensation claims, self-insurance obligations, performance, indemnity, surety, judgment, appeal, advance payment, customs, VAT or other Tax or other guarantees or other similar bonds, instruments or obligations and completion guarantees and warranties provided by DGHL or a Restricted Subsidiary or relating to liabilities, obligations or guarantees Incurred in the ordinary course of business or in respect of any governmental, quasi-governmental or regulatory requirement (including, without limitation, as required as a condition of participation in or otherwise permitted pursuant to energy market subsidy schemes or initiatives), (b) letters of credit, bankers' acceptances, guarantees or other similar instruments or obligations issued or relating to liabilities or obligations Incurred in the ordinary course of business or in respect of any governmental, quasi-governmental or regulatory requirement (including, without limitation, as required as a condition of participation in or otherwise permitted pursuant to energy market subsidy schemes or initiatives), *provided*, *however*, that upon the drawing of such letters of credit or other similar instruments, the obligations are reimbursed within 30 days following such drawing, (c) the financing of insurance premiums in the ordinary course of business and (d) any customary cash management, cash pooling or netting or setting off arrangements, including customary credit card facilities, purchase card, electronic funds transfers, the collection of cheques and direct debits, in each case, in the ordinary course of business;

(9) Indebtedness arising from agreements providing for customary guarantees, indemnification, obligations in respect of earnouts or other adjustments of purchase price or, in each case, similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any business or assets or Person or any Capital Stock of a Subsidiary (other than Guarantees of Indebtedness Incurred by any Person acquiring or disposing of such business or assets or such Subsidiary for the purpose of financing such acquisition or disposition); *provided* that in the case of a disposition, the maximum liability of the DGHL and its Restricted Subsidiaries in respect of all such Indebtedness shall at no time exceed the gross proceeds, including the fair market value of

non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value), actually received by DGHL and its Restricted Subsidiaries in connection with such disposition;

(10) (a) Indebtedness arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided*, *however*, that such Indebtedness is extinguished within 30 Business Days of Incurrence;

(b) customer deposits and advance payments (including prepayments) received in the ordinary course of business from customers for goods (including, without limitation, power, biomass, gas, commodities or Energy Instruments) or services purchased in the ordinary course of business;

(c) Indebtedness owed on a short-term basis of no longer than 30 days to banks and other financial institutions Incurred in the ordinary course of business of DGHL and its Restricted Subsidiaries with such banks or financial institutions that arises in connection with ordinary banking arrangements to manage cash balances of DGHL and its Restricted Subsidiaries; and

(d) Indebtedness Incurred by DGHL or a Restricted Subsidiary in connection with bankers acceptances, discounted bills of exchange or the discounting or factoring of receivables for credit management of bad debt purposes, in each case Incurred or undertaken in the ordinary course of business;

(11) Indebtedness of DGHL and any Restricted Subsidiary in an aggregate outstanding principal amount which, when taken together with any Refinancing Indebtedness in respect thereof and the principal amount of all other Indebtedness Incurred pursuant to this clause (11) and then outstanding, will not exceed (a) 100% of the Net Cash Proceeds received by DGHL from the issuance or sale (other than to a Restricted Subsidiary) of its Subordinated Shareholder Funding or Capital Stock (other than Disqualified Stock, Designated Preference Shares, an Excluded Contribution or a Parent Debt Contribution) or otherwise contributed to the equity (other than through the issuance of Disqualified Stock, Designated Preference Shares, an Excluded Contribution or a Parent Debt Contribution) of DGHL, in each case, subsequent to the Issue Date *plus* (b) in the case of any refinancing of any Indebtedness permitted under this clause (11) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing, together with any VAT comprised in such fees, costs and expenses; *provided, however*, that (i) any such Net Cash Proceeds that are so received or contributed shall be excluded for purposes of making Restricted Payments under the first paragraph and clauses (1), (6) and (14) of the third paragraph of the covenant described below under "*—Limitation on Restricted Payments*" to the extent DGHL and its Restricted Subsidiaries Incur Indebtedness in reliance thereon and (ii) any Net Cash Proceeds that are so received or contributed shall be excluded for purposes of Incurring Indebtedness pursuant to this clause (11) to the extent DGHL or any of its Restricted Subsidiaries makes a Restricted Payment under the first paragraph and clauses (1), (6) and (14) of the third paragraph of the covenant described below under "*—Limitation on Restricted Payments*" in reliance thereon;

(12) Indebtedness in an aggregate outstanding principal amount which, when taken together with any Refinancing Indebtedness in respect thereof and the principal amount of all other Indebtedness Incurred pursuant to this clause (12) and then outstanding, will not exceed (i) the greater of £100.0 million and 2.85% of Total Assets plus (ii) in the case of any refinancing of any Indebtedness permitted under this clause (12) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing, together with any VAT comprised in such fees, costs and expenses;

(13) Indebtedness arising from guarantees by DGHL or any Restricted Subsidiary granted to, or of any Indebtedness incurred by, any trustee of any management equity plan or stock option plan or any other management or employee benefit or incentive plan or unit trust scheme approved by the Board of Directors of DGHL or any Parent Entity, so long as the proceeds of the Indebtedness so guaranteed are used to purchase Capital Stock of DGHL or DG plc (other than Disqualified Stock); *provided* that the amount of any Net Cash Proceeds from the sale of such Capital Stock of DGHL or DG plc will be excluded from clauses (c)(ii) and (c)(iii) of the first paragraph of the covenant described below under the caption "*—Limitation on Restricted Payments*" and will not be considered to be Net Cash Proceeds from an Equity Offering for purposes of the provisions of the Indenture

described under "—*Optional Redemption*"; *provided further* that DG plc contributes the Net Cash Proceeds from any sale of shares in DG plc pursuant to this clause (13) to the equity of, or by way of Subordinated Shareholder Funding to, DGHL (in either case other than through the issuance of Disqualified Stock, Designated Preference Shares, an Excluded Contribution or a Parent Debt Contribution), and that (i) any such Net Cash Proceeds that are so received or contributed shall be excluded for purposes of making Restricted Payments under the first paragraph and clauses (1), (6) and (14) of the third paragraph of the covenant described below under "—*Limitation on Restricted Payments*" to the extent DGHL and its Restricted Subsidiaries Incur Indebtedness in reliance thereon and (ii) any Net Cash Proceeds that are so received or contributed shall be excluded for purposes of Incurring Indebtedness pursuant to clause (11) and this clause (13) to the extent DGHL or any of its Restricted Subsidiaries makes a Restricted Payment under the first paragraph and clauses (1), (6) and (14) of the third paragraph of the covenant described below under "—*Limitation on Restricted Payments*" in reliance thereon; and

(14) Indebtedness consisting of local lines of credit, bilateral or other non-syndicated facilities and/or working capital facilities (including in respect of letters of credit or bankers' acceptances issued or created thereunder), and any Refinancing Indebtedness in respect thereof and Guarantees in respect of such Indebtedness, in a maximum aggregate principal amount at any time outstanding not exceeding (i) £35.0 million *plus* (ii) in the case of any refinancing of any Indebtedness permitted under this clause (14) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing, together with any VAT comprised in such fees, costs and expenses.

For purposes of determining compliance with, and the outstanding principal amount of any particular Indebtedness Incurred pursuant to and in compliance with, this covenant:

(1) in the event that Indebtedness meets the criteria of more than one of the types of Indebtedness described in the first and second paragraphs of this covenant, DGHL, in its sole discretion, will classify, and may from time to time reclassify, such item of Indebtedness and only be required to include the amount and type of such Indebtedness in one (or more, if applicable) of the clauses of the second paragraph or the first paragraph of this covenant;

(2) all Indebtedness Incurred under the Senior Facilities Agreement on the Issue Date shall be deemed initially Incurred under clause (1) of the second paragraph of this covenant and may not be reclassified;

(3) Guarantees of, or obligations in respect of letters of credit, bankers' acceptances or other similar instruments relating to, or Liens securing, Indebtedness that is otherwise included in the determination of a particular amount of Indebtedness shall not be included;

(4) if obligations in respect of letters of credit, bankers' acceptances or other similar instruments are Incurred pursuant to any Credit Facility and are being treated as Incurred pursuant to clause (1), (7), (11) or (12) of the second paragraph above or the first paragraph above and the letters of credit, bankers' acceptances or other similar instruments relate to other Indebtedness, then such other Indebtedness shall not be included;

(5) the principal amount of any Disqualified Stock of DGHL or a Restricted Subsidiary, or Preferred Stock of a Restricted Subsidiary, will be equal to the greater of the maximum mandatory redemption or repurchase price (not including, in either case, any redemption or repurchase premium) or the liquidation preference thereof;

(6) Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness;

(7) subject to the provision described under "—*Financial Calculation*" below, for the purposes of determining "Total Assets" in relation to clauses (7) and (12) of the second paragraph of this covenant, Total Assets shall (in case of revolving facilities) be measured at the option of DGHL on the most recent date on which the commitments are obtained or the date on which the new Indebtedness is incurred and (in the case of term facilities) the date on which new Indebtedness is incurred by reference to the balance sheet date of the most recent fiscal half-year for which internal consolidated financial statements of DGHL are available; and

(8) the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined on the basis of IFRS.

In any case where the amount of Indebtedness that may be incurred pursuant to any clause in the second paragraph of this covenant is or may be based on Total Assets, the amount that may be Incurred under such clause shall be deemed to include all amounts necessary to renew, refund, refinance, replace, defease or discharge any Indebtedness Incurred pursuant to such clause.

Accrual of interest, accrual of dividends, the accretion of accreted value, the accretion or amortisation of original issue discount, the payment of interest in the form of additional Indebtedness, the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock or the reclassification of commitments or obligations treated as Indebtedness due to a change in IFRS will not be deemed to be an Incurrence of Indebtedness for purposes of the covenant described under this "*—Limitation on Indebtedness*". Except as otherwise specified, the amount of any Indebtedness outstanding as of any date shall be the principal amount, or liquidation preference thereof.

If at any time an Unrestricted Subsidiary becomes a Restricted Subsidiary, any Indebtedness of such Subsidiary shall be deemed to be Incurred by a Restricted Subsidiary of DGHL as of such date (and, if such Indebtedness is not permitted to be Incurred as of such date under the covenant described under this "*—Limitation on Indebtedness*", the Issuer shall be in Default of this covenant).

For purposes of determining compliance with any sterling-denominated restriction on the Incurrence of Indebtedness, the Sterling Equivalent of the principal amount of Indebtedness denominated in another currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or first committed, in the case of Indebtedness Incurred under a revolving credit facility; *provided* that (a) if such Indebtedness is Incurred to refinance other Indebtedness denominated in a currency other than sterling, and such refinancing would cause the applicable sterling-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such sterling-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the amount set forth in clause (2) of the definition of Refinancing Indebtedness; (b) the Sterling Equivalent of the principal amount of any such Indebtedness outstanding on the Issue Date shall be calculated based on the relevant currency exchange rate in effect on the Issue Date; and (c) if any such Indebtedness that is denominated in a different currency is subject to a Currency Agreement (with respect to sterling) covering principal amounts payable on such Indebtedness, the amount of such Indebtedness expressed in sterling will be adjusted to take into account the effect of such agreement.

Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that DGHL or a Restricted Subsidiary may Incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

Limitation on Restricted Payments

DGHL will not, and will not permit any of its Restricted Subsidiaries, directly or indirectly, to:

(1) declare or pay any dividend or make any other payment or distribution on or in respect of DGHL's or any Restricted Subsidiary's Capital Stock (including any payment in connection with any merger or consolidation involving DGHL or any of its Restricted Subsidiaries) except:

  (a) dividends or distributions payable in Capital Stock of DGHL (other than Disqualified Stock) or in options, warrants or other rights to purchase such Capital Stock of DGHL or in Subordinated Shareholder Funding; and

  (b) dividends or distributions payable to DGHL or a Restricted Subsidiary (and, in the case of any such Restricted Subsidiary making such dividend or distribution, to holders of its Capital Stock other than DGHL or another Restricted Subsidiary on no more than a *pro rata* basis, measured by value);

(2) purchase, redeem, retire or otherwise acquire for value any Capital Stock of DGHL or any direct or indirect Parent Entity of DGHL held by Persons other than DGHL or a Restricted Subsidiary (other than in exchange for Capital Stock of DGHL (other than Disqualified Stock));

(3) make any principal payment on, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment, any Subordinated Indebtedness (other than (a) any such payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement or in anticipation of satisfying a sinking fund obligation, principal instalment or final maturity, in each case, due within one year of the date of payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement and (b) any Indebtedness Incurred pursuant to clause (3) of the second paragraph of the covenant described under "—*Limitation on Indebtedness*");

(4) make any payment (whether of principal, interest or other amounts) on, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value, any Subordinated Shareholder Funding (other than any payment of interest thereon in the form of additional Subordinated Shareholder Funding); or

(5) make any Restricted Investment in any Person,

(each such dividend, distribution, payment, purchase, redemption, repurchase, defeasance, other acquisition, retirement or Restricted Investment referred to in clauses (1) through (5) is referred to herein as a "**Restricted Payment**"), if at the time DGHL or such Restricted Subsidiary makes such Restricted Payment:

(a) a Default shall have occurred and be continuing (or would result immediately thereafter therefrom);

(b) DGHL is not able to Incur an additional £1.00 of Indebtedness pursuant to the first paragraph of the covenant described under "—*Limitation on Indebtedness*" after giving effect, on a *pro forma* basis, to such Restricted Payment; or

(c) the aggregate amount of such Restricted Payment and all other Restricted Payments made subsequent to the Issue Date (and not returned or rescinded) (including Permitted Payments permitted below by clauses (5), (10) and (16) of the second succeeding paragraph, but excluding all other Restricted Payments permitted by the second succeeding paragraph) would exceed the sum of (without duplication):

(i) 50% of Consolidated Net Income for the period (treated as one accounting period) from the beginning of the half-year period commencing 1 January 2017 to the end of DGHL's most recently ended fiscal half-year for which internal consolidated financial statements of DGHL are available at the time of such Restricted Payment (or, in the case such Consolidated Net Income is a deficit, minus 100% of such deficit);

(ii) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the last paragraph of this covenant) of property or assets or marketable securities, received by DGHL from the issue or sale of its Capital Stock (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding subsequent to 5 May 2017 or otherwise contributed to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares) of DGHL subsequent to the Issue Date (other than (v) Subordinated Shareholder Funding or Capital Stock in each case sold to a Subsidiary of DGHL, (w) Net Cash Proceeds or property or assets or marketable securities received from an issuance or sale of such Capital Stock to a Restricted Subsidiary or an employee stock ownership plan or trust established by DGHL or any Subsidiary of DGHL for the benefit of its employees to the extent funded by DGHL or any Restricted Subsidiary, (x) Net Cash Proceeds or property or assets or marketable securities to the extent that any Restricted Payment has been made from such proceeds in reliance on clause (1), (6) or (14) of the second succeeding paragraph, (y) Excluded Contributions or Parent Debt Contributions and (z) Net Cash Proceeds used to Incur Indebtedness pursuant to clause (11) of the covenant described under "—*Limitation on Indebtedness*");

(iii) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the last paragraph of this covenant) of property or assets or marketable securities, received by DGHL or any Restricted Subsidiary from the issuance or sale (other than to DGHL or a Restricted Subsidiary or an employee stock ownership plan or trust established by DGHL or any Subsidiary of DGHL for the benefit of its employees to the extent funded by DGHL or any Restricted Subsidiary) by DGHL or any Restricted

Subsidiary subsequent to 5 May 2017 of any Indebtedness that has been converted into or exchanged for Capital Stock of DGHL (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding (plus the amount of any cash, and the fair market value (as determined in accordance with the last paragraph of this covenant) of property or assets or marketable securities, received by DGHL or any Restricted Subsidiary upon such conversion or exchange) but excluding (x) Disqualified Stock or Indebtedness issued or sold to a Subsidiary of DGHL, (y) Net Cash Proceeds to the extent that any Restricted Payment has been made from such proceeds in reliance on clause (1), (6) or (14) of the second succeeding paragraph and (z) Excluded Contributions or Parent Debt Contributions;

(iv) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the last paragraph of this covenant) of property or assets or marketable securities, received by DGHL or any Restricted Subsidiary from the disposition of any Investment in any Unrestricted Subsidiary or the disposition or repayment of any Investment constituting a Restricted Payment made after 5 May 2017 (other than a disposition to DGHL or a Restricted Subsidiary of DGHL or an employee stock ownership plan or trust established by DGHL or any Restricted Subsidiary of DGHL for the benefit of its employees to the extent funded by DGHL or any Restricted Subsidiary), (i) excluding the amount of any Investment in such Unrestricted Subsidiary that constituted a Permitted Investment made pursuant to clause (11) or (18) of the definition of "Permitted Investment", (ii) excluding any amount that replenishes the amounts available pursuant to such clause and (iii) excluding any Net Cash Proceeds, and the fair market value (as determined in accordance with the last paragraph of this covenant) of any property, assets or marketable securities, received from a disposition in the form of a reclassification or exchange for, or the proceeds of which are used for, making a Permitted Investment pursuant to clause (20) of the definition of "Permitted Investment";

(v) in the event that an Unrestricted Subsidiary (designated as such subsequent to 5 May 2017) is redesignated as a Restricted Subsidiary, all of the assets of such Unrestricted Subsidiary are transferred to DGHL or a Restricted Subsidiary or such Unrestricted Subsidiary is merged or consolidated into DGHL or a Restricted Subsidiary, 100% of the amount received in cash and the fair market value (as determined in accordance with the last paragraph of this covenant) of any property or marketable securities received by DGHL or any Restricted Subsidiary in respect of such redesignation, merger, consolidation or transfer of assets, excluding the amount of any Investment in such Unrestricted Subsidiary that constituted a Permitted Investment made pursuant to (i) clause (11) or (18) of the definition of "Permitted Investment" and excluding any amount that replenishes the amounts available pursuant to such clause or (ii) clause (20) of the definition of "Permitted Investment", but only to the extent that the original Investment which has been reclassified, exchanged for or the proceeds of which have been used to make a Permitted Investment under clause (20) of that definition was an Investment in a Restricted Subsidiary; and

(vi) 100% of any dividends or distributions received by DGHL or a Restricted Subsidiary after 5 May 2017 from an Unrestricted Subsidiary, excluding the amount of any dividends or distributions to the extent such amount replenishes the amounts available pursuant to clause (11) or (18) of the definition of "Permitted Investment",

provided, *however*, that no amount will be included in Consolidated Net Income for purposes of the preceding clause (i) to the extent that it is (at DGHL's option) included in the foregoing clause (iv), (v) or (vi).

The foregoing provisions will not prohibit any of the following (collectively, "**Permitted Payments**"):

(1) any Restricted Payment made by exchange (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares) for, or out of the proceeds of the substantially concurrent sale (other than to a Subsidiary of DGHL) of, Capital Stock of DGHL (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding or a substantially concurrent contribution to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares

or through an Excluded Contribution or a Parent Debt Contribution) of DGHL; *provided*, *however*, that to the extent so applied, the Net Cash Proceeds, or fair market value (as determined in accordance with the last paragraph of this covenant) of property or assets or of marketable securities, from such sale of Capital Stock or Subordinated Shareholder Funding or such contribution will be excluded from clauses (c)(ii) and (c)(iii) of the first paragraph of this covenant and clauses (6) and (14) of this paragraph;

(2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness made by exchange for, or out of the proceeds of the substantially concurrent sale of, Refinancing Indebtedness permitted to be Incurred pursuant to the covenant described under *"—Limitation on Indebtedness*" above;

(3) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Preferred Stock of DGHL or a Restricted Subsidiary made by exchange for or out of the proceeds of the substantially concurrent sale of Disqualified Stock or Preferred Stock of DGHL or a Restricted Subsidiary, as the case may be, that, in each case, is permitted to be Incurred pursuant to the covenant described under "*—Limitation on Indebtedness*" above, and that in each case, constitutes Refinancing Indebtedness;

(4) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness:

  (a) from Net Available Cash to the extent permitted under "*—Limitation on Sales of Assets and Subsidiary Stock*" below, but only (i) if the Issuer shall have first complied with the terms described under "*—Limitation on Sales of Assets and Subsidiary Stock*" and purchased all Notes tendered pursuant to any offer to repurchase all the Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Indebtedness and (ii) at a purchase price not greater than 100% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest;

  (b) following the occurrence of a Change of Control (or other similar event described therein as a "change of control"), but only (i) if the Issuer shall have first complied with the terms described under "*—Change of Control*" and purchased all Notes tendered pursuant to the offer to repurchase all the Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Indebtedness and (ii) at a purchase price not greater than 101% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest; or

  (c) (i) consisting of Acquired Indebtedness (other than Indebtedness Incurred (A) to provide all or any portion of the funds utilised to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was otherwise acquired by DGHL or a Restricted Subsidiary or (B) otherwise in connection with or contemplation of such transaction or series of transactions) and (ii) at a purchase price not greater than 100% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest and any premium (including additional amounts) required by the terms of such Acquired Indebtedness;

(5) any dividends paid or the consummation of any redemption within 60 days after the date of declaration or giving of the redemption notice, as the case may be, if at such date of declaration such dividend, or at such date of giving of the redemption notice such redemption payment, would have complied with this covenant;

(6) the purchase, repurchase, redemption, defeasance or other acquisition, cancellation or retirement for value of Capital Stock of DGHL, any Restricted Subsidiary or any Parent Entity (including any options, warrants or other rights in respect thereof) and loans, advances, dividends or distributions by DGHL to any Parent Entity to permit any Parent Entity to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of DGHL, any Restricted Subsidiary or any Parent Entity (including any options, warrants or other rights in respect thereof), or payments to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of DGHL, any Restricted Subsidiary or any Parent Entity (including any options, warrants or other rights in respect thereof), in each case from any current or former officer, director, employee or consultant of DGHL, any Restricted Subsidiary or any Parent Entity; *provided* that such payments,

loans, advances, dividends or distributions do not exceed an amount (net of repayments of any such loans or advances) equal to (a) £7.5 million, *plus* £7.5 million multiplied by the number of calendar years that have commenced since the Issue Date, *plus* (b) the Net Cash Proceeds received by DGHL or its Restricted Subsidiaries since the Issue Date (including through receipt of proceeds from the issuance or sale of its Capital Stock or Subordinated Shareholder Funding to a Parent Entity), or as a contribution to the equity (in each case under this clause (6), other than through the issuance of Disqualified Stock or Designated Preference Shares) of DGHL from, the issuance or sale to any current or former officer, director, employee or consultant of DGHL, any Restricted Subsidiary or any Parent Entity of Capital Stock (including any options, warrants or other rights in respect thereof), in each case, to the extent such Net Cash Proceeds are not included in any calculation under clause (c)(ii) or (c)(iii) of the first paragraph of this covenant and clauses (1) and (14) of this paragraph and are not Excluded Contributions or Parent Debt Contributions; and *provided further* that cancellation of Indebtedness owing to DGHL or any Restricted Subsidiary from members of management, directors, employees or consultants of any Parent Entity, DGHL or Restricted Subsidiaries in connection with a repurchase of Capital Stock of DGHL or any Parent Entity will not be deemed to constitute a Restricted Payment for purposes of this covenant or any other provision of the Indenture;

(7) the declaration and payment of dividends to holders of any class or series of Disqualified Stock, or of any Preferred Stock of a Restricted Subsidiary, Incurred in accordance with the terms of the covenant described under "*—Limitation on Indebtedness*";

(8) purchases, repurchases, redemptions, defeasances or other acquisitions or retirements of Capital Stock deemed to occur upon the exercise of stock options, warrants or other rights in respect thereof if such Capital Stock represents a portion of the exercise price thereof;

(9) dividends, loans, advances or distributions to any Parent Entity or other payments by DGHL or any Restricted Subsidiary in amounts not exceeding (without duplication):

   (a) the amounts required for any Parent Entity, without duplication, to pay any Parent Expenses or any Related Taxes; or

   (b) (i) amounts constituting or to be used for purposes of making payments of fees, expenses, principal, interest or other amounts in connection with the Transactions and as disclosed in the Offering Memorandum or (ii) amounts constituting or to be used for purposes of making payments of fees and expenses to the extent specified in clauses (2), (3), (5), (7) and (11) of the second paragraph under "*—Limitation on Affiliate Transactions*";

(10) so long as no Default or Event of Default has occurred and is continuing (or would result therefrom), loans, advances, dividends or distributions by DGHL to any Parent Entity to permit any Parent Entity to declare and pay dividends in an amount not to exceed £55.0 million per calendar year (with any unused amounts being carried over in succeeding calendar years);

(11) payments by DGHL, or loans, advances, dividends or distributions to any Parent Entity to make payments, to holders of Capital Stock of DGHL or any Parent Entity in lieu of the issuance of fractional shares of such Capital Stock; *provided*, *however*, that any such payment, loan, advance, dividend or distribution shall not be for the purpose of evading any limitation of this covenant or otherwise to facilitate any dividend or other return of capital to the holders of such Capital Stock (as determined in good faith by an Officer of DGHL);

(12) Restricted Payments in an aggregate amount outstanding at any time not to exceed the aggregate cash amount of Excluded Contributions, or an amount equal to the fair market value of non-cash Excluded Contributions, or Restricted Payments in exchange for or using as consideration Restricted Payments previously made under this clause (12);

(13) payment of any Receivables Fees and purchases of Receivables Assets pursuant to a Receivables Repurchase Obligation in connection with a Qualified Receivables Financing;

(14) (a) the declaration and payment of dividends to holders of any class or series of Designated Preference Shares of DGHL issued after the Issue Date; and (b) the declaration and payment of dividends to any Parent Entity or any Affiliate thereof, the proceeds of which will be used to fund the payment of dividends to holders of any class or series of Designated Preference Shares of such Parent Entity or Affiliate issued after the Issue Date; *provided*, *however*, that, in the case of clauses

(a) and (b), the amount of all dividends declared or paid pursuant to this clause (14) shall not exceed the Net Cash Proceeds received by DGHL or the aggregate amount contributed in cash to the equity of DGHL, or contributed as Subordinated Shareholder Funding to DGHL (in either case other than through the issuance of Disqualified Stock or an Excluded Contribution or a Parent Debt Contribution or, in the case of Designated Preference Shares of Parent Entity or an Affiliate, the issuance of Designated Preference Shares) from the issuance or sale of such Designated Preference Shares;

(15) dividends or other distributions of Capital Stock, Indebtedness or other securities of Unrestricted Subsidiaries;

(16) so long as no Default or Event of Default has occurred and is continuing (or would result therefrom), any Restricted Payments; *provided* that, on the date of any such dividend, distribution, loan or other payment, the Consolidated Net Leverage Ratio for DGHL and its Restricted Subsidiaries does not exceed 3.00 to 1.0 on a *pro forma* basis after giving effect thereto;

(17) so long as no Default or Event of Default has occurred and is continuing (or would result from), Restricted Payments in an aggregate amount outstanding at any time not to exceed the greater of £100.0 million and 2.85% of Total Assets; and

(18) dividends, loans, distributions, advances or other payments by DGHL or any of its Restricted Subsidiaries to or on behalf of a Parent Entity to service the substantially concurrent payment of regularly scheduled interest amounts (including any additional amounts required to be paid by reason of a deduction or withholding for or on account of Tax) on Indebtedness the proceeds of which have been contributed to DGHL or any Restricted Subsidiary as a Parent Debt Contribution and that has been guaranteed by, or is otherwise considered Indebtedness of, DGHL or any Restricted Subsidiary Incurred in accordance with the covenant described under "*—Limitation on Indebtedness*".

The amount of all Restricted Payments (other than cash) shall be the fair market value on the date of such Restricted Payment of the assets or securities proposed to be paid, transferred or issued by DGHL or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment. The fair market value of any cash Restricted Payment shall be its face amount. The fair market value of property or assets other than cash covered by the preceding sentence shall be the fair market value thereof as determined in good faith by an Officer of DGHL, or, if such fair market value exceeds the greater of £15.0 million and 0.45% of Total Assets, by the Board of Directors of DGHL.

For purposes of determining compliance with this covenant, DGHL will be entitled to divide and classify any Permitted Payment (or portion thereof) that meets the criteria of more than one of the categories of Permitted Payments described in clauses (1) through (18) of the definition of Permitted Payments, Restricted Payments made pursuant to the first paragraph of this covenant or Permitted Investment on the date of its payment or later reclassify (based on circumstances existing on the date of such reclassification) such Permitted Payment, Restricted Payment or Permitted Investment (or portion thereof) in any manner that complies with this covenant, including in each case as an Investment pursuant to one or more of the clauses contained in the definition of "Permitted Investment" and may aggregate capacity in multiple clauses of the definition of Permitted Payments above, the first paragraph of this covenant and/or in the definition of "Permitted Investment" in any manner that complies with this covenant.

Limitation on Liens

DGHL will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, Incur or suffer to exist any Lien upon any of its property or assets (including Capital Stock of a Restricted Subsidiary), whether owned on the Issue Date or acquired after that date, or any interest therein or any income or profits therefrom, which Lien is securing any Indebtedness (such Lien, the "**Initial Lien**"), except (a) in the case of any property or asset that does not constitute Collateral, (1) Permitted Liens or (2) Liens on property or assets that are not Permitted Liens if the obligations under the Notes and the Indenture are directly secured, subject to the Agreed Security Principles, equally and rateably with, or prior to, in the case of Liens with respect to Subordinated Indebtedness, the Indebtedness secured by such Initial Lien for so long as such Indebtedness is so secured, and (b) in the case of any property or asset that constitutes Collateral, Permitted Collateral Liens.

Any such Lien created in favour of the Notes pursuant to clause (a)(2) above will be automatically and unconditionally released and discharged upon (i) the release and discharge of the Initial Lien to which it relates and (ii) otherwise as set forth under "*—Security—Release of Liens*".

For the avoidance of doubt, for purposes of determining compliance with any pound sterling-denominated restriction on the incurrence of any Lien where the Indebtedness secured by such Lien is denominated in a different currency, the amount of such Indebtedness shall be the Sterling Equivalent determined on the date of such determination; *provided, however*, that if any such Indebtedness is Indebtedness that is denominated in a different currency and is subject to a Currency Hedging Agreement (with respect to pounds sterling) covering principal amounts payable on such Indebtedness, the amount of such Indebtedness expressed in pounds sterling shall be adjusted to take into account the effect of such agreement. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness secured by any Lien that DGHL or a Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded, with respect to any outstanding Indebtedness, solely as a result of fluctuations in the exchange rates of currencies or a decrease in Total Assets after such Indebtedness is Incurred (and such Indebtedness will be permitted to be refinanced with other secured Indebtedness and so secured notwithstanding that, after giving effect to such refinancing, such excess shall continue).

Limitation on Restrictions on Distributions from Restricted Subsidiaries

DGHL will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of (a) Drax Corporate Limited or any successor borrower to make payments on the Proceeds Loan or (b) any Restricted Subsidiary to:

(A) pay dividends or make any other distributions in cash or otherwise on its Capital Stock, or with respect to any other interest or participation in, or measured by, its profits, or pay any Indebtedness owed to DGHL or any other Restricted Subsidiary;

(B) make any loans or advances to DGHL or any Restricted Subsidiary; or

(C) sell, lease or transfer any of its property or assets to DGHL or any Restricted Subsidiary,

provided that (x) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (y) the subordination of (including the application of any standstill requirements to) loans or advances made to DGHL or any Restricted Subsidiary to other Indebtedness Incurred by DGHL or any Restricted Subsidiary shall not be deemed to constitute such an encumbrance or restriction.

The provisions of the preceding paragraph will not prohibit:

(1) any encumbrance or restriction pursuant to (a) any Credit Facility (including the Senior Facilities Agreement, the Existing Indenture and the Indenture), the Notes, the Existing Notes, the Note Guarantees, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Security Documents or (b) any other agreement or instrument, in each case described in (a) or (b), in effect at or entered into on the Issue Date;

(2) any encumbrance or restriction pursuant to an agreement or instrument of a Person or relating to any Capital Stock or Indebtedness of a Person, entered into on or before the date on which such Person was acquired by or merged, consolidated or otherwise combined with or into DGHL or any Restricted Subsidiary, or on which such agreement or instrument is assumed by DGHL or any Restricted Subsidiary in connection with an acquisition of assets (other than Capital Stock or Indebtedness Incurred as consideration in, or to provide all or any portion of the funds utilised to consummate, the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was acquired by DGHL or was merged, consolidated or otherwise combined with or into DGHL or any Restricted Subsidiary and entered into or in connection with such transaction) and outstanding on such date; *provided* that, for the purposes of this clause (2), if another Person is the surviving entity or the resulting, surviving or transferee Person following the acquisition by or merger, consolidation or combination with or into DGHL or any Restricted Subsidiary (the "**Successor Company**"), any Subsidiary thereof or agreement or instrument of such Person or any such Subsidiary shall be deemed acquired or assumed by DGHL or any Restricted Subsidiary when such Person becomes the Successor Company; *provided further*, that, in the case of Indebtedness, such Indebtedness was permitted to be Incurred under the Indenture;

(3) any encumbrance or restriction pursuant to an agreement or instrument effecting a refinancing of Indebtedness Incurred pursuant to, or that otherwise refinances, an agreement or instrument referred to in clause (1) or (2) of this paragraph or this clause (3) (an "**Initial Agreement**") or contained in any amendment, supplement or other modification to an agreement referred to in clause (1) or (2) of

this paragraph or this clause (3); *provided*, *however*, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such agreement or instrument are no less favourable in any material respect to the Holders taken as a whole than the encumbrances and restrictions contained in the Initial Agreement or Initial Agreements to which such refinancing or amendment, supplement or other modification relates (as determined in good faith by an Officer of DGHL);

(4) any encumbrance or restriction:

(a) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, or the assignment or transfer of any lease, license or other contract;

(b) contained in mortgages, charges, pledges or other security agreements permitted under the Indenture or securing Indebtedness of DGHL or a Restricted Subsidiary permitted under the Indenture to the extent such encumbrances or restrictions restrict the transfer of the property or assets subject to such mortgages, charges, pledges or other security agreements; or

(c) pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easement agreements of DGHL or any Restricted Subsidiary;

(5) any encumbrance or restriction pursuant to Purchase Money Obligations and Capitalised Lease Obligations permitted under the Indenture, in each case, that impose encumbrances or restrictions on the property so acquired in the nature of those described in clause (c) of the preceding paragraph, or any encumbrance or restriction pursuant to a joint venture agreement that imposes restrictions on the distribution or transfer of the assets or Capital Stock of the joint venture;

(6) any encumbrance or restriction with respect to a Restricted Subsidiary (or any of its property or assets) imposed pursuant to an agreement entered into for the direct or indirect sale or disposition to a Person of all or substantially all the Capital Stock or assets of such Restricted Subsidiary (or the property or assets that are subject to such restriction) pending the closing of such sale or disposition;

(7) customary provisions in leases, licenses, joint venture agreements and other similar agreements and instruments entered into in the ordinary course of business;

(8) encumbrances or restrictions arising or existing by reason of applicable law or any applicable rule, regulation or order, or required by any regulatory authority;

(9) any encumbrance or restriction on cash or other deposits or net worth imposed by customers under agreements entered into in the ordinary course of business;

(10) any encumbrance or restriction pursuant to Currency Agreements, Interest Rate Agreements, Inflation Agreements or Commodity Hedging Agreements;

(11) any encumbrance or restriction arising pursuant to an agreement or instrument (a) relating to any Indebtedness permitted to be Incurred subsequent to the Issue Date pursuant to the provisions of the covenant described under "*—Limitation on Indebtedness*" if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favourable to the Holders of the Notes than (i) the encumbrances and restrictions contained in the Senior Facilities Agreement, together with the Security Documents, and the Intercreditor Agreement, in each case, as in effect on the Issue Date or (ii) as is customary in comparable financings (as determined in good faith by an Officer of DGHL) or (b) constituting an Additional Intercreditor Agreement;

(12) restrictions effected in connection with a Qualified Receivables Financing that, in the good faith determination of an Officer of DGHL, are necessary or advisable to effect such Qualified Receivables Financing; or

(13) any encumbrance or restriction existing by reason of any Lien permitted under "*—Limitation on Liens*".

Limitation on Sales of Assets and Subsidiary Stock

DGHL will not, and will not permit any Restricted Subsidiary to, consummate any Asset Disposition unless:

(1) the consideration DGHL or such Restricted Subsidiary receives for such Asset Disposition is not less than the fair market value of the assets sold (as determined by an Officer of DGHL); and

(2) at least 75% of the consideration DGHL or such Restricted Subsidiary receives in respect of such Asset Disposition consists of:

(i) cash (including any Net Cash Proceeds received from the conversion within 180 days of such Asset Disposition of securities, notes or other obligations received in consideration of such Asset Disposition);

(ii) Cash Equivalents;

(iii) the assumption by the purchaser of (x) any liabilities recorded on DGHL's or such Restricted Subsidiary's balance sheet or the notes thereto (or, if Incurred since the date of the latest balance sheet, that would be recorded on the next balance sheet) (other than Subordinated Indebtedness), as a result of which neither DGHL nor any of the Restricted Subsidiaries remains obligated in respect of such liabilities or (y) Indebtedness of a Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Disposition, if DGHL and each other Restricted Subsidiary is released from any guarantee of such Indebtedness as a result of such Asset Disposition;

(iv) Replacement Assets;

(v) any Capital Stock or assets of the kind referred to in clause (4) or (6) in the second paragraph of this covenant;

(vi) consideration consisting of Indebtedness of the Issuer or any Guarantor received from Persons who are not DGHL or any Restricted Subsidiary, but only to the extent that such Indebtedness (x) has been extinguished by the Issuer or the applicable Guarantor and (y) is not Subordinated Indebtedness of the Issuer or such Guarantor;

(vii) any Designated Non-Cash Consideration received by DGHL or any Restricted Subsidiary, having an aggregate fair market value, taken together with all other Designated Non-Cash Consideration received pursuant to this covenant that is at any one time outstanding, not to exceed the greater of £100.0 million and 2.85% of Total Assets (with the fair market value of each issue of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value); or

(viii) a combination of the consideration specified in clauses (i) through (vii) of this clause (2).

If DGHL or any Restricted Subsidiary consummates an Asset Disposition, the Net Available Cash of the Asset Disposition, within 365 days (or 545 days in the circumstances described in clause (8) below) of the later of (i) the date of the consummation of such Asset Disposition and (ii) the receipt of such Net Available Cash, may be used by DGHL or such Restricted Subsidiary to:

(1) (i) prepay, repay, purchase or redeem any Indebtedness Incurred under clause (1) of the second paragraph of the covenant described under "*—Limitation on Indebtedness*" or any Refinancing Indebtedness in respect thereof; *provided*, *however*, that, in connection with any prepayment, repayment, purchase or redemption of Indebtedness pursuant to this clause (1), DGHL or such Restricted Subsidiary will retire such Indebtedness and will cause the related commitment (if any) (except in the case of any revolving Indebtedness including, but not limited to the revolving facility made available under the Senior Facilities Agreement) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid, purchase or redeemed; (ii) unless included in the preceding clause (1)(i), prepay, repay, purchase or redeem Indebtedness that is secured by a Lien on the Collateral on a *pari passu* or super senior basis with the Notes at a price of no more than 100% of the principal amount of such applicable Indebtedness, plus accrued and unpaid interest to the date of such prepayment, repayment, purchase or redemption and applicable prepayment or redemption premium; or (iii) prepay, repay, purchase or redeem any Indebtedness of a Restricted Subsidiary of DGHL that is not a Guarantor or any Indebtedness that is secured on assets which do not constitute Collateral (in each case other than Subordinated Indebtedness of the Issuer or a Guarantor or Indebtedness owed to DGHL or any Restricted Subsidiary);

(2) (a) purchase Notes pursuant to open market purchases or an offer to all Holders of the Notes, in each case, at a purchase price in cash equal to at least 100% of the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), (b) redeem Notes pursuant to the optional redemption provisions of the Indenture and/or (c) make an Asset Disposition Offer;

(3) invest in any Replacement Assets;

(4) acquire all or substantially all of the assets of, or any Capital Stock of, another Similar Business, if, after giving effect to any such acquisition of Capital Stock, the Similar Business is or becomes a Restricted Subsidiary;

(5) make a capital expenditure;

(6) acquire other assets (other than Capital Stock and cash or Cash Equivalents) that are used or useful in a Similar Business;

(7) consummate any combination of the foregoing; or

(8) enter into a binding commitment to apply the Net Available Cash pursuant to clause (1), (3), (4), (5) or (6) of this paragraph or a combination thereof; *provided* that a binding commitment shall be treated as a permitted application of the Net Available Cash from the date of such commitment until the earlier of (x) the date on which such investment or application is consummated and (y) the 180th day following the expiration of the aforementioned 365-day period, if the investment or application has not been consummated by that date.

The amount of such Net Available Cash not so used as set forth in the preceding paragraph constitutes "*Excess Proceeds*". Pending the final application of any such Net Available Cash, DGHL or any Restricted Subsidiary may temporarily reduce revolving credit borrowings or otherwise invest such Net Available Cash in any manner that is not prohibited by the terms of the Indenture.

On the 366th day after an Asset Disposition (or the 546th day if a binding commitment as described in clause (8) above has been entered into), or such earlier time as the Issuer elects, if the aggregate amount of Excess Proceeds exceeds the greater of £60.0 million and 1.70% of Total Assets, the Issuer will be required within 30 Business Days thereof to make an offer (an "**Asset Disposition Offer**") to all Holders and, to the extent the Issuer elects, to all holders of other outstanding Pari Passu Indebtedness, to purchase the maximum principal amount of Notes and any such Pari Passu Indebtedness to which the Asset Disposition Offer applies that may be purchased out of the Excess Proceeds, at an offer price in respect of the Notes in an amount equal to (and, in the case of any Pari Passu Indebtedness, an offer price of no more than) 100% of the principal amount of the Notes and 100% of the principal amount of Pari Passu Indebtedness, in each case, plus accrued and unpaid interest, if any, to, but not including, the date of purchase, in accordance with the procedures set forth in the Indenture or the agreements governing such Pari Passu Indebtedness, as applicable, in minimum denominations of $200,000 and in integral multiples of $1,000 in excess thereof in the case of the Notes. For the avoidance of doubt, the Issuer may make an Asset Disposition Offer prior to the expiration of the 365 (or 545, if applicable) day period referred to above.

To the extent that the aggregate amount of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to an Asset Disposition Offer is less than the Excess Proceeds, DGHL or the relevant Restricted Subsidiary may use any remaining Excess Proceeds for general corporate purposes (including making any Restricted Payment), subject to other covenants contained in the Indenture. If the aggregate principal amount of the Notes surrendered in any Asset Disposition Offer by Holders and other Pari Passu Indebtedness surrendered by holders or lenders, collectively, exceeds the amount of Excess Proceeds, the Excess Proceeds shall be allocated among the Notes and Pari Passu Indebtedness to be repaid or purchased on a *pro rata* basis on the basis of the aggregate principal amount of tendered Notes and Pari Passu Indebtedness. For the purposes of calculating the principal amount of any such Indebtedness not denominated in sterling, such Indebtedness shall be calculated by converting any such principal amounts into their Sterling Equivalent determined as of a date selected by DGHL or the Issuer that is within the Asset Disposition Offer Period (as defined below). Upon completion of any Asset Disposition Offer, the amount of Excess Proceeds shall be reset at zero.

To the extent that any portion of Net Available Cash payable in respect of the Notes is denominated in a currency other than the currency in which the Notes are denominated, the amount thereof payable in respect of such Notes shall not exceed the net amount of funds in the currency in which such Notes are denominated that is actually received by DGHL or the relevant Restricted Subsidiary upon converting such portion of the Net Available Cash into such currency.

The Asset Disposition Offer, insofar as it relates to the Notes, will remain open for a period of not less than 20 Business Days following its commencement (the "**Asset Disposition Offer Period**"). No later than five Business Days after the termination of the Asset Disposition Offer Period (the "**Asset Disposition Purchase Date**"), the Issuer will repay the principal amount of Notes and, to the extent it elects, Pari Passu Indebtedness required to be repaid or purchased by it pursuant to this covenant (the "**Asset Disposition Offer Amount**") or, if less than the Asset Disposition Offer Amount has been so validly tendered, all Notes and Pari Passu Indebtedness validly tendered in response to the Asset Disposition Offer.

On or before the Asset Disposition Purchase Date, the Issuer will, to the extent lawful, accept for payment, on a pro rata basis to the extent necessary, the Asset Disposition Offer Amount of Notes and Pari Passu Indebtedness or portions of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to the Asset Disposition Offer, or if less than the Asset Disposition Offer Amount has been validly tendered and not properly withdrawn, all Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn and in minimum denominations of $200,000 and in integral multiples of $1,000 in excess thereof in the case of the Notes. The Issuer will deliver to the Trustee an Officer's Certificate stating that such Notes or portions thereof were accepted for payment by the Issuer in accordance with the terms of this covenant. The Issuer or the Paying Agent, as the case may be, will promptly (but in any case not later than five Business Days after termination of the Asset Disposition Offer Period) mail or deliver to each tendering Holder an amount equal to the purchase price of the Notes so validly tendered and not properly withdrawn by such Holder, and accepted by the Issuer for purchase, and the Issuer will promptly issue a new Note (or amend the Global Note), and the Trustee (or an authenticating agent), upon delivery of an Officer's Certificate from the Issuer, will authenticate and mail or deliver (or cause to be transferred by book entry) such new Note to such Holder, in a principal amount equal to any unpurchased portion of the Note surrendered; *provided* that each such new Note will be in a principal amount with a minimum denomination of $200,000. Any Note not so accepted will be promptly mailed or delivered (or transferred by book entry) by the Issuer to the Holder thereof.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the U.S. Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to the Indenture. To the extent that the provisions of any securities laws or regulations conflict with provisions of this covenant, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance.

Limitation on Affiliate Transactions

DGHL will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into or conduct any transaction or series of related transactions (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of DGHL (any such transaction or series of related transactions being an "**Affiliate Transaction**") involving aggregate value in excess of £15.0 million unless:

(1) the terms of such Affiliate Transaction taken as a whole are not materially less favourable to DGHL or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable transaction at the time of such transaction or the execution of the agreement providing for such transaction in arm's-length dealings with a Person who is not such an Affiliate; and

(2) in the event such Affiliate Transaction involves an aggregate value in excess of £50.0 million, the terms of such transaction or series of related transactions have been approved by a resolution of the majority of the disinterested members of the Board of Directors of DGHL resolving that such transaction complies with clause (1) above.

The provisions of the preceding paragraph will not apply to:

(1) any Restricted Payment permitted to be made pursuant to the covenant described under "*—Limitation on Restricted Payments*", any Permitted Payments (other than pursuant to clause (9)(b)(ii) of the second paragraph of the covenant described under "*—Limitation on Restricted Payments*") or any Permitted Investment (other than Permitted Investments as defined in paragraphs (1)(b), (2) and (14) of the definition thereof);

(2) any issuance or sale of Capital Stock, options, other equity-related interests or other securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, or entering into, or maintenance of, any employment, consulting, collective bargaining or benefit plan, program, agreement or arrangement, related trust or other similar agreement and other compensation arrangements, options, warrants or other rights to purchase Capital Stock of DGHL, any Restricted Subsidiary or any Parent Entity, restricted stock plans, long-term incentive plans, stock appreciation rights plans, participation plans or similar employee benefits or consultants' plans (including valuation, health, insurance, deferred compensation, severance, retirement, savings or similar plans, programs or arrangements) or indemnities provided on behalf of officers, employees, directors or consultants approved by the Board of Directors of DGHL, in each case in the ordinary course of business;

(3) any Management Advances and any waiver or transaction with respect thereto;

(4) any transaction between or among DGHL and any Restricted Subsidiary (or entity that becomes a Restricted Subsidiary as a result of such transaction), or between or among Restricted Subsidiaries or any Receivables Subsidiary;

(5) the payment of reasonable fees and reimbursement of expenses to, and customary indemnities and employee benefit and pension expenses provided on behalf of, directors, officers, consultants or employees of DGHL, any Restricted Subsidiary or any Parent Entity (whether directly or indirectly and including through any Person owned or controlled by any of such directors, officers or employees);

(6) (a) the Transactions, (b) the entry into and performance of obligations of DGHL or any of its Restricted Subsidiaries under the terms of any transaction pursuant to or contemplated by, and any payments pursuant to or for purposes of funding, any agreement or instrument in effect as of or on the Issue Date or described in "*Certain Relationships and Related Party Transactions*" in the Offering Memorandum, as these agreements and instruments may be amended, modified, supplemented, extended, renewed, replaced or refinanced from time to time in accordance with the other terms of this covenant or to the extent not more disadvantageous to the Holders in any material respect, and (c) the entry into and performance of any registration rights or other listing agreement;

(7) without duplication, the execution, delivery and performance of any Tax Sharing Agreement or any arrangement or payment pursuant to which DGHL or any Affiliate of DGHL or any Restricted Subsidiary is required or permitted to file a consolidated or combined Tax return, or the formation and maintenance of any consolidated group for Tax, accounting or cash pooling or management purposes in the ordinary course of business; *provided* that payment under such Tax Sharing Agreement or arrangement shall not exceed, and shall not be duplicative of, the amounts described under clause (7) of the term "Parent Expenses" and, that the related tax liability of DGHL and its Restricted Subsidiaries will be relieved;

(8) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case, in the ordinary course of business, which are fair to DGHL or the relevant Restricted Subsidiary in the reasonable determination of the Board of Directors or an officer of DGHL or the relevant Restricted Subsidiary, or are on terms no less favourable than those that could reasonably have been obtained at such time from an unaffiliated party;

(9) any transaction in the ordinary course of business between or among DGHL or any Restricted Subsidiary and any Affiliate of DGHL or an Associate or similar entity that would constitute an Affiliate Transaction solely because DGHL or a Restricted Subsidiary or any Affiliate of DGHL or a Restricted Subsidiary owns an equity interest in or otherwise controls such Affiliate, Associate or similar entity;

(10) (a) issuances or sales of Capital Stock (other than Disqualified Stock or Designated Preference Shares) of DGHL or options, warrants or other rights to acquire such Capital Stock or Subordinated Shareholder Funding; *provided* that the interest rate and other financial terms of such Subordinated Shareholder Funding are approved by a majority of the members of the Board of Directors of DGHL in their reasonable determination and (b) any amendment, waiver or other transaction with respect to any Subordinated Shareholder Funding in compliance with the other provisions of the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement, as applicable;

(11) any transactions for which DGHL or a Restricted Subsidiary delivers to the Trustee a letter from an Independent Financial Advisor stating that such transaction is (a) fair to DGHL or such Restricted Subsidiary from a financial point of view or (b) on terms not less favourable that might have been obtained in a comparable transaction at such time on an arm's length basis from a Person who is not an Affiliate;

(12) investments by any Parent Entity in securities of any of DGHL's Restricted Subsidiaries (and the payment of reasonable out-of-pocket expenses of any Parent Entity in connection therewith) so long as (a) the investment complies with clause (1) of the preceding paragraph, (b) the investment is being offered generally to other investors on the same or more favourable terms and (c) the investment constitutes less than 5% of the issue amount of such securities;

(13) pledges of Capital Stock of Unrestricted Subsidiaries;

(14) any (a) power purchase, fuel purchase, biomass tolling or management services agreements between DGHL or a Restricted Subsidiary and an Unrestricted Subsidiary, (b) guarantee provided by DGHL or a Restricted Subsidiary under or in connection with a power purchase, fuel purchase, biomass tolling or management services agreement with an Unrestricted Subsidiary, or (c) agreement between DGHL or a Restricted Subsidiary and a lender or creditor of an Unrestricted Subsidiary in connection with either of the foregoing clauses (a) or (b), in each case, so long as such transactions taken as a whole are on terms that are no less favourable to DGHL or the relevant Restricted Subsidiary than those that could have been obtained in a comparable transaction by DGHL or such Restricted Subsidiary with an unrelated Person (as determined in good faith by DGHL);

(15) any transaction effected as part of a Qualified Receivables Financing; and

(16) the sale of tax losses to DG plc or a Subsidiary of DG plc as part of a group relief surrender arrangement.

Limitation on Issuer Activities

Notwithstanding anything contained in the Indenture, the Issuer shall not engage in any business activity or undertake any other activity, except any activity (1) related to the offering, sale, issuance and servicing, listing, purchase, redemption, amendment, exchange, refinancing, incurring or retirement of the Notes, the incurrence of Indebtedness represented by the Notes (including any Additional Notes) or other Indebtedness of the Issuer permitted under the Indenture, lending or otherwise advancing the proceeds thereof (including pursuant to the Proceeds Loan and the Existing Notes Proceeds Loan) and any other activities in connection therewith or complementary or useful thereto (including in connection with the Transactions); (2) undertaken with the purpose of, and directly related to, fulfilling any other obligations under any financing of the Issuer (including, without limitation, the Notes, the Indenture, the Existing Notes, the Existing Indenture, the Senior Facilities Agreement, any Additional Notes, the Intercreditor Agreement and any Additional Intercreditor Agreement) permitted under the Indenture (including for the avoidance of doubt, any repurchase or purchase, repayment, redemption or prepayment of such Indebtedness or entering into and termination of Hedging Obligations permitted under the Indenture); (3) undertaken with the purpose of, and directly related to, fulfilling the obligations of the Issuer under any Security Document to which it is a party or any other document relating to the Notes (including Additional Notes) or the making of Restricted Payments in accordance with the covenant described under the caption "*—Limitation on Restricted Payments*"; (4) related to the granting of Permitted Liens and Permitted Collateral Liens over its assets to secure the Indebtedness of any Restricted Subsidiary if the grant of such Liens were otherwise permitted by the Indenture; (5) related or reasonably incidental to the establishment and/or maintenance of the Issuer's corporate existence; (6) related to the acquisition, holding or disposition of assets permitted to be held by it under the Indenture or reasonably related to its function as a financing entity, including without limitation, investing amounts received by the Issuer in such manner not otherwise prohibited by the Indenture; (7) involving the provision of administrative services; (8) related to any purchase agreement, engagement letter, placement agency agreement, underwriting agreement, dealer manager agreement, solicitation agency agreement and/or any other document (including the Intercreditor Agreement) entered into in connection with the issuance of the Notes or any other Indebtedness permitted under the Indenture; (9) reasonably related to the foregoing; and (10) not specifically enumerated above that is *de minimis* in nature.

Limitations on Amendments of the Proceeds Loan; Payment of the Proceeds Loan

Neither Drax Corporate Limited or any successor borrower under the Proceeds Loan, nor the Issuer will (1) change the Stated Maturity of the principal of, or any instalment of interest on, the Proceeds Loan; (2) reduce the rate of interest on the Proceeds Loan; (3) change the currency for payment of any amount under the Proceeds Loan; (4) prepay or otherwise reduce or permit the prepayment or reduction of the Proceeds Loan (save to facilitate a corresponding payment or repurchase of principal on the Notes); (5) assign or novate the Proceeds Loan or any rights or obligations under the Proceeds Loan Agreement (other than to secure the Notes and the Notes Guarantee or to create other Permitted Collateral Liens or in connection with a transaction that is subject to the covenants described under the caption "*—Merger and Consolidation*" and is completed in compliance therewith or in connection with any Permitted Reorganisation); or (6) amend, modify or alter, including with respect to ranking, the Proceeds Loan and/or Proceeds Loan Agreement in any manner adverse to the holders of the Notes in any material respect. Notwithstanding the foregoing, the Proceeds Loan may be prepaid or reduced to facilitate or otherwise accommodate or reflect a repayment, redemption, discharge, defeasance or repurchase of outstanding Notes. Drax Corporate Limited or any successor borrower under the Proceeds Loan shall make payments under and in accordance with the Proceeds Loan and the Issuer shall accept such payments.

Maintenance of Listing

Each of the Issuer and the Guarantors will use its commercially reasonable efforts to obtain and maintain the listing of the Notes on the Euro MTF Market for so long as such Notes are outstanding; *provided* that if at any time the Issuer determines that it is unable to list or it will not maintain such listing, it will obtain prior to the delisting of the Notes from the Official List of the Luxembourg Stock Exchange and the withdrawal from the trading of the Notes on the Euro MTF Market, and thereafter use its commercially reasonable efforts to maintain, a listing of such Notes on another "recognised stock exchange" as defined in Section 1005 of the Income Tax Act 2007 of the United Kingdom.

Reports

So long as any Notes are outstanding, the Issuer will furnish to the Trustee the following reports:

(1) within four months after the end of DGHL's financial year, an annual financial report containing the following information: (a) audited consolidated balance sheet of DGHL as of the end of the two most recent financial years and audited consolidated income statements and statements of cash flow of DGHL for the two most recent financial years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements and (b) a management report of DGHL containing a fair review of DGHL's business and a description of the principal risks and uncertainties facing DGHL, including an analysis of the development and performance of DGHL's business during the financial year, the position of DGHL's business at the end of that financial year, and financial and other key performance indicators to the extent necessary for an understanding of the development, performance or position of DGHL's business;

(2) within three months following the end of the second quarter in each of DGHL's financial years, reports containing the following information: (a) an unaudited condensed consolidated balance sheet as of the end of such half-year period and unaudited condensed statements of income and cash flow for the year-to-date periods ending on the unaudited condensed balance sheet date, and the comparable prior year periods for DGHL, together with condensed footnote disclosure and (b) an interim management report of DGHL containing an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

(3) promptly after the occurrence of a material event that DGHL announces publicly or any acquisition, disposition or restructuring, merger or similar transaction that is material to DGHL and the Restricted Subsidiaries, taken as a whole, or a change in Group Chief Executive, Chief Financial Officer or chairman of the Board of Directors of DGHL or a change in auditors of DGHL, a report containing a description of such event.

In addition, the Issuer will furnish to the Holders and to prospective investors, upon the request of such parties, any information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act for so long as the Notes are not freely transferable under the U.S. Exchange Act by persons who are not "affiliates" under the U.S. Securities Act.

The Issuer will furnish to the Trustee such other information that DG plc is required to make publicly available pursuant to applicable rules and regulations of the UK Listing Authority (or any successor regulator) and the London Stock Exchange (the "**UK Listed Company Requirements**") as a result of DG plc having its ordinary shares admitted for trading on the London Stock Exchange. Upon the DGHL or any Parent Entity complying with the UK Listed Company Requirements (regardless of whether the DG plc's ordinary shares are admitted for trading on the London Stock Exchange), to the extent that such requirements include an obligation to prepare and make publicly available annual financial reports, information, documents and other reports in accordance with the UK Listed Company Requirements, the Issuer will be deemed to have complied with the provisions contained in clauses (1) through (3) of the first paragraph of this covenant, *provided* that, to the extent that material differences exist between the management, business, assets, shareholding or results of operations or financial condition of the Parent Entity that is the reporting entity and DGHL, a reasonably detailed description of such differences shall be provided.

The Issuer will also make available to Holders and prospective Holders of the Notes copies of all reports furnished to the Trustee on DG plc's website and if and so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market thereof and, to the extent that the rules and regulations of the Luxembourg Stock Exchange so require, copies of such reports furnished to the Trustee will also be made available at the specified office of the listing agent in Luxembourg.

Notwithstanding the foregoing, the Issuer will be deemed to have provided such information to the Trustee, the holders of the Notes and prospective Holders of the Notes if such information referenced in the first paragraph of this covenant or alternatively, the second preceding paragraph, has been posted to the Issuer's, DG plc's or DGHL's website.

All financial statement information shall be prepared in accordance with IFRS as in effect on the date of such report or financial statement (or otherwise on the basis of IFRS as then in effect) and on a consistent basis for the periods presented, except as may otherwise be described in such information; *provided*, *however*, that the reports set forth in clauses (1), (2) and (3) of the first paragraph of this covenant or the third paragraph of this covenant may, in the event of a change in IFRS, present earlier periods on a basis that applied to such periods. No report need include separate financial statements for any Subsidiaries of DGHL or any disclosure with respect to the results of operations or any other financial or statistical disclosure not of a type included in the Offering Memorandum. In addition, the reports set forth above will not be required to contain any reconciliation to U.S. GAAP.

For purposes of this covenant, an acquisition or disposition shall be deemed to be material if it is a Class 1 Transaction.

At any time that any of DGHL's Subsidiaries are Unrestricted Subsidiaries under the Indenture and any such Unrestricted Subsidiary or a group of Unrestricted Subsidiaries, taken as a whole, would (if it were restricted) constitute a Significant Subsidiary of DGHL, then the half-year and annual financial information required by the first paragraph of this "*Reports*" covenant will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of DGHL and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of DGHL.

In the event that (i) the Issuer becomes subject to the reporting requirements of Section 13(a) or 15(d) of the U.S. Exchange Act, or elects to comply with such provisions, for so long as it continues to file the reports required by Section 13(a) with the SEC or (ii) the Issuer elects to provide to the Trustee reports which, if filed with the SEC, would satisfy (in the good faith judgment of the Issuer) the reporting requirements of Section 13(a) or 15(d) of the U.S. Exchange Act (other than the provision of U.S. GAAP information, certifications, exhibits or information as to internal controls and procedures), for so long as it elects, the Issuer will make available to the Trustee such annual reports, information, documents and other reports that the Issuer is, or would be, required to file with the SEC pursuant to such Section 13(a) or 15(d). Upon complying with the foregoing requirement, the Issuer and DGHL will be deemed to have complied with the provisions contained in the preceding paragraphs.

Merger and Consolidation

DGHL

DGHL will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not DGHL is the surviving entity) or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of DGHL and its Restricted Subsidiaries taken as a whole, in either case, in one or more related transactions, to another Person, unless:

(1) either: (a) DGHL is the surviving Person; or (b) the Person formed by or surviving any such consolidation or merger (if other than DGHL) or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made is an entity organised or existing under the laws of any member state of the Pre-Expansion European Union, Switzerland, Canada, any state of the United States or the District of Columbia;

(2) the Person formed by or surviving any such consolidation or merger with DGHL (if other than DGHL) or the Person to which such sale, assignment, transfer, conveyance, lease or other disposition has been made will expressly assume (a) by supplemental indenture (in form and substance reasonably satisfactory to the Trustee), executed and delivered to the Trustee, all the obligations of DGHL under the Indenture and its Note Guarantee and the Proceeds Loan (to the extent applicable) and (b) all obligations of DGHL under the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents to which DGHL is a party, as applicable;

(3) immediately after giving *pro forma* effect to such transaction or transactions (and treating any Indebtedness which becomes an obligation of the surviving Person as a result of such transaction as having been incurred by the surviving Person at the time of such transaction or transactions), no Default or Event of Default exists;

(4) DGHL or the Person formed by or surviving any such consolidation or merger (if other than DGHL), or to which such sale, assignment, transfer, conveyance or other disposition has been made would, on the date of such transaction after giving *pro forma* effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable two half-year period (i) be permitted to incur at least £1.00 of additional Indebtedness pursuant to the first paragraph of the covenant described above under the caption "*—Limitation on Indebtedness*" or (ii) have a Fixed Charge Coverage Ratio not less than it was immediately prior to giving effect to such transaction; and

(5) DGHL delivers to the Trustee, in form and substance reasonably satisfactory to the Trustee, an Officer's Certificate stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with this covenant and that all conditions precedent in the Indenture relating to such transaction have been satisfied and that the Indenture and its Note Guarantee and the Proceeds Loan (to the extent applicable) each constitute the legal, valid and binding obligation of DGHL or the Person formed by or surviving any such consolidation or merger (as applicable) enforceable in accordance with its terms.

In the event of any transaction described in and complying with the conditions listed in the immediately preceding paragraph in which DGHL is not the continuing Person, the successor Person formed or remaining or to which such transfer is made shall succeed to, and be substituted for, and may exercise every right and power of DGHL and DGHL will be (other than in the case of a lease of all or substantially all of its assets) discharged from all obligations and covenants under the Indenture.

The Issuer and the Subsidiary Guarantors

The Issuer and the Subsidiary Guarantors (other than a Subsidiary Guarantor whose Note Guarantee is to be released in accordance with the terms of the Note Guarantee and the Indenture as described under "*—Note Guarantees*") will not, directly or indirectly: (i) consolidate or merge with or into another Person (whether or not the Issuer or such Subsidiary Guarantor, as applicable, is the surviving entity) or (ii) sell, assign, transfer, convey, lease or otherwise dispose of all or substantially all of the properties or assets of the Issuer or such Subsidiary Guarantor, as applicable, and its Subsidiaries that are Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(1) either (a) the Issuer or such Subsidiary Guarantor, as applicable, is the surviving Person or (b) in the case of a merger or consolidation involving the Issuer or in connection with the sale, assignment, transfer, conveyance, lease or other disposal of all or substantially all the assets of the Issuer only, the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or to which such sale, assignment, transfer, conveyance, lease or other disposition has been made is an entity organised or existing under the laws of any member state of the European Union, Switzerland, Canada, any state of the United States or the District of Columbia;

(2) the Person formed by or surviving any such consolidation or merger (if other than the Issuer or such Subsidiary Guarantor, as applicable) or the Person to which such sale, assignment, transfer, conveyance, lease or other disposition has been made assumes all the obligations of the Issuer or such Subsidiary Guarantor, as applicable, under the Notes (in the case of the Issuer), its Note Guarantee (in the case of a Subsidiary Guarantor), the Indenture, the Proceeds Loan, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents to which it is a party;

(3) immediately after giving *pro forma* effect to such transaction or transactions (and treating any Indebtedness which becomes an obligation of the surviving entity as a result of such transaction as having been incurred by the surviving entity at the time of such transaction or transactions), no Default or Event of Default exists; and

(4) DGHL delivers to the Trustee an Officer's Certificate (in form and substance reasonably satisfactory to the Trustee) stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with this covenant and that all conditions precedent in the Indenture relating to such

transaction have been satisfied and that the Indenture, the Notes (in the case of the Issuer) and the Note Guarantee (in the case of a Subsidiary Guarantor) constitute legal, valid and binding obligations of the Issuer, the Subsidiary Guarantor or the Person formed by or surviving any such consolidation and merger (as applicable) enforceable in accordance with their terms,

provided, however, that the prohibitions in this paragraph above (in the case of a Subsidiary Guarantor) shall not apply to the extent that compliance with clause (1) could give rise to or result in: (a) any breach or violation of statutory limitations, corporate benefit, financial assistance, fraudulent preference, thin capitalisation rules, capital maintenance rules, guidance and coordination rules or the laws, rules and regulations (or analogous restrictions) of any applicable jurisdiction; (b) any risk or liability for the officers, directors or (except in cases of a Subsidiary that is partnership) shareholders of such Restricted Subsidiary (or, in the case of a Restricted Subsidiary that is a partnership, directors or shareholders of the partners of such partnership); or (c) any costs, expense, liability or obligation (including with respect to any Taxes) other than reasonable out-of-pocket expenses.

In the event of any transaction described in and complying with the conditions listed in the immediately preceding paragraph in which the Issuer or such Subsidiary Guarantor, as applicable, is not the continuing Person, the successor Person formed or remaining or to which such transfer is made shall succeed to, and be substituted for, and may exercise every right and power of the Issuer or such Subsidiary Guarantor, as applicable, and the Issuer or such Subsidiary Guarantor, as applicable, will be (other than in the case of a lease of all or substantially all of its assets) discharged from all obligations and covenants under the Indenture.

In addition, neither DGHL, the Issuer nor any Guarantor will, directly or indirectly, lease all or substantially all of the properties and assets of it and its Subsidiaries which are Restricted Subsidiaries taken as a whole, in one or more related transactions, to any other Person.

General

This "*Merger and Consolidation*" covenant will not apply to (a) any consolidation or merger of any Restricted Subsidiary of DGHL that is not a Guarantor into the Issuer or a Guarantor, (b) any consolidation or merger among Guarantors (other than DGHL in the case that DGHL is not the surviving entity of such consolidation or merger), (c) any consolidation or merger among Restricted Subsidiaries of DGHL that are not Guarantors or the Issuer, and (d) any consolidation or merger among the Issuer and any Guarantor; *provided* that, in the case of this clause (d) if the Issuer is not the surviving entity of such merger or consolidation, the relevant Guarantor is an entity organised or existing under the laws of any member state of the Pre-Expansion European Union, Switzerland, Canada, any state of the United States or the District of Columbia and such Guarantor shall assume all of the obligations of the Issuer under the Notes, the Proceeds Loan, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents to which the Issuer is a party and, to the extent applicable, clauses (2) and (5) of the first paragraph under the caption "*—DGHL*" and clauses (1) and (4) of the first paragraph under the caption "*—The Issuer and the Subsidiary Guarantors*" will be complied with. Clauses (3) and (4) of the first paragraph under the caption "*—DGHL*" and clause (3) of the first paragraph under the caption "*—The Issuer and the Subsidiary Guarantors*" will not apply to any merger or consolidation of the Issuer or any Guarantor with or into an Affiliate solely for the purpose of reincorporating the Issuer or such Guarantor in another jurisdiction, to change its domicile or to change its legal form.

Notwithstanding anything to the contrary set forth herein, DGHL and its Restricted Subsidiaries may implement a Permitted Reorganisation.

No Impairment of Security Interest

DGHL shall not, and shall not permit any Restricted Subsidiary to, take or knowingly or negligently omit to take any action that would have the result of materially impairing the Security Interest with respect to the Collateral (it being understood, subject to the proviso below, that the Incurrence of Permitted Collateral Liens shall under no circumstances be deemed to materially impair the Security Interest with respect to the Collateral) for the benefit of the Trustee and the Holders of Notes, and DGHL shall not, and shall not permit any Restricted Subsidiary to, grant to any Person other than the Security Agent, for the benefit of the Trustee and the Holders of Notes and the other beneficiaries described in the Security Documents and the Intercreditor Agreement or any Additional Intercreditor Agreement, any Lien over any of the Collateral that is prohibited by the covenant described above under the caption "*—Limitation on Liens*", except that (i) DGHL and its Restricted Subsidiaries may Incur Permitted Collateral Liens; (ii) the Collateral may be discharged and released in accordance with the Indenture, the applicable Security Documents or the Intercreditor Agreement or any Additional Intercreditor

Agreement, (iii) DGHL and its Restricted Subsidiaries may discharge and release Security Interests with respect to the Collateral in connection with the implementation of a Permitted Reorganisation and (iv) the applicable Security Documents may be amended from time to time (a) to cure any ambiguity, mistake, omission, defect, manifest error or inconsistency therein, (b) to comply with the terms of the Intercreditor Agreement or any Additional Intercreditor Agreement, (c) to add Collateral, (d) to evidence the succession of another Person to the Issuer or any Guarantor and the assumption by such successor of the obligations under the Indenture, the Notes, the Intercreditor Agreement and/or the Security Documents, in each case, including in accordance with "*—Merger and Consolidation*," (e) to evidence and provide for the acceptance of the appointment of a successor Trustee or Security Agent and (f) in any manner that does not adversely affect the Holders in any material respect; *provided*, *however*, that in the case of clause (i), the Security Documents may not be amended, extended, renewed, restated, supplemented, released or otherwise modified or replaced (*provided further*, that a confirmation agreement in respect of any Security Agreement shall not be deemed to be an amendment, extension, renewal, restatement, supplement, release or other modification of that Security Document for purposes of this covenant) unless contemporaneously with any such action, DGHL delivers to the Trustee, either (1) a solvency opinion, in form and substance reasonably satisfactory to the Trustee from an Independent Financial Advisor confirming the solvency of the relevant Person and its Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, release, modification or replacement, (2) a certificate from the Board of Directors of the relevant Person, in form and substance reasonably satisfactory to the Trustee, which confirms the solvency of the person granting such Security Interest after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, release, modification or replacement or (3) an Opinion of Counsel, in form and substance reasonably satisfactory to the Trustee, confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, release, modification or replacement, the Lien or Liens created under the Security Documents, so amended, extended, renewed, restated, released, supplemented, modified or replaced are valid Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, release, modification or replacement. In the event that DGHL or the relevant Restricted Subsidiary complies with the requirements of this covenant, the Trustee and the Security Agent shall (subject to customary protections and indemnifications) consent to such amendments without the need for instructions from the Holders of Notes.

Additional Guarantees

DGHL will not cause or permit any Restricted Subsidiary that is not a Guarantor to Guarantee the Indebtedness outstanding under the Senior Facilities Agreement, any other Public Debt or any Refinancing Indebtedness Incurred in respect of the foregoing, respectively, of the Issuer or a Guarantor, in each case, unless such Restricted Subsidiary becomes a Guarantor on the date on which the Guarantee is Incurred and executes and delivers to the Trustee a supplemental indenture providing for a Note Guarantee of such Restricted Subsidiary, which Note Guarantee will be senior to or *pari passu* with such Restricted Subsidiary's Guarantee of such other Indebtedness; *provided*, *however*, that such Restricted Subsidiary shall not be obligated to become such a Guarantor to the extent and for so long as the Incurrence of such Note Guarantee is contrary to the Agreed Security Principles or could give rise to or result in: (1) any breach or violation of general statutory limitations, financial assistance, capital maintenance, corporate benefit, fraudulent preference or thin capitalisation rules, retention of title claims or the laws, rules or regulations (or analogous restriction) of any applicable jurisdiction; (2) any risk or liability for the officers, directors or (except in the case of a Restricted Subsidiary that is a partnership) shareholders of such Restricted Subsidiary (or, in the case of a Restricted Subsidiary that is a partnership, directors or shareholders of the partners of such partnership); or (3) any cost, expense, liability or obligation (including with respect to any Taxes) other than reasonable out-of-pocket expenses.

At the option of DGHL, any Note Guarantee may contain limitations on Guarantor liability to the extent reasonably necessary to recognise certain defences generally available to guarantors or other considerations under applicable law or regulation.

Note Guarantees granted pursuant to this provision shall be released as set forth under "*—Note Guarantees—Release of Note Guarantees*". A Note Guarantee of a future Guarantor may also be released at the option of DGHL if at the date of such release there is no Indebtedness of such Guarantor outstanding which was Incurred after the Issue Date and which could not have been Incurred in compliance with the Indenture as at the date of such release if such Guarantor were not designated as a Guarantor as at that date. The Trustee and the Security Agent shall each take all necessary actions, including the granting of releases or waivers under the

Intercreditor Agreement or any Additional Intercreditor Agreement, to effectuate any release of a Note Guarantee in accordance with these provisions, subject to customary protections and indemnifications.

The validity and enforceability of the Note Guarantees and the Security Interests and the liability of each Guarantor will be subject to the limitations as described and set out under "*Risk Factors*".

Additional Intercreditor Agreements

The Indenture will provide that, at the request of the Issuer, in connection with the Incurrence by DGHL or its Restricted Subsidiaries of any Indebtedness permitted to be secured pursuant to clause (b) of the definition of Permitted Collateral Liens, DGHL, the relevant Restricted Subsidiaries, the Trustee and the Security Agent shall enter into with the holders of such Indebtedness (or their duly authorised Representatives) an intercreditor agreement (an "**Additional Intercreditor Agreement**") or a restatement, amendment or other modification of the existing Intercreditor Agreement on substantially the same terms as the Intercreditor Agreement (or terms not materially less favourable to the Holders), including containing substantially the same terms with respect to release of Note Guarantees and priority and release of the applicable Security Interests; *provided* that (a) such Additional Intercreditor Agreement will not impose any personal obligations on the Trustee or the Security Agent or, in the opinion of the Trustee or Security Agent, as applicable, adversely affect the rights, duties, liabilities, indemnities or immunities of the Trustee or the Security Agent under the Indenture or the Intercreditor Agreement and (b) if more than one such intercreditor agreement is outstanding at any one time, the collective terms of such intercreditor agreements must not conflict.

The Indenture also will provide that, at the direction of the Issuer and without the consent of Holders, the Trustee and the Security Agent shall from time to time enter into one or more amendments to any Intercreditor Agreement to: (1) cure any ambiguity, omission, defect or inconsistency of any such agreement, (2) increase the amount or types of Indebtedness covered by any such agreement that may be Incurred by DGHL or any Restricted Subsidiary that is subject to any such agreement (including with respect to any Intercreditor Agreement or Additional Intercreditor Agreement, the addition of provisions relating to new Indebtedness ranking junior in right of payment to the Notes), (3) add Restricted Subsidiaries to the Intercreditor Agreement or an Additional Intercreditor Agreement, (4) further secure the Notes (including Additional Notes), (5) to facilitate a Permitted Reorganisation, (6) make provision for equal and rateable pledges of the Collateral to secure Additional Notes, (7) implement any Permitted Collateral Liens, (8) amend the Intercreditor Agreement or any Additional Intercreditor Agreement in accordance with the terms thereof or (9) make any other change to any such agreement that does not adversely affect the Holders in any material respect. The Issuer shall not otherwise direct the Trustee or the Security Agent to enter into any amendment to any Intercreditor Agreement without the consent of the Holders of the majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted below under "*—Amendments and Waivers*", and the Issuer may only direct the Trustee and the Security Agent to enter into any amendment to the extent such amendment does not impose any personal obligations on the Trustee or the Security Agent or, in the opinion of the Trustee or the Security Agent, adversely affect their respective rights, duties, liabilities or immunities under the Indenture or the Intercreditor Agreement or any Additional Intercreditor Agreement.

The Indenture also will provide that, in relation to any Intercreditor Agreement or Additional Intercreditor Agreement, prior to the taking of any Enforcement Action (as defined in the Intercreditor Agreement or any Additional Intercreditor Agreement), the Trustee (and the Security Agent, if applicable) shall consent on behalf of the Holders to the payment, repayment, purchase, repurchase, defeasance, acquisition, retirement or redemption of any obligations subordinated to the Notes thereby; *provided*, *however*, that such transaction would comply with the covenant described under "*—Limitation on Restricted Payments*".

The Indenture also will provide that each Holder, by accepting a Note, shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement or any Additional Intercreditor Agreement (whether then entered into or entered into in the future pursuant to the provisions described herein) and to have directed the Trustee and the Security Agent to enter into any such Additional Intercreditor Agreement. A copy of the Intercreditor Agreement or any Additional Intercreditor Agreement will be made available for inspection during normal business hours on any Business Day upon prior written request at the Issuer's offices or at the offices of the listing agent.

Financial Calculations

When calculating the availability under any basket or ratio under the Indenture, in each case in connection with any acquisition, disposition, merger, joint venture, Investment or similar transaction where there is a time difference between commitment and closing or Incurrence (including in respect of Incurrence of Indebtedness, Restricted Payments, Permitted Payments, Permitted Investments and Permitted Liens), the date of determination of any such basket or ratio and of any Default or Event of Default shall, at the option of the Issuer, be the date the definitive agreements for such acquisition, disposition, merger, joint venture, Investment or similar transaction are entered into, and such baskets or ratios shall be calculated on a *pro forma* basis after giving effect to such acquisition, disposition, merger, joint venture, Investment or similar transaction and the other transactions to be entered into in connection therewith (including any incurrence of Indebtedness and the use of proceeds thereof) as if they occurred at the beginning of the applicable period for purposes of determining the ability to consummate any such transaction (and not for purposes of any subsequent availability of any basket or ratio), and, for the avoidance of doubt, (1) if any of such baskets or ratios are exceeded as a result of fluctuations in such basket or ratio (including due to fluctuations in Total Assets of DGHL or the target company) subsequent to such date of determination and at or prior to the consummation of the relevant transaction, such baskets or ratios will not be deemed to have been exceeded as a result of such fluctuations solely for purposes of determining whether the transaction is permitted hereunder and (2) such baskets or ratios shall not be tested at the time of consummation of such transaction or related transactions; *provided, further*, that if the Issuer elects to have such determinations occur at the time of entry into such definitive agreement, any such transactions (including any incurrence of Indebtedness and the use of proceeds therefrom) shall be deemed to have occurred on the date the definitive agreements are entered and outstanding thereafter for purposes of calculating any baskets or ratios under the Indenture after the date of such agreement and before the consummation of such transaction.

Suspension of Covenants on Achievement of Investment Grade Status

If on any date following the Issue Date, the Notes have achieved Investment Grade Status and no Default or Event of Default has occurred and is continuing (a "**Suspension Event**"), then, beginning on that day and continuing until such time, if any, at which such Notes cease to have Investment Grade Status (the "**Reversion Date**"), the provisions of the Indenture summarised under the following captions will not apply to such Notes:

(1) "—*Limitation on Indebtedness*";

(2) "—*Limitation on Restricted Payments*";

(3) "—*Limitation on Restrictions on Distributions from Restricted Subsidiaries*";

(4) "—*Limitation on Affiliate Transactions*";

(5) "—*Limitation on Sales of Assets and Subsidiary Stock*";

(6) "—*Additional Guarantees*"; and

(7) the provisions of clause (4) of the covenant described under "—*Merger and Consolidation—DGHL*",

and, in each case, any related default provision of the Indenture will cease to be effective and will not be applicable to DGHL and its Restricted Subsidiaries.

Such covenants and any related default provisions will again apply according to their terms from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of DGHL properly taken during the continuance of the Suspension Event, and no action taken prior to the Reversion Date will constitute a Default or Event of Default. The "*Limitation on Restricted Payments*" covenant will be interpreted as if it has been in effect since the date of the Indenture but not during the continuance of the Suspension Event. On the Reversion Date, all Indebtedness Incurred during the continuance of the Suspension Event will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (4)(b) of the second paragraph of the covenant described under "—*Limitation on Indebtedness*". In addition, the Indenture will also permit, without causing a Default or Event of Default, DGHL or any of the Restricted Subsidiaries to honour any contractual commitments or take actions in the future after any date on which such Notes cease to have an Investment Grade Status as long as the contractual commitments were entered into during the Suspension Event and not in anticipation of such Notes no longer having an Investment Grade Status. The Issuer shall notify the Trustee that the conditions set forth in the first paragraph under this caption have been satisfied; *provided* that no such notification shall be a condition for the suspension of the covenants described under this caption to be effective. There can be no assurance that such Notes will ever achieve or maintain an Investment Grade Status.

Events of Default

Each of the following is an "*Event of Default*" under the Indenture:

(1) default in any payment of interest on any Note issued under the Indenture when due and payable, continued for 30 days;

(2) default in the payment of the principal amount of or premium, if any, on any Notes issued under the Indenture due at its Stated Maturity, upon optional redemption, upon required repurchase, upon declaration or otherwise;

(3) failure by DGHL or any of its Restricted Subsidiaries to comply for 60 days after notice by the Trustee or the Holders of at least 25% in principal amount of the outstanding Notes with its other agreements contained in the Indenture;

(4) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by DGHL or any of its Restricted Subsidiaries (or the payment of which is Guaranteed by DGHL or any of its Restricted Subsidiaries) other than Indebtedness owed to DGHL or a Restricted Subsidiary whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, which default:

    (a) is caused by a failure to pay principal at stated maturity on such Indebtedness, immediately upon the expiration of the grace period provided in such Indebtedness ("**payment default**"); or

    (b) results in the acceleration of such Indebtedness prior to its maturity (the "**cross acceleration provision**"),

    and, in each case, either the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a payment default or the maturity of which has been so accelerated, aggregates to £50.0 million or more;

(5) certain events of bankruptcy, insolvency or court protection of DGHL or a Significant Subsidiary or group of Restricted Subsidiaries of DGHL that, taken together (as of the latest audited consolidated financial statements for DGHL), would constitute a Significant Subsidiary (the "**bankruptcy provisions**");

(6) failure by DGHL or any Significant Subsidiary or group of Restricted Subsidiaries of DGHL that, taken together (as of the latest audited consolidated financial statements for DGHL), would constitute a Significant Subsidiary to pay final judgments aggregating to in excess of £50.0 million (exclusive of any amounts that a solvent insurance company has acknowledged liability for), which judgments are not paid, discharged or stayed for a period of 60 days after the judgment becomes final (the "**judgment default provision**");

(7) any security interest under the Security Documents shall, at any time, cease to be in full force and effect (other than in accordance with the terms of the relevant Security Document, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Indenture and except through the gross negligence or wilful misconduct of the Security Agent) with respect to Collateral having a fair market value in excess of £15.0 million for any reason other than the satisfaction in full of all obligations under the Indenture or the release of any such security interest in accordance with the terms of the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Security Documents or any such security interest created thereunder shall be declared invalid or unenforceable or DGHL or any Restricted Subsidiary shall assert in writing that any such security interest is invalid or unenforceable and any such Default continues for 10 days; and

(8) any Note Guarantee of a Guarantor ceases to be in full force and effect (other than in accordance with the terms of such Note Guarantee or the Indenture) or is declared invalid or unenforceable in a judicial proceeding or any Guarantor denies or disaffirms in writing its obligations under its Note Guarantee and any such Default continues for 10 days.

However, a Default under clauses (3), (4) or (6) of this paragraph will not constitute an Event of Default until the Trustee or the Holders of 25% in principal amount of the outstanding Notes under the Indenture notify the Issuer of the Default and, with respect to clauses (3), (4) and (6) the Issuer does not cure such Default within the time specified in clauses (3), (4) or (6), as applicable, of this paragraph after receipt of such notice.

If an Event of Default (other than an Event of Default described in clause (5) above) occurs and is continuing, the Trustee by notice to the Issuer or the Holders of at least 25% in principal amount of the outstanding Notes under the Indenture by written notice to the Issuer and the Trustee, may, and the Trustee at the request of such percentage of Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on all the Notes under the Indenture to be due and payable. Upon such a declaration, such principal, premium and accrued and unpaid interest will be due and payable immediately. If an Event of Default described in clause (5) above occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest on all the Notes will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders.

In the event of a declaration of acceleration of the Notes because an Event of Default described in clause (4) under "Events of Default" has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to clause (4) shall be remedied or cured, or waived by the holders of the Indebtedness, or the Indebtedness that gave rise to such Event of Default shall have been discharged in full, within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, except non-payment of principal, premium or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived.

Holders of the Notes may not enforce the Indenture or the Notes except as provided in the Indenture and may not enforce the applicable Security Documents except as provided in such Security Documents and the Intercreditor Agreement or any Additional Intercreditor Agreement.

The Holders of a majority in principal amount of the outstanding Notes under the Indenture may waive all past or existing Defaults or Events of Default (except with respect to non-payment of principal, premium, interest or Additional Amounts, if any, in respect of the Notes, a waiver of which would require the consent of 90% of the Holders in principal amount of the then outstanding Notes under the Indenture) and rescind any such acceleration with respect to the Notes and its consequences if such rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders of the Notes unless such Holders have offered to the Trustee customary indemnification, security or prefunding satisfactory to the Trustee against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest or Additional Amounts when due, no Holder may pursue any remedy with respect to the Indenture or the Notes unless:

(1) such Holder has previously given the Trustee notice that an Event of Default is continuing;

(2) Holders of at least 25% in aggregate principal amount of the outstanding Notes have requested the Trustee to pursue the remedy;

(3) such Holders have offered the Trustee security, prefunding or customary indemnification satisfactory to it against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of such security, prefunding or indemnification; and

(5) the Holders of a majority in aggregate principal amount of the outstanding Notes have not given the Trustee a direction that, in the opinion of the Trustee, is inconsistent with such request within such 60-day period.

Subject to certain restrictions, the Holders of a majority in principal amount of the outstanding Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee.

The Indenture will provide that, in the event an Event of Default has occurred and is continuing, the Trustee will be required in the exercise of its powers to use the degree of care that a prudent person would use in the conduct of its own affairs. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other Holder or that would involve the Trustee in personal liability. Prior to taking any action under the Indenture, the Trustee will be entitled to indemnification, security or prefunding satisfactory to it in its sole discretion against all losses, liabilities and expenses caused by taking or not taking such action. The Indenture will provide that if a Default occurs and is continuing and the Trustee is informed in writing of such occurrence by the Issuer, the Trustee must give notice of the Default to the Holders within 60 days after being notified by the Issuer. Except in the case of a Default in the payment of principal of, or premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as the Trustee determines that withholding notice is in the interests of the Holders. The Issuer is required to deliver to the Trustee (and the Trustee shall be able to rely without further inquiry on), within 120 days after the end of each fiscal year, an Officer's Certificate indicating whether the signers thereof know of any Default or Event of Default that occurred during the previous year. The Issuer is required to deliver to the Trustee (and the Trustee shall be able to rely without further inquiry on), within 30 days after the occurrence thereof, written notice of any events of which it is aware which would constitute certain Defaults, their status and what action the Issuer is taking or proposes to take in respect thereof.

The Indenture will provide for the Trustee to take action on behalf of the Holders in certain circumstances, but only if the Trustee is indemnified, prefunded or secured to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and, accordingly, in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for Holders to take action directly.

Amendments and Waivers

Subject to certain exceptions, the Indenture will provide that such Indenture, the Notes, the Proceeds Loan Agreement and the other Notes Documents relating to the Notes may be amended, supplemented or otherwise modified with the consent of Holders of at least a majority in principal amount of such Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, such Notes) and, subject to certain exceptions, any default or compliance with any provisions thereof may be waived with the consent of the Holders of at least a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, the Notes). Without the consent of Holders holding not less than 90% (or, in the case of clause (8), 75%) of the principal amount of the Notes then outstanding, an amendment or waiver may not, with respect to any Notes held by a non-consenting Holder:

(1) reduce the principal amount of such Notes whose Holders must consent to an amendment, waiver or modification;

(2) reduce the stated rate of or extend the stated time for payment of interest on any such Note;

(3) reduce the principal of or extend the Stated Maturity of any such Note;

(4) reduce the premium payable upon the redemption of any such Note or change the time at which any such Note may be redeemed, in each case as described above under "*—Optional Redemption*";

(5) make any such Note payable in money other than that stated in such Note;

(6) impair the right of any Holder to institute suit for the enforcement of any payment on or with respect to such Holder's Notes or any Note Guarantee in respect thereof;

(7) make any change in the provision of the Indenture described under "*Withholding Taxes*" that adversely affects the right of any Holder or beneficial owner of such Notes in any material respect or amends the terms of such Notes in a way that would result in a loss of an exemption from any of the Taxes described thereunder or an exemption from any obligation to withhold or deduct Taxes so described thereunder unless the Issuer or the applicable Payor agrees to pay Additional Amounts, if any, in respect thereof;

(8) release (i) the pledge over the shares in DGHL and the Issuer, (ii) the security interest created over Drax Corporate Limited's or any successor borrower's rights under the Proceeds Loan or (iii) all or substantially all security interests granted for the benefit of the Holders in the Collateral, in each case other than in accordance with the terms of the Security Documents, the Intercreditor Agreement, any applicable Additional Intercreditor Agreement or the Indenture;

(9) waive a Default or Event of Default with respect to the non-payment of principal, premium or interest or Additional Amounts, if any, on such Notes (except pursuant to a rescission of acceleration of such Notes by the Holders of at least a majority in aggregate principal amount of such Notes and a waiver of the payment default that resulted from such acceleration);

(10) release (i) DGHL or (ii) all or substantially all Guarantors from any of their respective obligations under the Note Guarantee or the Indenture, except in accordance with the terms of the Indenture and the Intercreditor Agreement; or

(11) make any change in the amendment or waiver provisions which require the Holders' consent described in this sentence.

Notwithstanding the foregoing, without the consent of any Holder, the Issuer, any Guarantor, the Trustee, the Security Agent and the other parties thereto, as applicable, may amend or supplement the Proceeds Loan Agreement or any Notes Document relating to the Notes to:

(1) cure any ambiguity, omission, defect, error or inconsistency;

(2) provide for the assumption by a successor Person of the obligations of the Issuer or any Restricted Subsidiary under such Notes Document, including, without limitation, in connection with a Permitted Reorganisation;

(3) add to the covenants or provide for a Note Guarantee for the benefit of the Holders or surrender any right or power conferred upon DGHL or any Restricted Subsidiary;

(4) make any change that would provide additional rights or benefits to the Trustee or the Holders or that does not adversely affect the rights or benefits of the Trustee or any of the Holders in any material respect under such Notes Document;

(5) make such provisions as necessary (as determined in good faith by an Officer of DGHL) for the issuance of Additional Notes;

(6) provide for any Restricted Subsidiary to provide a Note Guarantee, to add Note Guarantees with respect to the Notes, to add security to or for the benefit of the Notes, or to confirm and evidence the release, termination, discharge or retaking of any Note Guarantee or Lien (including the Collateral and the Security Documents) or any amendment in respect thereof with respect to or securing the Notes when such release, termination, discharge or retaking or amendment is provided for under the Indenture, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement;

(7) conform the text of the Indenture, the Security Documents or the Notes to any provision of this "*Description of Notes*" to the extent that such provision in this "*Description of Notes*" was intended to be a verbatim recitation of a provision of the Indenture, the Security Documents or the Notes;

(8) evidence and provide for the acceptance and appointment under the Indenture or the Intercreditor Agreement or any Additional Intercreditor Agreement of a successor Trustee or the Security Agent pursuant to the requirements thereof or to provide for the accession by the Trustee or the Security Agent to any Notes Document relating to such Notes;

(9) in the case of the Security Documents, to mortgage, pledge, hypothecate or grant a security interest in favour of the Security Agent for the benefit of the Holders or parties to the Senior Facilities Agreement, in any property which is required by the Security Documents or the Senior Facilities Agreement (as in effect on the Issue Date) to be mortgaged, pledged or hypothecated, or in which a security interest is required to be granted to the Security Agent, or to the extent necessary to grant a security interest in the Collateral for the benefit of any Person; *provided* that the granting of such security interest is not prohibited by the Indenture or the Intercreditor Agreement or any Additional Intercreditor Agreement and the covenant described under "*—Certain Covenants—No Impairment of Security Interest*" is complied with;

(10) evidence or provide for the release of any Note Guarantee or any Lien on any Collateral that is otherwise permitted by the terms of the Indenture, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement; or

(11) as provided in "*—Certain Covenants—Additional Intercreditor Agreements*".

In formulating its decision on such matters, the Trustee shall be entitled to require and rely absolutely on such evidence as it deems necessary, including Officer's Certificates and Opinions of Counsel.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment of the Proceeds Loan Agreement or any other Notes Document. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the

Indenture by any Holder of the Notes given in connection with a tender of such Holder's Notes will not be rendered invalid by such tender.

For so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, the Issuer will publish notice of any amendment, supplement and waiver in Luxembourg in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

For the avoidance of doubt, no modification or amendment to, or deletion of, or actions taken in compliance with, any of the covenants described under "*—Certain Covenants*" shall be deemed to impair or affect any rights of the holders of the Notes to receive payment of principal of, or premium, if any, or interest on, the Notes.

Acts by Holders

In determining whether the Holders of the required principal amount of the Notes have concurred in any direction, waiver or consent, Notes owned by the Issuer or by any Person directly or indirectly controlled, or controlled by, or under direct or indirect common control with, the Issuer will be disregarded and deemed not to be outstanding.

Defeasance

The Issuer at any time may terminate all obligations of the Issuer and the Guarantors under the Notes and the Indenture ("**legal defeasance**") and cure all then existing Defaults and Events of Default, except for certain obligations, including those respecting the defeasance trust, the rights, powers, trusts, duties, immunities and indemnities of the Trustee and the obligations of the Issuer in connection therewith and obligations concerning issuing temporary Notes, registration of the Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust. Subject to the foregoing, if the Issuer exercises its legal defeasance option, the Security Documents and the rights of the Trustee and the Holders under the Intercreditor Agreement or any Additional Intercreditor Agreement in effect at such time will terminate (other than with respect to the defeasance trust).

The Issuer at any time may terminate its and the Guarantors' obligations under the covenants described under "*—Certain Covenants*" (other than clauses (1), (2) and (3) of the covenant described under "*—Certain Covenants—Merger and Consolidation—DGHL*" and clauses (1) and (2) of the covenant described under "*—Certain Covenants—Merger and Consolidation—The Issuer and the Subsidiary Guarantors") and "—Change of Control" and the default provisions relating to such covenants described under "Events of Default" above, the operation of the cross-default upon a payment default, the cross acceleration provisions, the bankruptcy provisions with respect to the Significant Subsidiaries (other than the Issuer), the judgment default provision, the guarantee provision and the security default provision described under "Events of Default" above ("***covenant defeasance***")*.*

The Issuer at its option at any time may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Issuer exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect to such Notes. If the Issuer exercises its covenant defeasance option with respect to the Notes, payment of such Notes may not be accelerated because of an Event of Default specified in clause (3) (other than with respect to clauses (1), (2) and (3) of the covenant described under "*—Certain Covenants—Merger and Consolidation—DGHL*" and clauses (1) and (2) of the covenant described under "*—Certain Covenants—Merger and Consolidation—The Issuer and the Subsidiary Guarantors*"), (4), (5) (with respect only to Significant Subsidiaries (other than the Issuer)), (6), (7) or (8) under "*Events of Default*" above.

In order to exercise either defeasance option, the Issuer must irrevocably deposit in trust (the "**defeasance trust**") with the Trustee (or another entity designated or appointed as agent by the Trustee for this purpose) cash in U.S. legal tender, U.S. Government Obligations or a combination thereof in an amount sufficient for the payment of principal, premium, if any, and interest on the Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of:

(1) an Opinion of Counsel in the United States to the effect that Holders and beneficial owners of the relevant Notes will not recognise income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit

and defeasance had not occurred (and in the case of legal defeasance only, such Opinion of Counsel in the United States must be based on a ruling of the U.S. Internal Revenue Service or other change in applicable U.S. federal income tax law);

(2) an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of defeating, hindering, delaying, defrauding or preferring any creditors of the Issuer;

(3) an Officer's Certificate and an Opinion of Counsel (which opinion of counsel may be subject to customary assumptions and exclusions), each stating that all conditions precedent provided for or relating to legal defeasance or covenant defeasance, as the case may be, have been complied with; and

(4) all other documents or other information that the Trustee may reasonably require in connection with either defeasance option.

Satisfaction and Discharge

The Indenture, and the rights of the Trustee and the Holders under the Intercreditor Agreement and any Additional Intercreditor Agreement and the relevant Security Documents, will be discharged and cease to be of further effect (except as to surviving rights of conversion or transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all outstanding Notes when (1) either (a) all such Notes previously authenticated and delivered (other than certain lost, stolen or destroyed Notes, and certain Notes for which provision for payment was previously made and thereafter the funds have been released to the Issuer) have been delivered to the Paying Agent for cancellation; or (b) all such Notes not previously delivered to the Paying Agent for cancellation (i) have become due and payable, (ii) will become due and payable at their Stated Maturity within one year or (iii) are to be called for redemption within one year under arrangements reasonably satisfactory to the Trustee for the giving of notice of redemption by the Paying Agent in the name, and at the expense, of the Issuer; (2) the Issuer has deposited or caused to be deposited with the Trustee (or another entity designated or appointed as agent by the Trustee for this purpose) cash in US legal tender, US Government Obligations or a combination thereof in an amount sufficient to pay and discharge the entire Indebtedness on such Notes not previously delivered to the Paying Agent for cancellation, for principal, premium, if any, and interest to the date of deposit (in the case of Notes that have become due and payable), or to the Stated Maturity or redemption date, as the case may be; (3) the Issuer has paid or caused to be paid all other sums payable under the Indenture; (4) the Issuer has delivered irrevocable instructions to the Trustee to apply the funds deposited towards the payment of such Notes at maturity or on the redemption date, as the case may be; and (5) the Issuer has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel (which the Trustee may rely on without further inquiry) each to the effect that all conditions precedent under the "*Satisfaction and Discharge*" section of the Indenture relating to the satisfaction and discharge of the Indenture have been complied with, *provided* that any such counsel may rely on any Officer's Certificate as to matters of fact (including as to compliance with the foregoing clauses (1), (2), (3) and (4)). If requested in writing by the Issuer to the Trustee and Paying Agent (which request may be included in the applicable notice of redemption or pursuant to the above referenced Officer's Certificate) no later than five business days (or such shorter period as may be agreed by the Trustee in its discretion) prior to such distribution, the Trustee shall distribute any amounts deposited to the Holders prior to the Stated Maturity or the redemption date, as the case may be. For the avoidance of doubt, the distribution and payment to holders prior to the maturity or redemption date as set forth above will not include any negative interest, present value adjustment, break cost or any additional premium on such amounts. To the extent the Notes are represented by a global note deposited with a depositary for a clearing system, any payment to the beneficial holders holding interests as a participant of such clearing system will be subject to the then applicable procedures of the clearing system.

No Personal Liability of Directors, Officers, Employees and Shareholders

No director, officer, employee, incorporator or shareholder of DGHL or any of its Subsidiaries or Affiliates, as such, shall have any liability for any obligations of the Issuer or any Guarantor under the Proceeds Loan Agreement or any other applicable Notes Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws and it is the view of the SEC that such a waiver is against public policy.

Concerning the Trustee and Certain Agents

BNY Mellon Corporate Trustee Services Limited is to be appointed as Trustee under the Indenture. The Indenture will provide that, except during the continuance of an Event of Default, the Trustee will perform only such duties as are set forth specifically in such Indenture. During the existence of an Event of Default, the Trustee will exercise such of the rights and powers vested in it under the Indenture and use the same degree of care that a prudent Person would use in conducting its own affairs. The permissive rights of the Trustee to take or refrain from taking any action enumerated in the Indenture will not be construed as an obligation or duty.

The Indenture will impose certain limitations on the rights of the Trustee, should it become a creditor of the Issuer, to obtain payment of claims in certain cases, or to realise on certain property received in respect of any such claim as security or otherwise. The Trustee or any Agent will be permitted to engage in other transactions with DGHL and its Affiliates and Subsidiaries.

The Indenture will set out the terms under which the Trustee may retire or be removed, and replaced. Such terms will include, among others, (1) that the Trustee may be removed at any time by the Holders of a majority in principal amount of the then outstanding Notes, or may resign at any time by giving written notice to the Issuer and (2) that if the Trustee at any time (a) has or acquires a conflict of interest that is not eliminated, or (b) becomes incapable of acting as Trustee or becomes insolvent or bankrupt, then the Issuer may remove the Trustee, or any Holder who has been a bona fide Holder for not less than six months may petition any court for removal of the Trustee and appointment of a successor Trustee.

Any removal or resignation of the Trustee shall not become effective until the acceptance of appointment by the successor Trustee.

The Indenture will contain provisions for the indemnification of the Trustee for any loss, liability, expenses Incurred without gross negligence, wilful misconduct or fraud on its part, arising out of or in connection with the acceptance or administration of the Indenture. Any obligations under the Indenture of The Bank of New York Mellon SA/NV, Luxembourg Branch will be subject to bail-in powers under the EU Bank Recovery and Resolution Directive.

Notices

For so long as any of the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, notices of the Issuer with respect to the Notes will be published in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or if, in the opinion of the Issuer such publication is not practicable, in an English language newspaper having general circulation in Europe or, to the extent and in the manner permitted by such rules, such notices will be posted on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*). In addition, for so long as any Notes are represented by Global Notes, all notices to Holders of the Notes may be delivered by or on behalf of the Issuer to DTC in lieu of notice via registered mail.

Each such notice shall be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made; *provided that*, if notices are mailed, such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed. Any notice or communication mailed to a Holder shall be mailed to such Person by first-class mail or other equivalent means and shall be sufficiently given to such Holder if so mailed within the time prescribed. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

Prescription

Claims against the Issuer and the Guarantors for the payment of principal, or premium, if any, on the Notes will be prescribed ten years after the applicable due date for payment thereof. Claims against the Issuer and the Guarantors for the payment of interest on the Notes will be prescribed six years after the applicable due date for payment of interest.

Currency Indemnity and Calculation of Pound Sterling-Denominated Restrictions

The US dollar is the sole currency of account and payment for all sums payable by the Issuer and the Guarantors under or in connection with the Notes and the Note Guarantees, if any, including damages. Any amount received or recovered in any other currency, whether as a result of, or the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, any Guarantor or otherwise by any Holder or by the Trustee, in respect of any sum expressed to be due to it from the Issuer or a Guarantor will only constitute a discharge to the Issuer or such Guarantor, as applicable, to the extent of the US dollar amount that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If such US dollar amount is less than the US dollar amount expressed to be due to the recipient or the Trustee under any Note, the Issuer and the Guarantors will indemnify them against any loss sustained by such recipient or the Trustee as a result. In any event, the Issuer and the Guarantors will indemnify the recipient or the Trustee on a joint and several basis against the cost of making any such purchase. For the purposes of this currency indemnity provision, it will be *prima facie* evidence of the matter stated therein for the Holder of a Note or the Trustee to certify in a manner reasonably satisfactory to the Issuer (indicating the sources of information used) the loss it Incurred in making any such purchase. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantors' other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any waiver granted by any Holder of a Note or the Trustee (other than a waiver of the indemnities set out herein) and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any Note Guarantee, or to the Trustee.

Except as otherwise specifically set forth herein, for purposes of determining compliance with any sterling-denominated restriction herein, the Sterling Equivalent amount for purposes hereof that is denominated in a non-sterling currency shall be calculated based on the relevant currency exchange rate in effect on the date such non-sterling amount is Incurred or made, as the case may be.

Listing

Application has been made to the Luxembourg Stock Exchange for the approval of this document as Listing Particulars. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Euro MTF Market thereof.

Enforceability of Judgments

Since the majority of the assets of DGHL and its Subsidiaries are located outside the United States, any judgment obtained in the United States against the Issuer, DGHL or any non-U.S. Guarantor, including judgments with respect to the payment of principal, premium, interest, Additional Amounts, if any, and any redemption price and any purchase price with respect to the Notes, may not be collectable within the United States.

Consent to Jurisdiction and Service

In relation to any legal action or proceedings arising out of or in connection with the Indenture and the Notes, the Issuer and the Guarantors will in the Indenture irrevocably submit to the jurisdiction of the federal and state courts in the Borough of Manhattan in the City of New York, County and State of New York, United States. The Indenture will provide that the Issuer and each Guarantor, will appoint Drax Biomass Inc., 5 Concourse Parkway, Suite 3100, Atlanta, GA 3028, USA, as their agent for service of process in any suit, action or proceeding with respect to such Indenture, the Notes and the Note Guarantees brought in any U.S. federal or New York state court located in the Borough of Manhattan in the City of New York.

Governing Law

The Indenture and the Notes, and the rights and duties of the parties thereunder, will be governed by and construed in accordance with the laws of the State of New York. The Intercreditor Agreement and the rights and duties of the parties thereunder are governed by and construed in accordance with the laws of England and Wales. The Security Documents and the rights and duties of the parties thereunder will be governed by and construed in accordance with the laws of England and Wales and the law of the State of New York, as applicable.

Certain Definitions

"**Acquired Indebtedness**" means Indebtedness (1) of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary or (2) assumed in connection with an acquisition of assets, in each case whether or not Incurred by such Person in connection with such Person becoming a Restricted Subsidiary of DGHL or such acquisition or (3) of a Person at the time such Person merges with or into or consolidates or otherwise combines with DGHL or any Restricted Subsidiary. Acquired Indebtedness shall be deemed to have been Incurred, with respect to clause (1) of the preceding sentence, on the date such Person becomes a Restricted Subsidiary and, with respect to clause (2) of the preceding sentence, on the date of consummation of such acquisition of assets and, with respect to clause (3) of the preceding sentence, on the date of the relevant merger, consolidation or other combination.

"**Affiliate**" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "**control**" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing.

"**Agent**" means any authenticating agent, Paying Agent, Transfer Agent, Registrar or Security Agent.

"**Agreed Security Principles**" means the agreed security principles appended to the Senior Facilities Agreement in the form in effect on the Issue Date, as applied *mutatis mutandis* with respect to the Notes in good faith by DGHL.

"**Applicable Premium**" means, with respect to any Note the greater of:

(1) 1% of the principal amount of such Note; and

(2) the excess (to the extent positive) of:

(a) the present value at such redemption date of (1) the redemption price of such Note at 1 May 2021 (such redemption price (expressed in percentage of principal amount) being set forth under the heading "*—Optional Redemption*" (excluding accrued and unpaid interest)), *plus* (2) all required interest payments due on such Note to and including 1 May 2021 (excluding accrued but unpaid interest), computed upon the redemption date using a discount rate equal to the Treasury Rate at such redemption date plus 50 basis points; over

(b) the outstanding principal amount of such Note,

in each case, as calculated by the Issuer or on behalf of the Issuer by such Person as the Issuer shall designate. For the avoidance of doubt, calculation of Applicable Premium shall not be an obligation or duty of the Trustee or any Paying Agent.

"**Asset Disposition**" means any direct or indirect sale, lease (other than an operating lease entered into in the ordinary course of business), transfer, issuance or other disposition, or a series of related sales, leases (other than operating leases entered into in the ordinary course of business), transfers, issuances or dispositions that are part of a common plan, of shares of Capital Stock of a Subsidiary (other than directors' qualifying shares), property or other assets (each referred to for the purposes of this definition as a "**disposition**") by DGHL or any of its Restricted Subsidiaries, including any disposition by means of a merger, consolidation or similar transaction. Notwithstanding the preceding provisions of this definition, the following items shall not be deemed to be Asset Dispositions:

(1) a disposition by a Restricted Subsidiary to DGHL or by DGHL or a Restricted Subsidiary to a Restricted Subsidiary;

(2) a disposition of cash, Cash Equivalents, Temporary Cash Investments or Investment Grade Securities, including without limitation pursuant to credit support arrangements related to Hedging Obligations, any Contract for Difference, or energy market subsidy schemes or initiatives, in each case entered into for a bona fide business purpose;

(3) a disposition of inventory, trading stock, equipment, power or other assets in the ordinary course of business;

(4) a disposition of obsolete, damaged, retired, surplus or worn out equipment or assets or equipment, facilities or other assets (including, without limitation, real property) that are no longer useful in the conduct of, or which are ancillary to, the business of DGHL and its Restricted Subsidiaries and any transfer, termination, unwinding or other disposition of hedging instruments or arrangements for a bona fide business purpose;

(5) transactions permitted under "*—Certain Covenants—Merger and Consolidation*" or a transaction that constitutes a Change of Control;

(6) an issuance of Capital Stock by a Restricted Subsidiary to DGHL or to another Restricted Subsidiary or as part of or pursuant to an equity incentive or compensation plan approved by the Board of Directors of DGHL or the issuance of directors' qualifying shares and shares issued to individuals as required by applicable law;

(7) any dispositions of Capital Stock, properties or assets in a single transaction or series of related transactions with a fair market value (as determined in good faith by an Officer of DGHL) of less than the greater of £25.0 million and 0.75% of Total Assets;

(8) any Restricted Payment that is permitted to be made, and is made, under the covenant described above under "*—Certain Covenants—Limitation on Restricted Payments*" and the making of any Permitted Payment or Permitted Investment or, solely for the purposes of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*", asset sales (or portions thereof), to the extent the proceeds of which are used to make such Restricted Payments or Permitted Investments;

(9) the granting of Liens not prohibited by the covenant described above under the caption "*—Certain Covenants—Limitation on Liens*";

(10) dispositions of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements or any sale of assets received by DGHL or a Restricted Subsidiary upon the foreclosure of a Lien granted in favour of DGHL or any Restricted Subsidiary;

(11) the licensing or sub-licensing of intellectual property or other general intangibles and licenses, sub-licenses, leases or subleases of other property, in each case, in the ordinary course of business;

(12) foreclosure, condemnation, taking by eminent domain or any similar action with respect to any property or other assets;

(13) the sale or discount (with or without recourse, and on customary or commercially reasonable terms) of accounts receivable or notes receivable arising in the ordinary course of business, or the conversion or exchange of accounts receivable for notes receivable, or the sale of Tax losses to DG plc or a Subsidiary of DG plc as part of a group relief surrender arrangement;

(14) sales or dispositions of receivables and related assets in connection with any Qualified Receivables Financing or any factoring transaction or in the ordinary course of business;

(15) any issuance, sale or disposition of Capital Stock, Indebtedness or other securities of an Unrestricted Subsidiary;

(16) any disposition of Capital Stock of a Restricted Subsidiary pursuant to an agreement or other obligation with or to a Person (other than DGHL or a Restricted Subsidiary) from whom such Restricted Subsidiary was acquired, or from whom such Restricted Subsidiary acquired its business and assets (having been newly formed in connection with such acquisition), made as part of such acquisition and in each case comprising all or a portion of the consideration in respect of such sale or acquisition;

(17) any surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;

(18) any disposition of assets to a Person who is providing services related to such assets, the provision of which have been or are to be outsourced by DGHL or any Restricted Subsidiary to such Person; *provided, however*, that an Officer of DGHL shall certify that in the opinion of the Board of Directors, the outsourcing transaction will be economically beneficial to DGHL and its Restricted Subsidiaries (considered as a whole);

(19) an issuance of Capital Stock by a Restricted Subsidiary to DGHL or to another Restricted Subsidiary and an issuance or sale by a Restricted Subsidiary of Preferred Stock or redeemable Capital Stock that is permitted by the covenant described above under "*—Certain Covenants—Limitation on Indebtedness*";

(20) sales, transfers or other dispositions of Investments in joint ventures to the extent required by, or made pursuant to, customary buy/sell arrangements between the joint venture parties set forth in

joint venture arrangements and similar binding agreements; *provided* that any cash or Cash Equivalents received in such sale, transfer or disposition is applied in accordance with the "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*" covenant;

(21) any disposition with respect to property built, owned or otherwise acquired by DGHL or any Restricted Subsidiary pursuant to customary sale and lease-back transactions, asset securitisations and other similar financings permitted by the Indenture; and

(22) any sale, transfer, lease, exchange or other disposition (including pursuant to a derivative transaction) of Energy Instruments, power or commodities, in each case for a bona fide business purpose (as determined in good faith by DGHL or such Restricted Subsidiary, as the case may be).

"**Associate**" means (1) any Person engaged in a Similar Business of which DGHL or its Restricted Subsidiaries are the legal and beneficial owners of between 20% and 50% of all outstanding Voting Stock and (2) any joint venture entered into by DGHL or any Restricted Subsidiary.

"**Board of Directors**" means (1) with respect to DGHL or any corporation, the board of directors or managers, as applicable, of the corporation or any duly authorised committee thereof; (2) with respect to any partnership, the board of directors or other governing body of the general partner of the partnership or any duly authorised committee thereof; and (3) with respect to any other Person, the board or any duly authorised committee of such Person serving a similar function. Whenever any provision of the Indenture requires any action or determination to be made by, or any approval of, a Board of Directors, such action, determination or approval shall be deemed to have been taken or made if approved by a majority of the directors (excluding employee representatives, if any) on any such Board of Directors (whether or not such action or approval is taken as part of a formal board meeting or as a formal board approval).

"**Business Day**" means each day that is not a Saturday, Sunday or other day on which banking institutions in London, England, New York City, United States of America, the Grand Duchy of Luxembourg or a place of payment under the Indenture are authorised or required by law to close.

"**Capital Stock**" of any Person means any and all shares of, rights to purchase, warrants or options for, or other equivalents of or partnership or other interests in (however designated), equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"**Capitalised Lease Obligations**" means an obligation that is required to be classified and accounted for as a capitalised lease or finance lease for financial reporting purposes on the basis of IFRS (as in effect on the Issue Date for purposes of determining whether a lease is a capitalised lease or finance lease). The amount of Indebtedness will be, at the time any determination is to be made, the amount of such obligation required to be capitalised on a balance sheet (excluding any notes thereto) prepared in accordance with IFRS, and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty.

"**Cash Equivalents**" means:

(1) securities issued or directly and fully Guaranteed or insured by the United Kingdom, United States, Japanese or Canadian governments, a member state of the European Union, Switzerland or Norway or, in each case, any agency or instrumentality thereof (*provided* that the full faith and credit of such country or such member state is pledged in support thereof), having maturities of not more than two years from the date of acquisition;

(2) certificates of deposit, time deposits, recognised time deposits, overnight bank deposits or bankers' acceptances having maturities of not more than one year from the date of acquisition thereof issued by any lender party to the Senior Facilities Agreement or by any bank or trust company (a) whose commercial paper is rated at least "A-2" or the equivalent thereof (or has an equivalent long-term rating) by S&P, at least "P-2" or the equivalent thereof (or has an equivalent long-term rating) by Moody's or at least "F2" or the equivalent thereof (or has an equivalent long-term rating) by Fitch (or if at the time none of the foregoing is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) or (b) (in the event that the bank or trust company does not have commercial paper which is rated) having combined capital and surplus in excess of £250 million;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) entered into with any bank meeting the qualifications specified in clause (2) above;

(4) commercial paper rated at the time of acquisition thereof at least "A-2" or the equivalent thereof by S&P, at least "P-2" or the equivalent thereof by Moody's or at least "F2" or the equivalent thereof by Fitch or carrying an equivalent rating by a Nationally Recognized Statistical Rating Organization, if each of the three named rating agencies cease publishing ratings of investments or, if no rating is available in respect of the commercial paper, the issuer of which has an equivalent rating in respect of its long-term debt, and in any case maturing within one year after the date of acquisition thereof;

(5) readily marketable direct obligations issued by the United Kingdom, the United States or any state thereof, Japan, Canada or any province thereof, any member state of the Pre-Expansion European Union, Switzerland or Norway or any political subdivision thereof, in each case, having one of the two highest rating categories obtainable from Moody's, S&P or Fitch (or, if at the time, none of the three named rating agencies is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of not more than two years from the date of acquisition;

(6) Indebtedness or preferred stock issued by Persons with a rating of "BBB-" or higher from S&P, "Baa3" or higher from Moody's or "BBB-" or higher from Fitch (or, if at the time, none of the foregoing is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of 12 months or less from the date of acquisition;

(7) bills of exchange issued in the United Kingdom, the United States, Canada, a member state of the Pre-Expansion European Union, Switzerland, Norway or Japan eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialised equivalent); and

(8) interests in any investment company, money market or enhanced high yield fund which invests 95% or more of its assets in instruments of the type specified in clauses (1) through (7) above.

"**Change of Control**" means the occurrence of any of the following:

(1) DGHL becoming aware of (by way of a report or any other filing pursuant to Section 13(d) of the U.S. Exchange Act, proxy, vote, written notice or otherwise) any "person" or "group" of related persons (as such terms are used in Sections 13(d) and 14(d) of the U.S. Exchange Act as in effect on the Issue Date) other than DG plc being or becoming the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the U.S. Exchange Act as in effect on the Issue Date), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of DGHL; *provided* that for the purposes of this clause, no Change of Control shall be deemed to occur by reason of DGHL becoming a Subsidiary of a Successor Parent Entity; or

(2) the sale, lease, transfer, conveyance or other disposition (other than by way of merger, consolidation or other business combination transaction), in one or a series of related transactions, of all or substantially all of the assets of DGHL and its Restricted Subsidiaries taken as a whole to a Person, other than a Subsidiary of DG plc, DG plc or a Successor Parent Entity.

"**Class 1 Transaction**" has the meaning given to it in the Listing Rules (or successor rules relating to the requirements on companies whose equity securities are admitted to the official list) published by the Financial Conduct Authority (or any successor regulator) under Part VI of the Financial Services and Markets Act 2000, as amended.

"**Clearstream**" means Clearstream Banking, *société anonyme*, or any successor securities clearing agency.

"**Collateral** " means any and all assets from time to time in which a security interest has been or will be granted pursuant to any Security Document to secure the obligations under the Indenture, the Notes and/or any Note Guarantee.

"**Commodity Hedging Agreement**" means, (i) any Energy Instrument and (ii) in respect of a Person, any commodity purchase contract, commodity futures or forward contract, commodities option contract or other similar contract (including commodities derivative agreements or arrangements), to which such Person is a party or a beneficiary, including, but not limited to, contracts relating to (1) power, (2) financial coal, (3) physical coal, (4) gas, (5) biomass, (6) oil, (7) freight, (8) weather or (9) emissions allowances, or any combination of the foregoing, but, for the avoidance of doubt, excluding in each case any Contract for Difference.

"**Consolidated EBITDA**" for any period means, without duplication, the Consolidated Net Income for such period, plus the following to the extent deducted in calculating such Consolidated Net Income:

(1) Consolidated Interest Expense;

(2) Consolidated Income Taxes;

(3) consolidated depreciation expense;

(4) consolidated amortisation (other than amortisations of a prepaid cash charge or expense that was paid in a prior period) or impairment expense;

(5) any expenses, charges or other costs related to any issuance of Capital Stock, listing of Capital Stock, Investment, acquisition (including amounts paid in connection with the acquisition or retention of one or more individuals comprising part of a management team retained to manage the acquired business and any expenses, charges or other costs related to deferred or contingent payments), disposition, recapitalisation or the Incurrence of any Indebtedness permitted by the Indenture (whether or not successful) (including any such fees, expenses or charges related to the Transactions (including any expenses in connection with related due diligence activities)), in each case, as determined in good faith by an Officer of DGHL;

(6) any minority interest expense (whether paid or not) consisting of income attributable to minority equity interests of third parties in such period or any prior period or any net earnings, income or share of profit of any Associates, associated company or undertaking;

(7) other non-cash charges or expenses, write-downs or items reducing Consolidated Net Income (excluding any such non-cash charge, write-down or item to the extent it represents an accrual of or reserve for cash charges expected to be paid in any future period) and any items classified by DGHL as special, extraordinary, exceptional, unusual or nonrecurring items less other non-cash items of income increasing Consolidated Net Income (excluding any such non-cash item of income to the extent it represents a receipt of cash expected to be paid in any future period);

(8) the proceeds of any business interruption insurance received or that become receivable during such period to the extent the associated losses arising out of the event that resulted in the payment of such business interruption insurance proceeds were included in computing Consolidated Net Income (to the extent such amounts are not duplicative with any special, extraordinary, exceptional, unusual or nonrecurring item relating to the same event that has not been excluded);

(9) payments received, or that become receivable with respect to, expenses that are covered by the indemnification provisions in any agreement entered into by such Person in connection with an acquisition to the extent such expenses were included in computing Consolidated Net Income (to the extent such amounts are not duplicative with any special, extraordinary, exceptional, unusual or nonrecurring item relating to the same event that has not been excluded); and

(10) any Receivables Fees and discounts on the sale of the subject of any Qualified Receivables Financing or any other securitisation or factoring arrangement (including, without limitation, accounts receivable and Energy Instruments), representing, in DGHL's reasonable determination, the implied interest component of such discount for such period.

"**Consolidated Income Taxes**" means Taxes or other payments, including deferred Taxes, based on income, profits or capital of any of DGHL and its Restricted Subsidiaries whether or not paid, estimated, accrued or required to be remitted to any governmental authority.

"**Consolidated Interest Expense**" means, for any period (in each case, determined on the basis of IFRS), the consolidated interest expense of DGHL and its Restricted Subsidiaries, whether paid or accrued, including (without duplication) any interest, costs and charges consisting of:

(1) interest expense attributable to Capitalised Lease Obligations;

(2) amortisation of original issue discount;

(3) non-cash interest expense (but excluding any non-cash interest expense attributable to the movement in mark-to market valuation of Hedging Obligations or other derivative instruments pursuant to IFRS);

(4) net cash payments, if any, pursuant to Interest Rate Agreements with respect to Indebtedness (excluding other costs associated with Hedging Obligations);

(5) all dividends or other distributions in respect of all Disqualified Stock of DGHL and all Preferred Stock of any Restricted Subsidiary, to the extent held by Persons other than DGHL or a Subsidiary of DGHL;

(6) the consolidated interest expense that was capitalised during such period; and

(7) interest actually paid by DGHL or any Restricted Subsidiary under any Guarantee of Indebtedness or other obligation of any other Person,

minus (i) cash interest income for such period, (ii) accretion or accrual of discounted liabilities other than Indebtedness, (iii) any expense resulting from the discounting of any Indebtedness in connection with the application of purchase accounting in connection with any acquisition, (iv) interest with respect to Indebtedness of any Holding Company of such Person appearing upon the balance sheet of such Person solely by reason of push-down accounting under IFRS, (v) any Additional Amounts with respect to the Notes or other similar Tax gross-up on any Indebtedness (including, without limitation, under any Credit Facility), which is included in interest expenses under IFRS, (vi) any interest or principal with respect to any Subordinated Shareholder Funding and (vii) any interest expense related to a Guarantee of Indebtedness of a Parent Entity Incurred in compliance with the Indenture shall only be included to the extent it exceeds the amount of interest expense in respect of any proceeds loan related thereto that is included in the calculation of Consolidated Interest Expense in an equal or greater amount.

Notwithstanding the above provisions, in no event shall the following be included on Consolidated Interest Expense:

(1) amortisation of deferred financing costs, debt issuance costs, commissions, fees and expenses

(2) interest cost in relation to pension liabilities;

(3) interest costs associated with the discounting of decommissioning costs or other similar costs;

(4) foreign exchange gains or losses;

(5) penalties and interest relating to taxes; and

(6) commissions, discounts, yield and other fees and charges (including any interest expense) related to any Qualified Receivables Financing.

"**Consolidated Net Income**" means, for any period, the net income (loss) of DGHL and its Restricted Subsidiaries determined on a consolidated basis on the basis of IFRS; *provided, however*, that there will not be included in such Consolidated Net Income:

(1) subject to the limitations contained in clause (3) below, any net income (loss) of any Person if such Person is not a Restricted Subsidiary, except that DGHL's equity in the net income of any such Person for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed by such Person during such period to DGHL or a Restricted Subsidiary as a dividend or other distribution or return on investment (subject, in the case of a dividend or other distribution or return on investment to a Restricted Subsidiary, to the limitations contained in clause (2) below); *provided* that, for the purposes of clause (c)(i) of the first paragraph of the covenant described under "*—Certain Covenants—Limitations on Restricted Payments*," such dividends, other distribution or return on investment does not reduce the amount of Investments outstanding under clause (11) of the definition of "Permitted Investments";

(2) solely for the purpose of determining the amount available for Restricted Payments under clause (c)(i) of the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*", any net income (loss) of any Restricted Subsidiary if such Subsidiary is subject to restrictions on the payment of dividends or the making of distributions by such Restricted Subsidiary to DGHL by operation of the terms of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders (other than (a) restrictions that have been waived or otherwise released, (b) restrictions pursuant to the Notes or the Indenture, (c) contractual restrictions in effect on the Issue Date (including pursuant to the Senior Facilities Agreement and the Intercreditor Agreement) and other restrictions with respect to any such Restricted Subsidiary that, taken as a whole, are not materially less favourable to the Holders than such restrictions in effect on the Issue Date and (d) restrictions permitted under the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Restrictions on Distributions from Restricted Subsidiaries*", except that DGHL's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted

Subsidiary during such period to DGHL or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause));

(3) any net gain (or loss) realised upon the sale or other disposition of any asset or disposed operations of DGHL or any Restricted Subsidiaries (including pursuant to any sale/leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by an Officer or the Board of Directors of DGHL);

(4) any extraordinary, one-off, non-recurring, exceptional or unusual gain, loss, expense or charge, including any charges or reserves in respect of any restructuring, redundancy, relocation, refinancing, integration or severance or other post-employment arrangements, signing, retention or completion bonuses, transaction costs (including costs related to the Transactions or any investments), acquisition costs, business optimisation, system establishment, software or information technology implementation or development, costs related to governmental investigations and curtailments or modifications to pension or post-retirement benefits schemes, litigation or any asset impairment charges (including as a result of the conversion of electricity generation units from coal-fired to biomass-fired) or the financial impacts of natural disasters (including fire, flood and storm and related events);

(5) the cumulative effect of a change in accounting principles;

(6) any non-cash compensation charge or expense arising from any grant of stock, stock options or other equity based awards, any non-cash deemed finance charges in respect of any pension liabilities or other provisions, any non-cash net after Tax gains or losses attributable to the termination or modification of any employee pension benefit plan and any charge or expense relating to any payment made to holders of equity based securities or rights in respect of any dividend sharing provisions of such securities or rights to the extent such payment was made pursuant to the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*";

(7) all deferred financing costs written off and premiums paid or other expenses incurred directly in connection with any early extinguishment of Indebtedness or Hedging Obligations or any Contract for Difference and any net gain (or loss) from any write-off or forgiveness of Indebtedness;

(8) any unrealised gains or losses in respect of Hedging Obligations, any Contract for Difference or other financial instruments or any ineffectiveness recognised in earnings related to qualifying hedge transactions or the fair value or changes therein recognised in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations or any Contract for Difference;

(9) any unrealised foreign currency transaction gains or losses in respect of Indebtedness or other obligations of DGHL or any Restricted Subsidiary denominated in a currency other than the functional currency of such Person and any unrealised foreign exchange gains or losses resulting from remeasuring assets and liabilities denominated in foreign currencies;

(10) any unrealised foreign currency translation or transaction gains or losses in respect of Indebtedness or other obligations of DGHL or any Restricted Subsidiary owing to DGHL or any Restricted Subsidiary;

(11) any one-time non-cash charges or any amortisation or depreciation, in each case to the extent related to the Transactions, purchase accounting or any acquisition of, or merger or consolidation with, another Person or business or resulting from any reorganisation or restructuring involving DGHL or its Subsidiaries;

(12) any goodwill or other intangible asset impairment charge or write-off or write-down;

(13) the impact of any increase in the consolidated depreciation charge resulting from the acceleration of the depreciation of certain existing assets owned by DGHL or any Restricted Subsidiary as of the Issue Date to 2025 in an amount not to exceed £27.0 million in each year, beginning in 2017; and

(14) the impact of capitalised, accrued or accreting or pay-in-kind interest or principal on Subordinated Shareholder Funding.

"**Consolidated Net Leverage**" means the sum of the aggregate outstanding Indebtedness of DGHL and its Restricted Subsidiaries (excluding Hedging Obligations entered into for a bona fide business purpose (as determined in good faith by an Officer of DGHL)) *less* the amount of cash and Cash Equivalents that would be stated on the balance sheet of DGHL and its Restricted Subsidiaries as of the relevant date of determination in accordance with IFRS.

"**Consolidated Net Leverage Ratio**" means, as of any date of determination, the ratio of (x) Consolidated Net Leverage at such date to (y) the aggregate amount of Consolidated EBITDA for the period of the two most recent half-year periods ending prior to such date of determination for which internal consolidated financial statements of DGHL are available. In the event that DGHL or any of its Restricted Subsidiaries Incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary working capital borrowings) subsequent to the commencement of the period for which the Consolidated Net Leverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Consolidated Net Leverage Ratio is made (the "**Calculation Date**"), then the Consolidated Net Leverage Ratio will be calculated giving *pro forma* effect (as determined in good faith by an Officer of DGHL responsible for accounting or financial reporting) to such Incurrence, assumption, guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable two half-year reference period and may give effect to cost savings or cost reduction synergies that have occurred.

In addition, for purposes of calculating the Consolidated Net Leverage Ratio:

(1) dispositions, consolidations, acquisitions and other Investments, operational changes, business realignment projects or initiatives, restructurings or reorganisations that have been made by DGHL or any of its Restricted Subsidiaries, including through mergers, consolidations, amalgamations, fixed assets, plant or facility integration, opening, expansion, relocation, remodelling, modernisation or otherwise or by any Person or any of its Subsidiaries which are Restricted Subsidiaries acquired by DGHL or any of its Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Subsidiaries which are Restricted Subsidiaries, during the reference period or subsequent to such reference period and on or prior to the Calculation Date, or that are to be made on the Calculation Date, will be given *pro forma* effect (as determined in good faith by an Officer of DGHL responsible for accounting or financial reporting and may include anticipated expense and cost reduction synergies) as if they had occurred on the first day of the reference period;

(2) the Consolidated EBITDA (whether positive or negative) attributable to discontinued operations, as determined in accordance with IFRS, and operations, businesses or group of assets constituting a business or operating unit (and ownership interests therein) disposed of prior to the Calculation Date will be excluded on a *pro forma* basis as if such disposition occurred on the first day of such period (taking into account anticipated cost reduction synergies resulting from any such disposal, as determined in good faith by an Officer of DGHL responsible for accounting or financial reporting);

(3) the Consolidated Interest Expense attributable to discontinued operations, as determined in accordance with IFRS, and operations, businesses or group of assets constituting a business or operating unit (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded on a *pro forma* basis as if such disposition occurred on the first day of such period, but only to the extent that the obligations giving rise to such Consolidated Interest Expense will not be obligations of DGHL or any of its Restricted Subsidiaries following the Calculation Date;

(4) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such reference period;

(5) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such reference period; and

(6) if any Indebtedness bears a floating rate of interest, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness), and if any Indebtedness is not denominated in DGHL's functional currency, that Indebtedness for purposes of the calculation of Consolidated Net Leverage shall be treated in accordance with IFRS.

"**Contingent Obligations**" means, with respect to any Person, any obligation of such Person guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that does not constitute Indebtedness ("**primary obligations**") of any other Person (the "**primary obligor**"), including any obligation of such Person, whether or not contingent:

(1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;

(2) to advance or supply funds:

(a) for the purchase or payment of any such primary obligation; or

(b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or

(3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

"**Contract for Difference**" means an agreement entered into between any governmental, quasi-governmental or regulatory entity and DGHL or any Restricted Subsidiary, providing for a strike price for energy, including but not limited to the Investment Contract Relating to the Drax 3^{rd} Conversion Unit (Unit 1) dated 9 May 2014 entered into between Drax Power Limited and The Secretary of State for Energy and Climate Change, as amended.

"**Credit Facility**" means, with respect to DGHL or any of its Subsidiaries, one or more debt facilities, arrangements, instruments, trust deeds or indentures (including without limitation the Senior Facilities Agreement or commercial paper facilities and overdraft facilities) with banks, institutions or investors providing for revolving credit loans, term loans, performance guarantees, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), notes, letters of credit or other Indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or other banks, institutions or investors and whether provided under the original Senior Facilities Agreement or one or more other credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other Guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term "Credit Facility" shall include any agreement or instrument (1) changing the maturity of any Indebtedness Incurred thereunder or contemplated thereby, (2) adding Subsidiaries of DGHL as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness Incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

"**Currency Agreement**" means, in respect of a Person, any foreign exchange contract, currency swap agreement, currency futures contract, currency option contract, currency derivative or other similar agreement or arrangement to which such Person is a party or beneficiary.

"**Default**" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"**Designated Non-Cash Consideration**" means the fair market value (as determined in good faith by an Officer of DGHL) of non-cash consideration received by DGHL or one of its Restricted Subsidiaries in connection with an Asset Disposition that is so designated as "Designated Non-Cash Consideration" pursuant to an Officer's Certificate, setting forth the basis of such valuation, less the amount of cash, Cash Equivalents or Temporary Cash Investments received in connection with a subsequent payment, redemption, retirement, sale or other disposition of such Designated Non-Cash Consideration. A particular item of Designated Non-Cash Consideration will no longer be considered to be outstanding when and to the extent it has been paid, redeemed or otherwise retired or sold or otherwise disposed of in compliance with the covenant described under "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*".

"**Designated Preference Shares**" means, with respect to DGHL or any Parent Entity, Preferred Stock (other than Disqualified Stock) (1) that is issued for cash (other than to DGHL or a Subsidiary of DGHL or an employee stock ownership plan or trust established by DGHL or any such Subsidiary for the benefit of their employees to the extent funded by DGHL or such Subsidiary) and (2) that is designated as "Designated Preference Shares" pursuant to an Officer's Certificate of DGHL at or prior to the issuance thereof, the Net Cash Proceeds of which are excluded from the calculation set forth in clauses (c)(ii) and (c)(iii) of the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*".

"**DGHL**" means Drax Group Holdings Limited, a company incorporated in England and Wales with company number 9887429, and its successors and assigns.

"**DGHL Group**" means DGHL and its Restricted Subsidiaries from time to time.

"**DG plc**" means Drax Group plc, a company incorporated in England and Wales with company number 5562053.

"**Disqualified Stock**" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable, in each case, at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, in each case on or prior to the date that is 90 days after the earlier of (1) the Stated Maturity of the Notes and (2) the date on which there are no Notes outstanding. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require the issuer thereof to repurchase such Capital Stock upon the occurrence of a Change of Control or an Asset Disposition will not constitute Disqualified Stock if the terms of such Capital Stock provide that the issuer thereof may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption "*—Certain Covenants—Limitation on Restricted Payments*". For purposes hereof, the amount of Disqualified Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the fair market value of such Disqualified Stock, such fair market value to be determined as set forth herein. Only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date will be deemed to be Disqualified Stock.

"**DTC**" means the Depository Trust Company.

"**Energy Instruments**" means instruments, credits or allowances issued, distributed or entered into by a governmental, quasi-governmental or regulatory entity in respect of energy generation, energy provision, or fuel sourcing or, in each case, related emissions, products or externalities, including, without limitation, Renewables Obligation Certificates, Renewable Energy Guarantees of Origin, Guarantees of Origin, emissions and particulate allowances and tradeable subsidy contracts (including without limitation Capacity Agreements), and in each case any similar instrument, credit or allowance, including under a predecessor, successor or similar scheme.

"**Equity Offering**" means (1) a sale of Capital Stock of DGHL or a Restricted Subsidiary (other than to DGHL or any of its Subsidiaries (other than Disqualified Stock and other than offerings registered on Form S-8 (or any successor form) under the U.S. Securities Act or any similar offering in other jurisdictions)), or (2) the sale of Capital Stock or other securities by any Person (other than to DGHL or any of its Subsidiaries), the proceeds of which are contributed as Subordinated Shareholder Funding or to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution or a Parent Debt Contribution) of DGHL or any of its Restricted Subsidiaries.

"**Escrowed Proceeds**" means the proceeds from the offering of any debt securities or other Indebtedness paid into escrow accounts with an independent escrow agent on the date of the applicable offering or incurrence pursuant to escrow arrangements that permit the release of amounts on deposit in such escrow accounts upon satisfaction of certain conditions or the occurrence of certain events. The term "Escrowed Proceeds" shall include any interest earned on the amounts held in escrow.

"**Euroclear**" means Euroclear Bank SA/NV or any successor securities clearing agency.

"**European Union**" means the European Union from time to time, but including any country that exits the European Union after the Issue Date.

"**Excluded Contribution**" means Net Cash Proceeds or property or assets received by DGHL as capital contributions to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares) of DGHL after the Issue Date or from the issuance or sale (other than to a Restricted Subsidiary or an employee stock ownership plan or trust established by DGHL or any Subsidiary of DGHL for the benefit of its employees to the extent funded by DGHL or any Restricted Subsidiary) of Capital Stock (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding of DGHL, in each case, to the extent designated as an Excluded Contribution pursuant to an Officer's Certificate of DGHL and not constituting a Parent Debt Contribution.

"**Existing Indenture**" means the indenture relating to the Existing Notes dated as of 5 May 2017 among the Issuer, the guarantors party thereto, the trustee party thereto, the Security Agent, The Bank of New York Mellon, London Branch, as paying agent and as calculation agent, the transfer agent party thereto and the registrar party thereto *provided that*, with respect to the provisions described in "*—Note Guarantees—Release of Note Guarantees*", the Existing Indenture shall refer to the Existing Indenture as in effect on the Issue Date.

"**Existing Notes**" means the £350 million aggregate principal amount of 4 1/4% Senior Secured Fixed Rate Notes due 2022 issued by the Issuer on 5 May 2017 pursuant to the Existing Indenture and, prior to their redemption in connection with the Transactions, the £200.0 million aggregate principal amount of Senior Secured Floating Rate Notes due 2022.

"**Existing Notes Proceeds Loan**" means the loan made on 5 May 2017 by the Issuer to Drax Corporate Limited for the amount of the gross proceeds received by the Issuer from the offering of the £350 million aggregate principal amount of 4 1⁄4% Senior Secured Fixed Rate Notes due 2022 on 5 May 2017, pursuant to the Existing Proceeds Loan Agreement.

"**Existing Notes Proceeds Loan Agreement**" means that certain loan agreement relating to the £350 million aggregate principal amount of 4 1⁄4% Senior Secured Fixed Rate Notes due 2022, dated as of 5 May 2017, by and between the Issuer, as lender, and Drax Corporate Limited, as borrower, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time.

"**fair market value**" wherever such term is used in this "*Description of Notes*" or the Indenture (except in relation to an enforcement action pursuant to the Intercreditor Agreement and except as otherwise specifically provided in this "*Description of Notes*" or the Indenture), may be conclusively established by means of an Officer's Certificate or a resolution of the Board of Directors of DGHL setting out such fair market value as determined by such Officer or such Board of Directors in good faith.

"**Fitch**" means Fitch Ratings Inc., or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

"**Fixed Charge Coverage Ratio**" means, as of any date of determination, the ratio of (x) the aggregate amount of Consolidated EBITDA of such Person for the period of the two most recent fiscal half-year periods prior to the date of such determination for which internal consolidated financial statements are available to (y) the Fixed Charges of such Person for such two fiscal half-year periods. In the event that the specified Person or any of its Restricted Subsidiaries Incurs, assumes, guarantees, repays, repurchases, redeems, defeases, retires, extinguishes or otherwise discharges any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems Disqualified Stock or Preferred Stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the "**Calculation Date**"), then the Fixed Charge Coverage Ratio will be calculated giving *pro forma* effect (as determined in good faith by an officer of such Person responsible for accounting or financial reporting), including in respect of anticipated expense and cost reductions and synergies, to such Incurrence, assumption, guarantee, repayment, repurchase, redemption, defeasance, retirement, extinguishment or other discharge of Indebtedness, or such issuance, repurchase or redemption of Disqualified Stock or Preferred Stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable two half-year reference period; *provided*, *however*, that the *pro forma* calculation of Fixed Charges shall not give effect to (i) any Indebtedness Incurred on the Calculation Date pursuant to the provisions described in the second paragraph of the covenant described above under "*—Certain Covenants—Limitation on Indebtedness*" (other than for the purposes of the calculation of the Fixed Charge Coverage Ratio under clause (5) thereunder) or (ii) the discharge on the Calculation Date of any Indebtedness to the extent that such discharge results from the proceeds Incurred pursuant to the provisions described in the second paragraph of the covenant described above under "*—Certain Covenants—Limitation on Indebtedness*".

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

(1) dispositions, consolidations, acquisitions and other Investments, operational changes, business realignment projects or initiatives, restructurings or reorganisations that have been made by DGHL

or any of its Restricted Subsidiaries, including through mergers, consolidations, amalgamations, fixed assets, plant or facility integration, opening, expansion, relocation, remodelling, modernisation or otherwise or by any Person or any of its Restricted Subsidiaries acquired by the specified Person or any of its Subsidiaries which are Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Restricted Subsidiaries, during the two half-year reference period or subsequent to such reference period and on or prior to the Calculation Date, or that are to be made on the Calculation Date, will be given *pro forma* effect (as determined in good faith by an officer of such Person responsible for accounting or financial reporting), including in respect of anticipated expense and cost reductions and synergies, as if they had occurred on the first day of the two half-year reference period;

(2) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded on a *pro forma* basis as if such disposition occurred on the first day of such period (taking into account anticipated cost reduction synergies resulting from any such disposal, as determined in good faith by an Officer of DGHL responsible for accounting or financial reporting);

(3) the Fixed Charges attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date;

(4) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such two half-year period;

(5) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such two half-year period;

(6) if any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term as at the Calculation Date in excess of 12 months, or, if shorter, at least equal to the remaining term of such Indebtedness); and

(7) Interest on a Capitalised Lease Obligation shall be deemed to accrue at an interest rate reasonably determined by an Officer of DGHL responsible for accounting or financial reporting to be the rate of interest implicit in such Capitalised Lease Obligation in accordance with IFRS.

"**Fixed Charges**" means, with respect to any specified Person for any period, the sum, without duplication, of:

(1) the Consolidated Interest Expense (net of interest income) and Receivables Fees of such Person for such period; *plus*

(2) all dividends (whether paid or accrued and whether or not in cash), on or in respect of all Disqualified Stock of DGHL or any series of Preferred Stock of any Restricted Subsidiary, other than dividends on Capital Stock payable to DGHL or a Restricted Subsidiary.

"**Guarantee**" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person, including any such obligation, direct or indirect, contingent or otherwise, of such Person (including any Note Guarantee):

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(2) entered into primarily for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

provided, *however*, that the term "Guarantee" will not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"**Guarantor**" means each of DGHL and any Subsidiary Guarantor, in each case, until the Note Guarantee of such Person has been released in accordance with the provisions of the Indenture.

"**Hedging Obligations**" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement, Inflation Agreement, Currency Agreement or Commodity Hedging Agreement.

"**Holder**" means each Person in whose name a Note is registered on the Registrar's books, which shall initially be the nominee of DTC.

"**Holding Company**" means, in relation to any Person, any other Person in respect of which it is a Subsidiary.

"**IFRS**" means International Financial Reporting Standards (formerly International Accounting Standards) endorsed from time to time by the European Union or any variation thereof with which DGHL or its Restricted Subsidiaries are, or may be, required to comply. Except as otherwise set forth in the Indenture, all ratios and calculations based on IFRS contained in the Indenture shall be computed in accordance with IFRS as in effect from time to time; *provided* that at any date after the Issue Date DGHL may make an irrevocable election to establish that "IFRS" shall mean IFRS as in effect on a date that is on or prior to the date of such election (except with respect to the covenant described under the caption "*—Certain Covenants—Reports*"). DGHL shall give notice of any such election to the Trustee and the Holders. Notwithstanding the foregoing, the impact of IFRS 16 (*Leases*) and any successor standard thereto shall be disregarded with respect to all ratios, calculations, baskets and determinations based upon IFRS to be calculated or made, as the case may be, pursuant to the Indenture and (without limitation) any lease, concession or license of property that would be considered an operating lease under IFRS as of the Issue Date and any guarantee given by DGHL or any Restricted Subsidiary in the ordinary course of business solely in connection with, and in respect of, the obligations of DGHL or any Restricted Subsidiary under any such operating lease shall be accounted for in accordance with IFRS as in the effect on the Issue Date.

"**Incur**" means issue, create, assume, enter into any Guarantee of, incur or otherwise become liable for, and the terms "**Incurred**" and "**Incurrence**" have meanings correlative to the foregoing; *provided*, *however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and any Indebtedness pursuant to any revolving credit or similar facility shall only be "Incurred" at the time any funds are borrowed thereunder.

"**Indebtedness**" means, with respect to any Person on any date of determination (without duplication):

(1) the principal of indebtedness of such Person for borrowed money;

(2) the principal of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all reimbursement obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments (the amount of such obligations being equal at any time to the aggregate then undrawn and unexpired amount of such letters of credit or other instruments plus the aggregate amount of drawings thereunder that have not been reimbursed) (except to the extent such reimbursement obligations relate to trade payables or other obligations not constituting Indebtedness and such obligations are satisfied within 30 days of Incurrence), in each case only to the extent that the underlying obligation in respect of which the instrument was issued would be treated as Indebtedness;

(4) the principal component of all obligations of such Person to pay the deferred and unpaid purchase price of property (except trade payables), where the deferred payment is arranged primarily as a means of raising finance, which purchase price is due more than one year after the date of placing such property in service or taking final delivery and title thereto;

(5) Capitalised Lease Obligations of such Person;

(6) the principal component of all obligations, or liquidation preference, of such Person with respect to any Disqualified Stock or, with respect to any Restricted Subsidiary, any Preferred Stock (but excluding, in each case, any accrued dividends);

(7) the principal component of all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person (the amount of such Indebtedness being equal to the lesser of (a) the fair market value of such asset at such date of

determination (as determined in good faith by an Officer of DGHL) and (b) the amount of such Indebtedness of such other Persons);

(8) Guarantees by such Person of the principal component of Indebtedness of other Persons to the extent Guaranteed by such Person; and

(9) to the extent not otherwise included in this definition, net obligations of such Person under Hedging Obligations (the amount of any such obligations to be equal at any time to (a) zero if such Hedging Obligation is in respect of currency exchange rates, interest rates or inflation or is pursuant to a Commodity Hedging Agreement, or is any combination of the foregoing (and not in respect of the risk management of other Indebtedness), in each case incurred pursuant to clause (6) of the definition of Permitted Debt; or (b) for any Hedging Obligation other than as described in subclause (a), the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time).

The term "Indebtedness" shall not include (i) obligations under any Contract for Difference, (ii) obligations in respect of standby letters of credit, performance bonds or surety bonds which are provided by DGHL or any Restricted Subsidiary, as issuer, for the benefit of DGHL or any Restricted Subsidiary in the ordinary course of business to the extent such letters of credit or bonds are not drawn upon or, if and to the extent drawn upon are honoured in accordance with their terms and if, to be reimbursed, are reimbursed no later than the fifth Business Day following receipt by such Person of a demand for reimbursement following payment on the letter of credit or bond, (iii) Subordinated Shareholder Funding, (iv) any lease, concession or license of property (or Guarantee thereof) which would be considered an operating lease under IFRS as in effect on the Issue Date, (v) prepayments of deposits received from clients or customers in the ordinary course of business, (vi) purchase price holdbacks in respect of the purchase price of an asset to satisfy warranty or other unperformed claims of the respective seller, (vii) any asset retirement obligations, (viii) obligations under any license, permit or other approval (or Guarantees given in respect of such obligations) Incurred prior to the Issue Date or in the ordinary course of business or (ix) indebtedness Incurred by DGHL or one of the Restricted Subsidiaries in connection with a transaction where (A) such indebtedness is borrowed from a bank or trust company, having a combined capital and surplus and undivided profits of not less than £250 million, whose debt has a rating immediately prior to the time such transaction is entered into, of at least A or the equivalent thereof by S&P and A2 or the equivalent thereof by Moody's and (B) a substantially concurrent Investment is made by DGHL or a Restricted Subsidiary in the form of cash deposited with the lender of such indebtedness, or a Subsidiary or Affiliate thereof, in amount equal to such indebtedness.

The amount of Indebtedness of any Person at any time in the case of a revolving credit or similar facility shall be the total amounts of funds borrowed and then outstanding. The amount of Indebtedness of any Person at any date shall be determined as set forth above or otherwise provided in the Indenture, and (other than with respect to letters of credit or Guarantees or Indebtedness specified in clause (7), (8) or (9) above) shall equal the amount thereof that would appear on a balance sheet of such Person (excluding any notes thereto) prepared on the basis of IFRS. Indebtedness represented by loans, notes or other debt instruments shall not be included to the extent funded with the proceeds of Indebtedness which DGHL or any Restricted Subsidiary has guaranteed or for which any of them is otherwise liable and which is otherwise included in the definition of "Indebtedness".

Notwithstanding the above provisions, in no event shall the following constitute Indebtedness:

(1) Contingent Obligations Incurred in the ordinary course of business, obligations under or in respect of Qualified Receivables Financings and accrued liabilities Incurred in the ordinary course of business that are not more than 120 days past due;

(2) in connection with the purchase by DGHL or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided*, *however*, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 30 days thereafter;

(3) for the avoidance of doubt, any obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims (including obligations under surety bonds in respect thereof), obligations or contributions or social security or employment or wage Taxes; and

(4) any accrued expenses and trade payables.

"**Independent Financial Advisor**" means an investment banking or accounting firm of international standing or any third party appraiser of international standing; *provided*, *however*, that such firm or appraiser is not an Affiliate of DGHL.

"**Inflation Agreement**" means, with respect to any Person, any inflation rate protection agreement, inflation swap agreement, inflation future agreement, inflation cap agreement, inflation floor agreement, inflation spread option agreement, inflation swaption agreement, inflation-linked agreement, inflation-hybrid product agreement or other similar agreement or arrangement to which such Person is party of beneficiary.

"**Intercreditor Agreement**" means the intercreditor agreement, dated as of 5 May 2017, between, among others, the Issuer, the guarantors party thereto, the trustee under the Existing Indenture, the STL counterparties party thereto, the hedge counterparties party thereto, the lenders under the Senior Facilities Agreement and the Security Agent as amended, restated or otherwise modified or varied from time to time and to which the Trustee will accede on or about the Issue Date.

"**Interest Rate Agreement**" means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement to which such Person is party or a beneficiary.

"**Investment**" means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the form of any advance, loan or other extensions of credit (other than advances or extensions of credit to customers, suppliers, directors, officers or employees of any Person in the ordinary course of business, and excluding any debt or extension of credit represented by a bank deposit other than a time deposit) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or the Incurrence of a Guarantee of any obligation of, or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by, such other Persons and all other items that are or would be classified as investments on a balance sheet (excluding any notes thereto) prepared on the basis of IFRS; *provided*, *however*, that endorsements of negotiable instruments and documents and the provision of cash collateral in support of letters of credit, each in the ordinary course of business will not be deemed to be an Investment. If DGHL or any Restricted Subsidiary issues, sells or otherwise disposes of any Capital Stock of a Person that is a Restricted Subsidiary such that, after giving effect thereto, such Person is no longer a Restricted Subsidiary, any Investment by DGHL or any Restricted Subsidiary in such Person remaining after giving effect thereto will be deemed to be a new Investment equal to the fair market value of the Capital Stock of such Subsidiary not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption "*—Certain Covenants—Limitation on Restricted Payments*".

For purposes of "*—Certain Covenants—Limitation on Restricted Payments*":

(1) "Investment" will include the portion (proportionate to DGHL's equity interest in a Restricted Subsidiary to be designated as an Unrestricted Subsidiary) of the fair market value of the net assets of such Restricted Subsidiary of DGHL at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary; and

(2) any property transferred to or from an Unrestricted Subsidiary will be valued at its fair market value at the time of such transfer, in each case as determined in good faith by an Officer of DGHL.

The amount of any Investment outstanding at any time shall be the original cost of such Investment, reduced (at DGHL's option) by any dividend, distribution, interest payment, return of capital, repayment or other amount or value received in respect of such Investment.

"**Investment Grade Securities**" means:

(1) securities issued or directly and fully Guaranteed or insured by the United Kingdom, United States, Japanese or Canadian governments or, in each case, any agency or instrumentality thereof (other than Cash Equivalents);

(2) securities issued or directly and fully guaranteed or insured by a member of the European Union, Switzerland or Norway or any agency or instrumentality thereof (other than Cash Equivalents) whose long-term debt is rated "A-1" or higher by Moody's or "A+" by S&P or the equivalent rating category of another internationally recognised rating agency, or, in each case, any agency or instrumentality thereof;

(3) debt securities or debt instruments with a rating of "BBB-" or higher from S&P, "Baa3" or higher by Moody's or "BBB-" or higher from Fitch or the equivalent of such rating by such rating organisation

or, if no rating of S&P, Moody's or Fitch then exists, the equivalent of such rating by any other Nationally Recognized Statistical Rating Organization, but excluding any debt securities or instruments constituting loans or advances among DGHL and its Subsidiaries;

(4) investments in any fund which invests 95% or more of its assets in investments of the type described in clauses (1), (2) and (3) above which fund may also hold cash and Cash Equivalents pending investment or distribution; and

(5) any investment in repurchase obligations with respect to any securities of the type described in clauses (1), (2) and (3) above which are collateralised at par or over.

"**Investment Grade Status**" shall occur when all of the Notes receive any two of the following:

(1) a rating of "BBB-" or higher from S&P;

(2) a rating of "Baa3" or higher from Moody's; and

(3) a rating of "BBB-" or higher from Fitch,

or the equivalent of such rating by any such rating organisation or, if no rating of Moody's, S&P or Fitch then exists, the equivalent of such rating by any other Nationally Recognized Statistical Rating Organization.

"**Issue Date**" means 26 April 2018.

"**Issuer**" means Drax Finco plc, a company incorporated in England and Wales with company number 10664639 and its successors and assigns.

"**Lien**" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"**Management Advances**" means loans or advances made to, or Guarantees with respect to loans or advances made to, directors, officers, employees or consultants of any Parent Entity, DGHL or any Restricted Subsidiary:

(1) (a) in respect of travel, entertainment or moving related expenses Incurred in the ordinary course of business or (b) for purposes of funding any such person's purchase of Capital Stock or Subordinated Shareholder Funding (or similar obligations) of DGHL, its Subsidiaries or any Parent Entity with (in the case of this sub-clause (b)) the approval of an Officer of DGHL;

(2) in respect of moving related expenses Incurred in connection with any closing or consolidation of any facility or office; or

(3) (in the case of this clause (3)) not exceeding £7.5 million in the aggregate outstanding at any time.

"**Moody's**" means Moody's Investors Service, Inc. or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

"**Nationally Recognized Statistical Rating Organization**" means a nationally recognized statistical rating organization within the meaning of Section 3(a)(62) of the U.S. Exchange Act.

"**Net Available Cash**" from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or instalment receivable or otherwise and net proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case net of:

(1) all legal, accounting, investment banking, title and recording Tax expenses, commissions and other fees and expenses Incurred, and all Taxes paid or required to be paid or accrued as a liability under IFRS (after taking into account any available Tax credits or deductions and any Tax Sharing Agreements), as a consequence of such Asset Disposition;

(2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition (other than Capitalised Lease Obligations), in accordance with the terms of any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law, be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders (other than any Parent Entity, DGHL or any of their respective Subsidiaries) in Subsidiaries or joint ventures as a result of such Asset Disposition; and

(4) the deduction of appropriate amounts required to be provided by the seller as a reserve, on the basis of IFRS, against any liabilities associated with the assets disposed of in such Asset Disposition and retained by DGHL or any Restricted Subsidiary after such Asset Disposition.

"**Net Cash Proceeds**" means, with respect to any issuance or sale of Capital Stock or Subordinated Shareholder Funding, the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, listing fees, discounts or commissions and brokerage, consultant and other fees and charges actually Incurred in connection with such issuance or sale and net of Taxes paid or payable as a result of such issuance or sale (after taking into account any available Tax credit or deductions and any Tax Sharing Agreements).

"**Note Guarantee**" means the guarantee by each Guarantor of the Issuer's obligations under the Indenture (including a supplemental indenture) and the Notes pursuant to the provisions of the Indenture.

"**Notes Documents**" means the Notes (including Additional Notes), the Indenture, the Security Documents, the Proceeds Loan Agreement, the Intercreditor Agreement and any Additional Intercreditor Agreements.

"**Offering Memorandum**" means the offering memorandum in relation to the Notes issued on the Issue Date.

"**Officer**" means, with respect to any Person, (1) any member of the Board of Directors, the Group Chief Executive, the Chief Executive, the Chief Executive Officer, the Chief Financial Officer, any Vice President, the Treasurer or the Secretary (a) of such Person or (b) if such Person is owned or managed by a single entity, of such entity, or (2) any other individual designated as an "Officer" for the purposes of the Indenture by the Board of Directors of such Person.

"**Officer's Certificate**" means, with respect to any Person, a certificate signed by one Officer of such Person.

"**Opinion of Counsel**" means a written opinion from legal counsel reasonably satisfactory to the Trustee. The counsel may be an employee of or counsel to DGHL or its Subsidiaries.

"**Parent Debt Contribution**" means a contribution to the equity of DGHL or any of its Restricted Subsidiaries or the issuance or sale of Subordinated Shareholder Funding of DGHL pursuant to which dividends or distributions may be paid pursuant to clause (18) of the covenant described under "—*Limitation on Restricted Payments*".

"**Parent Entity**" means DG plc or any other Person of which DGHL at any time is or becomes a Subsidiary after the Issue Date.

"**Parent Expenses**" means:

(1) costs (including all professional fees and expenses (including audit and accounting costs)) Incurred by any Parent Entity in connection with reporting obligations under or otherwise Incurred in connection with compliance with applicable laws, rules or regulations of any governmental, regulatory or self-regulatory body or stock exchange, applicable or recommended governance standards, the Indenture or any other agreement or instrument relating to Indebtedness of DGHL or any Restricted Subsidiary, including in respect of any reports filed with respect to the U.S. Securities Act or the U.S. Exchange Act and any disclosure under UK Listing Company Requirements;

(2) customary indemnification obligations of any Parent Entity owing to directors, officers, employees or other Persons under its charter or by-laws or pursuant to written agreements or applicable law with any such Person to the extent relating to DGHL and its Subsidiaries;

(3) obligations of any Parent Entity in respect of director and officer insurance (including premiums therefor) to the extent relating to DGHL and its Subsidiaries;

(4) fees and expenses payable by any Parent Entity in connection with the Transactions;

(5) general corporate overhead expenses, including (a) professional fees and expenses and other operational expenses of any Parent Entity related to the ownership or operation of the business of DGHL or any of its Restricted Subsidiaries, (b) costs and expenses with respect to the ownership, directly or indirectly, of DGHL and its Restricted Subsidiaries by any Parent Entity, (c) any Taxes (for the avoidance of doubt, excluding any Taxes measured by income and any withholding Taxes imposed on payments made by any Parent Entity other than withholding Taxes imposed on payments otherwise included under this definition) and other fees and expenses required to maintain

such Parent Entity's corporate existence or listing and to provide for other ordinary course operating costs, including customary salary, bonus, severance and other benefits payable to, and indemnities provided on behalf of, officers and employees of such Parent Entity, (d) customary salary, bonus, severance and other benefits payable to current or former directors, officers, members of management, managers, employees or consultants (or any immediate family member thereof) of any Parent Entity (including, without limitation, costs of maintaining and operating employee share schemes) *plus* any indemnification paid to current or former directors, officers, members or management, managers, employees or consultants of any Parent Entity, to the extent such salary, bonuses, severance and other benefits or claims in respect of any of the foregoing are reasonably allocated to the ownership or operations of DGHL and its Restricted Subsidiaries, (e) to reimburse reasonable out of pocket expenses of the Board of Directors of such Parent Entity and (f) insurance premiums and other obligations in respect of insurance (including director and officer insurance);

(6) other fees, expenses and costs relating directly or indirectly to activities of DGHL and its Subsidiaries or any Parent Entity or any other Person established for purposes of or in connection with the Transactions or which holds directly or indirectly any Capital Stock or Subordinated Shareholder Funding of DGHL, in an amount not to exceed £10.0 million in any fiscal year;

(7) any income Taxes, to the extent such income Taxes are attributable to the income of DGHL and its Subsidiaries; *provided, however*, that the amount of such payments in any fiscal year do not exceed the sum of (a) the amount that DGHL and its Restricted Subsidiaries would be required to pay in respect of such Taxes on a consolidated basis on behalf of an affiliated group consisting only of DGHL and such Subsidiaries, taking into account any net operating losses or other attributes of DGHL and any such Restricted Subsidiary and reduced by any portion of such Taxes directly paid by DGHL or such Restricted Subsidiaries and (b) the amount actually received in cash from its Unrestricted Subsidiaries to pay such Taxes to the extent attributable to the income of such Unrestricted Subsidiaries;

(8) without duplication, any costs or expenses Incurred in connection with the entry into and performance of the Shareholder Support Agreement; and

(9) expenses Incurred by any Parent Entity in connection with any public offering or other sale of Capital Stock or Indebtedness:

  (a) where the net proceeds of such offering or sale are intended to be received by or contributed to DGHL or a Restricted Subsidiary;

  (b) in a pro-rated amount of such expenses in proportion to the amount of such net proceeds intended to be so received or contributed; or

  (c) otherwise on an interim basis prior to completion of such offering so long as any Parent Entity shall cause the amount of such expenses to be repaid to DGHL or the relevant Restricted Subsidiary out of the proceeds of such offering promptly if completed.

"**Pari Passu Indebtedness**" means Indebtedness of DGHL or any Restricted Subsidiary that is a Guarantor which does not constitute Subordinated Indebtedness.

"**Paying Agent**" means any Person authorised by the Issuer to pay the principal, interest and premium and Additional Amounts, if any, on any Note on behalf of the Issuer.

"**Permitted Collateral Liens**" means Liens on the Collateral:

  (a) that are described in one or more of clauses (2), (3), (4), (5), (6), (8), (9), (11), (12), (14), (18), (20), (23), (24), (30) and (31) of the definition of "Permitted Liens" and, in each case, arising by law or that would not materially interfere with the ability of the Security Agent to enforce the Security Interest in the Collateral;

  (b) to secure:

    (i) the Notes (including any Additional Notes) and any related Note Guarantee;

    (ii) Indebtedness permitted to be Incurred under the first paragraph of the covenant described under "*—Limitation on Indebtedness*";

    (iii) Indebtedness described under clause (1) of the definition of "Permitted Debt", to the extent, subject to the Agreed Security Principles, Incurred by the Issuer or a Guarantor, which Indebtedness may have super senior priority status in respect of the proceeds from the enforcement of the Collateral or certain distressed disposals, not materially less favourable to the Holders than that accorded to the Senior Facilities Agreement pursuant to the Intercreditor Agreement as in effect on the Issue Date;

(iv) Indebtedness described under clause (2)(a) of the definition of "Permitted Debt", to the extent Incurred by the Issuer or a Guarantor and to the extent such Guarantee is in respect of Indebtedness otherwise permitted to be secured on the Collateral pursuant to this definition of Permitted Collateral Liens;

(v) Indebtedness described under paragraph (b) of clause (4) of the definition of "Permitted Debt" to the extent secured by a Permitted Collateral Lien on the Collateral as of the date of the Indenture;

(vi) Indebtedness described under clause (5) of the definition of "Permitted Debt" Incurred by the Issuer or a Guarantor;

(vii) Hedging Obligations, which Hedging Obligations may have super senior priority status in respect of the proceeds from the enforcement of the Collateral or certain distressed disposals, not materially less favourable to the Holders than that accorded to the Senior Facilities Agreement pursuant to the Intercreditor Agreement as in effect on the Issue Date;

(viii) Indebtedness described under clause (7) (other than with respect to Capitalised Lease Obligations), (11) or (12) of the definition of "Permitted Debt"; and

(ix) any Refinancing Indebtedness in respect of Indebtedness referred to in the foregoing clauses (i), (ii), (iv), (v) and (vi) or this clause (ix),

provided that each of the secured parties to any such Indebtedness (acting directly or through its respective creditor representative) will have entered into the Intercreditor Agreement or an Additional Intercreditor Agreement;

(c) that are fixed charges incurred to secure Capitalised Lease Obligations covering only the assets acquired with or financed by such Indebtedness; and

(d) Liens on the Collateral that secure Indebtedness on a basis junior to the Notes, *provided* that the holders of such Indebtedness (or their representative) accede to the Intercreditor Agreement or an Additional Intercreditor Agreement.

For purposes of determining compliance with this definition, in the event that a Permitted Collateral Lien meets the criteria of one or more of the categories of Permitted Collateral Liens described above, DGHL will be permitted to allocate or reallocate all or any portion of such Permitted Collateral Lien among the clauses of this definition on the date of its Incurrence and reclassify all or a portion of such Permitted Collateral Lien at any time and in any manner that complies with this definition.

"**Permitted Investment**" means (in each case, by DGHL or any of its Restricted Subsidiaries):

(1) Investments in (a) a Restricted Subsidiary (including the Capital Stock of a Restricted Subsidiary) or DGHL or (b) a Person (including the Capital Stock of any such Person) and such Person will, upon the making of such Investment, become a Restricted Subsidiary;

(2) Investments in another Person and as a result of such Investment such other Person is merged, consolidated or otherwise combined with or into, or transfers or conveys all or substantially all its assets to, DGHL or a Restricted Subsidiary;

(3) Investments in cash, Cash Equivalents, Temporary Cash Investments or Investment Grade Securities;

(4) Investments in receivables owing to DGHL or any Restricted Subsidiary created or acquired in the ordinary course of business, including Investments in connection with any Qualified Receivables Financing;

(5) (a) Investments in payroll, travel, relocation, entertainment and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business and (b) Investments in the ordinary course of business consisting of endorsements for collection or deposit and customary trade arrangements with customers;

(6) (a) Management Advances and (b) any advances or loans not to exceed £10.0 million, *plus* £10.0 million multiplied by the number of calendar years that have commenced since the Issue Date, at any one time outstanding to any future, present or former officer, director, employee or consultant of DGHL or a Restricted Subsidiary or any Parent Entity to pay for the purchase or other acquisition for value of Capital Stock (other than Disqualified Stock) of DGHL or a Parent Entity, or any obligation under a forward sale agreement, deferred purchase agreement or deferred payment arrangement pursuant to any management equity plan or stock option plan or any other management or employee benefit or incentive plan or unit trust or the trustees of any such plan or trust to pay for the purchase or other acquisition for value of Capital Stock (other than Disqualified Stock) of DGHL or a Parent Entity;

(7) Investments in Capital Stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to DGHL or any Restricted Subsidiary, or as a result of foreclosure, perfection or enforcement of any Lien, or in satisfaction of judgments or pursuant to any plan of reorganisation or similar arrangement including upon the bankruptcy or insolvency of a debtor;

(8) Investments made as a result of the receipt of non-cash consideration from a sale or other disposition of property or assets, including an Asset Disposition, in each case, that was made in compliance with "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*";

(9) Investments in existence on, or made pursuant to legally binding commitments in existence on, the Issue Date, and Investments consisting of any extension, modification or renewal of any such Investment; *provided* that the amount of the Investment may be increased (a) as required by the terms of the Investment as in existence on the Issue Date or (b) as otherwise permitted under the Indenture;

(10) Currency Agreements, Interest Rate Agreements, Inflation Agreements and Commodity Hedging Agreements, which transactions or obligations are Incurred in compliance with "*—Certain Covenants—Limitation on Indebtedness*", as well as any Contract for Difference;

(11) Investments, taken together with all other Investments made pursuant to this clause (11) and at any time outstanding, in an aggregate amount at the time of such Investment (net of any distributions, dividends, payments or other returns in respect of such Investments) not to exceed the greater of £325.0 million and 9.2% of Total Assets, *provided* that, if an Investment is made pursuant to this clause in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*", such Investment shall thereafter be deemed to have been made pursuant to clause (1) or (2) of the definition of "*Permitted Investments*" and not this clause;

(12) pledges or deposits with respect to leases or utilities provided to third parties in the ordinary course of business or Liens otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant described under "*—Certain Covenants—Limitation on Liens*";

(13) any Investment to the extent made using Capital Stock of DGHL (other than Disqualified Stock), Subordinated Shareholder Funding or Capital Stock of any Parent Entity as consideration;

(14) any transaction to the extent constituting an Investment that is permitted and made in accordance with the provisions of clauses (4), (6), (10) or (14) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Affiliate Transactions*";

(15) Guarantees of Indebtedness that is permitted to be Incurred by the covenant described under "*—Certain Covenants—Limitation on Indebtedness*" and (other than with respect to Indebtedness) guarantees, keepwells and similar arrangements in the ordinary course of business;

(16) Investments in loans under the Senior Facilities Agreement, the Notes, any Additional Notes or the Existing Notes;

(17) any Investments received in compromise or resolution of (a) obligations of trade creditors or customers that were incurred in the ordinary course of business of DGHL or any of the Restricted Subsidiaries, including pursuant to any plan of reorganisation or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (b) litigation, arbitration or other disputes;

(18) Investments in joint ventures, taken together with all other Investments made pursuant to this clause (18) and at any time outstanding, not to exceed the greater of £25.0 million and 0.75% of Total Assets; *provided, however*, that if any Investment pursuant to this clause (18) is made in any Person that is not a Restricted Subsidiary at the date of the making of such Investment and such Person becomes a Restricted Subsidiary after such date, such Investment shall thereafter be deemed to have been made pursuant to clause 1(b) above and shall cease to have been made pursuant to this clause (18) for so long as such Person continues to be a Restricted Subsidiary;

(19) Investments acquired after the Issue Date as a result of the acquisition by DGHL or any of its Restricted Subsidiaries of another Person, including by way of a merger, amalgamation or consolidation with or into DGHL or any of its Restricted Subsidiaries in a transaction that is not prohibited by the covenant described above under the caption "*—Certain Covenants—Merger and Consolidation*" to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation; and

(20) any Investments made by way of reclassification of or in exchange for, or from the proceeds relating to, any other Restricted Investment permitted to be made pursuant to the covenant described under the caption "*—Certain Covenants—Limitation on Restricted Payments*" or paragraphs (8), (9), (13), (17) and (19) of the definition of "Permitted Investment"; *provided* that, in the case of an Investment made by way of reclassification or in exchange for, or from the proceeds relating to, any Investment originally made pursuant to paragraphs (8), (9), (13), (17) or (19) of the definition of "Permitted Investment", such Investment was permitted exclusively by reference to paragraph (8), (9), (13), (17) or (19) of the definition of "Permitted Investment" and would not have been a Permitted Investment pursuant to any other clause of that definition.

For purposes of determining compliance with this definition, in the event that an Investment meets the criteria of one or more of the categories of Permitted Investment described above, DGHL will be permitted to allocate or reallocate all or any portion of such Permitted Investment among the clauses of this definition and any of the provisions of the covenant described under the caption "*—Certain Covenants—Limitation on Restricted Payments*" on the date of its Incurrence and reclassify all or a portion of such Permitted Investment at any time and in any manner that complies with this definition.

"**Permitted Liens** " means, with respect to any Person:

(1) Liens on assets or property of any direct or indirect Restricted Subsidiary that is not the Issuer or a Guarantor securing Indebtedness of any direct or indirect Restricted Subsidiary that is not the Issuer or a Guarantor permitted by the covenant described under "*—Certain Covenants—Limitation on Indebtedness*";

(2) pledges, deposits or Liens under workmen's compensation laws, unemployment insurance laws, social security (including pension) laws or similar legislation, or insurance related obligations (including pledges or deposits securing liability to insurance carriers under insurance or self-insurance arrangements), or in connection with bids, tenders, completion guarantees, contracts (other than for borrowed money) or leases, or to secure utilities, licenses, public or statutory obligations, or to secure surety, indemnity, judgment, appeal or performance bonds, guarantees of government contracts (or other similar bonds, instruments or obligations), or as security for contested Taxes or import or customs duties or for the payment of rent, or other obligations of like nature, in each case Incurred in the ordinary course of business;

(3) Liens imposed by law, including carriers', warehousemen's, mechanics', landlords', materialmen's and repairmen's or other similar Liens, in each case for sums not yet overdue for a period of more than 60 days or that are bonded or being contested in good faith by appropriate proceedings;

(4) Liens for Taxes, assessments or other governmental charges not yet delinquent or which are being contested in good faith by appropriate proceedings; *provided* that appropriate reserves required pursuant to IFRS have been made in respect thereof;

(5) Liens in favour of issuers of surety, performance or other bonds, guarantees or letters of credit or bankers' acceptances (not issued to support Indebtedness for borrowed money) issued pursuant to the request of and for the account of DGHL or any Restricted Subsidiary in the ordinary course of its business;

(6) encumbrances, ground leases, easements (including reciprocal easement agreements), survey exceptions, or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning, building codes or other restrictions (including minor defects or irregularities in title and similar encumbrances) as to the use of real properties or Liens incidental to the conduct of the business of DGHL and its Restricted Subsidiaries or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of DGHL and its Restricted Subsidiaries;

(7) Liens on assets or property of DGHL or any Restricted Subsidiary (other than Collateral) securing (a) Hedging Obligations permitted under the Indenture or (b) local lines of credit, bilateral or other non-syndicated facilities and/or working capital facilities (including in respect of letters of credit or bankers' acceptances issued or created thereunder) Incurred from time to time pursuant to clause (14) of the second paragraph described under the caption *"—Limitation on Indebtedness*";

(8) leases, licenses, subleases and sublicenses of assets (including real property and intellectual property rights), in each case entered into in the ordinary course of business;

(9) Liens arising out of judgments, decrees, orders or awards, or otherwise arising in connection with legal proceedings, not giving rise to an Event of Default so long as any appropriate legal proceedings which may have been duly initiated for the review of such judgment, decree, order or award have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(10) Liens on assets or property of DGHL or any Restricted Subsidiary for the purpose of securing Capitalised Lease Obligations or Purchase Money Obligations, or securing the payment of all or a part of the purchase price of, or securing other Indebtedness Incurred to finance or refinance the acquisition, improvement, lease expense, cost of development or construction of, assets or property acquired or constructed in the ordinary course of business; *provided* that (a) the aggregate principal amount of Indebtedness secured by such Liens is otherwise permitted to be Incurred pursuant to the covenant described above under "*—Certain Covenants—Limitation on Indebtedness*" and (b) any such Lien may not extend to any assets or property of DGHL or any Restricted Subsidiary other than assets or property acquired, improved, constructed or leased with the proceeds of such Indebtedness, any rights related thereto, any improvements, additions or accessions to such assets and property and proceeds therefrom;

(11) Liens arising by virtue of any statutory or common law provisions, relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depositary or financial institution;

(12) Liens arising from Uniform Commercial Code financing statement filings (or similar filings in other applicable jurisdictions) regarding operating leases entered into by DGHL and its Restricted Subsidiaries in the ordinary course of business;

(13) Liens existing on, or provided for or required to be granted under written agreements existing on, the Issue Date;

(14) Liens on property, other assets or shares of stock of a Person at the time such Person becomes a Restricted Subsidiary (or at the time DGHL or a Restricted Subsidiary acquires such property, other assets or shares of stock, including any acquisition by means of a merger, consolidation or other business combination transaction with or into DGHL or any Restricted Subsidiary), including Liens created, incurred or assumed in connection with, or in contemplation of such acquisition or transaction; *provided*, that such Liens are limited to all or part of the same property, other assets or stock (plus improvements, accession, proceeds or dividends or distributions in connection with the original property, other assets or stock) that secured (or, under the written arrangements under which such Liens arose, could secure) the obligations to which such Liens relate;

(15) Liens on assets or property of any Restricted Subsidiary that is not the Issuer or a Guarantor securing Indebtedness or other obligations of such Restricted Subsidiary owing to DGHL or another Restricted Subsidiary, or Liens in favour of the Issuer or any Guarantor;

(16) Liens securing Refinancing Indebtedness Incurred to refinance Indebtedness that was previously so secured, and permitted to be secured under the Indenture (other than Liens initially incurred pursuant

to clause (28) of this definition); *provided* that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced or is in respect of property that is or could be the security for or subject to a Permitted Lien hereunder;

(17) any interest or title of a lessor under any Capitalised Lease Obligation or operating lease;

(18) (a) mortgages, liens, security interest, restrictions, encumbrances or any other matters of record that have been placed by any government, statutory or regulatory authority, developer, landlord or other third party on property over which DGHL or any Restricted Subsidiary has easement rights or on any leased property and subordination or similar arrangements relating thereto and (b) any condemnation or eminent domain proceedings affecting any real property;

(19) any encumbrance or restriction (including put and call arrangements) with respect to Capital Stock of, or assets owned by, any joint venture or similar arrangement pursuant to any joint venture or similar agreement;

(20) Liens on property or assets under construction (and related rights) in favour of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets;

(21) Liens on Receivables Assets Incurred in connection with a Qualified Receivables Financing;

(22) Escrowed Proceeds for the benefit of the related holders of debt securities or other Indebtedness (or the underwriters or arrangers thereof) or Liens on cash set aside at the time of the incurrence of any Indebtedness or government securities purchased with such cash to prefund the payment of interest on such Indebtedness and are held in escrow accounts or similar arrangement to be applied for such purpose;

(23) Liens securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of business;

(24) Liens arising out of conditional sale, title retention, hire purchase, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;

(25) Liens on Capital Stock or other securities or assets of any Unrestricted Subsidiary that secure Indebtedness of such Unrestricted Subsidiary;

(26) (a) Liens created for the benefit of or to secure, directly or indirectly, the Notes (including any Guarantee thereof) and (b) Liens pursuant to the Intercreditor Agreement;

(27) Liens over cash paid into an escrow account pursuant to any purchase price retention arrangement as part of any permitted disposal by DGHL or a Restricted Subsidiary;

(28) Liens *provided* that the maximum amount of Indebtedness secured in the aggregate at any one time pursuant to this clause (28) does not exceed (i) the greater of £100.0 million and 2.85% of Total Assets plus (ii) in the case of any refinancing of any Indebtedness permitted to be secured under this clause (28) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing;

(29) limited recourse Liens in respect of the ownership interests in, or assets owned by, any joint ventures which are not Restricted Subsidiaries securing obligations of such joint ventures;

(30) Liens in respect of credit support arrangements related to Hedging Obligations entered into for a bona fide business purpose; and

(31) Liens granted to the trustee of any pension scheme(s) of DG plc and its Subsidiaries.

For purposes of determining compliance with this definition, in the event that a Permitted Lien meets the criteria of one or more of the categories of Permitted Liens described above, DGHL will be permitted to allocate or reallocate all or any portion of such Permitted Lien among the clauses of this definition on the date of its Incurrence and reclassify all or a portion of such Permitted Lien at any time and in any manner that complies with this definition.

"**Permitted Reorganisation**" means any amalgamation, demerger, merger, voluntary liquidation, consolidation, reorganisation, winding up or corporate reconstruction involving DGHL or any of its Restricted

Subsidiaries (other than the Issuer) and the assignment, transfer or assumption of intragroup receivables and payables among DGHL and its Restricted Subsidiaries (other than the Issuer) in connection therewith (a "**Reorganisation**") that, in the case of any of the foregoing, is made on a solvent basis; *provided* that: (1) all of the business and assets of DGHL or such Restricted Subsidiaries remain owned by DGHL or its Restricted Subsidiaries, (2) any payments or assets distributed in connection with such Reorganisation remain within DGHL and its Restricted Subsidiaries, (3) if any shares or other assets or property form part of the Collateral, substantially equivalent Liens must be granted over such shares or assets or property of the recipient such that they form part of the Collateral, (4) DGHL will provide to the Trustee and the Security Agent an Officer's Certificate confirming that no Default is continuing or would arise as a result of such Reorganisation and (5) in the case of any amalgamation, demerger, merger, voluntary liquidation, consolidation, reorganisation, winding up or corporate reconstruction involving DGHL, (x) the Person formed by or surviving any such amalgamation, demerger, merger, voluntary liquidation, consolidation, reorganisation, winding up or corporate reconstruction (if other than DGHL) is an entity organised or existing under the laws of any member state of the Pre-Expansion European Union, Switzerland, Canada, any state of the United States or the District of Columbia and (y) the Person formed by or surviving any such consolidation, merger with DGHL (if other than DGHL) or the Person to which such sale, assignment, transfer, conveyance, lease or other disposition has been made will expressly assume (i) by supplemental indenture, executed and delivered to the Trustee, all the obligations of DGHL under the Indenture, its Note Guarantee, the Proceeds Loan (to the extent applicable) and (ii) all obligations of DGHL under the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents to which DGHL is a party, as applicable.

"**Person**" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, limited liability company, government or any agency or political subdivision thereof or any other entity.

"**Pre-Expansion European Union**" means the European Union as of January 1, 2004, including the countries of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, but not including any country which became or becomes a member of the European Union after January 1, 2004 (and, for the avoidance of doubt, including any such country that exits the European Union after the Issue Date).

"**Preferred Stock**", means, as applied to the Capital Stock of any Person, Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"**Proceeds Loan**" means the loan made on the Issue Date by the Issuer to Drax Corporate Limited for the amount of the gross proceeds received by the Issuer from the offering of the Notes on the Issue Date, pursuant to the Proceeds Loan Agreement.

"**Proceeds Loan Agreement**" means that certain loan agreement, dated as of the Issue Date, by and between the Issuer, as lender, and Drax Corporate Limited, as borrower, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time.

"**Project Finance Indebtedness**" means any Indebtedness Incurred by a Project Finance Subsidiary to finance the ownership, acquisition, construction, development and/or operation of certain assets (a "**Project**") in respect of which the person or persons to whom such Indebtedness is, or may be, owed have no recourse whatsoever for the repayment of or payment of any sum relating to such Indebtedness other than: (a) recourse to such Project Finance Subsidiary for amounts in respect of such assets and/or the cash flow from such assets; and/or (b) recourse to such Project Finance Subsidiary generally for damages in respect of breach of any obligation; and/or (c) recourse to all of the assets and undertaking of such Project Finance Subsidiary and the shares in the capital of such Project Finance Subsidiary.

"**Project Finance Subsidiary**" means any person (i) none of whose Indebtedness (other than Project Finance Indebtedness) benefits from any recourse whatsoever to any member of the DGHL Group (other than to that person or to another Project Finance Subsidiary) in respect of repayment thereof and (ii) whose only material assets and Indebtedness are a Project and the related Project Finance Indebtedness.

"**Public Debt**" means any Indebtedness consisting of bonds, debentures, notes or other similar debt securities issued in (1) a public offering registered under the U.S. Securities Act or (2) a private placement to institutional investors that is underwritten for resale in accordance with Rule 144A or Regulation S under the U.S. Securities Act, whether or not it includes registration rights entitling the holders of such debt securities to registration thereof with the SEC for public resale.

"**Purchase Money Obligations**" means any Indebtedness Incurred to finance or refinance the acquisition, leasing, construction or improvement of property (real or personal) or assets (including Capital Stock), and whether acquired through the direct acquisition of such property or assets or the acquisition of the Capital Stock of any Person owning such property or assets, or otherwise.

"**Qualified Receivables Financing**" means any transaction or series of transactions that may be entered into by DGHL or any of its Restricted Subsidiaries pursuant to which DGHL or any of its Restricted Subsidiaries may sell, convey or otherwise transfer to (a) a Receivables Subsidiary or (b) any other Person, or may grant a security interest in, any Receivables Assets (whether now existing or arising in the future) of DGHL or any of its Restricted Subsidiaries, and any assets related thereto including, without limitation, all contracts and all guarantees or other obligations in respect of such Receivables Assets, the proceeds of such Receivables Assets, the bank accounts into which the proceeds of such Receivables Assets are collected and other assets which are customarily transferred, or in respect of which security interests are customarily granted, in connection with asset securitisations or invoice discounting facilities involving Receivables Assets.

The grant of a security interest in any accounts receivable of DGHL or any of its Restricted Subsidiaries (other than a Receivables Subsidiary) to secure Indebtedness under a Credit Facility or Indebtedness in respect of the Notes shall not be deemed a Qualified Receivables Financing.

"**Receivables Assets**" means any assets that are or will be the subject of a Qualified Receivables Financing, including without limitation any commodity or Energy Instrument.

"**Receivables Fees**" means distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not a Restricted Subsidiary in connection with, any Qualified Receivables Financing.

"**Receivables Repurchase Obligation**" means any obligation of a seller of receivables in a Qualified Receivables Financing to repurchase receivables arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming subject to any asserted defence, dispute, off-set or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

"**Receivables Subsidiary**" means a Wholly-Owned Subsidiary of DGHL (or another Person formed for the purposes of engaging in a Qualified Receivables Financing with DGHL in which DGHL or any Subsidiary of DGHL makes an Investment and to which DGHL or any Subsidiary of DGHL transfers accounts receivable, Energy Instruments and related assets) which engages in no activities other than in connection with the financing of accounts receivable, Energy Instruments or similar assets of DGHL and its Subsidiaries, all proceeds thereof and all rights (contractual or other), collateral and other assets relating thereto, and any business or activities incidental or related to such business, and which is designated by the Board of Directors of DGHL (as provided below) as a Receivables Subsidiary and:

(1) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which (a) is guaranteed by DGHL or any other Restricted Subsidiary (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitisation Undertakings), (b) is recourse to or obligates DGHL or any other Restricted Subsidiary in any way other than pursuant to Standard Securitisation Undertakings, or (c) subjects any property or asset of DGHL or any other Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitisation Undertakings;

(2) with which neither DGHL nor any other Restricted Subsidiary has any material contract, agreement, arrangement or understanding (except in connection with a Qualified Receivables Financing) other than on terms which DGHL reasonably believes to be no less favourable to DGHL or such Restricted Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of DGHL; and

(3) to which neither DGHL nor any other Restricted Subsidiary has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results.

Any such designation by the Board of Directors of DGHL shall be evidenced to the Trustee by filing with the Trustee a copy of the resolution of the Board of Directors of DGHL giving effect to such designation and an Officer's Certificate certifying that such designation complied with the foregoing conditions.

"**refinance**" means refinance, refund, replace, renew, repay, modify, restate, defer, substitute, supplement, reissue, resell, extend or increase (including pursuant to any defeasance or discharge mechanism) and the terms "**refinances**", "**refinanced**" and "**refinancing**" as used for any purpose in the Indenture shall have a correlative meaning.

"**Refinancing Indebtedness**" means Indebtedness that is Incurred to refund, refinance, replace, exchange, renew, repay or extend (including pursuant to any defeasance or discharge mechanism) any Indebtedness existing on the date of the Indenture or Incurred in compliance with the Indenture (including Indebtedness of DGHL that refinances Indebtedness of any Restricted Subsidiary and Indebtedness of any Restricted Subsidiary that refinances Indebtedness of DGHL or another Restricted Subsidiary) including Indebtedness that refinances Refinancing Indebtedness; *provided*, *however*, that:

(1) if the Indebtedness being refinanced constitutes Subordinated Indebtedness, the Refinancing Indebtedness has a final stated maturity at the time such Refinancing Indebtedness is Incurred that is the same as or later than the final stated maturity of the Indebtedness being refinanced or, if shorter, the Notes;

(2) such Refinancing Indebtedness is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the sum of the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness being refinanced (plus, without duplication, any additional Indebtedness Incurred to pay interest or premiums required by the instruments governing such existing Indebtedness and costs, expenses and fees Incurred in connection therewith); and

(3) if the Indebtedness being refinanced is expressly subordinated to the Notes, such Refinancing Indebtedness is subordinated to the Notes on terms at least as favourable to the Holders as those contained in the documentation governing the Indebtedness being refinanced;

provided, *further*, that Refinancing Indebtedness shall not include Indebtedness of DGHL or a Restricted Subsidiary that refinances Indebtedness of an Unrestricted Subsidiary or Indebtedness of a Restricted Subsidiary that is not a Guarantor or the Issuer that refinances Indebtedness of the Issuer or a Guarantor.

Refinancing Indebtedness in respect of any Credit Facility or any other Indebtedness may be Incurred from time to time after the termination, discharge or repayment of any such Credit Facility or other Indebtedness.

"**Related Taxes**" means any Taxes, including sales, use, transfer, rental, ad valorem, value added, stamp, property, consumption, franchise, license, capital, registration, insurance premium, business, customs, net worth, gross receipts, excise, occupancy, intangibles or similar Taxes (other than (x) Taxes measured by income and (y) withholding imposed on payments made by any Parent Entity), required to be paid (*provided* such Taxes are in fact paid) by any Parent Entity by virtue of its:

(1) being incorporated or otherwise being established or having Capital Stock outstanding (but not by virtue of owning stock or other equity interests of any corporation or other entity other than, directly or indirectly, DGHL or any of DGHL's Subsidiaries);

(2) issuing or holding Subordinated Shareholder Funding;

(3) being a Holding Company, directly or indirectly, of DGHL or any of DGHL's Subsidiaries;

(4) receiving dividends from or other distributions in respect of the Capital Stock of, directly or indirectly, DGHL or any of DGHL's Subsidiaries; or

(5) having made any payment with respect to any of the items for which DGHL is permitted to make payments to any Parent Entity pursuant to "*—Certain Covenants—Limitation on Restricted Payments*".

"**Replacement Assets**" means non-current properties and assets that replace the properties and assets that were the subject of an Asset Disposition or non-current properties and assets that will be used in DGHL's business or in that of the Restricted Subsidiaries as of the Issue Date or any and all businesses that in the good faith judgment of an Officer of DGHL are reasonably related thereto.

"**Representative** " means any trustee, agent or representative (if any) for an issue of Indebtedness or the provider of Indebtedness (if provided on a bilateral basis), as the case may be.

"**Restricted Investment**" means any Investment other than a Permitted Investment.

"**Restricted Subsidiary**" means any Subsidiary of DGHL other than an Unrestricted Subsidiary.

"**S&P**" means Standard & Poor's Ratings Services, a division of McGraw Hill, Inc., or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

"**SEC**" means the U.S. Securities and Exchange Commission.

"**Security Documents**" means the security agreements, pledge agreements, collateral assignments, and any other instrument and document executed and delivered pursuant to the Indenture or otherwise or any of the foregoing, as the same may be amended, supplemented or otherwise modified from time to time, creating or confirming, as applicable, the Liens in the Collateral as contemplated by the Indenture.

"**Security Interest**" means a security interest in the Collateral that is created by the Security Documents.

"**Senior Facilities Agreement**" means the revolving credit facility agreement originally dated 20 December 2012, by and among, *inter alios*, Drax Power Limited, Barclays Bank plc as facility agent and Drax Corporate Limited and its subsidiaries as guarantors, comprising the £315 million committed multicurrency working capital and ancillary facility, including, without limitation, a letter of credit facility and the £35 million term facility as amended and restated pursuant to an amendment and restatement agreement dated 21 April 2017 and as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time.

"**Shareholder Support Agreement**" means the shareholder support agreement between DGHL and DG plc dated 20 December 2005 (including any amendment, restatement or replacement thereof).

"**Significant Subsidiary**" means (a) the Issuer and (b) any Restricted Subsidiary that meets any of the following conditions:

(1) DGHL's and its Restricted Subsidiaries' investments in and advances to the Restricted Subsidiary exceed 10% of the total assets of DGHL and its Restricted Subsidiaries on a consolidated basis as of the end of the most recently completed fiscal year;

(2) DGHL's and its Restricted Subsidiaries' proportionate share of the total assets (after intercompany eliminations) of the Restricted Subsidiary exceeds 10% of the total assets of DGHL and its Restricted Subsidiaries on a consolidated basis as of the end of the most recently completed fiscal year; or

(3) DGHL's and its Restricted Subsidiaries' proportionate share of the Consolidated EBITDA of the Restricted Subsidiary exceeds 10% of the Consolidated EBITDA of DGHL and its Restricted Subsidiaries on a consolidated basis for the most recently completed fiscal year.

"**Similar Business**" means (1) any businesses, services or activities engaged in by DGHL or any of its Subsidiaries or any Associates on the Issue Date and (2) any businesses, services and activities that are related, complementary, incidental, ancillary or similar to any of the foregoing or are extensions or developments of any thereof.

"**Standard Securitisation Undertakings**" means representations, warranties, covenants, indemnities and guarantees of performance entered into by DGHL or any Subsidiary of DGHL which DGHL has determined in good faith to be customary in a Qualified Receivables Financing, including those relating to the servicing of the assets of a Receivables Subsidiary, it being understood that any Receivables Repurchase Obligation shall be deemed to be a Standard Securitisation Undertaking.

"**Stated Maturity**" means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision, but shall not include any contingent obligations, including those described in "*—Change of Control*" and the covenant under "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*", to repay, redeem or repurchase any such principal prior to the date originally scheduled for the payment thereof.

"s**terling**" or "**£**" means the lawful currency of the United Kingdom.

"**Sterling Equivalent**" means, with respect to any monetary amount in a currency other than sterling, at any time of determination thereof by the Issuer or the Trustee, the amount of sterling obtained by converting such currency other than sterling involved in such computation into sterling at the spot rate for the purchase of sterling with the applicable currency other than sterling as published in *The Financial Times* in the "Currency Rates" section (or, if *The Financial Times* is no longer published, or if such information is no longer available in *The Financial Times*, such source as may be selected in good faith by an Officer of the Issuer) on the date of such determination.

"**Subordinated Indebtedness**" means, with respect to any Person, any Indebtedness (whether outstanding on the Issue Date or thereafter Incurred) which is expressly subordinated in right of payment to the Notes or any Note Guarantee pursuant to a written agreement.

"**Subordinated Shareholder Funding**" means, collectively, any funds provided to DGHL by any Parent Entity in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, in each case issued to and held by any of the foregoing Persons, together with any such security, instrument or agreement and any other security or instrument other than Capital Stock issued in payment of any obligation under any Subordinated Shareholder Funding; *provided*, *however*, that such Subordinated Shareholder Funding:

(1) does not mature or require any amortisation, redemption or other repayment of principal or any sinking fund payment prior to the first anniversary of the Stated Maturity of the Notes (other than through conversion or exchange of such funding into Capital Stock (other than Disqualified Stock) of DGHL or any funding meeting the requirements of this definition) or the making of any such payment prior to the first anniversary of the Stated Maturity of the Notes is restricted by the Intercreditor Agreement, an Additional Intercreditor Agreement or another intercreditor agreement;

(2) does not require, prior to the first anniversary of the Stated Maturity of the Notes, payment of cash interest, cash withholding amounts or other cash gross-ups, or any similar cash amounts or the making of any such payment prior to the first anniversary of the Stated Maturity of the Notes is restricted by the Intercreditor Agreement or an Additional Intercreditor Agreement;

(3) contains no change of control or similar provisions and does not accelerate and has no right to declare a default or event of default or take any enforcement action or otherwise require any cash payment, in each case, prior to the first anniversary of the Stated Maturity of the Notes or the payment of any amount as a result of any such action or provision or the exercise of any rights or enforcement action, in each case, prior to the first anniversary of the Stated Maturity of the Notes is restricted by the Intercreditor Agreement or an Additional Intercreditor Agreement;

(4) does not provide for or require any security interest or encumbrance over any asset of DGHL or any of its Subsidiaries;

(5) pursuant to its terms or the terms of the Intercreditor Agreement, an Additional Intercreditor Agreement or another intercreditor agreement, is fully subordinated and junior in right of payment to the Notes pursuant to subordination, payment blockage and enforcement limitation terms which are customary in all material respects for similar funding or are no less favourable in any material respect to Holders than those contained in the Intercreditor Agreement as in effect on the Issue Date with respect to the "Parent Liabilities" (as defined therein); and

(6) is not guaranteed by any Subsidiary of DGHL.

"**Subsidiary**" means, with respect to any Person:

(1) any corporation, association, or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time of determination owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof; or

(2) any partnership, joint venture, limited liability company or similar entity of which:

    (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof whether in the form of membership, general, special or limited partnership interests or otherwise; and

    (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

"**Subsidiary Guarantor**" means each of (1) Drax Corporate Limited, Drax Group Holdings Limited, Drax Smart Generation Holdco Limited, Drax Fuel Supply Limited, Drax Power Limited, Drax Smart Supply Holdco Limited, Haven Power Limited, Haven Heat Limited, Drax Retail Developments Limited, Opus Energy Group Limited, Opus Energy Limited, Abbott Debt Recovery Limited, Opus Energy (Corporate) Limited, Opus Gas Supply Limited, Opus Energy Renewables Limited, Farmoor Energy Limited, Donnington Energy Limited, Drax Research and Innovation Holdco Limited, Drax Corporate Developments Limited, Drax Smart Sourcing Holdco Limited, Drax Innovation Limited, Drax Biomass Transit LLC, Morehouse BioEnergy LLC, Drax Biomass

International Holdings LLC, Drax Biomass Holdings LLC, Drax Biomass Inc., Baton Rouge Transit LLC, DBI O&M Company LLC, Amite BioEnergy LLC, Tyler BioEnergy LLC, Jefferson Transit LLC and LaSalle BioEnergy LLC and (2) any other Subsidiary of DGHL that provides a Note Guarantee in accordance with the provisions of the Indenture, and, in each case, their respective successors and assigns, until the Note Guarantee of such Person has been released in accordance with the provisions of the Indenture.

"**Successor Parent Entity**" means, with respect to any Person, any other Person more than 50% of the total voting power of the Voting Stock of which is, at the time the first Person becomes a Subsidiary of such other Person, "beneficially owned" (as defined below) by one or more Persons that "beneficially owned" (as defined below) more than 50% of the total voting power of the Voting Stock of the first Person immediately prior to the first Person becoming a Subsidiary of such other Person. For purposes hereof, "beneficially own" has the meaning correlative to the term "beneficial owner", as such term is defined in Rules 13d-3 and 13d-5 under the U.S. Exchange Act (as in effect on the Issue Date).

"**Tax Sharing Agreement**" means any tax sharing or profit and loss pooling or similar agreement with customary or arm's-length terms entered into with any Parent Entity or Unrestricted Subsidiary, as the same may be amended, supplemented, waived or otherwise modified from time to time in accordance with the terms thereof and of the Indenture, and any arrangements or transactions made between DGHL and/or any of its Subsidiaries and any Parent Entity in order to satisfy the obligations arising under any such Tax Sharing Agreement (including, for the avoidance of doubt, distributions for purposes of compensating accounting losses in relation to a profit and loss pooling agreement and/or upstream loans to any Parent Entity to enable a Parent Entity to compensate DGHL or such Subsidiary for losses incurred which may need to be compensated by a Parent Entity under any profit and loss pooling agreement).

"**Taxes**" means all present and future taxes, levies, imposts, deductions, charges, duties and withholdings and any charges of a similar nature (including interest and penalties with respect thereto) that are imposed by any government or other taxing authority.

"**Temporary Cash Investments**" means any of the following:

(1) any investment in:

(a) direct obligations of, or obligations Guaranteed by, (i) the United Kingdom, the United States or Canada, (ii) any European Union member state to the extent rated at least "A" by S&P, "A2" by Moody's or "A" by Fitch (or, in each case, the equivalent of such rating by such organisation or, if no rating of S&P, Moody's or Fitch then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization), (iii) Japan, Switzerland or Norway, (iv) any country in whose currency funds are being held specifically pending application in the making of an investment or capital expenditure by DGHL or a Restricted Subsidiary in that country with such funds or (v) any agency or instrumentality of any such country or member state; or

(b) direct obligations of any country recognised by the United States rated at least "A" by S&P, "A2" by Moody's or "A" by Fitch (or, in each case, the equivalent of such rating by such organisation or, if no rating of S&P, Moody's or Fitch then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(2) overnight bank deposits, and investments in time deposit accounts, certificates of deposit, bankers' acceptances and money market deposits (or, with respect to foreign banks, similar instruments) maturing not more than one year after the date of acquisition thereof issued by:

(a) any lender that is an institution authorised to operate as a bank under the Senior Facilities Agreement;

(b) any lender that is an institution authorised to operate as a bank in any of the countries or member states referred to in sub-clause (7) below; or

(c) any bank or trust company organised under the laws of any such country or member state or any political subdivision thereof,

in each case, having capital and surplus aggregating in excess of £250 million (or the foreign currency equivalent thereof) and whose long-term debt is rated at least "A-" by S&P, "A3" by Moody's or "A-" by Fitch (or, in each case, the equivalent of such rating by such organisation or, if no rating of S&P, Moody's or Fitch then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) or (2) above entered into with a Person meeting the qualifications described in clause (2) above;

(4) Investments in commercial paper, maturing not more than 270 days after the date of acquisition, issued by a Person (other than DGHL or any of its Subsidiaries), with a rating at the time as of which any Investment therein is made of "P-2" (or higher) according to Moody's, "A-2" (or higher) according to S&P or "F2" (or higher) according to Fitch (or, in each case, the equivalent of such rating by such organisation or, if no rating of Moody's, S&P or Fitch then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(5) Investments in securities maturing not more than one year after the date of acquisition issued or fully Guaranteed by any state, commonwealth or territory of the United Kingdom, United States, Canada, any European Union member state or Switzerland, Norway or by any political subdivision or taxing authority of any such state, commonwealth, territory, country or member state, and rated at least "BBB-" by S&P, "Baa3" by Moody's or "BBB-" by Fitch (or, in each case, the equivalent of such rating by such organisation or, if no rating of S&P, Moody's or Fitch then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(6) bills of exchange issued in the United Kingdom, United States, Canada, a member state of the European Union, Switzerland, Norway or Japan eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialised equivalent);

(7) any money market deposit accounts issued or offered by a commercial bank organised under the laws of a country that is a member of the Organisation for Economic Co-operation and Development, in each case, having capital and surplus in excess of £250 million (or the foreign currency equivalent thereof) or whose long term debt is rated at least "A" by S&P, "A2" by Moody's or "A" by Fitch (or, in each case, the equivalent of such rating by such organisation or, if no rating of S&P, Moody's or Fitch then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;

(8) investment funds investing 95% or more of their assets in securities of the type described in clauses (1) through (7) above (which funds may also hold reasonable amounts of cash pending investment or distribution); and

(9) investments in money market funds (a) complying with the risk limiting conditions of Rule 2a-7 (or any successor rule) of the SEC under the U.S. Investment Company Act of 1940, as amended or (b) rated "AAA" by S&P, "Aaa" by Moody's or "AAA" by Fitch (or, in each case, the equivalent of such rating by such organisation or, if no rating of S&P, Moody's or Fitch then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization).

"**Total Assets**" means the consolidated total assets of DGHL and its Restricted Subsidiaries as shown on the most recent combined balance sheet of DGHL prepared on the basis of IFRS on or prior to the date of determination.

"**Treasury Rate**" means, as of any redemption date, the weekly average yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Business Days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) equal to the period from the redemption date to 1 May 2021; *provided, however*, that if the period from the redemption date to 1 May 2021 is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) between the weekly average yields of the United States Treasury securities that have a constant maturity closest to and greater than the period from the redemption date to 1 May 2021 and the United States Treasury securities that have a constant maturity closest to and less than the period from the redemption date to 1 May 2021 for which such yields are given, except that if the period from the redemption date to 1 May 2021 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

"**Transactions**" means the offering of the Notes and the use of proceeds therefrom as described under the heading "*Use of Proceeds*" in the Offering Memorandum and the payment of fees and expenses relating to the foregoing.

"**Unrestricted Subsidiary**" means:

(1) any Subsidiary of DGHL (other than the Issuer or any successor to the Issuer) that at the time of determination is an Unrestricted Subsidiary (as designated by the Board of Directors of DGHL in the manner provided below); and

(2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors of DGHL may designate any Subsidiary of DGHL (other than the Issuer or any successor to the Issuer) (including any newly acquired or newly formed Subsidiary or a Person becoming a Subsidiary through merger, consolidation or other business combination transaction, or Investment therein) to be an Unrestricted Subsidiary only if:

(1) such Subsidiary or any of its Subsidiaries does not own any Capital Stock or Indebtedness of, or own or hold any Lien on any property of, DGHL or any other Subsidiary of DGHL which is not a Subsidiary of the Subsidiary to be so designated or otherwise an Unrestricted Subsidiary; and

(2) such designation and the Investment of DGHL in such Subsidiary complies with "*—Certain Covenants—Limitation on Restricted Payments*".

Any such designation by the Board of Directors of DGHL shall be evidenced to the Trustee by filing with the Trustee a copy of the resolution of the Board of Directors of DGHL giving effect to such designation and an Officer's Certificate certifying that such designation complies with the foregoing conditions.

The Board of Directors of DGHL may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that immediately after giving effect to such designation (a) no Default or Event of Default would result therefrom and (b) (x) DGHL could Incur at least £1.00 of additional Indebtedness under the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*" or (y) the Fixed Charge Coverage Ratio would not be less than it was immediately prior to giving effect to such designation, in each case, on a *pro forma* basis taking into account such designation. Any such designation by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors giving effect to such designation or an Officer's Certificate certifying that such designation complied with the foregoing provisions.

"**Uniform Commercial Code**" means the New York Uniform Commercial Code.

"**U.S. Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

"**U.S. Government Obligations**" means direct non-callable obligations of, or guaranteed by, the United States of America for the payment of which guarantee or obligations the full faith and credit of the United States is pledged.

"**U.S. Securities Act**" means the U.S. Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

"**U.S. GAAP**" means generally accepted accounting principles in the United States of America as in effect from time to time.

"**Voting Stock**" of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled to vote in the election of directors.

"**Wholly-Owned Subsidiary**" means a Restricted Subsidiary of DGHL, all of the Capital Stock of which (other than directors' qualifying shares or shares required by any applicable law or regulation to be held by a Person other than DGHL or another Wholly-Owned Subsidiary) is owned by DGHL or another Wholly-Owned Subsidiary.

BOOK-ENTRY; DELIVERY AND FORM

General

The Notes sold to qualified institutional buyers in reliance on Rule 144A will initially be represented by one or more global notes in registered form without interest coupons attached (the "**Rule 144A Global Notes**"). The Notes sold to non-US persons outside the United States in offshore transactions in reliance on Regulation S under the US Securities Act ("**Regulation S**") will initially be represented by one or more global notes in registered form without interest coupons attached (the "**Regulation S Global Notes**" and, together with the Rule 144A Global Notes, the "**Global Notes**"). The Global Notes will be deposited, on the Issue Date, with The Bank of New York Mellon, as custodian for DTC, and registered in the name of Cede & Co., as DTC's nominee.

Ownership of interests in the Rule 144A Global Notes ("**Rule 144A Book-Entry Interests**") and in the Regulation S Global Notes (the "**Regulation S Book-Entry Interests**" and, together with the Rule 144A Book-Entry Interests, the "**Book-Entry Interests**") will be limited to persons that have accounts with DTC or persons that hold interests through such participants. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Except under the limited circumstances described below, Book-Entry Interests will not be held in definitive certificated form.

Book-Entry Interests will be shown on, and transfers thereof will be done only through, records maintained in book-entry form by DTC and its participants. The Book-Entry Interests in the Global Notes will be issued only in denominations of US$200,000 and in integral multiples of US$1,000 in excess thereof. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive certificated form. The foregoing limitations may impair your ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, holders of Book-Entry Interests will not have the Notes registered in their name, will not have received physical delivery of the Notes in certificated form and will not be considered the registered owners or "holders" of Notes for any purpose (other than for certain tax purposes).

So long as the Notes are held in global form, DTC, or its nominee, will be considered the sole holder of the Global Notes for all purposes under the Indenture. Accordingly, participants must rely on the procedures of DTC, and indirect participants must rely on the procedures of DTC and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders under the Indenture.

None of the Issuer, the Trustee, the Registrar, the Transfer Agent and the Paying Agent, or any of their respective agents will have any responsibility, or be liable, for any aspect of the records relating to the Book-Entry Interests.

Redemption of the Global Notes

In the event that any Global Note (or any portion thereof) is redeemed, DTC, Euroclear and/or Clearstream, as applicable, will redeem an equal amount of the Book-Entry Interests in such Global Note from the amount received by them in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by DTC, Euroclear and/or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Issuer understands that, under the existing practices of DTC, Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, DTC, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions), by lot or on such other basis as they deem fair and appropriate in accordance with their operational procedures; provided, however, that no Book-Entry Interest of less than US$200,000 principal amount may be redeemed in part.

Payments on Global Notes

The Issuer will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, and interest and Additional Amounts, if any) to the Paying Agent. The Paying Agent will in turn distribute such payments to participants in accordance with their customary procedures. The Issuer expects that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the Indenture, the Issuer and the Trustee, the Registrar, the Transfer Agent and the Paying Agent will treat the registered holder of the Global Notes (i.e., the custodian for DTC or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes.

Consequently, none of the Issuer, the Trustee, the Registrar, the Transfer Agent and the Paying Agent or any of its or their respective agents has or will have any responsibility or liability for:

- any aspect of the records of DTC, Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest or for maintaining, supervising or reviewing the records of DTC, Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest;
- DTC, Euroclear, Clearstream or any participant or indirect participant; or
- the records of the common depositary.

Currency of Payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid in US dollars.

Action by Owners of Book-Entry Interests

DTC, Euroclear and Clearstream have advised the Issuer that they will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described above) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. DTC, Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under the Notes, each of DTC, Euroclear and Clearstream reserves the right to exchange the Global Notes for definitive registered Notes in certificated form ("**Definitive Registered Notes**"), and to distribute Definitive Registered Notes to its participants.

Transfers

Subject to compliance with the transfer restrictions applicable to the Notes described herein, transfers between participants in DTC, Euroclear and Clearstream will be effected in accordance with DTC's, Euroclear's and Clearstream's rules, as applicable, and will be settled in immediately available funds. If a holder of the Notes requires physical delivery of Definitive Registered Notes for any reason, including to sell Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such holder of the Notes must transfer its interests in the Global Notes in accordance with the normal procedures of DTC and in accordance with the procedures set forth in the Indenture.

The Global Notes will have a legend to the effect set forth under "*Notice to Investors*". Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements discussed under "*Notice to Investors*".

Transfers of Rule 144A Book-Entry Interests to persons wishing to take delivery of Rule 144A Book-Entry Interests will at all times be subject to such transfer restrictions.

Rule 144A Book-Entry Interests may be transferred to a person who takes delivery in the form of a Regulation S Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S or Rule 144A or any other exemption (if available under the US Securities Act).

Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of a Rule 144A Book-Entry Interest denominated in the same currency only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "*Notice to Investors*" and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Transfers involving exchanges of beneficial interests between the Regulation S Global Notes and the Rule 144A Global Notes will be effected by DTC by means of an instruction originated by the Trustee and the Registrar or the relevant Transfer Agent, as applicable, through the DTC "deposit/withdrawal at custodian" system. Accordingly, in connection with transfers involving an exchange of a Regulation S Book-Entry Interest for a Rule 144A Book-Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note. Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Note and become a Book-Entry Interest in such other Global Note, and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

Definitive Registered Notes

Under the terms of the Indenture, owners of the Book-Entry Interests will receive Definitive Registered Notes only if:

- DTC notifies the Issuer that it is unwilling or unable to continue to act as depositary or has ceased to be a clearing agency registered under the Exchange Act and, in either case, a successor depositary is not appointed by the Issuer within 120 days; or
- the owner of a Book-Entry Interest requests such an exchange in writing delivered to DTC following an event of default under the Indenture.

In the case of the issuance of Definitive Registered Notes, the holder of a Definitive Registered Note may transfer such Definitive Registered Note by surrendering it to the Registrar or the Transfer Agent. In the event of a partial transfer or a partial redemption of a holding of Definitive Registered Notes represented by one Definitive Registered Note, a new Definitive Registered Note will be issued to the transferee in respect of the part transferred and a new Definitive Registered Note in respect of the balance of the holding not transferred or redeemed will be issued to the transferor or the holder, as applicable; provided that a Definitive Registered Note will only be issued in denominations of US$200,000 or in integral multiples of US$1,000 in excess thereof.

The Issuer will not be required to register the transfer or exchange of Definitive Registered Notes for a period of 15 calendar days preceding (i) the record date for any payment of interest on the Notes, (ii) any date fixed for redemption of the Notes; or (iii) the date fixed for selection of the Notes to be redeemed in part. Also, the Issuer is not required to register the transfer or exchange of any Notes selected for redemption or which the holder has tendered (and not withdrawn) for repurchase in connection with a change of control offer or asset sale offer. In the event of the transfer of any Definitive Registered Note, the Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents as described in the Indenture. The Issuer may require a holder to pay any transfer taxes and fees required by law and permitted by the Indenture and the Notes.

If Definitive Registered Notes are issued and a holder thereof claims that such a Definitive Registered Note has been lost, destroyed or wrongfully taken, or if such Definitive Registered Note is mutilated and is surrendered to the Registrar or at the office of the Transfer Agent, the Issuer will issue, and the Trustee will authenticate, a replacement Definitive Registered Note if the Trustee's and the Issuer's requirements are met. The Issuer or the Trustee may require a holder requesting replacement of a Definitive Registered Note to furnish an indemnity bond sufficient in the judgment of both the Trustee and the Issuer to protect the Issuer, the Trustee or the Paying Agent appointed pursuant to the Indenture from any loss which any of them may suffer if a Definitive Registered Note is replaced. The Issuer may charge for any expenses incurred by us in replacing a Definitive Registered Note.

In case any such mutilated, destroyed, lost or stolen Definitive Registered Note has become or is about to become due and payable, or is about to be redeemed or purchased by the Issuer pursuant to the provisions of the Indenture, the Issuer, in its discretion, may, instead of issuing a new Definitive Registered Note, pay, redeem or purchase such Definitive Registered Note, as the case may be.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests only in accordance with the Indenture and, if required, only after the transferor first delivers to the Trustee a written certification (in the form provided in the Indenture) to the effect that such transfer will comply with the transfer restrictions applicable to such Notes. See "*Notice to Investors*".

So long as the Notes are admitted to trading on the Euro MTF Market and listed on the Official List of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, we will publish a notice of any issuance of Definitive Registered Notes in a newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Payment of principal, any repurchase price, premium and interest on Definitive Registered Notes will be payable at the office of the Paying Agent in Luxembourg so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require.

Information Concerning DTC, Euroclear and Clearstream

All Book-Entry Interests will be subject to the operations and procedures of DTC, Euroclear and Clearstream, as applicable. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither us, the Trustee, the Registrar, the Transfer Agent, the Paying Agent, the Initial Purchasers nor any of our or their respective agents are or will be responsible for those operations or procedures.

The Issuer understands that DTC is:

- a limited-purpose trust company organised under New York Banking Law;
- a "banking organisation" within the meaning of New York Banking Law;
- a member of the Federal Reserve System;
- a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions among its participants. It does this through electronic book-entry changes in the accounts of securities participants, eliminating the need for physical movement of securities certificates. DTC participants include both US and non-US securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others, such as both US and non-US securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a direct participant either directly or indirectly as indirect participants.

We understand as follows with respect to Euroclear and Clearstream. Euroclear and Clearstream hold securities for participating organisations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Because DTC, Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the DTC systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the DTC, Euroclear and Clearstream systems will receive distributions attributable to the Rule 144A Global Notes only through DTC participants.

Global Clearance and Settlement under the Book-Entry System

DTC has advised the Issuer that its current practice, upon receipt of any payment in respect of securities such as the Notes (including principal and interest), is to credit the accounts of its relevant participants with the payment on the payment date unless DTC has reason to believe that it will not receive payment on such payment date. Each relevant participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by participants and indirect participants in DTC to the beneficial owners of the Global Notes will be governed by standing instructions and customary practices and will be the responsibility of such participants and indirect participants and will not be the responsibility of DTC, the Trustee, the Registrar, the Paying Agent, or the Transfer Agent, as applicable, or the Issuer. Neither the Issuer nor the Trustee, the Registrar, the Paying Agent or the Transfer Agent, as applicable, will be liable for any delay by DTC or any of its participants or its indirect participants in identifying the beneficial owners of the Notes, and the Issuer and the Trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee or all purposes. Subject to the transfer restrictions set forth under "*Notice to Investors*", transfers between participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions set forth under "*Notice to Investors*" cross-market transfers of Book-Entry Interests in the Notes between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be done through DTC in accordance with DTC's rules on behalf of each of Euroclear or Clearstream by its common depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream by the counterparty in such system in accordance with the rules and regulations and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream will, if the transaction meets its settlement requirements, deliver instructions to the common depositary to take action to effect final settlement on its behalf by delivering or receiving Book-Entry Interests by DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement application to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the common depositary.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear and Clearstream as a result of a sale of an interest in a Note by or through a Euroclear or Clearstream participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as at the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in the Notes among participants in DTC, Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. The Issuer, the Trustee, the Initial Purchasers, the Registrar, the Transfer Agent and any paying agents for the Notes and their respective agents will have no responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Initial Settlement

Initial settlement for the Notes will be made in US dollars. Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

The Book-Entry Interests will trade through participants of Euroclear or Clearstream and DTC and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

TAX CONSIDERATIONS

Certain United Kingdom Tax Considerations

*The comments below, which are of a general nature and are based on the Issuer's understanding of current UK law and H.M. Revenue & Customs ("**HMRC**") published practice (which may not be binding on HMRC), both of which may be subject to change, possibly with retrospective effect, describe only the UK (i) withholding tax treatment of payments in respect of the Notes and the Guarantees, and (ii) stamp duty and SDRT treatment of the issue and transfer of the Notes. They are not exhaustive. They do not deal with any other UK taxation implications of acquiring, holding, exchanging, redeeming or disposing of the Notes or the Guarantees. Prospective holders of the Notes who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the UK are strongly advised to consult their own professional advisers.*

United Kingdom Withholding Tax

So long as the Notes are and continue to be admitted to trading on the Euro MTF Market and are admitted to the Official List of the Luxembourg Stock Exchange (which is a "recognised stock exchange" for the purposes of section 1005 of the ITA), payment of interest on the Notes may be made without withholding or deduction for or on account of UK income tax.

Interest on the Notes may also be paid without withholding or deduction for or on account of UK income tax where at the time the payment is made, the Issuer (and any person by or through whom interest on the Notes is paid) reasonably believes that (a) the person beneficially entitled to the interest is a UK resident company or a non-UK resident company that carries on a trade in the UK through a permanent establishment and the payment is one that the non-UK resident company is required to bring into account when calculating its profits subject to UK corporation tax, or (b) the person to whom the payment is made is one of the further classes of bodies or persons, and meets any relevant conditions, set out in sections 935-937 of the ITA, provided in each case HMRC has not given a direction, the effect of which is that the payment may not be made without that withholding or deduction.

In other cases, absent any other relief or exemption (such as a direction by HMRC that interest may be paid without withholding or deduction for or on account of UK income tax to a specified holder of the Notes following an application by that holder of the Notes under an applicable double tax treaty), an amount must generally be withheld on account of UK income tax at the basic rate (currently 20 per cent.) from payments of interest on the Notes.

Where the Notes are issued on terms that a premium is or may be payable on redemption, as opposed to being issued at a discount, then it is possible that any such element of premium may constitute a payment of interest and be subject to withholding on account of UK income tax as outlined in the preceding paragraphs.

Where the Notes are issued at an issue price of less than 100 per cent. of their principal amount, any payments in respect of the accrued discount element on any such Notes will not be made subject to any withholding or deduction for or on account of UK income tax.

Where interest has been paid under deduction of UK income tax, holders of the Notes who are not resident in the UK may be able to recover all or part of the tax deducted under an appropriate provision of an applicable double taxation treaty.

The references to "interest" above are to "interest" as understood for the purposes of UK tax law. They do not take into account any different definition of "interest" that may prevail under any other tax law or that may apply under the terms and conditions of the Notes or any related document.

Payments by a Guarantor

If payments by a Guarantor under the Guarantee were not treated as having a UK source they should not be subject to UK withholding tax. If this were not the case then, depending on the correct legal analysis of the payments as a matter of UK tax law (which is uncertain), it is possible that any payments by a Guarantor would be subject to UK withholding tax at the basic rate (currently 20 per cent.), subject to any claim which could be made under applicable double tax treaties or any other available exemption and reliefs, including an exemption for certain payments to which a company within the charge to UK corporation tax is beneficially entitled.

Information Reporting

Information relating to securities (including in relation to interest or payments treated as interest and payments derived from securities) may be required to be provided to HMRC in certain circumstances. This may include the value of the Notes, details of the holders or beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information in connection with transactions relating to the Notes. Information may be required to be provided by, among others, the holders of the Notes, persons by (or via) whom payments derived from the Notes are made or who receive (or would be entitled to receive) such payments, persons who effect or are a party to transactions relating to the Notes on behalf of others and certain registrars or administrators.

In certain circumstances, the information obtained by HMRC may be provided to tax authorities in other countries.

UK Stamp Duty and SDRT

No UK stamp duty or SDRT is payable on the issue, or on a transfer (or agreement to transfer), of the Notes.

Certain United States Federal Income Tax Considerations

The following is a discussion of material US federal income tax considerations relevant to the purchase, ownership and disposition of the Notes issued pursuant to this offering, but does not purport to be a complete analysis of all potential tax effects. The discussion is limited to considerations relevant to a US Holder (as defined below), except to the extent discussed in "*—Foreign Account Tax Compliance*", and does not address the effects of other US federal tax laws, such as estate and gift tax laws, or any state, local or foreign tax laws. This discussion is based on the US Internal Revenue Code of 1986, as amended (the "**Code**"), Treasury regulations promulgated thereunder ("**Treasury Regulations**"), judicial decisions, and published rulings and administrative pronouncements of the US Internal Revenue Service (the "**IRS**"), in each case in effect as of the date hereof. These authorities may change or be subject to differing interpretations. Any such change or differing interpretation may be applied retroactively in a manner that could adversely affect a holder of the Notes. We have not sought and will not seek any rulings from the IRS regarding the matters discussed below. There can be no assurance the IRS or a court will not take a contrary position to that discussed below regarding the tax consequences of the purchase, ownership and disposition of the Notes.

This discussion is limited to holders who hold the Notes as "capital assets" within the meaning of Section 1221 of the Code (generally, property held for investment). In addition, this discussion is limited to persons purchasing the Notes for cash at original issue and at their original "issue price" within the meaning of Section 1273 of the Code (i.e., the first price at which a substantial amount of the Notes is sold to the public for cash). This discussion does not address all US federal income tax consequences relevant to a holder's particular circumstances, including the impact of the Medicare contribution tax on net investment income. In addition, it does not address consequences relevant to holders subject to special rules, including, without limitation:

- US expatriates and former citizens or long-term residents of the United States;
- persons liable for the alternative minimum tax;
- US Holders (as defined below) whose functional currency is not the US dollar;
- persons holding the Notes as part of a hedge, straddle or other risk reduction strategy or as part of a conversion transaction or other integrated investment;
- banks, insurance companies and other financial institutions;
- real estate investment trusts and regulated investment companies;
- brokers, dealers and traders in securities;
- "controlled foreign corporations", "passive foreign investment companies" and corporations that accumulate earnings to avoid US federal income tax;
- US corporations, partnerships or other entities or arrangements treated as partnerships for US federal income tax purposes (and investors therein);
- tax-exempt organisations and governmental organisations;
- persons deemed to sell the Notes under the constructive sale provisions of the Code; and
- persons required to recognise any item of gross income for US federal income tax purposes with respect to the Notes no later than when such item is taken into account on an applicable financial statement.

For purposes of this discussion, a "**US Holder**" is a beneficial owner of a Note that, for US federal income tax purposes, is:

- an individual who is a citizen or resident of the United States;
- a corporation, or an entity treated as a corporation for US federal income tax purposes, created or organised under the laws of the United States, any state thereof, or the District of Columbia;
- an estate, the income of which is subject to US federal income tax regardless of its source; or
- a trust that (1) is subject to the primary supervision of a US court and the control of one or more "United States persons" (within the meaning of Section 7701(a)(30) of the Code), or (2) has a valid election in effect to be treated as a United States person for US federal income tax purposes.

If an entity or arrangement taxed as a partnership for US federal income tax purposes holds the Notes, the tax treatment of a partner in the partnership will depend on the status of the partner, the activities of the partnership and certain determinations made at the partner level. Accordingly, partnerships holding the Notes and the partners in such partnerships should consult their tax advisers regarding the US federal income tax consequences to them.

THIS DISCUSSION IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TAX ADVICE. INVESTORS SHOULD CONSULT THEIR TAX ADVISERS WITH RESPECT TO THE APPLICATION OF THE US FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES ARISING UNDER OTHER US FEDERAL TAX LAWS (INCLUDING ESTATE AND GIFT TAX LAWS), UNDER THE LAWS OF ANY STATE, LOCAL OR NON-US TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

Characterisation of the Notes

Under certain circumstances, the Notes provide for payments in excess of stated interest and principal and/ or redemption prior to their stated maturity. The Issuer intends to take the position that these provisions will not cause the Notes to be subject to the contingent payment debt instrument rules of applicable Treasury Regulations (the "**CPDI Rules**"). This position is based in part on assumptions regarding the likelihood, as of the issue date, that such additional amounts will have to be paid and relating to the expected yield to maturity of the Notes. The Issuer's position is binding on a US Holder, unless the US Holder discloses in the proper manner to the IRS that it is taking a different position. The Issuer's position is not, however, binding on the IRS. If the IRS successfully challenged the Issuer's position, the tax consequences of owning and disposing of the Notes could be materially different than those described herein, including with respect to the character, timing and amount of income, gain or loss recognised. The remainder of this discussion assumes that the Notes are not subject to the CPDI Rules, but there can be no assurances in this regard. US Holders are urged to consult their own tax advisers regarding the potential application to the Notes of the CPDI Rules and the consequences thereof.

Payments of Stated Interest

Payments of stated interest on a Note (including any additional amounts paid in respect of withholding taxes and without reduction for any amounts withheld) generally will be includible in the gross income of a US Holder as ordinary income at the time that such payments are received or accrued, in accordance with such US Holder's method of accounting for US federal income tax purposes.

Foreign Tax Credit

Stated interest income, on a Note generally will constitute foreign source income and generally will be considered "passive category income" in computing the foreign tax credit allowable to US Holders under US federal income tax laws. There are significant complex limitations on a US Holder's ability to claim foreign tax credits (or deduction in lieu thereof). US Holders should consult their own tax advisers regarding the creditability or deductibility of any foreign taxes withheld.

Sale, Exchange, Retirement, Redemption or Other Taxable Disposition of Notes

Upon the sale, exchange, retirement, redemption or other taxable disposition of a Note, a US Holder generally will recognise US source gain or loss equal to the difference, if any, between the amount realised upon such disposition (less any amount attributable to accrued but unpaid stated interest, which will be taxable as such to the extent not previously included in income as described above under "—*Payments of stated interest*") and such US Holder's adjusted tax basis in the Note.

The amount realised by a US Holder is the sum of the cash plus the fair market value of all other property received on the sale or other taxable disposition.

A US Holder's adjusted tax basis in a Note will generally be its cost for the Note.

Gain or loss a US Holder recognises on the sale or other taxable disposition of the Notes generally will be US source capital gain or loss. Such gain or loss generally will be long-term capital gain or loss if a US Holder has held the Notes for more than one year. For non-corporate US Holders, long-term capital gains are generally eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. A US Holder should consult its own tax adviser regarding the deductibility of capital losses in its particular circumstances.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to payments of interest on the Notes and to the proceeds of the sale or other disposition (including a redemption or retirement) of a Note paid to a US Holder, unless such US Holder is an exempt recipient and, when required, provides evidence of such exemption. A US Holder that is not an exempt recipient may be subject to US federal backup withholding at the applicable rate (currently 24 per cent.) with respect to payments on the Notes and the proceeds of a sale or other taxable disposition of the Notes, unless the US Holder provides its taxpayer identification number to the paying agent and certifies on IRS Form W-9, under penalties of perjury, that it is not subject to backup withholding and otherwise complies with the applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. The amount of any backup withholding withheld from a payment to a US Holder may be allowed as a credit against such US Holder's US federal income tax liability and may entitle such US Holder to a refund, provided the required information is furnished to the IRS in a timely manner.

Additional Notes

The Issuer may issue Additional Notes, as described under "*Description of Notes*". These Additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for US federal income tax purposes. In such case, the Additional Notes may be considered to have been issued with original issue discount, which may adversely affect the market value of the original Notes if the Additional Notes are not otherwise distinguishable from the original Notes.

Tax return disclosure requirements

Individuals (and certain entities) that own "specified foreign financial assets" with an aggregate value in excess of certain thresholds generally are required to file an information report with respect to such assets with their tax returns. The Notes generally will constitute specified foreign financial assets subject to these reporting requirements, unless the Notes are held in an account at certain financial institutions. US Holders are urged to consult their tax advisers regarding the application of the foregoing disclosure requirements to their ownership of the Notes, including the significant penalties for non-compliance.

Foreign Account Tax Compliance

Pursuant to certain provisions of the Code, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of the Issuer) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the US Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if Additional Notes that are not distinguishable from the previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

CERTAIN ERISA CONSIDERATIONS

General

ERISA imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**")) subject to Title I of ERISA and on entities that are deemed to hold the assets of such plans ("**ERISA Plans**"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including, but not limited to, the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents and instruments governing the plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "**Plans**")) and certain persons (referred to as "parties in interest", within the meaning of Section 3(14) of ERISA, or "disqualified persons", within the meaning of Section 4975 of the Code) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and/or the Code.

Any Plan fiduciary which proposes to cause a Plan to purchase the Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such purchase and holding will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA.

Non-US plans (as described in Section 4(b)(4) of ERISA), governmental plans (as defined in Section 3(32) of ERISA) and certain "church plans" (as defined in Section 3(33) of ERISA or Section 4975(g)(3) of the Code), while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA and Section 4975 of the Code, may nevertheless be subject to non-US, state, local, federal or other laws, rules or regulations that are substantially similar to the foregoing provisions of ERISA and the Code (collectively, "**Similar Law**"). Fiduciaries of any such plans should consult with their counsel before purchasing the Notes to determine the need for, and the availability, if necessary, of any exempted relief under any such law or regulations.

Prohibited Transaction Exemptions

The fiduciary of a Plan that proposes to purchase and hold any Notes should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a party in interest or a disqualified person, (ii) the sale or exchange of any property between a Plan and a party in interest or a disqualified person, or (iii) the transfer to, or use by or for the benefit of, a party in interest or disqualified person, of any Plan assets. Such parties in interest or disqualified persons could include, without limitation, the Issuer, the Initial Purchasers, the Trustee, the Transfer Agent or any of their respective affiliates. Depending on the satisfaction of certain conditions, which may include the identification of the Plan fiduciary making the decision to acquire and/or hold the Notes on behalf of a Plan, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code or Prohibited Transaction Class Exemption ("**PTCE**") 84-14 (relating to transactions effected by an "independent qualified professional asset manager"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by insurance company general accounts) or PTCE 96-23 (relating to transactions directed by an in-house asset manager) (collectively, the "**Class Exemptions**") could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. However, there can be no assurance that any of these Class Exemptions or any other exemption will be available with respect to any particular transaction involving the Notes.

Each Plan fiduciary (and each fiduciary for non-US, governmental or church plans subject to Similar Law) should consult with its legal adviser concerning the potential consequences to the Plan under ERISA, the Code or such Similar Laws of an investment in the Notes.

Representation and Warranty

By its purchase of any Note, the purchaser and any subsequent transferee thereof will be deemed to have represented and warranted that either: (i) it is not a Plan and no portion of the assets used by such purchaser or transferee to acquire and hold the Notes constitutes assets of any Plan or non-US, governmental or church plan subject to Similar Law or any entity whose underlying assets are considered to include "plan assets" (within the meaning of Section 2510.3-101 of Title 29 of the United States Code of Federal Regulations, as modified by Section 3(42) of ERISA) of any such plan, account or arrangement, or (ii) the purchase and holding of the Notes by such purchaser or transferee does not and will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation under any applicable Similar Law. Each purchaser and subsequent transferee of a Note that is acquiring the Notes with the assets of any ERISA Plan, at any time when regulation 29 C.F.R. Section 2510.3-21 is applicable, represents, warrants and acknowledges that a fiduciary is making the decision to invest in the Notes on its behalf and that such fiduciary (a) is (1) a bank, insurance company, registered investment adviser, broker-dealer or other person with financial expertise, in each case as described in 29 C.F.R. Section 2510.3-21(c)(1)(i); (2) an independent plan fiduciary within the meaning of 29 C.F.R. Section 2510.3-21; (3) capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies; and (4) responsible for exercising independent judgment in evaluating the transaction; (b) acknowledges and agrees that (1) no fee or other compensation will be paid directly to any of the Issuer, the initial purchasers, the agents or any of their respective affiliates, or any fiduciary, participant or beneficiary of the ERISA Plan, for the provision of investment advice (as opposed to other services) in connection with the ERISA Plan's acquisition of, or holding of an interest in, the Notes; (2) none of the Issuer, the initial purchasers, the agents or other persons that provide marketing services, nor any of their respective affiliates, has provided, and none of them will provide, impartial investment advice and they are not giving any advice in a fiduciary capacity, in connection with the ERISA Plan's acquisition of the Notes, and (3) it has received and understands the disclosure of the existence and nature of the financial interests contained in this Offering Memorandum and related materials.

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in prohibited transactions, it is particularly important that fiduciaries, or other persons considering whether to purchase the Notes offered hereby on behalf of or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such transaction and whether an exemption would be applicable to such transaction. Investors in the Notes offered hereby have exclusive responsibility for ensuring that their purchase of the Notes does not violate the fiduciary or prohibited transaction rules of ERISA or the Code or any similar provisions of Similar Laws. The sale of any Notes offered hereby by or to any Plan is in no respect a representation by us or any of our affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by such Plans generally, or any particular Plan, or that such an investment is appropriate for such Plans generally or any particular Plan.

PLAN OF DISTRIBUTION

The Initial Purchasers are Barclays Capital Inc., Merrill Lynch International and Deutsche Bank Securities Inc. The Issuer has agreed to sell to the Initial Purchasers, and the Initial Purchasers have agreed to purchase from us, pursuant to a purchase agreement between the Issuer, the Guarantors and the Initial Purchasers (the "**Purchase Agreement**"), the entire principal amount of the Notes.

The obligations of the Initial Purchasers under the Purchase Agreement, including their agreement to purchase Notes from us, are several and not joint.

General

The Initial Purchasers initially propose to offer the Notes for resale at the issue price that appears on the cover of this Offering Memorandum. The Initial Purchasers may change the prices at which the Notes are offered and any other selling terms at any time without notice. The Initial Purchasers may offer and sell Notes through certain of their affiliates, who are qualified broker-dealers under applicable law, including in respect of sales into the United States.

The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of the Notes are subject to, among other conditions, the delivery of certain legal opinions by their counsel and our counsel.

No Sale of Similar Securities

The Purchase Agreement provides that we will indemnify and hold harmless the Initial Purchasers against certain liabilities, including liabilities under the US Securities Act, and will contribute to payments that the Initial Purchasers may be required to make in respect thereof. We have agreed, subject to certain limited exceptions as provided under the Purchase Agreement, that during the period from the date hereof through and including the date that is 60 days after the date the Notes are issued, not to, and to cause our subsidiaries not to, without having received the prior written consent provided for in the Purchase Agreement, offer, sell, contract to sell or otherwise dispose of any debt securities issued or guaranteed by us or any of our subsidiaries.

Securities Not Being Registered Under the US Securities Act

The Notes and the Guarantees have not been, and will not be, registered under the US Securities Act and may not be offered or sold within the United States except to "qualified institutional buyers" (as defined in Rule 144A under the US Securities Act) in reliance on Rule 144A under the US Securities Act ("**Rule 144A**") and outside the United States to non-US persons in offshore transactions in reliance on Regulation S under the US Securities Act ("**Regulation S**"). Terms used in this paragraph have the meanings given to them by Regulation S. Resales of the Notes are restricted as described under "*Notice to Investors*.". Each purchaser of the Notes will be deemed to have made the acknowledgements, representations, warranties and agreements as described under "*Notice to Investors*".

United Kingdom

This Offering Memorandum is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Financial Promotion Order**"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order, (iii) are outside the UK, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "**relevant persons**"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this Offering Memorandum or any of its contents.

Each of the Initial Purchasers has represented, warranted and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or any Guarantor; and

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the UK.

MIFID II Product Governance/Professional Investors and ECPs Only Target Market

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the notes has led to the conclusion that: (i) the target market for the notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the notes (a "distributor") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PRIIPS Regulation / Prohibition of Sales to EEA Retail Investors

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPS Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Other Jurisdictions

This Offering Memorandum has been prepared on the basis that any offer of Notes in any Member State of the EEA will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. The expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended), and includes any relevant implementing measure in the Member State concerned.

No action has been taken in any jurisdiction, including the United States and the UK, by us or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Notes in any jurisdiction where action for this purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this Offering Memorandum comes are advised to inform themselves about and to observe any restrictions relating to the offering of the Notes, the distribution of this offering memorandum and resale of the Notes. See "*Notice to Investors*".

Resale Restriction

The Issuer and the Guarantors have also agreed that they will not at any time offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any securities under circumstances in which such offer, sale, pledge, contract or disposition would cause the exemption afforded by Section 4(a)(2) of the US Securities Act or the safe harbours of Rule 144A and Regulation S to cease to be applicable to the offer and sale of the Notes.

New Issue of Securities

The Notes are a new issue of securities for which there currently is no market. We will apply, through our Listing Agent, to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted for trading on the Luxembourg Stock Exchange's Euro MTF.

The Initial Purchasers have advised us that they intend to make a market in the Notes as permitted by applicable law. The Initial Purchasers are not obligated, however, to make a market in the Notes, and any market-making activity may be discontinued at any time at the sole discretion of the Initial Purchasers without notice. In addition, any such market-making activity will be subject to the limits imposed by the US Securities Act and the Securities Exchange Act of 1934, as amended ("**US Exchange Act**").

Accordingly, we cannot assure you that any market for the Notes will develop, that it will be liquid if it does develop or that you will be able to sell any Notes at a particular time or at a price which will be favourable to you. See "*Risk Factors—Risks Related to the Notes, the Guarantees and Our Capital Structure—Holders of the Notes may not be able to resell the Notes easily, an active liquid trading market for the Notes may not develop or may be volatile and no assurance can be made regarding the prices at which holders of the Notes might be able to resell the Notes*".

Price Stabilisation

In connection with this Offering, Barclays Capital Inc. (or persons acting on its behalf) or one of its affiliates (the "**Stabilising Manager**") may over-allot the Notes or effect transactions to support the market price of the Notes during the stabilisation period at a level higher than that which might otherwise prevail. However, stabilisation action may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than 30 days after the date on which the issuer received the proceeds of the issue, or no later than 60 days after the date of allotment of the Notes, whichever is the earlier. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or persons acting on its behalf) in accordance with all applicable laws and rules and will be undertaken at the offices of the Stabilising Manager (or persons acting on its behalf) and on the Euro MTF of the Luxembourg Stock Exchange.

Initial Settlement

We expect that delivery of the Notes will be made against payment on the Notes on or about the date specified on the cover page of this Offering Memorandum, which will be 10 business days (as such term is used for purposes of Rule 15c6-1 of the US Exchange Act) following the date of pricing of the Notes (this settlement cycle is being referred to as "T + 10"). Under Rule 15c6-1 of the US Exchange Act, trades in the secondary market generally are required to settle in two business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of this Offering Memorandum or during the following seven business days will be required to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to make such trades should consult their own advisers.

Other Relationships

The Initial Purchasers and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial investment banking, financial advising, investment management, principal investment, hedging, financing and brokerage activities. The Initial Purchasers or their respective affiliates from time to time have provided in the past and may provide in the future investment banking, commercial purpose lending, treasury management, corporate broker, transaction and clearing services, consulting and financial advisory services to us and our affiliates in the ordinary course of business for which they may receive customary advisory and transaction fees and expense reimbursement. In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, the Guarantors or their respective affiliates. The Initial Purchasers and their affiliates may receive allocations of the Notes. In connection with the Offering, the Initial Purchasers are not acting for anyone other than the Issuer. In addition, certain of the Initial Purchasers and their affiliates are lenders under the Revolving Facility. Moreover, the Initial Purchasers and/or their respective affiliates are or may, in the future, act as hedge counterparties to certain of our hedging arrangements consistent with their customary risk management policies. Typically, such Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of Notes. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

CERTAIN INSOLVENCY CONSIDERATIONS AND LIMITATIONS ON THE VALIDITY AND ENFORCEABILITY OF THE GUARANTEES AND SECURITY

The following is a brief description of certain limitations on the validity and enforceability of the Guarantees and security interests for the Notes and of certain aspects of insolvency law in each of the jurisdictions in which the Issuer, the Guarantors and the providers of security in respect of the Notes are organised. In the event that any one or more of the Issuer, the Guarantors, the providers of security in respect of the Notes or any other of the Issuer's subsidiaries experiences financial difficulty, it is not possible to know with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. Applicable insolvency laws may affect the enforceability of the obligations of the Issuer, the Guarantors and the providers of security to the Notes. The descriptions below are only a summary and do not purport to be complete or discuss all of the limitations or considerations that may affect the Notes, the Guarantees or other security interests.

European Union

The Issuer and certain of the Guarantors are organised under the laws of member states of the EU ("**Member States**").

Regulation (EU) 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings (recast) (the "**Recast EU Insolvency Regulation**") is applicable to insolvency proceedings within the EU (other than Denmark and other than in respect of certain insurance, credit institution and investment undertakings) opened from 26 June 2017 onwards. The Recast EU Insolvency Regulation replaces Council Regulation (EC) no. 1346/2000 (the "**Insolvency Regulation**"), which continues to apply to insolvency proceedings opened prior to 26 June 2017. Under the Recast EU Insolvency Regulation, the courts of the Member State (other than Denmark) in which a company's "centre of main interests" (as that term is used in Article 3(1) of the Recast EU Insolvency Regulation) ("**COMI**") is located have jurisdiction to open "main insolvency proceedings" (discussed further below). The determination of where the Issuer, any of its subsidiaries or a Guarantor has its COMI is a question of fact on which the courts of the different Member States may have differing and even conflicting views. Under Article 4 of the Recast EU Insolvency Regulation, a court that is requested to open insolvency proceedings will first examine whether it believes it has jurisdiction under Article 3.

Article 3(1) of the Recast EU Insolvency Regulation states that COMI "*shall be the place where the debtor conducts the administration of its interests on a regular basis and which is therefore ascertainable by third parties*". Further, Article 3(1) of the Recast EU Insolvency Regulation provides that "*in the case of a company or legal person, the place of the registered office shall be presumed to be the centre of its main interests in the absence of proof to the contrary*". This gives rise to a rebuttable presumption that a company has its COMI in the Member State in which it has its registered office, in the absence of proof to the contrary. That presumption only applies if the registered office has not been moved to another Member State within the three-month period prior to the request to open insolvency proceedings. Pursuant to Preamble 30 of the Recast EU Insolvency Regulation, it may be possible to rebut this presumption where the company's central administration is located in a Member State other than that of its registered office, and where a comprehensive assessment of all the relevant factors establishes, in a manner that is ascertainable by third parties, that the company's actual centre of management and supervision and of the management of its interests is located in that other Member State. In the event of a shift in the COMI to another State, this may require informing the creditors of the new location from which the debtor is carrying out its activities in due course (e.g. by drawing attention to the change of address in commercial correspondence or otherwise making the new location public through other appropriate means).

The courts, in cases concerning the previous Insolvency Regulation, have taken into consideration a number of factors in deciding whether the presumption as to COMI should be rebutted, including: (a) where board meetings are held; (b) the location where the company conducts the majority of its business or has its head office; and (c) where it has its central administration. The courts consider objective factors that are ascertainable by third parties. A company's COMI may change from time to time. However, for the purposes of deciding which courts have competent jurisdiction to open main insolvency proceedings, it is considered at the time that the application to open the insolvency proceedings is filed.

The Recast EU Insolvency Regulation applies to insolvency proceedings that are collective insolvency proceedings of the types referred to in Annex A to the Recast EU Insolvency Regulation.

Main insolvency proceedings may be commenced in the jurisdiction where the company has its COMI. A court in that jurisdiction would be entitled to commence the types of insolvency proceedings referred to in Annex

A to the Recast EU Insolvency Regulation, with these proceedings being governed by the insolvency laws of the jurisdiction where the court opening main insolvency proceedings is located. Main insolvency proceedings opened in one Member State under the Recast EU Insolvency Regulation are to be recognised in the other Member States (other than Denmark). However, secondary proceedings may be opened in another Member State (see further below).

If the COMI of a debtor is in one Member State (other than Denmark) under Article 3(2) of the Recast EU Insolvency Regulation, the courts of another Member State (other than Denmark) have jurisdiction to open territorial proceedings in respect of the debtor if it has an "establishment" in the territory of such other Member State (referred to as "territorial insolvency proceedings"). An "establishment" is defined in Article 2(10) of the Recast EU Insolvency Regulation as "*any place of operations where a debtor carries out or has carried out in the 3 month period prior to the request to open main insolvency proceedings a non-transitory economic activity with human means and assets*". The effect of those secondary proceedings is restricted to the assets of the debtor situated in the territory of that Member State.

Where main proceedings have been opened in the Member State in which the company has its COMI, any territorial insolvency proceedings later opened in another Member State in which the company has an establishment are referred to as "secondary insolvency proceedings" (within the meaning of Article 3(3) of the Recast EU Insolvency Regulation).

Where main proceedings in the Member State in which the company has its COMI have not yet been opened, territorial insolvency proceedings can only be opened in another Member State, where the company has an establishment, where either: (a) insolvency proceedings cannot be opened in the Member State in which the company's COMI is located because of the conditions laid down by the law of the Member State within the territory of which the centre of the debtor's main interests is located; or (b) the territorial insolvency proceedings are opened at the request of either (i) a creditor whose claim arises from or is in connection with the operation of an establishment situated within the territory of the Member State where the opening of territorial proceedings is requested, or (ii) a public authority which, under the law of the Member State within the territory of which the establishment is situated, has the right to request the opening of insolvency proceedings. Irrespective of whether the insolvency proceedings are main or secondary insolvency proceedings, the proceedings will, subject to certain exemptions, be governed by the local insolvency law of the court that has assumed jurisdiction.

The courts of all Member States (other than Denmark) must recognise the judgment of the court opening main proceedings and, subject to any exceptions provided for in the Recast EU Insolvency Regulation, that judgment will be given the same effect in the other Member States (so long as no secondary proceedings have been opened there). The insolvency officeholder appointed by a court in a Member State that has jurisdiction to open main proceedings (because the company's COMI is there) may exercise the powers conferred on him by the law of that Member State in another Member State (e.g. removing assets of the company from that other Member State), subject to certain limitations. This will be the case so long as no insolvency proceedings have been opened in that other Member State or any preservation measure has been taken further to a request to open insolvency proceedings in that other Member State where the company has assets.

Article 36 of the Recast EU Insolvency Regulation provides a right to the insolvency practitioner under the main proceedings to give an undertaking in order to avoid the opening of secondary insolvency proceedings elsewhere. That insolvency practitioner may give a unilateral undertaking to local creditors in respect of the assets located in that Member State. The undertaking would state that that when distributing those assets or the proceeds received as a result of their realisation, the insolvency practitioner will comply with the distribution and priority rights under national law that creditors would have if secondary insolvency proceedings were opened in that Member State. This undertaking must be approved by the known local creditors. If approved, the undertaking is binding on the estate and a court will refuse to open secondary insolvency proceedings if the protection of the general interests of the local creditors under the undertaking is sufficient.

The Recast EU Insolvency Regulation also provides for rules to co-ordinate main and secondary proceedings (Articles 41 onwards), as well as to coordinate cross-border group insolvencies within the EU (Articles 56 onwards). In the event that insolvency proceedings concerning two or more members of a group of companies are opened, insolvency practitioners and courts shall co-operate and communicate with any other insolvency practitioner and any other court involved in insolvency proceedings of another member of the group (Articles 56 and 57). In addition, an insolvency practitioner appointed in insolvency proceedings opened in relation to a member of the group may request group co-ordination proceedings before any court having jurisdiction over the insolvency proceedings of any member of that group. Any request would be accompanied by a proposal as to who the group coordinator would be (Article 61).

In the event that the Issuer or any Guarantor experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings will be commenced, or the outcome of proceedings. Applicable insolvency laws may affect the enforceability of the obligations of the Issuer and the Guarantors. The insolvency, administration and other laws of the jurisdictions in which the respective companies are organised or operate may be materially different from, or conflict with, each other and there is no assurance as to how the insolvency laws of the potentially involved jurisdictions will be applied in relation to one another.

It is not possible to know what impact the vote by the United Kingdom to leave the EU will have on the application of the Recast EU Insolvency Regulation to any insolvency to which the Issuer or any Guarantor may be subject.

England and Wales

The Issuer and certain of the Guarantors (the "**English Guarantors**" and together with the Issuer, the "**English Obligors**") are companies incorporated under the laws of England and Wales. Therefore, any main insolvency proceedings with respect to an English Obligor would likely be commenced in England.

However, pursuant to the Recast EU Insolvency Regulation (as detailed above), where an English company conducts business in another Member State of the EU, the jurisdiction of the English courts may be limited if the company's COMI is found to be in another Member State (see "—*European Union*"). The place of the registered office of a company is presumed to be the COMI, in the absence of proof to the contrary. That presumption only applies if the registered office has not been moved to another Member State within the three-month period prior to the request to open insolvency proceedings. The point at which this issue falls to be determined is at the time that the relevant insolvency proceedings are opened. Similarly, the UK Cross-Border Insolvency Regulations 2006, which implement the UNCITRAL Model Law on Cross-Border Insolvency in the UK, provide that a foreign (i.e., non-EU) court may have jurisdiction where any English company has its COMI in such foreign jurisdiction or where it has an "establishment" (being a place of operations in such foreign jurisdiction, where it carries out non-transitory economic activities with human means and assets or services) in such foreign jurisdiction.

English insolvency law may not be as favourable to investors' interests as the laws of the United States or other jurisdictions with which investors are familiar. In the event that an English Obligor experiences financial difficulty, it is not possible to predict with certainty the outcome of insolvency or similar proceedings. The obligations under the Notes are secured by security interests over the Collateral. English insolvency laws and other limitations could limit the enforceability of a Guarantee against an English Obligor and the enforceability of security interests over the Collateral.

Insolvency Proceedings

As a general rule, insolvency proceedings with respect to an English company should be commenced in England based on English insolvency laws, although (as noted above) insolvency proceedings in respect of English companies could also be based in other jurisdictions under certain circumstances.

Under the Recast EU Insolvency Regulation, secondary proceedings may be commenced against an English Obligor in Member States (except Denmark) other than the United Kingdom even if the COMI is in England, provided that the company has an establishment within the territory of that other Member State. The effects of these proceedings would be restricted to the assets of such English Obligor situated in that Member State (see "—*European Union*").

Formal insolvency proceedings under the laws of England and Wales may be initiated in a number of ways, including by an English Obligor's directors or a creditor making an application for administration, in or (in the case of such English Obligor's directors or any creditors holding security over all or substantially all of such English Obligor's assets under a qualifying floating charge) out-of-court, or by a creditor filing a petition to wind up such English Obligor or such English Obligor's shareholders resolving to do so (in the case of liquidation). A company may be wound up if it is unable to pay its debts, and may be placed into administration if it is, or is likely to become, unable to pay its debts, and the administration is reasonably likely to achieve one of three statutory purposes (see "—*Administration and floating charges*").

Under the UK Insolvency Act 1986, as amended (the "**Insolvency Act**"), a company is insolvent if it is unable to pay its debts. A company is deemed unable to pay its debts if it is insolvent on a "cash flow" basis (unable to pay its debts as they fall due), which test can be demonstrated, for example, where a company fails to satisfy a creditor's statutory demand for a debt exceeding £750 or if it fails to satisfy in full a judgment debt (or similar court order), or if it is insolvent on a "balance sheet" basis (the value of the company's assets is less than the amount of its liabilities, taking into account its contingent and prospective liabilities).

Fixed and Floating Charges

There are a number of ways in which fixed charge security has an advantage over floating charge security, including (a) an administrator appointed to a charging company can convert floating charge assets to cash and use such cash, or use cash subject to a floating charge, to meet administration expenses (which can include the costs of continuing to operate the charging company's business) while in administration in priority to the claims of the floating charge holder; (b) a fixed charge, even if created after the date of a floating charge, may have priority as against the floating charge over the charged assets; (c) general costs and expenses (including the remuneration of the insolvency officeholder(s)) properly incurred in a winding-up are payable out of the company's assets (including the assets that are the subject of the floating charge) in priority to floating charge claims (the same does not apply to fixed charge assets); (d) until the floating charge security crystallises, a company is entitled to deal with assets that are subject to floating charge security in the ordinary course of business, meaning that such assets can be effectively disposed of by the charging company so as to give a third party good title to the assets free of the floating charge and meaning that there is a risk of security being granted over such assets in priority to the floating charge security; (e) floating charge security is subject to certain challenges under English insolvency law (see "*—Challenges to guarantees and security—Grant of floating charge*"); (f) floating charge security is subject to the claims of preferential creditors (such as occupational pension scheme contributions and salaries and/or holiday owed to employees) and to ring-fencing (see "*Administration and floating charges*"); and (g) an administrator may dispose of or take action relating to property subject to a floating charge without the prior consent of the charge holder or court but the floating charge holder retains the same priority in respect of the proceeds from the disposal of the assets subject to the floating charge. With prior approval of the court, an administrator may deal with property subject to a fixed charge provided that disposing of the property is likely to promote the administration's purpose and that the administrator apply the net proceeds from the disposal of the property in question towards discharging the obligations of the company to the charge holder.

Under English law, there is a possibility that a court could recharacterise fixed security interests purported to be created by a security document as floating charges, and the description given to security interests by the parties is not determinative. Whether security interests labelled as fixed will be upheld as fixed security interests rather than floating security interests will depend on, among other things, whether the chargee has the requisite degree of control over the relevant chargor's ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the charge in practice. Where the chargor is free to deal with the secured assets without the consent of the chargee prior to crystallisation, the court is likely to hold that the security interest in question constitutes a floating charge, notwithstanding that it may be described as a fixed charge in the security documents.

Administration and Floating Charges

The relevant English insolvency statutes empower English courts to make an administration order in respect of an English company in certain circumstances. An administration order can be made if the court is satisfied that the relevant company is or is likely to become "unable to pay its debts" and that the administration order is reasonably likely to achieve the purpose of administration. An administrator can also be appointed out of court by the company, its directors or the holder of a qualifying floating charge, and different procedures apply according to the identity of the appointor. The purpose of an administration is comprised of three objectives that must be looked at successively: rescuing a company as a going concern or, if that is not reasonably practicable, achieving a better result for a company's creditors as a whole than would be likely if a company went into immediate liquidation or, if neither of those objectives is reasonably practicable, and the interests of the creditors as a whole are not unnecessarily harmed thereby, realising property to make a distribution to secured or preferential creditors. An administrator is given wide powers to conduct the business and, subject to certain requirements under the Insolvency Act, dispose of the property of a company in administration (including property subject to a floating charge).

In general, during the administration, no proceedings or other legal process may be commenced or continued against the debtor or security enforced over the company's property, except with leave of the court or the consent of the administrator. Certain creditors of a company in administration may be able to realise their security over that company's property notwithstanding the statutory moratorium. This is by virtue of the disapplication of the moratorium in relation to a "security financial collateral agreement" (generally, cash or financial instruments such as shares, bonds or tradable capital market debt instruments) under the Financial Collateral Arrangements (No. 2) Regulations 2003. If an English Obligor were to enter administration, it is possible that, to the extent that it is not a financial collateral arrangement, the security granted by it or the guarantee granted by it may not be enforced while it is in administration, without the leave of the court or consent of the administrator. In addition, other than in limited circumstances, no administrative receiver can be appointed by a secured creditor in preference to an administrator, and any already appointed receiver must resign if requested to do so by the administrator. Where the company is already in administration, no receiver may be appointed.

In order to empower the Security Agent to appoint an administrative receiver or an administrator to the company, the floating charge granted by the relevant English Obligor must constitute a "qualifying floating charge" for purposes of English insolvency law and, in the case of the ability to appoint an administrative receiver, the qualifying floating charge must, unless the security document pre-dates 15 September 2003, fall within one of the exceptions in the Insolvency Act to the prohibition on the appointment of administrative receivers. In order to constitute a qualifying floating charge, the floating charge must be created by an instrument which (a) states that the relevant statutory provision applies to it; (b) purports to empower the holder to appoint an administrator of the company; or (c) purports to empower the holder to appoint an administrative receiver within the meaning given by section 29(2) of the Insolvency Act. The Security Agent will be the holder of a qualifying floating charge if such floating charge security, together (if necessary) with the fixed charge security interests, relates to the whole or substantially the whole of the relevant English Obligor's property and at least one such security interest is a qualifying floating charge. The most relevant exception to the prohibition on the appointment of an administrative receiver is the exception relating to "capital market arrangement" (as defined in the Insolvency Act), which will apply if the issue of the Notes creates a debt of at least £50 million for the relevant company during the life of the arrangement and the arrangement involves the issue of a "capital market investment" (which is defined in the Insolvency Act but is generally a rated, listed or traded debt instrument). An administrator, receiver (including administrative receiver) or liquidator of the company will be required to ring-fence a certain percentage of the proceeds of enforcement of floating charge security (after making full provision for preferential creditors and expenses (floating charge realisations)) for the benefit of unsecured creditors. Under current law, this applies to 50 per cent. of the first £10,000 of floating charge realisations and 20 per cent. of the remainder over £10,000, with a maximum aggregate cap of £600,000. Whether the assets that are subject to the floating charges and other security will constitute substantially the whole of the relevant English Obligor's assets at the time that the floating charges are enforced will be a question of fact at that time.

If an administrative receiver has been appointed, an administrator can only be appointed by the court (and not by the company, its directors or the holder of a qualifying floating charge using the out of court procedure) and then only if the person who appointed the administrative receiver consents or the court considers that the security pursuant to which the administrative receiver was appointed is invalid. If an administrator is appointed, any administrative receiver will vacate office. Further, upon the appointment of an administrator, any receiver of part of the company's property must resign if required to do so by the administrator.

Liquidation

Liquidation is a winding-up procedure applicable to companies incorporated under the laws of England and Wales. There are three ways an English Obligor may be placed into liquidation or "wound up": (1) Members' Voluntary Liquidation (which is a procedure available to solvent companies only); (2) Creditors' Voluntary Liquidation; and (3) Compulsory Winding-Up.

The effect of a compulsory winding-up differs in a number of respects from that of a voluntary winding-up. In a compulsory winding-up, under Section 127 of the Insolvency Act, any disposition of the relevant company's property made after the commencement of the winding-up is, unless sanctioned by the court, void. Subject to certain exceptions, when an order is made for the winding-up of a company by the court, it is deemed to have commenced from the time of the presentation of the winding-up petition. Once a winding-up order is made by the court, a stay of all proceedings against the company will be imposed. No legal action may be continued or commenced against the company without permission of the court. In the context of a voluntary winding-up however, there is no equivalent to the retrospective effect of a winding-up order; the winding-up commences on the passing of the resolution to wind up. As a result, there is no equivalent of Section 127 of the Insolvency Act.

On the liquidation of an English company, there is no automatic statutory moratorium in place preventing the holders of security interests from taking steps to enforce those security interests. Where a company incorporated under the laws of England and Wales is placed into liquidation, a creditor holding a valid mortgage, charge or other security interest has four options: (1) to realise the security, apply the proceeds towards discharge of the secured debt, and prove in the liquidation for any balance; (2) to retain the security and not prove in the liquidation; (3) to value the security and prove for any shortfall between that value and the value of the debt; or (4) to surrender the security and prove for the full amount of the debt.

Priority of claims

One of the primary functions of liquidation (and, where the company cannot be rescued as a going concern, one of the possible functions of administration) under English law is to realise the assets of the insolvent company and to distribute the realisations made from those assets to its creditors. Under the Insolvency Act, creditors are placed into different classes and, with the exceptions and adjustments noted below, the proceeds from the realisation of the insolvent company's property applied in descending order of priority, as set out below. With the exception of the Prescribed Part (as defined below), distributions cannot be made to a class of creditors until the claims of the creditors in a prior ranking class have been paid in full. Unless creditors have agreed otherwise, distributions are made on a *pari passu* basis, that is, the assets are distributed in proportion to the debts due to each creditor within a class.

The general priority of claims on insolvency is as follows (in descending order of priority):

- First ranking claims: holders of fixed charge security and creditors with a proprietary interest in specific assets in the possession (but not full legal and beneficial ownership) of the debtor but only to the extent of the realisations from those secured assets or with respect to the asset in which they have a proprietary interest;

- Second ranking claims: expenses of the insolvent estate incurred during the relevant insolvency proceedings (there is a further statutory order of priority setting out the order in which expenses are paid);

- Third ranking claims: these are divided into ordinary preferential creditors and secondary preferential creditors with ordinary preferential creditors being paid in priority to secondary preferential creditors. Preferential debts include (but are not limited to) debts owed by the insolvent company in relation to: (i) contributions to occupational and state pension schemes; (ii) wages and salaries of employees for work done in the four months before the insolvency date, up to a maximum of £800 per person; and (iii) holiday pay due to any employee whose contract has been terminated, whether the termination takes place before or after the insolvency date;

- Fourth ranking claims: holders of floating charge security to the extent of the realisations from those secured assets, according to the priority of their security. This would include any floating charge that was stated to be a fixed charge in the document that created it but which, on a proper interpretation, was rendered a floating charge. However, before distributing asset realisations to the holders of floating charges, the Prescribed Part (as defined below) must be set aside for distribution to unsecured creditors;

- Fifth ranking claims: general unsecured creditors:

  - Firstly, provable debts of unsecured creditors and any secured creditor to the extent of any unsecured shortfall, in each case including accrued and unpaid interest on those debts up to the date of commencement of the relevant insolvency proceedings. To pay the secured creditors any unsecured shortfall, the insolvency officeholder can only use realisations from unsecured assets, as secured creditors are not entitled to any distribution from the Prescribed Part (as defined below) unless the Prescribed Part is sufficient to pay out all unsecured creditors;

  - secondly, interest on the company's debts (at the higher of the applicable contractual rate and the official rate) in respect of any period after the commencement of liquidation, or after the commencement of any administration which had been converted into a distributing administration. However, in the case of interest accruing on amounts due under the Notes or the Guarantees, such interest due to the holders of the Notes may, if there are sufficient realisations from the secured assets, be discharged out of such security recoveries; and

  - thirdly, non-provable liabilities, being liabilities that do not fall within any of the categories above and therefore are only recovered in the (unusual) event that all categories above are fully paid. This, however, does not include "currency conversion claims" following the English Supreme Court ruling dated 17 May 2017 on the *Lehman Brothers* case (see "—*Foreign Currency*"); and

- Sixth ranking claims: shareholders. If, after the repayment of all unsecured creditors in full, any remaining funds exist, these will be distributed to the shareholders of the insolvent company.

Subordinated creditors will be ranked according to the terms of the subordination (provided that such terms do not contravene the Insolvency Act).

Prescribed part

An administrator, receiver (including administrative receiver) or liquidator of an English company will be required to ring-fence a certain percentage of the proceeds of enforcement of assets subject to floating charge security for the benefit of unsecured creditors (the "**Prescribed Part**"). Under current law, this applies to 50 per cent. of the first £10,000 of net floating charge realisations and 20 per cent. of the remainder over £10,000, and the Prescribed Part is subject to a maximum aggregate cap of £600,000. The Prescribed Part must be made available to unsecured creditors unless the cost of doing so would be disproportionate to the resulting benefit to creditors. The Prescribed Part will not be available for any shortfall claims of secured creditors unless the Prescribed Part is sufficient to pay out all unsecured creditors' claims in full.

Challenges to Guarantees and Security

There are circumstances under English insolvency law in which the granting by an English company of security and guarantees can be challenged. In most cases, this will only arise if the company is placed into administration or liquidation within a specified period of the granting of the guarantee or security. Therefore, if during the specified period an administrator or liquidator is appointed in respect of an English company, the administrator or liquidator may challenge the validity of the guarantee or security given by such company.

The following potential grounds for challenge may apply to guarantees and charges:

Transaction at an undervalue

Under English insolvency law, a liquidator or administrator of an English company could apply to the court for an order to set aside the creation of a security interest or a guarantee if such liquidator or administrator believes that the creation of such security interest or guarantee constituted a transaction at an undervalue. There will only be a transaction at an undervalue if at the time of the transaction or as a result of the transaction, the English company was or became unable to pay its debts (as defined in the Insolvency Act). The transaction can be challenged if the English company enters into liquidation or administration proceedings within a period of two years from the date the English company grants the security interest or the guarantee. A transaction might be subject to being set aside as a transaction at an undervalue if the company makes a gift to a person, if the company receives no consideration or if the company receives consideration of significantly less value, in money or money's worth, than the consideration given by such company. A court, however, generally will not intervene if it is satisfied that the company entered into the transaction in good faith and for the purpose of carrying on its business and that, at the time it did so, there were reasonable grounds for believing the transaction would benefit it. If the court determines that the transaction was a transaction at an undervalue, the court can make such order as it thinks fit to restore the position to what it would have been in if the transaction had not been entered into. In any proceedings, it is for the administrator or liquidator to demonstrate that the English company was insolvent unless a beneficiary of the transaction was "connected" with that company, within the meaning of section 249 of the Insolvency Act (a "**Connected Person**"), in which case there is a presumption of insolvency and the Connected Person must demonstrate the solvency of the English company in such proceedings.

Preference

Under English insolvency law, a liquidator or administrator of an English company could apply to the court for an order to set aside the creation of a security interest or a guarantee if such liquidator or administrator believes that the creation of such security interest or such guarantee constituted a preference. There will only be a preference if, at the time of the transaction or as a result of the transaction, the English company was or became unable to pay its debts (as defined in the Insolvency Act). The transaction can be challenged if the English company enters into liquidation or administration proceedings within a period of six months (if the beneficiary of the security or the guarantee is not a Connected Person) or two years (if the beneficiary is a Connected Person) from the date the English company grants the security interest or the guarantee. A transaction may constitute a preference if it has the effect of putting a creditor of the English company (or a surety or guarantor for any of the company's debts or liabilities) in a better position (in the event of the company going into insolvent liquidation) than such creditor, guarantor or surety would otherwise have been in had that transaction not been entered into. A court is unlikely to make an order in respect of a preference unless it is satisfied the company was influenced in deciding to give it by a desire to produce the "better position" for the relevant person. If the court determines that the transaction was a preference, the court has very wide powers for restoring the position to what it would have been if that preference had not been given, which could include reducing payments under the Notes and the Guarantees in this instance (although there is protection for a third party who enters into a transaction in good faith and without notice). In any proceedings, it is for the administrator or liquidator to demonstrate that the English company was insolvent and that the company was influenced by a desire to produce the preferential effect, unless the beneficiary of the transaction was a Connected Person (other than by reason only of being an employee of the company), in which case there is a presumption that the company was influenced by a desire to produce the preferential effect and the Connected Person must demonstrate in such proceedings that there was no such influence.

The Issuer cannot assure holders of the Notes that, in the event of insolvency, the granting of the security or the giving of the Guarantees by companies incorporated under the laws of England and Wales would not be challenged by a liquidator or administrator or that a court would support our analysis that (in any event) the security and Guarantees were entered into in good faith for the purposes described above. If a court were to avoid any grant of security or giving of any Guarantee as a result of a transaction at an undervalue or preference, or hold it unenforceable for any other reason, investors would cease to have any security over the grantor or a claim against the Guarantor giving such Guarantee.

Transaction defrauding creditors

Under English insolvency law, where it can be shown that a transaction was at an undervalue and was made for the purposes of putting assets beyond the reach of a person who is making, or may make, a claim against a company, or of otherwise prejudicing the interests of a person in relation to the claim that person is making or may make, the transaction may be set aside by the court as a transaction defrauding creditors. This provision may be used by any person who claims to be a "victim" of the transaction (with leave of the court if the company is in liquidation or administration) and, subject to certain conditions, the UK Financial Conduct Authority and the UK Pensions Regulator and is not therefore limited to liquidators or administrators. There is no time limit in English insolvency law within which the challenge must be made (although general statutory limitation periods will apply) and the relevant company does not need to be unable to pay its debts (as defined in the Insolvency Act) or become unable to pay its debts as a result of the transaction. If the court determines that the transaction was a transaction defrauding creditors, the court can make such orders as it thinks fit to restore the position to what it would have been if the transaction had not been entered into and to protect the interests of the victims of the transaction.

Extortionate credit transaction

An administrator or a liquidator can apply for a court to set aside an extortionate credit transaction. The court can review extortionate credit transactions entered into by an English Obligor up to three years before the day on which the English Obligor entered into administration or went into liquidation. A transaction is "extortionate" if, having regard to the risk accepted by the person providing the credit, the terms of it are (or were) such as to require grossly exorbitant payments to be made (whether unconditionally or in certain contingencies) in respect of the provision of the credit or it otherwise grossly contravened ordinary principles of fair dealing.

Grant of floating charge

Under English insolvency law, if an English Obligor is unable to pay its debts at the time of (or as a result of) granting a floating charge, and the floating charge was granted within the specified period referred to below, then such floating charge is invalid except to the extent of the value of the money paid to, or goods or services supplied to, or any discharge or reduction of any debt of, the relevant English Obligor at the same time as or after the creation of the floating charge. The requirement for the English Obligor to be insolvent at the time of (or as a result of) granting the floating charge does not apply where the floating charge was granted within the specified period referred to below and is granted to a Connected Person. If the floating charge is granted to a Connected Person, and the floating charge was granted within the specified period referred to below, then the floating charge is invalid except to the extent of the value of the money paid to, or goods or services supplied to, or any discharge or reduction of any debt of, the relevant English Obligor at the same time as or after the creation of the floating charge, whether the relevant English Obligor is solvent or insolvent. The granting of the charge can be challenged only if the relevant English Obligor enters into liquidation or administration proceedings within a period of one year (if the beneficiary is not a Connected Person) or two years (if the beneficiary is a Connected Person) from the date the relevant English Obligor grants the floating charge. However, if a floating charge qualifies as a "security financial collateral agreement" under the Financial Collateral Arrangements (No. 2)

Regulations 2003, the floating charge will not be subject to challenge as described in this paragraph. An administrator or a liquidator, as applicable, does not need to apply to court for an order declaring that a floating charge is invalid. Any floating charge created during the relevant time period is automatically invalid except to the extent of the value of the money paid to, or goods or services supplied to, or any discharge or reduction of any debt of, the relevant English company at the same time as or after the creation of the floating charge (plus certain interest), whether the relevant English company is solvent or insolvent at the time of grant.

Limitation on enforcement

The grant of a guarantee by an English Guarantor in respect of the obligations of another group company must satisfy certain legal requirements. More specifically, such a transaction must be allowed by the respective company's memorandum and articles of association. To the extent that these do not allow such an action, there is the risk that the grant of the guarantee is found to be void and the beneficiary's rights in respect of such guarantee will be unenforceable. Some comfort may be obtained for third parties if they are dealing with an English Guarantor in good faith; however, the relevant legislation is not without difficulties in its interpretation. Further, corporate benefit must be established for each English Guarantor in question by virtue of entering into the proposed transaction. Section 172 of the Companies Act provides that a director must act in the way that he considers, in good faith, would be most likely to promote the success of the English Guarantor for the benefit of its members as a whole. If a company's directors enter into a transaction where there is no or insufficient commercial benefit, they may be found as abusing their powers as directors and such a transaction may be vulnerable to being set aside by a court.

Foreign currency

Under English insolvency law, where creditors are asked to submit formal proofs of claim for their debts, the office-holder will convert all foreign currency denominated proofs of debt into pound sterling at a single rate for each currency determined by the office-holder by reference to the exchange rates prevailing on the relevant date. On the next occasion when the office-holder communicates with the creditors, the office-holder must advise them of any rate so determined. If a creditor considers the rate to be unreasonable, they may apply to the court.

In this context, the English courts have recently determined that "currency conversion claims" do not exist in law. Such claims made by creditors for loss suffered as a result of the fall in the value of pound sterling between the date of conversion and the actual date of payment are not part of English law.

Security over shares

Security over shares granted by an English Obligor or over shares of an English Obligor are, under English law, equitable charges, not legal charges. An equitable charge arises where a chargor creates an encumbrance over the property in favour of the chargee but the chargor retains legal title to the shares. Remedies in relation to equitable charges may be subject to equitable considerations or are otherwise at the discretion of the court.

Security over bank accounts

With respect to any security over bank accounts (each an "**Account Charge**") granted by an English Obligor, the banks with which some of those accounts are held (each an "Account Bank") may hold a right at any time (at least prior to them being notified of a crystallisation event under the Account Charge) to exercise the rights of netting or set-off to which they are entitled under their cash pooling or other arrangements with that guarantor. As a result, and if the security granted over those accounts is merely a floating (rather than fixed) charge, the collateral constituted by those bank accounts will be subject to the relevant Account Bank's rights to exercise netting and set-off with respect to the bank accounts charged under the relevant Account Charge. Once the floating charge has crystallised and converted into a fixed charge (as it would on enforcement or the occurrence of certain insolvency events with respect to the relevant English Obligor) and the Account Bank has been formally notified of that fact, the collateral will no longer be subject to the relevant Account Bank's netting and set-off rights.

Schemes of arrangement

Pursuant to Part 26 of the Companies Act, the English courts have jurisdiction to sanction a compromise or arrangement between a company and its creditors (or classes of creditors) where such company (i) is liable to be wound up under the Insolvency Act; and (ii) has "sufficient connection" to the English jurisdiction.

In practice, in addition to applying to English companies, a foreign company is likely to satisfy the first limb of this test and the second limb has been found to be satisfied by the English courts where, among other things, the company has assets situated in England, the company's COMI is in England, the company's finance documents are English law governed, or the company's finance documents have been amended in accordance with their terms to be governed by English law. The law in this area is being closely considered by the English courts and the fact that the second limb has been found to be satisfied in such cases previously does not necessarily mean that this limb will be satisfied in all such cases as each case will be considered on its particular facts and circumstances.

Before the court considers the sanction of a scheme of arrangement, affected creditors will vote on the proposed compromise or arrangement in a single class or in a number of classes, depending on the rights of such creditors that will be affected by the proposed scheme and any new rights that such creditors are given under the scheme. Such compromise or arrangement can be proposed by the company or its creditors. If a majority in number representing 75 per cent. or more in value of those creditors present and voting at the creditors' meeting(s) of each class vote in favour of the proposed compromise, irrespective of the terms and approval thresholds contained in the finance documents, that compromise will be binding on all affected creditors, including those affected creditors who did not participate in the vote on the scheme of arrangement and those who voted against the scheme of arrangement. The scheme then needs to be sanctioned by the court at a sanction hearing where the court will review the fairness of the scheme and consider whether it is reasonable. The court has the discretion as to whether to sanction the scheme as approved, make an order conditional upon modifications being made to the scheme, or reject the scheme.

United States

Fraudulent Transfer

Under the US Bankruptcy Code or comparable provisions of state fraudulent transfer or fraudulent conveyance laws, the transfer of an interest in property or the incurrence of an obligation, including the incurrence of the obligations under the Notes, the issuance of the Guarantees and the grant of security, whether now or in the future, by the Issuer and the Guarantors (together, the "**Obligors**") could be avoided (both as to the initial recipient and any subsequent transferees), if, among other things, at the time the Obligors made such transfer or incurred such obligation, any Obligor (i) intended to hinder, delay or defraud any present or future creditor, or (ii) received less than reasonably equivalent value or fair consideration for the transfer or obligation and:

- was insolvent on the date the transfer was made or obligation incurred or were rendered insolvent by the transfer or incurrence of the obligation;
- was engaged in a business or transaction or about to be engaged in a business or transaction for which the Obligor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that they would incur, debts beyond its ability to pay such debts as they mature.

In determining whether an Obligor was "insolvent" on the date the transfer was made, there can be no assurances as to what standard a court would apply in order to determine insolvency. Generally, an Obligor would be considered insolvent at a particular time if the sum of its debts, including contingent liabilities, was at such time greater than the fair saleable value of all of its assets, if the present fair saleable value of its assets were at such time less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they became absolute and matured or if it could not pay its debts as they became due. There can be no assurance as to what standard a court would apply in order to determine whether an Obligor was "insolvent" after giving effect to a particular transfer of interest in property or the occurrence of an obligation or that, regardless of the method of valuation, a court would not determine that an Obligor was "insolvent" upon giving effect to such transfer or incurrence of an obligation.

Preference

Any future grant of security interest with regard to the Collateral in favour of, or other payment or transfer with respect to, the Notes, including pursuant to security documents delivered after the date of the Indenture, might be avoidable (both as to the initial recipient and any subsequent transferees) in a US bankruptcy case by the grantor (as debtor-in-possession) or by its bankruptcy trustee as a preference if certain events or circumstances exist or occur (subject to exceptions), including, among others, the grantor is insolvent at the time of the grant, a bankruptcy case in respect of the grantor is commenced within 90 days following the grant (or in certain circumstances, a longer period) and the security interest grant or other payment or transfer permits the holders of the Notes to receive a greater recovery than if the bankruptcy case were a case under chapter 7 of the US Bankruptcy Code and the security grant or other transfer or payment had not been made.

Other Actions

As a court of equity, a US bankruptcy court may subordinate the claims in respect of the Notes or other claims against us under the principle of equitable subordination, if the US bankruptcy court determines that: (i) the holder of Notes engaged in some type of inequitable conduct; (ii) such inequitable conduct resulted in injury to our other creditors or conferred an unfair advantage upon the holder of Notes; and (iii) equitable subordination is not inconsistent with the provisions of the US Bankruptcy Code.

The Automatic Stay

The right of a holder of the Notes to enforce its security interests against the Obligors upon the occurrence of an event of default under the Indenture governing the Notes is likely to be significantly impaired by applicable US bankruptcy law if one or more of the Obligors becomes a debtor in a case under the US Bankruptcy Code. Upon the commencement of a case under the US Bankruptcy Code, a secured creditor, such as a holder of Notes, is prohibited by the automatic stay imposed by the US Bankruptcy Code from commencing or continuing any act to obtain possession of or exercise control over property of the bankruptcy estate, including any Collateral. The automatic stay in a bankruptcy case of one or more of the Obligors could therefore prevent the holders of the Notes from obtaining possession or exercising control over the Collateral or commencing any action in an attempt to obtain possession or exercise control over the Collateral. The automatic stay could be lifted or modified with bankruptcy court approval in certain circumstances, but parties may object to any creditor's request to lift or modify the automatic stay, and the bankruptcy court may deny such a request.

Right of Debtor-in-Possession to Remain in Control of Collateral and the Bankruptcy process

An entity that becomes a debtor under chapter 11 of the US Bankruptcy Code remains in possession of its property and is authorised to operate and manage its business as a "debtor-in-possession", subject to certain limitations. This remains the case unless a chapter 11 trustee is appointed or the chapter 11 case is converted to a chapter 7 liquidation under the US Bankruptcy Code, in which case a chapter 11 trustee or chapter 7 trustee remains in possession of the debtor's property. Moreover, the US Bankruptcy Code permits the debtor to continue to retain and use collateral even though the debtor is in default under the applicable debt instruments, provided that, upon the secured creditor's request, the secured creditor is given "adequate protection" of its interest in the debtor's property. The term "adequate protection" is not defined in the US Bankruptcy Code, but it may include making periodic cash payments, providing an additional or replacement lien or granting other relief, in each case, to the extent that the value of the secured creditor's interest in such collateral decreases during the pendency of the bankruptcy case as a result of, among other things, the use, sale or lease of such collateral or the imposition of the automatic stay. The type of adequate protection provided to a secured creditor may vary according to circumstances. A US bankruptcy court may determine that a secured creditor is not entitled to adequate protection for a decrease in the value of its collateral if the value of the collateral exceeds the amount of the debt that it secures.

Only the debtor in a chapter 11 bankruptcy case may propose a chapter 11 plan unless the debtor fails to file a plan within the first 120 days of the case or its plan has not been accepted within the first 180 days of the case by each class of claims or interests that is impaired under the plan. The bankruptcy court may reduce or enlarge these periods for cause upon request of a party in interest. The 120-day period could be extended for up to 18 months after a chapter 11 filing, while the 180-day period could be extended for up to 20 months after a chapter 11 filing. During these "exclusive periods", other parties, such as secured creditors, would be precluded from proposing or soliciting acceptances of their own chapter 11 plans.

In view of the automatic stay, the lack of a precise definition of the term "*adequate protection*", the exclusive periods, and the broad discretionary power of a US bankruptcy court, it is impossible to predict:

- whether or when a holder of the Notes could enforce its security interests;
- the value of the collateral at the time of the bankruptcy petition or at the time a chapter 11 plan is proposed or confirmed; or
- whether or to what extent holders of the Notes would be compensated for any delay in payment or loss of value of the collateral through the requirement of "*adequate protection*".

A Debtor-in-Possession May Obtain New Credit Secured by a Lien That is Senior or Equal to Existing Liens

The US Bankruptcy Code permits a debtor-in-possession or trustee in a chapter 11 case to obtain an extension of new credit from an existing lender or from a new lender. The bankruptcy court may, depending on the facts and circumstances, authorise the debtor-in-possession or trustee to obtain new credit or incur new debt that is secured by a lien that is senior or equal to existing liens, provided that, among other things, there is adequate protection of the interests of the holders of the existing liens. In other words, it is possible that in connection with a chapter 11 case of one or more of the Obligors, such Obligor or Obligors would be permitted to incur new debt that is secured by a lien that is senior or equal to the liens that exist at the time of the chapter 11 filing.

Post-Petition Interest

Any future bankruptcy trustee, the debtor-in-possession or competing creditors could possibly assert that the fair market value of the Collateral with respect to the Notes on the date of the bankruptcy filing was less than the then-current principal amount of the Notes. Upon a finding by a bankruptcy court that the Notes are under-collateralised, the claims in the bankruptcy proceeding with respect to the Notes would be bifurcated between a secured claim and an unsecured claim, and the unsecured claim would not be entitled to the benefits of security in the Collateral. In the event of a US bankruptcy case, the holders of the Notes will be entitled to post-petition interest under the US Bankruptcy Code only if the value of their security interest in the Collateral is greater than their pre-bankruptcy claim. Holders of the Notes may be deemed to have an unsecured claim if the obligation under the Notes equals or exceeds the fair market value of the Collateral securing the Notes. Holders of the Notes that have a security interest in the Collateral with a value equal to or less than their pre-bankruptcy claim may not be entitled to post-petition interest under the US Bankruptcy Code.

Ability to Confirm a Chapter 11 Plan Notwithstanding the Dissenting Votes of Creditors

Under the US Bankruptcy Code, a chapter 11 plan can be imposed on a creditor or equity holder (or class of creditors or equity holders) that does not accept the plan. A chapter 11 plan provides for the comprehensive treatment of all claims asserted against the debtor and the property of the bankruptcy estate and may provide for the readjustment or extinguishment of equity interests. Claims and interests may be classified by type. Only those classes of claims and interests impaired by the plan may vote to accept or reject such plan. Classes of claims and interests that are unimpaired are not entitled to vote on the plan and are deemed to accept it. Classes of claims and interests that receive no distributions under the plan are not entitled to vote on the plan and are deemed to reject it. A class of claims is deemed to accept the plan if creditors holding at least two- thirds in amount and more than one-half in number of the claims of such class that vote, vote to accept the plan. A plan can be confirmed by the bankruptcy court over the dissenting votes of members of a class that accepts the plan overall. Furthermore, even if one or more impaired classes reject the plan, the plan may still be confirmed, subject to specific statutory requirements, in accordance with the "cram-down" provisions of the US Bankruptcy Code, which require, among other things, that one impaired class has accepted the plan and that the plan does not discriminate unfairly, and is fair and equitable, with respect to each class of claims or interests that is impaired under, and has not accepted, the plan. This could allow the debtor or other plan proponent to confirm its plan over the objection of one or more dissenting classes. Such a "cram-down" plan could provide for, among other things, deferred cash payments, which may extend over a period beyond the maturity of the Notes, in an amount equal to the secured portion of the Notes (as further described above in "Post-petition interest"), which may bear interest at a rate determined by the bankruptcy court that may be lower than the interest rate established by the Notes. Accordingly, such proceedings may result in, among other things, a substantial reduction in the interest rate and a substantial write down of the principal of the Notes.

NOTICE TO INVESTORS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Notes offered hereby. The Notes and the Guarantees have not been, and will not be, registered under the US Securities Act or any state securities laws and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and applicable state securities laws. Accordingly, the Notes (including the Guarantees) offered hereby are being offered and sold only to QIBs in reliance on Rule 144A under the US Securities Act and to non-US persons outside the United States in offshore transactions in reliance on Regulation S under the US Securities Act.

We use the terms "offshore transaction", "US persons" and "United States" with the meanings given to them in Regulation S.

In addition, until 40 days after the later of the commencement of the Offering and the closing date, an offer or sale of the Notes (including the Guarantees) within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

Each purchaser of Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with us and the Initial Purchasers as follows:

(1) You understand and acknowledge that the Notes (including the Guarantees) have not been registered under the US Securities Act or any other applicable securities law, are being offered for resale in transactions not requiring registration under the US Securities Act or any state securities law, including sales pursuant to Rule 144A, and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the US Securities Act or any other applicable securities law, pursuant to an exemption therefrom or in any transaction not subject thereto and in each case in compliance with the conditions for transfer set forth in paragraph (5) below.

(2) You are not our "affiliate" (as defined in Rule 144 under the US Securities Act) of the Issuer or any Guarantor or acting on behalf of the Issuer or any Guarantor and you are either:

 (i) a QIB and are aware that any sale of Notes (including the Guarantees) to you will be made in reliance on Rule 144A and the acquisition of Notes (including the Guarantees) will be for your own account or for the account of another QIB; or

 (ii) a "non-US person" and are purchasing the Notes (including the Guarantees) outside the United States in an offshore transaction in accordance with Regulation S.

(3) You acknowledge that none of the Issuer, the Guarantors or the Initial Purchasers, nor any person representing the Issuer, the Guarantors or the Initial Purchasers, have made any representation to you with respect to the offering or sale of any Notes (including the Guarantees), other than the information contained in this Offering Memorandum, which Offering Memorandum has been delivered to it and upon which it is relying in making its investment decision with respect to the Notes (including the Guarantees). You acknowledge that neither the Initial Purchasers nor any person representing the Initial Purchasers makes any representation or warranty as to the accuracy or completeness of the information contained in this Offering Memorandum. You also acknowledge you have had access to such financial and other information concerning us and the Notes (including the Guarantees) as you deemed necessary in connection with your decision to purchase any of the Notes, including an opportunity to ask questions of, and request information from, us and the Initial Purchasers.

(4) You are purchasing the Notes for your own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the US Securities Act or any state securities laws, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to your or their ability to resell such Notes (including the Guarantees) pursuant to Rule 144A, Regulation S or any other exemption from registration available under the US Securities Act.

(5) With respect to Notes (including the Guarantees) purchased pursuant to Rule 144A, you agree on your own behalf and on behalf of any investor account for which you are purchasing the Notes (including the Guarantees), and each subsequent holder of the Notes (including the Guarantees) by

its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Notes prior to the date (the "**Resale Restriction Termination Date**") that is one year (in the case of the Rule 144A Global Notes) or 40 days (in the case of the Regulation S Global Notes) after the later of the Issue Date and the last date on which we or any of our affiliates were the owner of such Notes (including the Guarantees) (or any predecessor thereto) only (i) to us, (ii) pursuant to a registration statement that has been declared effective under the US Securities Act, (iii) for so long as the Notes (including the Guarantees) are eligible pursuant to Rule 144A under the US Securities Act, to a person it reasonably believes is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A, (iv) pursuant to offers and sales to non-US persons that occur outside the United States in compliance with Regulation S under the US Securities Act, or (v) pursuant to any other available exemption from the registration requirements of the US Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and in compliance with any applicable state securities laws and any applicable local laws and regulations, and further subject to the Issuer's and the Trustee's rights prior to any such offer, sale or transfer pursuant to clause (iv) or (v) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them.

(6) Each purchaser acknowledges that each Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "US SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, [IN THE CASE OF RULE 144A NOTES: REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE US SECURITIES ACT ("RULE 144A"))] [IN THE CASE OF REGULATION S NOTES: REPRESENTS THAT IT IS NOT A US PERSON AND IS ACQUIRING THIS NOTE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 904 OF REGULATION S UNDER THE US SECURITIES ACT] AND AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE"), WHICH IS [IN THE CASE OF RULE 144A NOTES: ONE YEAR AFTER THE LATEST OF THE ORIGINAL ISSUE DATE HEREOF, THE ORIGINAL ISSUE DATE OF THE ISSUANCE OF ANY ADDITIONAL NOTES AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY)], [IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE DATE ON WHICH THIS SECURITY WAS FIRST OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN RULE 902 OF THE REGULATION S)], ONLY (A) TO THE ISSUER OR THE GUARANTORS, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE US SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE US SECURITIES ACT, OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND IN COMPLIANCE

WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND OTHER INFORMATION SATISFACTORY TO EACH OF THEM.

(7) You agree that you will give to each person to whom you transfer the Notes (including the Guarantees) notice of any restrictions on transfer of such Notes (including the Guarantees).

(8) You acknowledge that until 40 days after the commencement of the Offering, any offer or sale of the Notes (including the Guarantees) within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

(9) You represent and warrant that either (i) you are not a Plan and no portion of the assets you used to acquire or hold the Notes constitutes assets of any employee benefit plan subject to Title I of ERISA any Plan or non-US, governmental or church plan subject to Similar Law or any entity whose underlying assets are considered to include "plan assets" (within the meaning of Section 2510.3-101 of Title 29 of the United States Code of Federal Regulations, as modified by Section 3(42) of ERISA) of any such plan, account or arrangement, or (ii) your acquisition and holding of the Notes does not and will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation under any applicable Similar Law. Each purchaser and subsequent transferee of a Note that is acquiring the Notes with the assets of any ERISA Plan, at any time when regulation 29 C.F.R. Section 2510.3-21 is applicable, represents, warrants and acknowledges that a fiduciary is making the decision to invest in the Notes on its behalf and that such fiduciary (a) is (1) a bank, insurance company, registered investment adviser, broker-dealer or other person with financial expertise, in each case as described in 29 C.F.R. Section 2510.3-21(c)(1)(i); (2) an independent plan fiduciary within the meaning of 29 C.F.R. Section 2510.3-21; (3) capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies; and (4) responsible for exercising independent judgment in evaluating the transaction; (b) acknowledges and agrees that (1) no fee or other compensation will be paid directly to any of the Issuer, the initial purchasers, the agents or any of their respective affiliates, or any fiduciary, participant or beneficiary of the ERISA Plan, for the provision of investment advice (as opposed to other services) in connection with the ERISA Plan's acquisition of, or holding of an interest in, the Notes; (2) none of the Issuer, the initial purchasers, the agents or other persons that provide marketing services, or any of their respective affiliates, has provided, and none of them will provide, impartial investment advice and they are not giving any advice in a fiduciary capacity, in connection with the ERISA Plan's acquisition of the Notes, and (3) it has received and understands the disclosure of the existence and nature of the financial interests contained in this Offering Memorandum and related materials.

(10) You acknowledge that the Registrar will not be required to accept for registration of transfer any Notes (including the Guarantees) except upon presentation of evidence satisfactory to us and the Trustee that the restrictions set out therein have been complied with.

(11) You understand that no action has been taken in any jurisdiction (including the United States) by the Issuer or the Initial Purchasers that would result in a public offering of the Notes (including the Guarantees) or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Notes (including the Guarantees) in any jurisdiction where action for such purpose is required. Consequently, any transfer of the Notes (including the Guarantees) will be subject to the selling restrictions set out under "*Plan of Distribution*".

(12) You acknowledge that we, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by your purchase of the Notes (including the Guarantees) is no longer accurate, you will promptly notify the Initial Purchasers. If you are acquiring any Notes (including the Guarantees) as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each such investor account and that you have full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.

(13) You represent that you are not a "retail investor". For the purposes of this paragraph, the expression "retail investor" means a person who is one (or more) of the following:

(a) a "retail client" as defined in point (11) of Article 4(1) of MiFID II; or

(b) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(c) not a "qualified investor" as defined in the Prospectus Directive.

(14) You understand and acknowledge that:

(a) the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any "retail investor" (as defined in paragraph 13 above) in the EEA; and

(b) no key information document required by PRIIPS Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for us by Cravath, Swaine & Moore LLP, as to matters of US federal and New York State law, and Slaughter and May, as to matters of English law.

Certain legal matters in connection with the Offering will be passed upon for the Initial Purchasers by Latham & Watkins (London) LLP, as to matters of US federal, New York State and English law.

INDEPENDENT AUDITORS

The historical consolidated financial statements of Drax Group plc and its consolidated subsidiaries as of and for the years ended 31 December 2015, 2016 and 2017 have been audited by Deloitte LLP, independent auditors, as set forth in their reports appearing herein. The independent auditors' reports for those accounting periods were unqualified. Deloitte LLP is registered with the Institute of Chartered Accountants in England and Wales to carry out audit work, and is regulated and supervised by that body.

See "*Risk Factors—Risks Related to the Notes, the Guarantees and Our Capital Structure—Investors in and purchasers of the Notes may have limited or no recourse against our independent auditors in respect of the Drax Group Audited Financial Statements*", for further information.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a company organised under the laws of England and Wales, and certain of the Guarantors of the Notes have been incorporated in England and Wales and Delaware. The majority of the directors and executive officers of the Issuer and the Guarantors are non-residents of the United States. In addition, the majority of the assets of the Issuer and the non-US Guarantors are located outside the United States. Although the Issuer and the non-US Guarantors will appoint an agent for service of process in the United States and will submit to the jurisdiction of the courts of the State of New York, in each case in connection with any action under US securities laws, you may not be able to effect service of process on such persons, the Issuer or the Guarantors within the United States in any action, including actions predicated on civil liability provisions of the US federal and state securities laws or other laws.

England and Wales

The following summary with respect to the enforceability of certain US court judgments in England and Wales is based upon advice provided to us by US and English legal advisers. The United States and England currently do not have a treaty between them providing for the reciprocal recognition and enforcement of judgments (as opposed to arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the US based on civil liability, whether or not predicated solely upon US federal securities laws, would not automatically be recognised and/or enforced in England and Wales. In order to enforce any such US judgment in England and Wales, proceedings must first be initiated before a court of competent jurisdiction in England and Wales. In such an action, an English court would not generally reinvestigate the merits of the original matter decided by the US court (subject to what is said below) and it would usually be possible to obtain summary judgment on such a claim (assuming that there is no good defence to it). Recognition and enforcement of a US judgment by an English court in such an action is conditional upon (among other things) the following:

- the US court having had jurisdiction over the original proceedings according to English conflicts of laws principles and rules of English private international law;
- the US judgment not having been given in breach of a jurisdiction or arbitration clause;
- the US judgment being final and conclusive on the merits in the sense of being final and unalterable in the court which pronounced it and being for a definite sum of money;
- the US judgment not contravening English public policy or the Human Rights Act 1998;
- the US judgment not being for a sum payable in respect of taxes, or other charges of a like nature, or in respect of a penalty or fine, or otherwise involving the enforcement of a non-English penal or revenue law;
- the US judgment not being contrary to the Protection of Trading Interests Act 1980;
- the US judgment not having been obtained by fraud or in breach of English principles of natural justice;
- there not having been a prior inconsistent decision of an English court in respect of the same matter involving the same parties; and
- the English enforcement proceedings being commenced within the relevant limitation period.

If an English court gives judgment for the sum payable under a US judgment, the English judgment will be enforceable by methods generally available for this purpose. The judgment creditor is able to utilise any method or methods of enforcement available to him/her at the time. In addition, it may not be possible to obtain an English judgment or to enforce that judgment if the judgment debtor is subject to any insolvency or similar proceedings, or if the judgment debtor has any set-off or counter-claim against the judgment creditor.

Subject to the foregoing, investors may be able to enforce in England and Wales judgments in civil and commercial matters that have been obtained from US federal or state courts. However, we cannot assure you that those judgments will be recognised and/or enforced in England and Wales. In addition, it is questionable whether an English court would accept jurisdiction and impose civil liability if the original action was commenced in England and Wales, instead of the United States, and predicated solely upon US federal securities laws.

AVAILABLE INFORMATION

Each purchaser of the Notes from the Initial Purchasers will be furnished with a copy of this Offering Memorandum and any related amendments or supplements to this Offering Memorandum. Each person receiving this Offering Memorandum and any related amendments or supplements to this Offering Memorandum acknowledges that:

(1) such person has been afforded an opportunity to request from the Issuer and to review, and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;

(2) such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and

(3) except as provided pursuant to (1) above, no person has been authorised to give any information or to make any representation concerning the Notes offered hereby other than those contained herein, and, if given or made, such other information or representation should not be relied upon as having been authorised by us or the Initial Purchasers.

For so long as any of the Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the US Securities Act, the Issuer will, during any period in which it is neither subject to the reporting requirements of Section 13 or 15(d) of the US Exchange Act nor exempt from the reporting requirements under Rule 12g3-2(b) under the US Exchange Act, provide to the holder or beneficial owner of a Note, or to any prospective purchaser of a Note designated by such holder or beneficial owner, in each case upon the written request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the US Securities Act.

The Issuer is not currently subject to the periodic reporting and other information requirements of the US Exchange Act. However, pursuant to the Indenture that will govern the Notes and so long as any Notes are outstanding, the Issuer will furnish periodic information to holders of the Notes. See "*Description of Notes—Certain Covenants—Reports*".

Upon request, the Issuer will provide you with copies of the Indenture, the form of the Notes and any supplement thereto, the Intercreditor Agreement and the Security Documents. You may request copies of such documents by contacting the Issuer at Group General Counsel, Drax Finco plc, Drax Power Station, Selby, North Yorkshire YO8 8PH, Tel: 01757618381.

The Issuer and Drax Group are not currently subject to the periodic reporting and other information requirements of the US Exchange Act. Pursuant to the Indenture and so long as the Notes are outstanding, the Issuer will furnish periodic information to holders of the Notes. See "*Description of Notes—Certain Covenants—Reports*".

If and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and are admitted for trading on the Euro MTF Market thereof and the rules of the Luxembourg Stock Exchange so require, copies of the organisational documents of the Issuer and the Guarantors, the Group's most recent audited consolidated financial statements, the Indenture (including the Note Guarantees and the form of the Notes) and the Intercreditor Agreement will be available for review during the normal business hours on any business day at the office of the Listing Agent.

LISTING AND GENERAL INFORMATION

General

The Issuer has obtained all necessary consents, approvals, authorisations or other orders for the issue of the Notes and other documents to be entered into by the Issuer in connection with the Offering.

The Issuer accepts responsibility for the information contained in this Offering Memorandum. To the best of its knowledge, the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of this Offering Memorandum.

Admission to Trading and Listing

Application has been made to the Luxembourg Stock Exchange for the approval of this document as Listing Particulars. Application has been made for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market. The Issuer cannot assure you that such listing will be maintained. Notice of any optional redemption, change of control or any change in the rate of interest payable on the Notes will be published in a Luxembourg daily newspaper of general circulation (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange at (*www.bourse.lu*).

Luxembourg Listing Information

For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market, copies of the following documents, to the extent in force, may be inspected and obtained free of charge at the specified office of the Listing Agent in Luxembourg during normal business hours on any weekday:

- the organisational documents of the Issuer and the Guarantors;
- Drax Group's most recent annual and half yearly consolidated financial statements or accounts, to the extent applicable;
- the Intercreditor Agreement;
- the Security Documents;
- the Senior Facilities Agreement;
- the Indenture (which includes the form of the Notes); and
- this Offering Memorandum.

It is expected that the approval (*visa*) in connection with the listing of the Notes on the Official List of the Luxembourg Stock Exchange and the admission of the Notes to trading on the Euro MTF Market will be granted after the issuance of the Notes.

According to the Rules and Regulations of the Luxembourg Stock Exchange, the Notes will be freely transferable on the Luxembourg Stock Exchange in accordance with applicable law.

Application may be made to the Luxembourg Stock Exchange to have the Notes removed from listing on the Official List of the Luxembourg Stock Exchange and from trading on the Euro MTF Market, including, if necessary, to avoid any new withholding taxes in connection with such listing.

The Issuer has appointed The Bank of New York Mellon SA/NV, Luxembourg Branch as its Listing Agent in Luxembourg. The Issuer reserves the right to vary such appointment and to the extent required by the Luxembourg Stock Exchange, we will publish notice of such change of appointment in a newspaper having a general circulation in Luxembourg, (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by the Luxembourg Stock Exchange, on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

The Issuer has appointed BNY Mellon Corporate Trustee Services Limited as its Trustee. The Issuer has appointed The Bank of New York Mellon, London Branch as its Paying Agent. The Issuer has appointed The Bank of New York Mellon SA/NV, Luxembourg Branch as its Registrar and Transfer Agent. The Issuer will maintain a paying agent and a transfer agent for as long as any of the Notes are listed on the Official List of the Luxembourg Stock Exchange. The Issuer reserves the right to vary such appointment in accordance with the terms of the Indenture, and it will publish notice of such change of appointment in a daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*).

The Issuer accepts responsibility for the information contained in this Offering Memorandum. To the best of its knowledge, except as otherwise noted, the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of this Offering Memorandum. This Offering Memorandum may only be used for the purposes for which it has been published.

Clearing Information

The Notes have been accepted for clearing and settlement through the facilities of DTC. The international securities identification number ("**ISIN**") and CUSIPs for the Notes are as follows:

	ISIN	Common codes	CUSIPs
Rule 144A Global Notes	US26151AAA79	181143550	26151AAA7
Regulation S Global Notes	USG28296AE42	181143584	G28296AE4

The Issuer

The Issuer is a public limited company incorporated under the laws of England and Wales, with company number 10664639. The share capital of the Issuer consists of 30,050,000 ordinary shares each fully paid up with a nominal value of £1.00. The ordinary shares of the Issuer have attached to them full voting, dividend and capital distribution rights (including on winding up); they do not confer any rights of redemption. The registered office of the Issuer is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

The Notes will be issued by virtue of a resolution of the board of directors of the Issuer passed on 3 April 2018.

Copies of the annual and semi-annual reports required to be delivered under the covenants described under "*Description of Notes—Certain Covenants—Reports*" will be available free of charge at the offices of the Listing Agent in Luxembourg.

The Issuer will deposit copies of this Offering Memorandum and the Indenture (which includes the form of the Notes) with the Paying Agent in London. Copies of these documents will be available free of charge at the offices of the Listing Agent in Luxembourg.

The Issuer is a special purpose vehicle financing subsidiary with no operations of its own.

Guarantor

Below is a summary of the main information regarding the Guarantors:

DGHL is a private limited company, which is a direct wholly-owned subsidiary of Drax Group plc, incorporated under the laws of England and Wales with company number 9887429. The share capital of DGHL consists of 1,000 ordinary shares each fully paid up with a nominal value of £1.00. The ordinary shares of the Issuer have attached to them full voting, dividend and capital distribution rights (including on winding up); they do not confer any rights of redemption. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom. It is an intermediate holding company of the Group.

Drax Power Limited is a private limited company, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 4883589. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Drax Corporate Limited is a private limited company, which is a direct wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 5562058. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Abbott Debt Recovery Limited is a private limited company, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 5355799. Its registered address is Beaver House, 23-38 Hythe Bridge Street, Oxford, Oxfordshire, OX1 2ET, United Kingdom.

Donnington Energy Limited is a private limited company, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 7109298. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Drax Corporate Developments Limited is a private limited company, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 6657336. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Drax Fuel Supply Limited is a private limited company, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 5299523. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Drax Research and Innovation HoldCo Limited, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 6657454. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Drax Innovation Limited, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 10664715. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Drax Retail Developments Limited, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 10711130. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Drax Smart Generation Holdco Limited, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 7821911. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Drax Smart Sourcing Holdco Limited, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 7821375. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Drax Smart Supply Holdco Limited, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 10664625. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Farmoor Energy Limited, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 7111074. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Haven Heat Limited, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 6657428. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Haven Power Limited, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 5893966. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Opus Energy (Corporate) Limited, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 5199937. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Opus Energy Group Limited, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 4409377. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Opus Energy Limited, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 4382246. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Opus Energy Renewables Limited, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 7126582. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Opus Gas Supply Limited, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of England and Wales with company number 6874709. Its registered address is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom.

Drax Biomass Transit LLC, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of Delaware with company number 5128118. Its registered address is 5 Concourse Parkway, Suite 3100, Atlanta, GA 30328, United States.

Morehouse BioEnergy LLC, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of Delaware with company number 5128117. Its registered address is 5 Concourse Parkway, Suite 3100, Atlanta, GA 30328, United States.

Drax Biomass International Holdings LLC, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of Delaware with company number 5250168. Its registered address is 5 Concourse Parkway, Suite 3100, Atlanta, GA 30328, United States.

Drax Biomass Holdings LLC, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of Delaware with company number 5128115. Its registered address is 5 Concourse Parkway, Suite 3100, Atlanta, GA 30328, United States.

Drax Biomass Inc., which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of Delaware with company number 5068290. Its registered address is 5 Concourse Parkway, Suite 3100, Atlanta, GA 30328, United States.

Baton Rouge Transit LLC, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of Delaware with company number 5128759. Its registered address is 5 Concourse Parkway, Suite 3100, Atlanta, GA 30328, United States.

DBI O&M Company LLC, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of Delaware with company number 5305470. Its registered address is 5 Concourse Parkway, Suite 3100, Atlanta, GA 30328, United States.

Amite BioEnergy LLC, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of Delaware with company number 5128116. Its registered address is 5 Concourse Parkway, Suite 3100, Atlanta, GA 30328, United States.

Tyler BioEnergy LLC, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of Delaware with company number 6297175. Its registered address is 5 Concourse Parkway, Suite 3100, Atlanta, GA 30328, United States.

Jefferson Transit LLC, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of Delaware with company number 6297176. Its registered address is 5 Concourse Parkway, Suite 3100, Atlanta, GA 30328, United States.

LaSalle BioEnergy LLC, which is an indirect wholly-owned subsidiary of DGHL, incorporated under the laws of Delaware with company number 6297174. Its registered address is 5 Concourse Parkway, Suite 3100, Atlanta, GA 30328, United States.

No Material Adverse Change

Except as disclosed herein, there has been no material adverse change in the Issuer's or Drax Group's prospects or consolidated financial or trading position since 31 December 2017.

Litigation

Except as otherwise disclosed in this Offering Memorandum, we are not involved in, and have no knowledge of, any threatened litigation, administrative proceedings or arbitration which would have a material impact on our results of operations or financial condition. See "*Our Business—Legal Proceedings*".

INDEX TO FINANCIAL STATEMENTS

(1) Extracted from the 2017 annual report and accounts of Drax Group plc
(2) Extracted from the 2016 annual report and accounts of Drax Group plc
(3) Extracted from the 2015 annual report and accounts of Drax Group plc

Audited consolidated financial statements of Drax Group plc and its subsidiaries as of and for the year ended 31 December 2017.

Extracted from the 2017 annual report and accounts of Drax Group plc

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRAX GROUP PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Drax Group plc (the "parent company") and its subsidiaries ("the group") which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the basis of preparation and statement of accounting policies;
- the related group notes 2.1 to 8.3; and
- the related parent company notes 1 to 9

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SUMMARY OF OUR AUDIT APPROACH

Key audit matters	The key audit matters that we identified in the current year were: – Asset impairment of Drax Power – Valuation of commodity and foreign exchange contracts – Estimation of retail unbilled revenue Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with
Materiality	The materiality that we used for the group financial statements was £6.8m (2016: £4.2m). This was determined on a blended basis taking into consideration a number of available metrics, with particular focus on Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) and excluding unrealised gains or losses on derivative contracts and material one-off items, as this measure is of direct relevance to readers of the financial statements. Our selected materiality represents approximately 3% of EBITDA for the year.
Scoping	We focused our group audit scope primarily on the audit work at four locations, being Drax Power, Haven Power, Opus Energy and Drax Biomass. All of these were subject to a full scope audit. These four locations represent the principal business units and account for virtually all of the group's net assets, revenue and profit before tax.
Significant changes in our approach	We have completed the audit of Opus Energy for the first time, following its acquisition by the Group in February 2017. Other aspects of our audit approach remain broadly consistent to the prior year but we have continued to refine our key audit matters as detailed below.

CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

Going concern We have reviewed the directors' statement on page 119 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 and company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**
Principal risks and viability statement Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: – the disclosures on pages 51–57 that describe the principal risks and explain how they are being managed or mitigated; – the directors' confirmation on page 111 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or – the directors' explanation on page 50 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We previously identified onsite biomass stocks as a key audit matter reflecting the judgement inherent in calculating the volume of biomass stocks owned by the Group. Following the reduction in biomass stock as a result of an onsite fire during December 2017, we no longer consider this to be a key audit matter.

The appropriateness of asset useful economic life assumptions is no longer considered to be a key audit matter following the reduction in the accounting lives of the coal specific assets from 1 January 2017.

The valuation and recoverability of Renewable Obligation Certificates (ROCs) is no longer considered to be a key audit matter. The ROC valuation process has historically been free from material error and it is well established.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRAX GROUP PLC CONTINUED

ASSET IMPAIRMENT OF DRAX POWER

Key audit matter description	Property, plant and equipment of £1.7bn (2016: £1.6bn) is held on the balance sheet at the year end, the majority of which relates to the power generation plant. Net assets at the year end were £1.7bn (2016: £2bn) and the market capitalisation was £1.1bn (2016:£1.5bn). Management considered indicators of impairment in respect of each Cash Generating Unit (CGU). Despite improvements in achieved spreads within key commodity markets and a period of relative stability with respect to relevant government policy, the market capitalisation of the Group continues to be below the net asset value. This is considered to be an indicator of the risk of impairment and accordingly management performed an impairment review for the Drax Power CGU in the current year, as this is the CGU which contains the majority of the Group's assets. As noted in the Group's critical accounting judgements, estimates and assumptions in note 2.4 and the Audit Committee report on page 76, asset impairment has been considered a key risk by the Audit Committee. Fixed assets are disclosed in note 3.1. The impairment testing is subject to the application of management judgement in identifying relevant CGUs and various assumptions underlying the calculation of the value in use for each CGU identified. These assumptions include the achievability of the long-term business plan. Management's assessment also considers changes in the business which may give rise to additional CGUs, for example the acquisition of Opus Energy in February 2017. Due to the level of management judgement involved in assessing impairment, we have identified this as a fraud risk. The significant judgements made by management have been disclosed in note 2.4 and include: – The expected operating lives of the six generating units; – Future commodity prices beyond the horizon of existing contracted purchases, particular long-term power prices at both baseload and peak times, and future biomass prices, particularly given that biomass is not a standardised commodity traded openly on exchanges; – The continuance of existing biomass support regimes until 2027 and the existence of a favourable economic environment for biomass generation thereafter; and – The discount rate applied to forecast future cashflows.
How the scope of our audit responded to the key audit matter	We evaluated the design and implementation of key controls related to asset impairment testing. We have challenged management's identification of CGUs, taking into consideration the independence of cash flows across key components of the business and across the power generating units. We identified the key judgements made by management and utilised our internal valuation specialists to benchmark key market related assumptions including future commodity prices, current and future capacity and other support mechanisms and discount rates against external data where available. For example, we have compared the commodity price assumptions to the latest available Department for Business, Energy and Industrial Strategy (DBEIS) and National Grid forecasts. We have considered the liquidity of the biomass market and the impact that Drax could have on that market as a result of the volumes of biomass it requires and its potential impact on price. 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; – Verifying the mathematical accuracy of the cash flow models; and – Assessing whether the disclosures in note 2.4 of the financial statements appropriately disclose the key judgements taken so that the reader of the accounts is aware of the impact in the financial statements of changes to key assumptions that may lead to impairment.

ASSET IMPAIRMENT OF DRAX POWER CONTINUED

Key observations	We are satisfied that the discount rate is determined based on acceptable valuation methodologies. While it is lower than the ranges determined by our internal valuation specialists, increasing the discount rate to be within our range would not lead to an impairment. Although we note that assumptions relating to long term revenues and costs are inherently difficult to assess, we believe that the assumptions used by management were reasonable, and based on the sensitivities that we performed on these assumptions, we are satisfied that no impairment is required.

VALUATION OF COMMODITY AND FOREIGN EXCHANGE CONTRACTS

Key audit matter description	Unrealised losses on derivative contracts recognised in the income statement in the year are £156m (2016: unrealised gains of £177m), with related derivative assets of £366m and liabilities of £204m recognised on the balance sheet as at 31 December 2017. The valuation of derivative contracts is complex and requires judgement in areas including the selection of appropriate valuation methodologies, and assumptions in respect of future market prices and credit risk factors. Due to the large amount of data involved in the contract valuations, and the requirement for certain manual adjustments, we have identified a fraud risk relating to management or employees of the company valuing trades inappropriately. Further detail of the key judgements are disclosed in the Group's critical accounting judgements, estimates and assumptions set out on pages 119 and 120 and the Audit Committee report on pages 76 to 80. Section 7 sets out the financial risk management notes.
How the scope of our audit responded to the key audit matter	We evaluated the design and implementation and tested the operating effectiveness of key controls related to the valuation of commodity and foreign exchange contracts. We used our internal financial instrument specialists to test management's key judgements and calculations, including testing a sample of trades undertaken to trade tickets, confirming key contractual terms such as volumes and contracted prices. We have assessed the valuation models used by management, including any manual adjustments to determine the fair value of the derivative instruments and performed independent valuations across a sample of both commodity and foreign exchange contracts. We have analysed the appropriateness of management's forward price curve assumptions by benchmarking these to third party sources and reviewed the consistency of the assumptions used across other areas of the financial statements, such as asset impairment. We have challenged management's approach and assumptions involved in assessing fair value adjustments such as credit risk, time value of money and spread adjustments.
Key observations	From our testing, we are satisfied that the valuation of commodity and foreign exchange contracts is appropriate. We consider the valuation models used by management to be appropriate and the forward curve assumptions adopted are within an acceptable range.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRAX GROUP PLC CONTINUED

ESTIMATION OF RETAIL UNBILLED REVENUE

Key audit matter description	The recognition of retail revenue requires an estimation of customer usage between the date of the last meter reading and year end, which is known as unbilled revenue. Across the retail division, unbilled revenue at the balance sheet date amounted to £195 million (2016: £119 million). The method of estimating unbilled revenues is complex and judgemental and requires assumptions for both the volumes of energy consumed by customers and the related value. We identified a fraud risk in relation to revenue recognition in the retail business, in particular to the estimates underpinning unbilled revenue as these judgement areas could be manipulated by management to mis-report revenue. Further detail of the key judgements are disclosed in the Group's critical accounting judgements, estimates and assumptions set out on pages 119 and 120 and the Audit Committee report on pages 76 to 80. Accrued income is disclosed in note 3.5.
How the scope of our audit responded to the key audit matter	We evaluated the design and implementation and tested the operating effectiveness of key controls related to the estimation of unbilled revenue. This included controls over the reconciliation of meter readings provided by the energy markets, and which are used by management to estimate the power supplied. We also tested the controls over the price per unit applied in the valuation of unbilled revenue. When external market information was not available at the balance sheet date we also obtained and considered management's reconciliation of the volume of power purchased to their calculations of revenue supplied and completed sample tests to check that the December unbilled revenue amount was subsequently billed. We also reviewed the aggregate unbilled revenue balance from previous periods to test that the amounts recognised were subsequently billed in line with the values accrued.
Key observations	Our retrospective reviews of estimated revenues found that management have historically achieved a high level of accuracy. We considered the estimates for revenue made in the year to be appropriate.

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£6.8m (2016: £4.2m)	£4.1m (2016: £3.8m)
Basis for determining materiality	We have determined materiality by considering a range of possible benchmarks and the figures derived from those, with a particular focus on selecting a materiality within the range that we considered appropriate. This included EBITDA (excluding unrealised gains or losses on derivative contracts and material one-off items), profit before and after interest and tax as well as the scale of the balance sheet and the overall size of the business. The increase in materiality from prior year is primarily due to the acquisition of Opus Energy. Our selected materiality represents approximately 3% of EBITDA for the year.	We have capped materiality at 60% of the materiality identified for the Group. This is a judgement and reflects the significant value of investments held on the balance sheet at the year end (£713m).
Rationale for the benchmark applied	When determining materiality, we have considered the size and scale of the business and the nature of its operations. We have also considered which benchmarks would be of relevance to the users of the financial statements.	When determining materiality, we considered the net assets of the company as its principal activity is as an investment holding company for the Group.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.3m (2016: £0.2m) for the parent company and group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope primarily on the audit work at four locations (2016: three locations which excludes Opus Energy which was acquired in February 2017), being Drax Power, Haven Power, Opus Energy and Drax Biomass. All of these locations were subject to a full scope audit and they represent the principal business units and account for virtually all of the group's net assets, revenue and profit before tax, in line with 2016. 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 four locations was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £3.5 million to £5.2 million (2015: £2.1 million to £3.8 million).

At the parent company level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

During 2017 the Senior Statutory Auditor visited two of the four key locations being Drax Power and Drax Biomass, and other senior team members visited the remaining two.

OTHER INFORMATION

We have nothing to report in respect of these matters

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRAX GROUP PLC CONTINUED

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: – we have not received all the information and explanations we require for our audit; or – adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or – the parent company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters**

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed at the Annual General Meeting on 13 April 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 13 years, covering the years ending 2005 to 2017, inclusive.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

James Leigh FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

26 February 2018

FINANCIAL STATEMENTS

INTRODUCTION

The consolidated financial statements provide detailed information about the financial performance (Consolidated income statement), financial position (Consolidated balance sheet), and cash flows (Consolidated cash flow statement) of Drax Group plc (the Company) together with all of the entities controlled by the Company (collectively, the Group).

The notes to the financial statements provide additional information on the items in the Consolidated income statement, Consolidated balance sheet and Consolidated cash flow statement. The notes include explanations of the information presented. In general, the additional information in the notes to the financial statements is required by law, International Financial Reporting Standards (IFRS) or other regulations to facilitate increased understanding of the primary statements set out on pages 122–126.

BASIS OF PREPARATION

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

The financial statements have been prepared on the historical cost basis, except for certain financial assets and liabilities (principally derivative financial instruments) that have been measured at fair value.

Foreign currency transactions

Transactions in foreign currencies are translated into Sterling at the exchange rate ruling at the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items are not retranslated.

Foreign exchange gains and losses arising on such revaluations are recognised in the income statement within finance costs.

Foreign operations

The assets and liabilities of foreign operations with a functional currency other than Sterling are translated into Sterling using published exchange rates at the reporting date. The income and expenditure of such operations are translated into Sterling using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the retranslation of the operation's net assets and its results for the year are recognised in the Consolidated statement of comprehensive income.

Going concern

The Group's business activities, along with future developments that may affect its financial performance, position and cash flows, are discussed within the Strategic report on pages 1–57 of this Annual Report.

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 Group acquired and gained control of Opus Energy on 10 February 2017 (see note 5.1). Opus Energy's financial results from this date are included in the Group's Consolidated income statement.

The Group sold its holding in Billington Bioenergy on 31 October 2017. Billington Bioenergy's financial results, until this date, are included within the Consolidated income statement.

ACCOUNTING POLICIES

The significant accounting policies for the measurement of an individual item in the financial statements are described in the note to the financial statements relating to the item concerned (see contents on page 121).

No changes have been made to accounting policies in the year.

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. Note 8.2 also includes the anticipated impact of IFRS 9, 15 and 16 which will affect the financial statements in future periods.

JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires judgement to be applied in forming the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The judgements involving a higher degree of estimation or complexity are set out below and in more detail, including sensitivity analysis where appropriate, in the related notes.

Critical accounting judgements

The following are the critical judgements, apart from those involving estimation (which are dealt with separately below), made in the process of applying the Group's accounting policies during the year that have the most significant effect on the amounts recognised in the financial statements:

Accounting treatment applied to acquisition of LaSalle pellet production assets – the Group acquired the assets at the LaSalle pellet production plant on 13 April 2017. Having assessed the circumstances, notably that the plant was acquired without employees, input or output contracts and required significant investment prior to commissioning, it was concluded that the transaction represented an asset purchase and not the acquisition of a business. Accordingly, the assets have been recognised as additions to property, plant and equipment in the year.

See note 3.1 on page 138

FINANCIAL STATEMENTS CONTINUED

Sources of estimation uncertainty

The following are the sources of estimation uncertainty that carry the most significant risk of a material effect on next year's accounts – that is, the items where actual outcomes in the next 12 months could vary significantly from the estimates made in determining the reported amount of an asset or liability.

Property, plant and equipment – property, plant and equipment is depreciated on a straight-line basis over its useful economic life. Useful economic lives are estimated and based on past experience, future replacement cycles and other available evidence. Useful economic lives are reviewed annually. We reduced the useful lives of coal-specific generation assets in our Power Generation business from 1 January 2017.

See note 3.1 on page 138

Intangible assets – intangible assets acquired through the purchase of Opus Energy have been recognised at their fair value. The fair value measurement of the existing customer contracts depends on a number of assumptions, and in particular requires estimates to be made about likely margins on current customer contracts, future contract renewal rates and future margins on renewed contracts. The assets are amortised over their useful economic lives, which in the case of the customer-related assets, have also been assessed based on the future contract renewal rates. The amortisation rate will change if the assumed renewal rates differ from actual experience.

See note 5.3 on page 150

Impairment – an impairment review is conducted annually of goodwill and of other assets and cash-generating units where an indicator of possible impairment exists. In 2017, an impairment assessment has been completed for three of the Group's CGUs. The assessment of future cash flows that underpins such a review is based on management's best estimate of future commodity prices, supply volumes and economic conditions. The calculations are particularly sensitive to changes in the assumptions applied given the long time period covered by the assessment.

See note 2.4 on page 131 and note 5.2 on page 149

Derivatives – derivative financial instruments are recorded in the Group's balance sheet at fair value. The assessment of fair value is derived from assuming a market price for the instrument in question. The Group bases its assessment of market prices upon forward curves that are largely derived from readily obtainable quotations and third party sources. However, any forward curve is based at least in part upon assumptions about future transactions and market movements. Where such instruments extend beyond the liquid portion of the forward curve, the level of estimation increases as the number of observable transactions decreases.

See note 7.2 on page 164

Revenue recognition – the nature of some of the Group's activities, particularly within the B2B Energy Supply segment, results in revenue being based on the estimated volumes of power supplied to customers at an estimated average price per unit. Assumptions that underpin these estimates are applied consistently and comparison of past estimates to final settlements suggests a high degree of accuracy. However, actual outcomes may vary from initial estimates.

See note 2.2 on page 129

Renewable Obligation Certificates (ROCs) – ROC assets generated by the Group's Power Generation business and held in the Group's balance sheet are stated at the lower of their deemed cost at the point of generation and expected realisable value. The calculation of this value depends upon estimates of likely future sales prices.

See note 3.3 on page 140

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, any of which are subject to future change.

See note 6.3 on page 156

Taxation – in accounting for both current and deferred tax the Group makes assumptions regarding the likely treatment of items of income and expenditure for tax purposes. These assumptions are based on interpretation of relevant legislation and, where required, consultation with external advisers.

See note 2.6 on page 134

ALTERNATIVE PERFORMANCE MEASURES (APMs)

We present two APMs (measures without formal definition in IFRS) on the face of our income statement, EBITDA and underlying earnings, to assist users of the accounts in evaluating the comparability of the Group's financial performance and the performance against strategic objectives.

EBITDA is defined as earnings before interest, tax, depreciation, amortisation and material one-off items that do not reflect the underlying trading performance of the business. Interest, tax, depreciation and amortisation are calculated in accordance with IFRS.

EBITDA is the primary measure used by the Board and market analysts to assess our financial performance.

The purpose of EBITDA is to provide a consistent, comparable measure of the trading performance of the Group's businesses year on year.

Underlying earnings is defined as profit after tax, as calculated in accordance with IFRS, adjusted to exclude unrealised gains and losses on derivative contracts, which introduce volatility to IFRS measures of net profitability, and material one-off items that do not reflect the underlying performance of the business.

The purpose of underlying earnings is to provide a consistent, comparable measure of the overall financial performance of the Group's businesses year-on-year, including costs of servicing the existing debt, allocations of the cost of non-current assets and tax.

Judgement is applied in determining transactions which are not considered to reflect the underlying trading performance of the business.

EBITDA is reconciled to both gross profit and operating profit on the face of the income statement. A reconciliation of underlying earnings to profit after tax attributable to shareholders is provided in note 2.7.

FINANCIAL STATEMENTS CONTENTS

SECTION 1
Consolidated financial statements

CONSOLIDATED INCOME STATEMENT

	Notes	Years ended 31 December 2017 £m	2016 £m
Revenue	2.2	**3,685.2**	2,949.8
Fuel costs in respect of power generation		**(1,356.8)**	(1,154.2)
Cost of energy purchases		**(974.6)**	(907.8)
Grid charges		**(498.7)**	(379.7)
Other energy supply costs		**(310.1)**	(131.8)
Total cost of sales		**(3,140.2)**	(2,573.5)
Gross profit		**545.0**	376.3
Operating and administrative expenses	2.3	**(316.1)**	(236.3)
EBITDA[(1)]	2.3	**228.9**	140.0
Depreciation	3.1	**(122.7)**	(109.5)
Amortisation	5.3	**(43.6)**	–
Loss on disposal[(2)]		**(15.4)**	(3.8)
Unrealised (losses)/gains on derivative contracts	7.2	**(156.1)**	176.8
Other losses		**(0.4)**	–
Acquisition-related costs[(3)]	2.7	**(7.8)**	–
Operating (loss)/profit		**(117.1)**	203.5
Foreign exchange gains and losses	2.5	**(10.6)**	22.0
Cost of debt restructure[(4)]	2.5	**(24.2)**	–
Interest payable and similar charges	2.5	**(31.5)**	(29.0)
Interest receivable	2.5	**0.2**	0.6
(Loss)/profit before tax		**(183.2)**	197.1
Tax:			
– Before effect of changes in rate of tax	2.6	**47.8**	(13.0)
– Effect of changes in rate of tax	2.6	**(15.7)**	9.8
Total tax credit/(charge)		**32.1**	(3.2)
(Loss)/profit for the year attributable to equity holders		**(151.1)**	193.9
Underlying profit after tax[(5)]	2.7	**2.7**	20.5
(Loss)/earnings per share		**pence**	pence
– Basic	2.8	**(37)**	48
– Diluted		**(37)**	47

All results relate to continuing operations.

Notes:
(1) EBITDA is defined as: earnings before interest, tax, depreciation, amortisation and material one-off items that do not reflect the underlying trading performance of the business
(2) Loss on disposal includes a £3.6 million loss on disposal of Billington Bioenergy and losses on disposal of assets in the ordinary course of business of £11.8 million
(3) Acquisition-related costs reflect costs associated with the acquisition and on-boarding of Opus Energy Group Limited into the Group
(4) Cost of debt restructure are one-off costs associated with the refinancing of the Group's debt
(5) Underlying profit is defined as: profit after tax, as calculated in accordance with IFRS, adjusted to exclude unrealised gains and losses on derivative contracts and material one-off items that do not reflect the underlying performance of the business. See page 136

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Years ended 31 December	
	Notes	2017 £m	2016 £m
(Loss)/profit for the year		**(151.1)**	193.9
Items that will not be subsequently reclassified to profit or loss:			
Actuarial gains /(losses) on defined benefit pension scheme	6.3	**21.4**	(8.4)
Deferred tax on actuarial gains/(losses) on defined benefit pension scheme	2.6	**(4.1)**	1.6
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**3.4**	(9.1)
Fair value (losses)/gains on cash flow hedges	7.2	**(219.2)**	330.1
Deferred tax on cash flow hedges before tax rate changes	2.6	**39.9**	(62.6)
Impact of tax rate changes on deferred tax on cash flow hedges	2.6	**–**	3.0
Other comprehensive (expense)/income		**(158.6)**	254.6
Total comprehensive (expense)/income for the year attributable to equity holders		**(309.7)**	448.5

SECTION 1: CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2017 £m	2016 £m
Assets			
Non-current assets			
Goodwill	5.2	**169.9**	14.5
Intangible assets	5.3	**232.0**	21.7
Property, plant and equipment	3.1	**1,661.9**	1,641.5
Other fixed asset investments	3.2	**1.3**	–
Deferred tax assets	2.6	**22.7**	33.5
Derivative financial instruments	7.2	**190.7**	486.3
		2,278.5	2,197.5
Current assets			
Inventories	3.4	**272.1**	287.5
ROC assets	3.3	**145.5**	257.6
Trade and other receivables	3.5	**417.5**	292.9
Derivative financial instruments	7.2	**175.5**	405.0
Current tax assets	2.6	**6.2**	–
Cash and cash equivalents	4.2	**222.3**	228.4
		1,239.1	1,471.4
Liabilities			
Current liabilities			
Trade and other payables	3.6	**736.5**	591.9
Current tax liabilities	2.6	**–**	6.1
Borrowings	4.3	**18.6**	35.9
Derivative financial instruments	7.2	**109.6**	251.0
		864.7	884.9
Net current assets		**374.4**	586.5
Non-current liabilities			
Borrowings	4.3	**571.1**	286.0
Derivative financial instruments	7.2	**94.2**	112.5
Provisions	5.4	**36.3**	35.0
Deferred tax liabilities	2.6	**230.0**	275.2
Retirement benefit obligations	6.3	**1.2**	30.1
		932.8	738.8
Net assets		**1,720.1**	2,045.2
Shareholders' equity			
Issued equity	4.5	**47.0**	47.0
Capital redemption reserve	4.5	**1.5**	1.5
Share premium	4.5	**424.3**	424.2
Merger reserve	4.5	**710.8**	710.8
Hedge reserve	7.4	**126.1**	305.4
Translation reserve	4.5	**(6.8)**	(10.2)
Retained profits	2.10	**417.2**	566.5
Total shareholders' equity		**1,720.1**	2,045.2

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 26 February 2018.

Signed on behalf of the Board of directors: **Will Gardiner**
Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued equity £m	Capital redemption reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Translation reserve £m	Retained profits £m	Total £m
At 1 January 2016	46.9	1.5	424.2	710.8	34.9	(1.1)	385.2	1,602.4
Profit for the year	–	–	–	–	–	–	193.9	193.9
Other comprehensive income/(expense)	–	–	–	–	270.5	(9.1)	(6.8)	254.6
Total comprehensive income for the year	–	–	–	–	270.5	(9.1)	187.1	448.5
Equity dividends paid (note 2.9)	–	–	–	–	–	–	(11.0)	(11.0)
Issue of share capital (note 4.5)	0.1	–	–	–	–	–	–	0.1
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	–	5.2	5.2
At 31 December 2016	**47.0**	**1.5**	**424.2**	**710.8**	**305.4**	**(10.2)**	**566.5**	**2,045.2**
Loss for the year	–	–	–	–	–	–	(151.1)	(151.1)
Other comprehensive income/(expense)	–	–	–	–	(179.3)	3.4	17.3	(158.6)
Total comprehensive income/(expense) for the year	–	–	–	–	(179.3)	3.4	(133.8)	(309.7)
Equity dividends paid (note 2.9)	–	–	–	–	–	–	(21.6)	(21.6)
Issue of share capital (note 4.5)	–	–	0.1	–	–	–	–	0.1
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	–	6.1	6.1
At 31 December 2017	**47.0**	**1.5**	**424.3**	**710.8**	**126.1**	**(6.8)**	**417.2**	**1,720.1**

SECTION 1: CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED CASH FLOW STATEMENT

		Years ended 31 December	
	Notes	2017 £m	2016 £m
Cash generated from operations	4.4	**375.7**	213.1
Income taxes paid		**(14.0)**	(1.7)
Other (losses)/gains		**(0.1)**	0.7
Interest paid		**(46.6)**	(21.7)
Interest received		**0.2**	0.4
Net cash from operating activities		**315.2**	190.8
Cash flows from investing activities			
Purchases of property, plant and equipment		**(159.0)**	(93.2)
Purchases of software assets		**(15.7)**	–
Acquisition of subsidiaries		**(379.8)**	–
Net cash used in investing activities		**(554.5)**	(93.2)
Cash flows from financing activities			
Equity dividends paid	2.9	**(21.6)**	(11.0)
Proceeds from issue of share capital		**0.1**	0.1
Repayment of borrowings		**(493.8)**	–
New borrowings drawn down		**768.5**	–
Other financing costs paid		**(17.9)**	–
Net cash generated from/(absorbed by) financing activities		**235.3**	(10.9)
Net increase/(decrease) in cash and cash equivalents		**(4.0)**	86.7
Cash and cash equivalents at 1 January		**228.4**	133.8
Effect of changes in foreign exchange rates		**(2.1)**	7.9
Cash and cash equivalents at 31 December	4.2	**222.3**	228.4

The Group received shares with a value of £1.6 million as part-consideration for the disposal of Billington Bioenergy during 2017. The net cash disposed of in the transaction was negligible. There were no other non-cash transactions in either the current or previous year.

SECTION 2
Financial performance

The financial performance section gives further information about the items in the Consolidated income statement. It includes a summary of financial performance by each of our businesses (2.1), analysis of certain income statement items (2.2–2.6) and information regarding underlying earnings, distributable profits and dividends (2.7–2.10). Further commentary on our trading and operational performance during the year, which is predominantly reflected in EBITDA, can be found in the Strategic report on pages 1–57, with particular reference to key transactions and market conditions that have affected our results.

2.1 SEGMENTAL REPORTING

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

- Power Generation: power generation activities in the UK, including at Drax Power Station and the development of OCGT projects;
- Pellet Production: production of sustainable compressed wood pellets at our processing facilities in the US; and
- B2B Energy Supply: the supply of electricity and gas to business customers in the UK.

The operating segments have been renamed to align more closely with the strategy, but are consistent with the prior year, except for changes due to business combinations as noted below. Each business is an operating segment for the purpose of segmental reporting. Information reported to the Board for the purposes of assessing performance and making investment decisions is based on these three operating segments. The measure of profit or loss for each reportable segment presented to the Board on a regular basis is EBITDA (as defined on page 120).

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

During the year, the Group acquired 100% of the share capital of Opus Energy Group Limited (see note 5.1), an energy supply business providing electricity and gas to business customers. Opus Energy's activities are closely-related to those of the existing B2B Energy Supply business and the B2B Energy Supply management structure has been reorganised to integrate Opus Energy into the existing structure. Financial results are reported to the Board for the larger combined business. Accordingly, this new acquisition forms part of the B2B Energy Supply segment in the year ended 31 December 2017. Note 5.1 details the additional revenue and profit attributable to the Group from the new acquisition.

As noted on page 16, the Group sold its interest in Billington Bioenergy in the year. The B2B Energy Supply segment includes £6.3 million of revenue and £0.2 million EBITDA losses in respect of this business for the 10-month period to the date of disposal.

Segment revenues and results

The following is an analysis of the Group's performance by reporting segment for the year ended 31 December 2017:

	Year ended 31 December 2017				
	Power Generation £m	B2B Energy Supply £m	Pellet Production £m	Adjustments[1] £m	Consolidated £m
Revenue					
External sales	1,686.2	1,999.0	–	–	3,685.2
Inter-segment sales	1,033.4	–	135.7	(1,169.1)	–
Total revenue	2,719.6	1,999.0	135.7	(1,169.1)	3,685.2
Segment gross profit	398.4	117.4	39.0	(9.8)	545.0
Segment EBITDA	237.5	29.4	5.5	(9.8)	262.6
Central costs					(33.7)
Consolidated EBITDA					228.9
Acquisition-related costs					(7.8)
Depreciation and amortisation					(166.3)
Other losses					(0.4)
Loss on disposal					(15.4)
Unrealised losses on derivative contracts					(156.1)
Operating loss					(117.1)
Net finance costs					(66.1)
Loss before tax					(183.2)

Note:
(1) Adjustments represent the elimination of intra-group transactions

SECTION 2: FINANCIAL PERFORMANCE

2.1 SEGMENTAL REPORTING CONTINUED

The following is an analysis of the Group's performance by reporting segment for the year ended 31 December 2016:

	Year ended 31 December 2016				
	Power Generation £m	B2B Energy Supply £m	Pellet Production £m	Adjustments[1] £m	Consolidated £m
Revenue					
External sales	1,622.7	1,326.4	0.7	–	2,949.8
Inter-segment sales	868.2	–	72.9	(941.1)	–
Total revenue	2,490.9	1,326.4	73.6	(941.1)	2,949.8
Segment gross profit	337.0	23.5	18.1	(2.3)	376.3
Segment EBITDA	173.8	(4.3)	(6.3)	(2.3)	160.9
Central costs					(20.9)
Consolidated EBITDA					140.0
Depreciation and amortisation					(109.5)
Loss on disposal					(3.8)
Unrealised gains on derivative contracts					176.8
Operating profit					203.5
Net finance costs					(6.4)
Profit before tax					197.1

Note:
(1) Adjustments represent the elimination of intra-group transactions

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

Capital expenditure by segment

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

	Capital additions to intangible assets 2017 £m	**Capital additions to property, plant and equipment 2017 £m**	Capital additions to intangible assets 2016 £m	Capital additions to property, plant and equipment 2016 £m
B2B Energy Supply	**12.6**	**17.6**	–	4.4
Power Generation	**2.4**	**77.0**	0.7	85.7
Pellet Production	**0.4**	**66.2**	–	6.7
Corporate unallocated	**0.6**	**3.8**	–	–
Total	**16.0**	**164.6**	0.7	96.8

Total cash outflows in relation to capital expenditure during the year were £175.2 million (2016: £93.2 million). The increase in capital expenditure compared to the previous year principally reflects the acquisition of the LaSalle pellet plant and subsequent investment to bring the site into operation in the Pellet Production segment, and investment in office space for Opus Energy in the B2B Energy Supply segment.

Intra-group trading

Intra-group transactions are carried out on arm's-length, commercial terms that, where possible, equate to market prices at the time of the transaction. During 2017, the Pellet Production segment sold wood pellets with a total value of £135.7 million (2016: £72.9 million) to the Power Generation segment and the Power Generation segment sold electricity, gas and ROCs with a total value of £1,033.4 million (2016: £868.2 million) to the B2B Energy Supply segment.

The impact of all intra-group transactions, including any unrealised profit arising (£9.8 million at 31 December 2017), is eliminated on consolidation. Following the increase in output from Pellet Production during the year and reduced generation in Power Generation at the end of the year, intra-group stocks were higher at the end of 2017 than previously, resulting in an increase in this provision.

Major customers

Total revenue for the year ended 31 December 2017 does not include any amounts from individual customers (2016: amounts of £541.5 million and £399.3 million derived from two customers) that represent 10% or more of total revenue for the year. The Group's largest two customers contributed 9% and 8% of total consolidated revenue respectively. These revenues arose in the Power Generation segment.

2.2 REVENUE

Accounting policy

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 between Group companies.

Revenues from the sale of electricity from our Power Generation business are measured based upon metered output delivered at rates specified under contract terms or prevailing market rates as applicable.

Two of our biomass-fuelled generating units earn Renewable Obligation Certificates (ROCs) under the UK Government's Renewables Obligation (RO) regime. The financial benefit of a ROC is recognised in the income statement at the point the relevant renewable biomass fuel is burnt and power dispatched as a reduction in the cost of the biomass fuel. A corresponding asset is recognised on the balance sheet (see note 3.3 on page 140). Revenue from sale of ROCs is recognised when the ROC is transferred to a third party.

The Group recognises the income or costs arising from the CfD (see below) in the income statement, as a component of revenue, at the point the flow of economic benefit becomes probable. This is considered to be the point at which the relevant generation is delivered and the payment becomes contractually due.

Revenue from the sale of electricity and gas directly to business customers through our B2B Energy Supply businesses, Haven Power and Opus Energy, is recognised on the supply of electricity or gas when a contract exists, supply has taken place, a quantifiable price has been established or can be determined and the receivables are expected to be recovered at the point of sale. Energy supplied is measured based upon metered consumption and contractual rates; however, where a supply has taken place but is not yet measured or billed, the revenue is estimated based on consumption statistics and selling price estimates and is included as accrued income on the balance sheet.

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

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

CfD payments

The Group is party to a Contract for Difference (CfD) with the Low Carbon Contracts Company (LCCC), a Government-owned entity responsible for delivering elements of the Government's Electricity Market Reform Programme. Under the contract, the Group makes or receives payments in respect of electricity dispatched from a specific biomass-fuelled generating unit. The payment is calculated with reference to a strike price of £100 per MWh. The base year for the strike price was 2012 and it increases each year in line with the UK Consumer Price Index and changes in system balancing costs. The strike price at 31 December 2017 was £106 per MWh.

When market prices at the point of generation are above/below the strike price, the Group makes/receives an additional payment to/from LCCC equivalent to the difference between the market power price at the point of dispatch and the strike price. Such payments are in addition to amounts received from the sale of the power in the wholesale market and either increase or limit the total income from the power dispatched from the relevant generating unit to the strike price in the CfD contract.

The year ended 31 December 2017 is the first full year of generation under the CfD contract, which commenced on 21 December 2016.

ROC sales

The generation and sale of ROCs is a key driver of the Group's financial performance. The RO scheme started in April 2002 and places an obligation on electricity suppliers to source an increasing proportion of their electricity from renewable sources. Under the RO, ROCs are certificates issued to generators of renewable electricity which are then sold to suppliers to demonstrate that they have fulfilled their obligations under the RO. ROCs are managed in compliance periods (CPs), running from April to March annually, CP1 commenced in April 2002. At 31 December 2017 we are in CP16.

To meet its obligations a supplier can either submit ROCs or pay the "buy-out" price at the end of the CP. The buy-out price was set at £30 per ROC in CP1 and rises with inflation. The buy-out price in CP16 is £45.58. ROCs are typically procured in arm's-length transactions with renewable generators at a market price typically slightly lower than the buy-out price for that CP. At the end of the CP, the amounts collected from suppliers paying the buy-out price form the "recycle fund", which is distributed on a pro-rata basis to ROC generators.

The financial benefit of a ROC recognised in the income statement at the point of generation is thus comprised of two parts: the expected value to be obtained in a sale transaction with a third party supplier and the expected recycle fund benefit to be received at the end of the CP. See note 3.3 on page 140 for further details of ROCs generated and sold by our Power Generation business and those utilised by our B2B Energy Supply business in the year.

SECTION 2: FINANCIAL PERFORMANCE

2.2 REVENUE CONTINUED

Further analysis of our revenue for the year ending 31 December 2017 is provided in the table below:

	Year ended 31 December 2017		
	External £m	Intra-group £m	Total £m
Power Generation			
Electricity sales	1,030.9	774.5	1,805.4
ROC and LEC sales	367.8	258.9	626.7
CfD income	248.2	–	248.2
Ancillary services	30.7	–	30.7
Other income	8.6	–	8.6
B2B Energy Supply			
Electricity and gas sales	1,933.9	–	1,933.9
Pellet sales	6.3	–	6.3
Other income	58.8	–	58.8
Pellet Production			
Pellet sales	–	135.7	135.7
Elimination of intra-group sales	–	(1,169.1)	(1,169.1)
Total consolidated revenue	3,685.2	–	3,685.2

The B2B Energy Supply segment includes £6.3 million of revenue representing 10 months of sales of wood pellets into the domestic UK heat market via Billington Bioenergy (2016: £6.7 million). This business was sold on 31 October 2017.

The following is an analysis of the Group's revenues in the year ended 31 December 2016:

	Year ended 31 December 2016		
	External £m	Intra-group £m	Total £m
Power Generation			
Electricity sales	1,193.4	686.5	1,879.9
ROC and LEC sales	366.7	181.7	548.4
CfD income	10.3	–	10.3
Ancillary services	47.3	–	47.3
Other income	5.0	–	5.0
B2B Energy Supply			
Electricity and gas sales	1,319.6	–	1,319.6
Pellet sales	6.7	–	6.7
Other income	0.1	–	0.1
Biomass Supply			
Pellet sales	–	72.9	72.9
Other income	0.7	–	0.7
Elimination of intra-group sales	–	(941.1)	(941.1)
Total consolidated revenue	2,949.8	–	2,949.8

2.3 OPERATING EXPENSES AND EBITDA

This note sets out the material components of "Operating and administrative expenses" in our Consolidated income statement, page 122, and a detailed breakdown of the fees paid to our auditor, Deloitte LLP, in respect of services they provided to the Group during the year.

	Years ended 31 December	
	2017 £m	2016 £m
Gross profit	**545.0**	376.3
The following expenditure has been charged in arriving at operating profit/EBITDA:		
Staff costs (note 6.1)	**137.1**	99.9
Repairs and maintenance expenditure on property, plant and equipment	**50.7**	68.9
Other operating and administrative expenses	**128.3**	67.5
Total operating and administrative expenses	**316.1**	236.3
EBITDA	**228.9**	140.0

EBITDA is defined on page 120.

Operating lease costs of £2.3 million in respect of land and buildings and £5.7 million in respect of other operating leases (2016: £2.4 million and £1.3 million) are included in other operating expenses.

Auditor's remuneration

	Years ended 31 December	
	2017 £000	2016 £000
Audit fees:		
Fees payable for the audit of the Group's consolidated financial statements	**653**	448
Fees payable for the audit of the Company's subsidiaries	**31**	27
	684	475
Other fees:		
Review of the Group's half-year condensed consolidated financial statements	**89**	71
Other services	**2**	2
Total audit-related fees	**775**	548
Other assurance services	**125**	610
Total non-audit fees	**125**	610
Total auditor's remuneration	**900**	1,158

Other assurance services provided by Deloitte LLP in 2017 consist of assurance and agreed-upon procedures performed in relation to the bond finance raised in May 2017 (2016: reporting accountant services associated with the shareholder circular in relation to the Opus Energy transaction).

Non-audit services are approved by the Audit Committee in accordance with the policy set out on page 80.

2.4 REVIEW OF FIXED ASSETS FOR IMPAIRMENT

Accounting policy

The Group reviews its fixed assets (or, where appropriate, groups of assets known as cash-generating units (CGUs)) whenever there is an indication that an impairment loss may have been suffered. The Group assesses the existence of indicators of impairment annually. The Group considers the smallest collections of assets that generate independent cash flows to be its operating entities (Drax Power, Haven Power, Opus Energy and Drax Biomass) and accordingly considers the Group to be comprised of four 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 CGU (value in use) or the expected price that would be received to sell the asset to another market participant (fair value less costs to sell). The initial assessment of recoverable amount is normally based on value in use.

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

SECTION 2: FINANCIAL PERFORMANCE

2.4 REVIEW OF FIXED ASSETS FOR IMPAIRMENT CONTINUED

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

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

Goodwill balances are assessed for impairment annually (see note 5.2).

Assessment of indicators of impairment

The Group's market capitalisation has remained below the carrying value of its net assets this year. As part of the most recent annual review, the Group considered this and concluded that a potential indicator of impairment existed in respect of the Drax Power CGU. This assessment was based upon continued weakness in commodity markets, volatility in foreign exchange rates, perceived levels of regulatory uncertainty and the sensitivity of the recoverable amount of Drax Power's assets to changes in these factors.

Accordingly, an impairment review of the Drax Power CGU was undertaken at the balance sheet date. A review of other CGUs suggested no indicators of impairment.

Significant estimation uncertainty

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 estimates of future prices, output, costs, economic support for renewable energy generation and access to contracts for electricity generation and supply. Where relevant and to the fullest extent possible, the key assumptions are based on observable market information. However, observable market information is only available for a limited proportion of the remaining useful lives of the assets under review.

Impairment review

The carrying amount of the Drax Power CGU at 31 December 2017 was £1,430 million. The value in use of the Drax Power CGU was tested using the Group's established planning model.

The analysis assumed that Drax Power's three biomass-fuelled generating units will continue in operation until the end of their estimated useful lives, currently considered to be 2039. In line with our assumption that coal-fired generation will cease by 2025, applied in light of the Government's announced intention to close coal-fired generation following recent consultations, the three remaining coal-fired units were assumed to cease coal-fired generation by this date but will then be available for conversion to alternative fuels. No account has been taken of any cash inflows that could result from such a conversion (which could take place earlier than 2025) in measuring the value in use of the Drax Power CGU. This includes potential cash flows arising from the fourth unit conversion to biomass and possible repowering of the fifth and sixth units to gas.

The analysis depends on a broad range of assumptions, including the expected life of the six power generating units and the regulatory regime under which they might operate. The key assumptions (i.e. those most sensitive to a change, possibly resulting in a different outcome for impairment) are considered to be:

- the expected operating lives of the six generating units, as described above;
- future commodity prices beyond the horizon of our existing contracted purchase and sale commitments – notably power prices and biomass prices;
- future foreign exchange rates beyond the horizon of our existing contracted purchase commitments; and
- the continuance of existing biomass support regimes – CfD and RO – until 2027 and the existence of a favourable economic environment for biomass generation thereafter. This includes future capacity market and system support revenues.

These assumptions are all dependent on external market movements. The historic volatility in these assumptions is reflected in the financial performance of the Group but past performance is not necessarily a reliable indicator of future values.

Where available, estimates of future prices are based on signed contracts for purchases and sales with third parties. Intra-group purchases of biomass are included at contract prices which are based on our view of future market prices. Transactions beyond contracted positions are valued using market data and forward price curves, based where possible on data points provided by a reputable third party source, independent to the Group. In particular, longer-term power prices are based on assumptions from Aurora Energy Research. The contracted period for biomass purchases is substantially longer, with the longest-dated contracts expiring in 2027. Beyond this point, estimated biomass prices are largely based on our internal models which reflect our assessment of future market prices.

Future foreign exchange rates are based on contracted foreign currency purchases to the extent possible. Beyond our contracted position, exchange rate estimates are based on market forward curves.

Current Government plans for existing renewable support mechanisms, namely the CfD and RO, assume these cease in 2027. The impairment analysis made no assumptions regarding the direct replacement of these support mechanisms beyond this date. The biomass-fuelled units that are assumed to continue to generate power do so supported by the prevailing wholesale power price, delivery of ancillary services to the UK grid and an expectation that capacity market revenues will be available to these units. Our power price forecasts reflect increased volatility between peak and baseload prices. Assumed revenues from ancillary services and the capacity market are based on projections derived from current contracts and capacity market outcomes and how we expect the market to evolve. These assumptions

2.4 REVIEW OF FIXED ASSETS FOR IMPAIRMENT CONTINUED

reflect our expectation that Drax will be required to provide generation to support intermittent renewable power and be an essential part of the UK's energy mix throughout the life of the units.

The expected future cash flows were discounted using a pre-tax nominal rate of 7.3%. The discount rate is supported by observable market reports and independent analysis commissioned by, and specific to the circumstances of, the Group and the Power Generation business. This indicated that the recoverable amount of the Drax Power CGU exceeded its carrying value and therefore that no provisions for impairment were required.

Sensitivity analysis indicated that, when compared to our base case assumptions, a reduction of approximately 21% in market power prices, an increase in biomass prices of approximately 31%, or a depreciation of Sterling against the US Dollar of approximately 24% throughout the 22-year term of the valuation would result in a recoverable amount for the Drax Power CGU that is lower than its carrying amount. Furthermore, the valuation includes cash flows for the period from 2027–2039 in line with the assumed useful economic lives of the assets. If the value from this period was removed in its entirety, it would not result in an impairment charge. The analysis does not consider the interaction effect of potential changes in several or all of the assumptions simultaneously, and the sensitivities do not take account of any mitigating actions that could be taken should the changes referred to materialise. In addition, in relation to central costs, no reasonable change in the method of allocation would result in an impairment charge.

2.5 NET FINANCE COSTS

Finance costs reflect expenses incurred in managing our debt structure (such as interest payable on our bonds) as well as foreign exchange gains and losses, the unwinding of discounting on provisions for reinstatement of our sites at the end of their useful lives (see note 5.4) and net interest charged on the Group's defined benefit pension scheme obligation (see note 6.3). These are offset by interest income that we generate through efficient use of short-term cash surpluses – for example through investment in money market funds.

On 5 May 2017, the Group refinanced its external debt. The resulting cost of £24.2 million (2016: £nil) reflects the costs incurred to extinguish the existing debt together with the release of the related deferred borrowing costs. As described in note 2.7, these costs have been excluded from the calculation of underlying earnings. Further information about the new finance structure can be found in note 4.3.

	Years ended 31 December	
	2017 £m	2016 £m
Interest payable and similar charges:		
Interest payable on borrowings	**(25.6)**	(19.4)
Unwinding of discount on provisions (note 5.4)	**(0.7)**	(4.5)
Amortisation of deferred finance costs	**(3.5)**	(2.1)
Net finance cost in respect of defined benefit scheme (note 6.3)	**(0.5)**	(0.9)
Other financing charges	**(1.2)**	(2.1)
Total interest payable and similar charges	**(31.5)**	(29.0)
Interest receivable:		
Interest income on bank deposits	**0.2**	0.6
Total interest receivable	**0.2**	0.6
Foreign exchange (losses)/gains	**(10.6)**	22.0
Total recurring net interest charge	**(41.9)**	(6.4)
One-off costs of debt restructure:		
Fees to exit existing facilities	**(13.8)**	–
Acceleration of deferred costs in relation to previous facilities	**(10.4)**	–
Total one-off net interest charge	**(24.2)**	–
Total net interest charge	**(66.1)**	(6.4)

Foreign exchange gains and losses recognised in interest arise on the retranslation of non-derivative balances and investments denominated in foreign currencies to prevailing rates at the balance sheet date. Sterling strengthened against the US Dollar and Euro during 2017, resulting in losses being recognised on assets the Group holds denominated in these currencies.

SECTION 2: FINANCIAL PERFORMANCE

2.6 CURRENT AND DEFERRED TAXATION

The tax charge includes both current and deferred tax. Current tax is the estimated amount of tax payable on this year's taxable profits (which are adjusted for items upon which 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) and adjusted for estimates for previous years. Deferred tax is an accounting adjustment which reflects where more or less tax is expected to arise in the future due to differences between the accounting and tax rules (reflected in differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profits). The tax credit reflects the estimated effective tax rate on the loss before tax for the Group for the year ended 31 December 2017 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the income statement.

Accounting policy

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

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

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

Significant estimation uncertainty

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

	Years ended 31 December	
	2017 £m	2016 £m
Tax (credit)/charge comprises:		
Current tax		
– Current year	**20.3**	14.7
– Adjustments in respect of prior periods	**(10.6)**	(6.2)
Deferred tax		
– Before impact of tax rate changes	**(57.5)**	4.5
– Impact of tax rate changes	**15.7**	(9.8)
Tax (credit)/charge	**(32.1)**	3.2

	Years ended 31 December	
	2017 £m	2016 £m
Tax charged/(credited) on items recognised in other comprehensive income:		
Deferred tax on actuarial gains/(losses) on defined benefit pension scheme (note 6.3)	**4.1**	(1.6)
Deferred tax on cash flow hedges (note 7.4)	**(39.9)**	59.6
	(35.8)	58.0

UK corporation tax is the main rate of tax for the Group and is calculated at 19.25% (2016: 20%) of the assessable profit or loss for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on jurisdictional tax laws and rates that have been enacted or substantively enacted at the balance sheet date. In December 2017, US Tax Reforms were legislated and introduced a package of tax measures, including a reduction in the US federal tax rate from 35% to 21% from January 2018. This rate reduction has been reflected in the US deferred tax balances at 31 December 2017. We do not anticipate any other impact of the US Tax Reforms on the deferred tax balances.

2.6 CURRENT AND DEFERRED TAXATION CONTINUED

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

	Years ended 31 December 2017 £m	2016 £m
(Loss)/profit before tax	**(183.2)**	197.1
(Loss)/profit before tax multiplied by the rate of corporation tax in the UK of 19.25% (2016: 20%)	**(35.3)**	39.4
Effects of:		
Adjustments in respect of prior periods	**(11.8)**	(3.6)
Expenses not deductible for tax purposes	**1.3**	1.7
Impact of change to tax rate	**15.7**	(9.8)
Difference in overseas tax rates	**(3.0)**	(4.8)
Deferred tax on prior year start-up losses and other temporary differences	–	(21.4)
Other	**1.0**	1.7
Total tax (credit)/charge	**(32.1)**	3.2

The Group's underlying effective tax rate is sensitive to the mix of operating results between our UK and US businesses and the tax rates which apply in those jurisdictions. However, as a result of the reduction in the US federal tax rates from 2018 to 21%, and tax relief now arising to the group from the UK Patent Box regime (see below), in the medium term we anticipate our group underlying effective tax rate to be marginally lower than the main rate of corporation tax in the UK. The adjustments in respect of prior periods principally relate to a Patent Box claim. Drax Power was granted a patent to protect certain intellectual property it owns and which attaches to the technology developed to manage the combustion process in generating electricity from biomass. Under UK tax legislation the Company is now entitled to apply a lower rate of tax to some of its profits each year which are derived from utilisation of that technology. The Company has agreed a claim with HMRC for tax relief covering the period from the patent application in 2013 to 2016 amounting to £10.4 million. In line with the policy intentions of IFRIC 23 "Uncertainty over Income Tax Treatments", the Group has also recognised an estimated benefit from the tax regime for the financial year 2017 of £2.6 million (included in the "Other" line in the table above). The movements in deferred tax assets and liabilities during each year are shown below.

Deferred tax (liabilities)/assets

	Financial instruments £m	Accelerated capital allowances £m	Non-trade losses £m	Intangible assets £m	Trade losses £m	Other liabilities £m	Other assets £m	Total £m
At 1 January 2016	(7.3)	(162.5)	1.5	–	–	(30.9)	7.3	(191.9)
(Charged)/credited to the income statement	(33.9)	(7.1)	(1.5)	–	35.3	5.3	7.2	5.3
Charged to equity in respect of actuarial gains	–	–	–	–	–	–	1.6	1.6
Charged to equity in respect of cash flow hedges	(59.6)	–	–	–	–	–	–	(59.6)
Effect of changes in foreign exchange rates	–	(1.3)	–	–	3.5	–	0.7	2.9
At 1 January 2017	(100.8)	(170.9)	–	–	38.8	(25.6)	16.8	(241.7)
Acquisition of Opus Energy	–	–	–	(40.7)	–	–	–	(40.7)
(Charged)/credited to the income statement	29.7	8.7	–	7.5	(8.5)	7.1	(2.7)	41.8
Charged to equity in respect of actuarial gains	–	–	–	–	–	–	(4.1)	(4.1)
Charged to equity in respect of cash flow hedges	39.9	–	–	–	–	–	–	39.9
Effect of changes in foreign exchange rates	–	1.2	–	–	(3.4)	–	(0.3)	(2.5)
At 31 December 2017	(31.2)	(161.0)	–	(33.2)	26.9	(18.5)	9.7	(207.3)
Deferred tax balances (after offset) for financial reporting purposes:								
Net deferred tax asset	**–**	**(11.1)**	**–**	**–**	**26.9**	**–**	**6.9**	**22.7**
Net deferred tax liability	**(31.2)**	**(149.9)**	**–**	**(33.2)**	–	**(18.5)**	**2.8**	**(230.0)**

SECTION 2: FINANCIAL PERFORMANCE

2.6 CURRENT AND DEFERRED TAXATION CONTINUED

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

Within the above deferred tax balances is a net deferred tax asset of £22.7 million in relation to start-up losses and other temporary differences in the US-based Pellet Production business. Based on its business plan and reflecting continuing improvement in operational performance, the Group anticipates generating sufficient profits in future periods against which to utilise this asset.

2.7 UNDERLYING EARNINGS

Following the announcement of the change in the Group's dividend policy on 15 June 2017, there is no longer a link between underlying earnings and the calculation of distributions. We have continued to present underlying earnings, an alternative performance measure (see page 120), to provide a consistent, comparable measure of the overall financial performance of the Group year-on-year.

Underlying earnings is defined as profit after tax, as measured in accordance with IFRS, adjusted to exclude unrealised gains and losses on derivative contracts and material one-off items that do not reflect the underlying performance of the business.

This note analyses the items which are included in our results for the year but are excluded from underlying earnings:

- Unrealised gains and losses on derivative contracts: calculated in accordance with IAS 39 on derivative contracts not designated into hedge relationships for accounting purposes but held for the purposes of de-risking future cash flows (see note 7.2), excluded due to their inherent volatility which does not reflect current operational performance.
- Acquisition-related costs: material one-off costs associated with the acquisition and integration of Opus Energy during 2017.
- Cost of debt restructure: material one-off costs incurred as part of the restructuring of the Group's debt in May 2017.
- In 2016, deferred tax on start-up losses and other temporary differences: a material one-off credit arising from the recognition of a deferred tax asset relating to the Pellet Production business.

	Years ended 31 December 2017 £m	2016 £m
Earnings:		
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	**(151.1)**	193.9
Adjusted for:		
Unrealised gains on derivative contracts	**156.1**	(176.8)
Acquisition-related costs	**7.8**	–
Cost of debt restructure	**24.2**	–
Tax impact of the above items	**(34.3)**	33.9
Deferred tax on start-up losses and other temporary differences	**–**	(30.5)
Underlying profit after tax attributable to equity holders of the Company	**2.7**	20.5

2.8 EARNINGS PER SHARE AND UNDERLYING EARNINGS PER SHARE

Earnings per share (EPS) represents the amount of our earnings (post-tax profits) that is attributable to each ordinary share we have in issue. Basic EPS is calculated by dividing our earnings (profit after tax calculated in accordance with IFRS) by the weighted average number of ordinary shares that were in issue during the year. Diluted EPS demonstrates the impact if all outstanding share options (such as those to be issued under our employee share schemes – see note 6.2), that are 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. Underlying EPS is based upon underlying earnings as defined in note 2.7.

The effect of potentially dilutive options on the weighted average number of shares in issue at the balance sheet date is shown below:

	Years ended 31 December 2017	2016
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**406.8**	406.6
Effect of dilutive potential ordinary shares under share plans	**3.5**	2.7
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	**410.3**	409.3
Earnings per share – basic (pence)	**(37)**	48
Earnings per share – diluted (pence)	**(37)**	47
Underlying earnings per share – basic (pence)	**1**	5
Underlying earnings per share – diluted (pence)	**1**	5

2.9 DIVIDENDS

	Years ended 31 December 2017 £m	2016 £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 2017 of 4.9 pence per share paid on 4 October 2017 (2016: 2.1 pence per share paid on 7 October 2016)	20.0	8.6
Final dividend for the year ended 31 December 2016 of 0.4 pence per share paid on 12 May 2017 (2015: 0.6 pence per share paid on 13 May 2016)	1.6	2.4
	21.6	11.0

As described on page 49, on 15 June 2017 we announced a new dividend policy.

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 2017 of 7.4 pence per share (equivalent to approximately £30 million) payable on or before 11 May 2018. The final dividend has not been included as a liability as at 31 December 2017. This would bring total dividends payable in respect of the 2017 financial year to £50 million.

In future years, in determining the value of dividends the Board will take account of future investment opportunities and the less predictable cash flows from the Group's commodity based businesses. If there is a build-up of capital in excess of the Group's investment needs the Board will consider the most appropriate mechanism to return this to shareholders.

2.10 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 to our shareholders. The table below sets out the movements in our retained profits during the year.

	Years ended 31 December 2017 £m	2016 £m
At 1 January	566.5	385.2
(Loss)/profit for the year	(151.1)	193.9
Actuarial gains/(losses) on defined benefit pension scheme (note 6.3)	21.4	(8.4)
Deferred tax on actuarial gains/(losses) on defined benefit pension scheme (note 2.6)	(4.1)	1.6
Equity dividends paid (note 2.9)	(21.6)	(11.0)
Net movements in equity associated with share-based payments (note 6.2)	6.1	5.2
At 31 December	417.2	566.5

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 of £222.3 million are set out in note 4.2 and the recent history of cash generation within note 4.4. The majority of these cash resources are held centrally within the Group by Drax Corporate Limited. The Parent Company financial statements, set out on pages 172–177 of this report, disclose the Parent Company's distributable reserves of £229.7 million. Sufficient reserves are available across the Group as a whole to make future distributions in accordance with the Group's updated dividend policy for the foreseeable future.

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

The Group's new financing facilities (see note 4.3) place certain conditions on the value of dividend payments to be made in any given year. We expect to be able to make dividend payments, in line with our new policy, within these conditions for the foreseeable future.

SECTION 3
Operating assets and working capital

This section gives further information on the operating assets we use to generate revenue and the short-term liquid assets and liabilities, managed during day-to-day operations, that comprise our working capital balances.

3.1 PROPERTY, PLANT AND EQUIPMENT

This note shows the cost, depreciation and net book value of the physical assets controlled by us that we use in our businesses to generate revenue. The cost of an asset is what we paid to purchase or construct the asset. Depreciation reflects the usage of the asset over time and is calculated by taking the cost of the asset, net of any residual value, to the income statement evenly over the useful economic life of the asset. An asset's net book value is its cost less any depreciation (including impairment, if required) charged to date.

On 13 April 2017, the Group acquired the wood pellet manufacturing plant owned by Louisiana Pellets Inc, for consideration of $35 million (£27.4 million). The assets of the plant were acquired at auction through a bankruptcy court and did not constitute a business in their own right. At the point of acquisition, the plant was not operational, there was no workforce in place and no raw material contracts for it to operate as a business. In accordance with the requirements of IFRS 3 – Business combinations, the acquisition has been accounted for as an asset purchase. Since the date of acquisition, further costs totalling £20.4 million have been capitalised and the plant is expected to begin commercial operations in 2018.

Accounting policy

Property, plant and equipment are initially measured at cost. Cost comprises the purchase price (after deducting trade discounts and rebates), any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the estimate of the present value of the costs of dismantling and removing the item and restoring the site. Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment in value.

We construct many of our assets as part of long-term development projects. Assets that are in the course of construction are not depreciated until they are ready for us to use in the way intended.

Depreciation is provided on a straight-line basis to write down assets to their residual value evenly over the estimated useful lives (UEL) of the assets from the date of acquisition (where relevant, limited to the expected decommissioning date of the power station – currently expected to be 2039). The table below shows the range of useful lives at the date of acquisition and the average remaining useful life at the balance sheet date of the main categories of asset we own in years:

	Average UEL remaining	Range of UELs
Freehold buildings	20	8–33
Plant and equipment		
Electricity generation plant	14	3–33
Biomass-specific assets	20	4–26
Coal-specific assets	6	3–19
Pellet production plant	19	5–20
Other plant, machinery and equipment	13	3–33
Decommissioning asset	22	35
Plant spare parts	22	Up to 35

Freehold land held at cost is considered to have an unlimited useful life and is not depreciated.

Electricity generation plant refers to core electricity generation assets at Drax Power Station which are fuel agnostic. Biomass-specific and coal-specific assets are those assets that are only necessary to support electricity generation from the specified fuel and include fuel storage and distribution systems.

Within the plant and equipment categories shorter lives are attributed to components that are overhauled and upgraded as part of rolling outage cycles. The majority of assets within these categories have a remaining useful life in excess of 15 years.

Plant spare parts are depreciated over the remaining useful life of the power station.

Costs relating to major inspections, overhauls and upgrades to the power station are included in the asset's carrying amount or recognised as a separate asset, as appropriate, if the recognition criteria are met; namely, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

Estimated useful lives and residual values are reviewed annually, taking into account regulatory change and commercial and technological obsolescence as well as normal wear and tear. Residual values are based on prices prevailing at each balance sheet date. Any changes are applied prospectively.

3.1 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Significant estimation uncertainty

Asset lives are reviewed annually at each balance sheet date. The estimated useful lives of coal-specific assets at Drax Power Station have been revised with effect from 1 January 2017 as a result of the Government's announcement that all coal generation will be closed during 2025. Having considered this event, the Group concluded that coal generation will cease during 2025, but that the three existing coal units will be retained for conversion to alternative fuels in the period to 2039. This results in the useful lives of the coal-specific assets which will not be required to support generation after this date being shortened to no later than 2025. This change has been applied prospectively, from 1 January 2017, and has resulted in an increase of approximately £15 million per annum in depreciation charges in 2017 compared to 2016, which will recur in each year until 2025. The useful lives of electricity generation plant currently fuelled by biomass are unaffected by this change. No further changes to the useful economic lives of assets have been made as a result of the most recent review.

At each balance sheet date, the Group reviews its property, plant and equipment to determine whether there is any indication that these assets may be impaired. The Group's accounting policy in respect of impairment, along with details of the impairment review conducted during 2017, are set out in note 2.4.

	Freehold land and buildings £m	Plant and equipment £m	Plant spare parts £m	Total £m
Cost:				
At 1 January 2016	318.1	2,111.3	58.5	2,487.9
On acquisition	1.3	0.2	–	1.5
Additions at cost	0.8	84.3	10.6	95.7
Disposals	(7.2)	(28.1)	–	(35.3)
Issues/transfers	(11.9)	19.0	(4.5)	2.6
Effect of foreign currency exchange differences	0.7	1.1	–	1.8
At 1 January 2017	**301.8**	**2,187.8**	**64.6**	**2,554.2**
Acquisition of Opus Energy (note 5.1)	4.9	4.1	–	9.0
Additions at cost	17.1	138.5	9.0	164.6
Disposals	(6.4)	(29.9)	–	(36.3)
Issues/transfers	0.2	9.2	(6.6)	2.8
IT software transferred to intangible assets	–	(39.4)	–	(39.4)
At 31 December 2017	**317.6**	**2,270.3**	**67.0**	**2,654.9**
Accumulated depreciation and impairment:				
At 1 January 2016	54.4	762.8	16.9	834.1
Depreciation charge for the year	11.2	96.7	1.6	109.5
Disposals	(6.5)	(25.0)	–	(31.5)
Effect of foreign currency exchange differences	0.2	0.4	–	0.6
At 1 January 2017	**59.3**	**834.9**	**18.5**	**912.7**
Depreciation charge for the year	11.4	109.9	1.4	122.7
Acquisition of Opus Energy	–	2.4	–	2.4
Disposals	(3.4)	(16.6)	0.2	(19.8)
IT software transferred to intangible assets	–	(25.0)	–	(25.0)
At 31 December 2017	**67.3**	**905.6**	**20.1**	**993.0**
Net book amount at 31 December 2016	242.5	1,352.9	46.1	1,641.5
Net book amount at 31 December 2017	**250.3**	**1,364.7**	**46.9**	**1,661.9**

Assets in the course of construction amounted to £149.2 million at 31 December 2017 (2016: £120.5 million). Additions to assets in the course of construction were £139.4 million in 2017 and include LaSalle pellet plant and the new office space for Opus Energy.

Plant and equipment includes assets held under finance lease agreements with a carrying value at 31 December 2017 of £1.1 million (2016: £1.6 million).

SECTION 3: OPERATING ASSETS AND WORKING CAPITAL

3.1 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Reflecting continued investment in the Group's IT software systems and the increasing significance of the value of such assets as a result, IT software assets have been presented as a component of intangible assets from 2017 (see note 5.3). As a result of this change in presentation, assets with a net book value of £14.4 million previously presented in property, plant and equipment have been transferred in this period.

Issues and transfers reflect changes in the categorisation of assets during the period, or the issue of spare parts for use in repair and maintenance projects. When spares are utilised in such projects, the cost of the part is transferred from the property, plant and equipment balance and recognised as an expense in the income statement within operating costs.

Losses on disposal in the income statement of £15.4 million include £3.6 million relating to the disposal of Billington Bioenergy on 31 October 2017.

3.2 OTHER FIXED ASSET INVESTMENTS

During 2017, the Group acquired 1.6 million shares in Aggregated Micro Power Holdings plc (AMPH) as part-consideration for the disposal of Billington Bioenergy. AMPH is an AIM-listed energy company specialising in the sale of wood fuels and the development of distributed energy assets, including biomass boilers and battery storage. Through its shareholding in AMPH, the Group retains an interest in the UK heating market, whilst gaining exposure to the development of small-scale distributed energy assets.

Accounting policy

Other investments are recognised at fair value, based on quoted market prices, at the date of transfer. The assets are classified at fair value through profit and loss in accordance with IAS 39. Subsequent movements in the fair value are recognised in the income statement.

	Years ended 31 December	
	2017 £m	2016 £m
At 1 January	**–**	–
Additions	**1.6**	–
Fair value losses	**(0.3)**	–
At 31 December	**1.3**	–

3.3 ROC ASSETS

We earn Renewable Obligation Certificate (ROC) assets, which are accredited by the Office for Gas and Electricity Markets (Ofgem), as a result of burning sustainable compressed wood pellets to generate electricity. This note sets out the value of these assets that we have earned but not yet sold.

Total ROC generation has reduced in 2017, compared to previous periods, following the approval of the CfD contract for one of our biomass-fuelled units in December 2016, which was previously supported by the ROC regime. Haven Power and Opus Energy provide us with a credit-efficient and timely route to market for these ROCs.

Accounting policy

ROCs are recognised as current assets in the period they are generated and are initially measured at fair value based on anticipated sales prices. The value of ROCs earned is recognised in the income statement as a reduction in fuel costs in that period.

Where our B2B Energy Supply electricity sales 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 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.

3.3 ROC ASSETS CONTINUED

Significant estimation uncertainty

The fair values and net realisable values of ROCs 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 from those assumed.

ROC valuations also include an estimate of the future benefit that may be obtained from the ROC recycle fund at the end of the compliance period. The recycle fund provides a benefit where supplier buy-out charges (incurred by suppliers who do not procure sufficient ROCs to satisfy their obligations) are returned to renewable generators on a pro-rata basis. The estimate is based on assumptions about likely levels of renewable generation and supply over the compliance period and is thus subject to some uncertainty. The Group utilises external sources of information in addition to its own forecasts in making these estimates. Past experience indicates that the values arrived at are reasonable but they remain subject to possible variation.

	ROCs £m	Total £m
Fair value and carrying amount:		
At 1 January 2016	265.7	270.1
Earned from generation	535.8	535.8
Utilised by our B2B Energy Supply business/sold to third parties	(543.9)	(548.3)
At 1 January 2017	257.6	257.6
Earned from generation	**480.9**	**480.9**
Purchased from third parties	**33.7**	**33.7**
Utilised by our B2B Energy Supply business/sold to third parties	**(626.7)**	**(626.7)**
At 31 December 2017	**145.5**	**145.5**

Recognition of revenue from sales of ROCs is described in further detail on page 129.

3.4 INVENTORIES

We hold stocks of fuels and other consumable items that we use in the process of generating electricity, and raw materials used in the production of compressed wood pellets. This note shows the cost of coal, biomass, other fuels and plant consumables 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 raw materials and fuel stocks are valued at the lower of the weighted average cost to purchase and net realisable value.

The cost of fuel stocks includes all direct costs and overheads incurred in bringing the fuel to its present location and condition, including the purchase price, import duties and other taxes (including amounts levied on coal under the UK carbon price support mechanism) and transport/ handling costs.

Both coal and biomass stocks are weighed when entering, moving within or exiting our sites using technology regularly calibrated to industry standards. Fuel burn in the electricity generation process is calculated using a combination of weights and thermal efficiency calculations to provide closing stock volumes. Both calibrated weighers and efficiency calculations are subject to a range of tolerable error. All fuel inventories are subject to regular surveys to ensure accuracy of these measurements.

Coal stocks are verified by an independent stock survey carried out by a suitably trained specialist, and a provision is made where the survey indicates a lower level of stock than indicated by the methods described above. Despite being an independent process, the survey depends on estimates and assumptions and as a result actual values may differ.

The characteristics of biomass require specialist handling and storage. On-site biomass at Drax Power Station is stored in sealed domes with a carefully controlled atmosphere for fire prevention purposes and thus cannot be surveyed using traditional methods. Biomass stock is surveyed using regularly calibrated state-of-the-art RADAR scanning technology.

SECTION 3: OPERATING ASSETS AND WORKING CAPITAL

3.4 INVENTORIES CONTINUED

	As at 31 December 2017 £m	2016 £m
Coal	44.5	66.4
Biomass	205.2	197.5
Other fuels and consumables	22.4	23.6
	272.1	287.5

Inventories of biomass include £1.5 million of fibre and other raw materials utilised in the production of compressed wood pellets (2016: £2.3 million) and £0.1 million of work in progress (2016: £2.0 million) in our Pellet Production business.

The cost of inventories recognised as an expense in the year ended 31 December 2017 was £1,285.8 million (2016: £1,173.5 million).

3.5 TRADE AND OTHER RECEIVABLES

Trade receivables represent amounts owed to us by our customers for goods or services we have provided but not yet been paid for. 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 relating to periods after the balance sheet date).

Accounting policy

Trade and other receivables, given their short tenor, are measured at cost. A provision for impairment of trade receivables is established 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.

	Years ended 31 December 2017 £m	2016 £m
Amounts falling due within one year:		
Trade receivables	125.7	87.0
Accrued income	209.0	100.0
Prepayments and other receivables	82.8	105.9
	417.5	292.9

Trade receivables and accrued income principally represent sales of energy to counterparties within both our Power Generation and B2B Energy Supply businesses. At 31 December 2017, the Group had amounts receivable from five (2016: four) significant counterparties representing 20% (2016: 46%) of total trade receivables and accrued income.

The increase in trade receivables and accrued income is principally the result of Opus Energy joining the Group in 2017.

Of total trade and other receivables at 31 December 2017, £123.9 million (2016: £33.4 million) relates to B2B Energy Supply sales. The risk profile of B2B Energy Supply debt is different from that of the Power Generation business due to a larger volume of smaller counterparties, and therefore a lower concentration of credit risk, with different payment terms.

The Group does not consider there to be any requirement for further provisions in excess of the provision for doubtful debts of £28.2 million (2016: £4.0 million). This provision, which largely relates to B2B Energy Supply 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.

All past-due receivables are assessed against the Group's credit risk policies for indicators of impairment and provisions made where appropriate.

The movement in the allowance for doubtful debts is laid out in the following table:

	Years ended 31 December 2017 £m	2016 £m
At 1 January	4.0	4.9
Receivables written off	(3.8)	(3.3)
Acquisition of Opus Energy	19.7	–
Provision for receivables impairment	8.3	2.4
At 31 December	28.2	4.0

3.5 TRADE AND OTHER RECEIVABLES CONTINUED

The customer base of Opus Energy is comprised of a large number of smaller enterprises. Accordingly, Opus Energy carries lower concentrations but higher levels of credit risk compared to the rest of the Group. This is reflected in the increase of the allowance for doubtful debts acquired when the Group obtained control of Opus Energy.

The value of trade receivables that are past due and not provided against, in accordance with the assessment described above, is £32.2 million (2016: £3.6 million). An ageing analysis of this amount is provided in the table below:

	As at 31 December	
	2017 £m	2016 £m
0–30 days past due	14.2	3.6
31–60 days past due	3.9	–
61–90 days past due	3.5	–
91+ days past due	10.6	–
Total past due not provided	32.2	3.6

3.6 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	
	2017 £m	2016 £m
Amounts falling due within one year:		
Trade payables	79.5	87.4
Fuel accruals	95.3	77.6
Energy supply accruals	291.9	216.3
Other accruals	164.2	125.4
Other payables	101.5	62.1
Amounts payable in respect of acquisitions	4.1	23.1
	736.5	591.9

Energy supply accruals includes £225.0 million (2016: £166.0 million) in relation to the Group's obligation to deliver ROCs arising from B2B Energy Supply activities. The remaining balance principally comprises third party grid charge accruals of £36.8 million (2016: £26.5 million) and FiT accruals of £25.9 million (2016: 21.2 million).

The Group recognises a liability in respect of its unsettled obligations to deliver emissions allowances under the EU Emission Trading Scheme (ETS). Accruals at 31 December 2017 include £30.6 million (2016: £2.8 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.

At 31 December 2017, the amounts payable in respect of acquisitions reflect the contingent consideration payable in relation to the acquisition of four Open-Cycle Gas Turbine (OCGT) projects in 2016. Initial consideration of £18.6 million was settled in cash on 3 January 2017, with the amount held as a liability in the balance sheet at 31 December 2016. The final purchase price depends upon future clearing prices in T-4 capacity market auctions from 2016 to 2020. The range of possible outcomes being zero further consideration if the capacity market clearing price does not exceed £28/KW in these auctions, with a maximum contingent consideration payable of £72 million, based on a clearing price of £75/KW. The fair value of the contingent consideration at 31 December 2017 was assessed at £4.1 million (2016: £3.8 million) based on a projection of likely future capacity market clearing prices, discounted to present value at a risk-free rate of 2%.

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 4.3) and subtracting cash and cash equivalents (note 4.2). The table below reconciles net debt in terms of changes in these balances across the year.

	Years ended 31 December	
	2017 £m	2016 £m
Net debt at 1 January	**(93.5)**	(186.6)
(Decrease)/increase in cash and cash equivalents	**(4.0)**	86.7
Increase in borrowings	**(267.8)**	(1.5)
Effect of changes in foreign exchange rates	**(2.1)**	7.9
Net debt at 31 December	**(367.4)**	(93.5)

A reconciliation of the increase in borrowings during the year is set out in the table on page 145.

4.2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash held in current and other deposit accounts that are accessible on demand. It is our policy to invest available cash on hand in short-term, low-risk bank accounts or money market funds.

	As at 31 December	
	2017 £m	2016 £m
Cash and cash equivalents	**222.3**	228.4

4.3 BORROWINGS

On 10 February 2017, the Group entered into a £375 million acquisition finance facility, of which £200 million was drawn and utilised in the purchase of Opus Energy (see note 5.1). This facility, along with the existing term loans at 1 January 2017, was repaid in full on 5 May 2017, when the Group undertook a refinancing exercise.

The new financing structure consists of £550 million of high-yield, publicly traded bonds listed on the Luxembourg exchange. This includes £350 million 4.25% fixed rate notes and £200 million floating rate notes of 4.00% above LIBOR, which all mature in April 2022.

On the same day, the Group entered into a £350 million Facility comprised of a revolving credit facility (RCF) with a value of £315 million (2016: £400 million) and an index-linked term loan of £35 million.

The RCF matures in April 2021, with an option to extend by one year, and has a margin of 150 basis points over LIBOR. At 31 December 2017, the RCF had been utilised to draw down letters of credit with a total value of £35.7 million (2016: 57.9 million).

The Group also has access to a $25 million revolving 30 day facility in the US business. This facility was fully drawn down at 31 December 2017 and had a Sterling equivalent value of £18.5 million at that date.

The term loan was fully drawn at inception and remains fully drawn at 31 December 2017 (2016: term loans of £325 million fully drawn).

The Group has no other undrawn debt facilities, although it does have access to certain non-recourse trade receivable finance facilities as described on note 4.4 which are utilised to accelerate working capital cash flows.

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.

4.3 BORROWINGS CONTINUED

Analysis of borrowings

An analysis of the changes in borrowings during the year is shown in the table below:

	As at 31 December 2017		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	329.0	(7.1)	321.9
Draw-down of Opus Energy acquisition facility	200.0	(3.8)	196.2
Draw-down of US revolving facility	18.5	–	18.5
Borrowings repaid on 5 May 2017	(493.8)	10.9	(482.9)
Fixed rate loan notes drawn down	350.0	(11.4)	338.6
Floating rate loan notes drawn down	200.0	(6.5)	193.5
Indexation of linked loan	1.8	–	1.8
Amortisation of deferred finance costs (note 2.5)	–	2.4	2.4
Changes in finance lease liabilities	(0.3)	–	(0.3)
Borrowings at 31 December	605.2	(15.5)	589.7

	As at 31 December 2017		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Loan notes	550.0	(15.5)	534.5
Term loans	35.9	–	35.9
US revolving facility	18.5	–	18.5
Finance lease liabilities	0.8	–	0.8
Total borrowings	605.2	(15.5)	589.7
Less current portion	(18.6)	–	(18.6)
Non-current borrowings	586.6	(15.5)	571.1

	As at 31 December 2016		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Term loans	327.9	(7.1)	320.8
Finance lease liabilities	1.1	–	1.1
Total borrowings	329.0	(7.1)	321.9
Less current portion	(37.9)	2.0	(35.9)
Non-current borrowings	291.1	(5.1)	286.0

The borrowings from the refinancing exercise in May, including the term loan, the loan notes and the RCF are secured against the assets of a number of the Group's subsidiaries, with the exception of the US subsidiary's land and buildings.

In addition, the Group has a secured commodity trading line, which allows us to transact prescribed volumes of commodity trades without the requirement to post collateral and FX trading lines with certain banks. Counterparties to these arrangements are entitled to share in the security as described above. As at 31 December 2017, this value was £3.6 million (2016: £0.9 million).

The US revolving facility is unsecured.

SECTION 4: FINANCING AND CAPITAL STRUCTURE

4.4 CASH GENERATED FROM OPERATIONS

Cash generated from operations is the starting point of our cash flow statement on page 126. The table below makes adjustments for any non-cash accounting items to reconcile our net profit for the year to the amount of cash we have generated from our operations.

	Years ended 31 December 2017 £m	2016 £m
(Loss)/profit for the year	**(151.1)**	193.9
Adjustments for:		
Interest payable and similar charges	**66.3**	7.0
Interest receivable	**(0.2)**	(0.6)
Tax (credit)/charge	**(32.1)**	3.2
Depreciation and amortisation	**167.2**	109.5
Losses on disposal	**14.5**	3.8
Unrealised losses/(gains) on derivative contracts	**156.1**	(176.8)
Other losses	**0.4**	–
Defined benefit pension scheme current service cost	**7.3**	6.0
Non-cash charge for share-based payments	**6.1**	5.2
Close out of currency contracts(1)	**(9.8)**	14.0
Operating cash flows before movement in working capital	**224.7**	165.2
Changes in working capital:		
Decrease/(increase) in inventories	**15.4**	(63.5)
Decrease in receivables	**60.6**	28.6
(Decrease)/increase in payables	**(22.4)**	73.7
Decrease in carbon assets	**0.6**	11.1
Decrease in ROC assets	**112.1**	12.5
Total cash released from working capital	**166.3**	62.4
Defined benefit pension scheme contributions	**(15.3)**	(14.5)
Cash generated from operations	**375.7**	213.1

Note:
(1) During 2016 we closed out a number of in-the-money forward foreign currency purchase contracts with a total value of £14 million. As these contracts were designated into hedge accounting relationships under IAS 39, the benefit is being recognised in the income statement in the period the hedged transaction occurs. The net loss for 2017 includes £10 million of income in relation to the unwinding of this position, for which the cash was received in 2016.

The Group has access to a facility that enables it to accelerate the cash flows associated with trade receivables arising from B2B Energy Supply sales on a non-recourse basis. The net cash benefit derived from this facility during 2017 was £110 million (2016: £74 million) and is recognised as a reduction in receivables in the table above. We estimate that approximately 30% of this cash would have been received in the ordinary course of business by 31 December 2017 had the facility not been in place.

The Group also has access to similar non-recourse facilities to accelerate cash flows on ROC receivables. No ROC receivables have been sold through these facilities in 2017 (2016: net cash benefit of £111 million). The reduction in ROCs in the table above reflects a reduction in the number of generation units that give rise to ROCs following the approval of the CfD contract for one of our biomass-fuelled units in December 2016.

4.5 EQUITY AND RESERVES

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

Accounting policy

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

	As at 31 December	
	2017 £m	2016 £m
Authorised:		
865,238,823 ordinary shares of 11 16/29 pence each	**100.0**	100.0
Issued and fully paid:		
2017: 407,034,429 ordinary shares of 11 16/29 pence each	**47.0**	47.0
	47.0	47.0

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

	Years ended 31 December	
	2017 (number)	2016 (number)
At 1 January	**406,700,321**	406,317,162
Issued under employee share schemes	**334,108**	383,159
At 31 December	**407,034,429**	406,700,321

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 21 December 2017, 152,169 shares were issued on early vesting of the Group's Bonus Matching Plan (BMP) by two individuals who had retired and discretion was used to vest the shares. On 1 March 2017, 140,888 shares were issued in satisfaction of shares vesting in accordance with the rules of the Group's BMP. Throughout January to December 2017, a total of 41,051 shares were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan.

Translation reserve

Exchange differences relating to the translation of the net assets of the Group's US-based subsidiaries from their functional currency (US Dollar) into Sterling for presentation in these consolidated accounts recognised in the translation reserve.

	Years ended 31 December	
	2017 £m	2016 £m
At 1 January	**(10.2)**	(1.1)
Exchange differences on translation of foreign operations	**3.4**	(9.1)
At 31 December	**(6.8)**	(10.2)

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	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
At 1 January	**1.5**	1.5	**424.2**	424.2	**710.8**	710.8
Issue of share capital	**–**	–	**0.1**	–	**–**	–
At 31 December	**1.5**	1.5	**424.3**	424.2	**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 the share premium reserve reflects amounts received on the issue of shares under employee share schemes.

Movements in the hedge reserve, which reflect the change in fair value of derivative financial instruments designated into hedge accounting relationships in accordance with IFRS, are set out in note 7.4.

SECTION 5
Other assets and liabilities

This section provides information on the assets and liabilities in the Consolidated balance sheet that are not covered in other sections, including goodwill, other intangible assets and the provision for reinstatement.

5.1 ACQUISITIONS

Accounting policy

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

Acquisition of Opus Energy Group Limited (Opus Energy)

The acquisition of Opus Energy was approved by shareholders on 8 February 2017 and subsequently completed on 10 February 2017; the Group acquired 100% of the issued share capital on this date.

Opus Energy is a well-established B2B energy supply business serving business customers principally in the SME market, providing diversification of our retail offering and a robust platform for growth in line with our strategy. Opus Energy has contributed positively to earnings and cash flow immediately following the acquisition.

The purchase consideration was £340 million plus interest calculated on the amount of Opus Energy's net assets from 31 March 2016 to the acquisition date. The total consideration of £367 million was funded by a combination of existing cash reserves (£167 million) and partial drawing of a £375 million acquisition facility (£200 million). This facility was repaid as part of the refinancing described in note 4.3.

Acquisition-related costs amounted to £7.8 million.

Following a detailed exercise to review the assets and liabilities, including intangible assets, the fair values acquired were as follows:

	Opus Energy £m
Financial assets	213.3
Property, plant and equipment	6.7
Financial liabilities	(195.4)
Intangible assets	
Customer-related assets	211.0
Brand	11.3
Software	1.9
Total identifiable intangible assets	224.2
Deferred tax liability	(40.7)
Total identifiable net assets	208.1
Goodwill	159.2
Fair value of consideration payable	367.3

The revenue and results of Opus Energy from the date of acquisition to the year end were as follows:

Income statement items for the period from 10 February to 31 December 2017	
Revenue	610.7
EBITDA	28.9
Profit	22.5

The figures above have changed from those disclosed in the interim financial statements published on 19 July 2017. The Group has continued to review and align estimates for the B2B Energy Supply business. This process resulted in a number of remeasurements reducing the fair value of the net assets acquired by £4.4 million, with a corresponding increase in goodwill. The values shown above are now final.

Following the acquisition, the Group has been able to identify and measure the fair value of existing customer contracts, the Opus Energy brand and software. The assets will be amortised over their useful economic lives as follows:

- Existing customer contracts 11 years (reducing balance)
- Brand 10 years (straight line)
- Software 3 years (straight line)

5.1 ACQUISITIONS CONTINUED

The fair value measurement of the existing customer contracts requires assumptions to be made, in particular regarding margins on current customer contracts, future contract renewal rates and future margins on renewed contracts. The goodwill of £159 million recognised on acquisition is largely reflective of potential customer contracts and growth opportunities together with the assembled workforce. None of the goodwill is deductible for tax purposes.

The financial assets acquired include £130 million of receivables, the majority of which reflect trade receivables for energy supplied to customers. By virtue of their short tenor, the fair value of these receivables is considered to be the contractual amounts receivable less any provision for doubtful debts. The provision for doubtful debts as at the acquisition date was £20 million.

Additional financial information

The consolidated results of the Group, assuming Opus Energy had been acquired at the beginning of the year, would show revenue of £3,775.7 million (compared to reported revenue of £3,685.2 million), EBITDA of £231.6 million (compared to the reported EBITDA of £228.9 million) and a loss after taxation of £149.0 million (compared to a reported loss after taxation of £151.1 million). This information includes the revenue and profits made by Opus Energy between 1 January 2017 and 10 February 2017, without accounting policy alignments and/or the impact of fair value uplifts resulting from acquisition accounting adjustments. This information is not necessarily indicative of the results of the combined Group that would have occurred had the acquisition actually been made at the beginning of the year, or indicative of the future results of the combined Group.

5.2 GOODWILL

Goodwill arises on the acquisition of a business when the consideration paid exceeds the fair value of the assets acquired. During 2017, we recognised additional goodwill on the purchase of Opus Energy (see note 5.1), and wrote off goodwill of £3.8 million in respect of Billington Bioenergy following the sale of the business.

Accounting policy

Goodwill is initially recognised and measured at the acquisition date. Goodwill is not amortised but reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the CGU to which it relates and the recoverable amount for that CGU assessed. The table below shows movements and balances:

	Goodwill £m
Cost and carrying amount:	
At 1 January 2016, 31 December 2016 and 1 January 2017	14.5
Acquisition of Opus Energy	159.2
Disposal of Billington Bioenergy	(3.8)
At 31 December 2017	**169.9**

Goodwill

Total goodwill in the Consolidated balance sheet at 31 December 2017 was £170 million, with £11 million arising on the acquisition of Haven Power in 2009 attributed to the Haven Power CGU and £159 million arising on the acquisition of Opus Energy in the year (see note 5.1) attributed to the Opus Energy CGU.

The recoverable amount of the Haven Power and Opus Energy CGUs is measured annually, based on a value-in-use calculation using the Group's established planning model. The elements reflected in this calculation are the same as those used for the wider asset impairment review conducted by the Group as at 31 December 2017 and are disclosed in note 2.4. Cash flows beyond the business plan period are inflated into perpetuity using a growth rate of 1%.

The carrying amount of the Haven Power CGU at 31 December 2017 was £23 million. The expected future cash flows of the CGU were discounted using a pre-tax discount rate of 8.1% (calculated based on independent analysis commissioned by the Group, adjusted to the specific circumstances and risk factors affecting the Group's B2B Energy Supply business). We believe that this rate reflects the prospects for a well-established B2B Energy Supply business. The value in use of the Haven Power CGU, including the goodwill, was significantly in excess of its carrying amount.

The carrying amount of the Opus Energy CGU at 31 December 2017 was £366 million, including intangible assets with a net book value of £186 million as described in note 5.3. Following the acquisition in 2017, the appropriate discount rate was assessed as being higher for Opus Energy than for Haven Power. The expected future cash flows were discounted using a range of discount rates from the Group's central B2B Energy Supply assumption (8.1%) to the rate used in the valuation of Opus Energy at the acquisition date (10.7% – see note 5.3). The application of discount rates across this range does not result in a recoverable amount for Opus Energy below its carrying amount.

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

SECTION 5: OTHER ASSETS AND LIABILITIES

5.3 INTANGIBLE ASSETS

Intangible assets are not physical in nature but are identifiable and separable from other assets. Intangible assets can be acquired in business combinations (such as the acquisition of Opus Energy during 2017) or purchased separately. The Group routinely purchases computer software and carbon emissions allowances, which are considered intangible assets.

Accounting policy

Intangibles acquired in business combinations are measured at fair value on the acquisition date. Other intangible assets are measured at cost. Cost comprises the purchase price (net of any discount or rebate) and any directly attributable costs to bring the asset into the condition and location required for use as intended by management.

Intangible assets are amortised over their anticipated useful lives. Useful lives are reviewed at each balance sheet date. No changes to useful lives were made as at 31 December 2017. Amortisation calculations are specific to each category of assets and are explained in further detail below.

Carrying amounts are assessed for indicators of impairment at each balance sheet date. The customer-related assets and brand are attributed to the Opus Energy CGU and details of the impairment test relating to this CGU are included in note 5.2.

Significant estimation uncertainty

The valuation of the intangible assets recognised on the acquisition of Opus Energy is dependent upon a number of assumptions. The most significant of these assumptions are explained under each of the asset headings below.

	Customer-related assets £m	Brand £m	Computer software £m	Development assets £m	Carbon £m	Total £m
Cost and carrying amount:						
At 1 January 2016	–	–	–	–	11.8	11.8
Utilised in period	–	–	–	–	(11.8)	(11.8)
Additions at cost	–	–	–	–	0.7	0.7
Acquisition of OCGT projects	–	–	–	21.0	–	21.0
At 1 January 2017	**–**	**–**	**–**	**21.0**	**0.7**	**21.7**
Transferred from PPE	–	–	39.4	–	–	39.4
Utilised in period	–	–	–	–	(0.7)	(0.7)
Additions at cost	–	–	16.0	–	–	16.0
Acquisition of Opus Energy (note 5.1)	211.0	11.3	2.6	–	–	224.9
At 31 December 2017	**211.0**	**11.3**	**58.0**	**21.0**	**–**	**301.3**
Accumulated amortisation						
At 1 January 2016	–	–	–	–	–	–
Charge for period	–	–	–	–	–	–
At 1 January 2017	–	–	–	–	–	–
Transferred from PPE	–	–	25.0	–	–	25.0
Acquisition of Opus Energy	–	–	0.7	–	–	0.7
Charge for period	35.6	1.1	6.9	–	–	43.6
At 31 December 2017	**35.6**	**1.1**	**32.6**	**–**	**–**	**69.3**
Net book value						
At 31 December 2016	–	–	–	21.0	0.7	21.7
At 31 December 2017	**175.4**	**10.2**	**25.4**	**21.0**	**–**	**232.0**

5.3 INTANGIBLE ASSETS CONTINUED

Customer-related assets

Customer-related assets reflect the value of customer contracts acquired on the acquisition of Opus Energy in February 2017, which provided the Group with access to a broad customer base with contracted cash flows. The asset valuation of £211 million reflects the estimated acquisition-date value of the future cash flows associated with this customer base and is dependent upon estimates of both current and expected future contract margins and assumed customer retention rates. The cash flows have been discounted using a pre-tax discount rate of 10.7%. The asset has a useful life of 11 years, calculated based on customer churn-rate analysis, and is being amortised on a reducing balance basis to reflect the diminishing rate of contract renewals over time.

Opus Energy brand

The Opus Energy brand was acquired as part of the acquisition in February 2017 and valued at £11 million on a relief-from-royalty method. The brand is being amortised on a straight-line basis over its assumed 10 year useful life.

Computer software

In light of continued investment and the increased significance of the carrying amount, the Group's software assets are presented separately within intangible assets (2016: included within tangible fixed assets, see note 3.1). Additions in the period include assets acquired in the Opus Energy acquisition in addition to those in the ordinary course of business, which principally reflect ongoing investment in business systems to support the B2B Energy Supply segment. Software assets are amortised on a straight-line basis over estimated useful lives ranging between three and five years.

Computer software assets in the course of construction of £11.1 million at 31 December 2017 (2016: £nil) were capitalised in the year.

Development assets

The development assets arose on the acquisition of four Open Cycle Gas Turbine projects in December 2016 and reflect the value of planning and consents acquired as part of that transaction. Until operations commence, the assets are considered to have an indefinite life and thus are not amortised and will be subject to impairment testing at each balance sheet date.

At 31 December 2017, the recoverable amount of the development assets was established using a value-in-use calculation derived from the Group's established planning model, consistent with the approach described in note 2.4. The assessment incorporated assumptions related to likely capacity market clearing prices, construction costs, the ongoing revenues to be derived from the projects once constructed and the direct costs of generating those revenues. The analysis indicated a recoverable amount for the development assets in excess of their carrying amount.

Carbon assets

Carbon assets arise on the purchase of CO_2 emissions allowances in excess of the amount allocated under the Emissions Trading Scheme and required for the current financial year, and are measured at cost, net of any impairment. Given their short tenor, carbon assets are not amortised.

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.

Post balance sheet events

The 2021 T-4 capacity market auction closed in February 2018 at a clearing price of £8.40/KW. The Group secured agreements to provide a total of 1,217MW of capacity from two existing coal units, worth a total of £10 million for the period October 2021 to September 2022.

Two of the Group's Open Cycle Gas Turbine (OCGT) projects also participated in the auction but exited above the clearing price. The Group will continue to develop these options with an expectation that they will go on to participate in the next T-4 auction. This outcome does not change the Group's view of the recoverable amount of the existing investments in the OCGT projects (see above) or the fair value of the contingent consideration that may become payable following future capacity market outcomes (see note 3.6).

SECTION 5: OTHER ASSETS AND LIABILITIES

5.4 PROVISIONS

We make 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 of the expected costs.

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. In view of the uncertainty of assessing the amount of any proceeds from the disposal of the assets at the decommissioning date, no reduction in the provision is made for any such proceeds. The discount rate used is a risk-free pre-tax rate of 1.8% (2016: 1.9%), 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. The balance also includes a small provision in respect of dilapidation provisions for leased offices acquired in the Opus Energy transaction in 2017.

	Provisions £m
Carrying amount:	
At 1 January 2017	35.0
Additions	**0.3**
Acquisition of Opus Energy	**0.3**
Adjustment for changes in assumptions	**0.1**
Unwinding of discount	**0.6**
At 31 December 2017	**36.3**

The decommissioning provision is based on the assumption that the decommissioning and reinstatement will take place at the end of the expected useful life of the power station in 2039, and has been estimated using existing technology at current prices based on independent third-party advice, updated on a triennial basis. The most recent update took place in December 2017.

Post balance sheet events

Subsequent to the year end, on 8 February 2018 the Group announced its intention to close the headquarters of the Pellet Production business in Atlanta, Georgia and move these functions to a location closer to the operational sites in Monroe, Louisiana. No amounts have been included in respect of this decision in these financial statements.

SECTION 6
Our people

The notes in this section relate to the remuneration of our directors and employees, including our obligations under retirement benefit schemes.

6.1 EMPLOYEES AND DIRECTORS

This note provides a more detailed breakdown of the cost of our employees, including executive directors. The average number of employees in Operations (staff based at production sites), B2B Energy Supply services (employees in our B2B Energy Supply segment) and Central and administrative functions are also provided.

Further information in relation to pay and remuneration of the executive directors can be found in the report of the Remuneration Committee, starting on page 81.

The number of staff employed by the Group, and the associated costs, increased from the previous year following the purchase of Opus Energy and the expansion of our US-based Pellet Production business.

Staff costs (including executive directors)

	Years ended 31 December	
	2017 £m	2016 £m
Included in other operating and administrative expenses (note 2.3)		
Wages and salaries	**103.7**	74.3
Social security costs	**11.9**	8.1
Pension costs	**15.4**	12.3
Share-based payments (note 6.2)	**6.1**	5.2
	137.1	99.9

Average monthly number of people employed (including executive directors)

	Years ended 31 December	
	2017 (number)	2016 (number)
Power Generation operations	**667**	645
Pellet Production operations	**186**	130
B2B Energy Supply services	**1,349**	399
Central and administrative functions	**305**	293
	2,507	1,467

6.2 SHARE-BASED PAYMENTS

We operate two share option schemes for our employees – the Performance Share Plan (PSP) for directors and senior executives (which replaced the Bonus Matching Plan (BMP) from 2017), and the Savings-Related Share Option Plan (SAYE) for all qualifying employees. We incur a non-cash charge in respect of these schemes in our income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding.

Accounting policy

All of the Group's share-based payments are equity settled. Equity-settled share-based payments are measured at the fair value of the equity instrument at the date of grant and are recognised in the income statement on a straight-line basis over the relevant vesting period, based on an estimate of the shares that will ultimately vest as a result of the effect of non-market-based vesting conditions, which is revised at each balance sheet date.

Costs recognised in the income statement in relation to share-based payments during the year were as follows:

	Years ended 31 December	
	2017 £m	2016 £m
PSP (granted from 2017)	**0.5**	–
DSP (granted from 2017)	**0.1**	–
BMP (granted in periods prior to 2017)	**1.5**	2.6
SAYE	**4.0**	2.6
	6.1	5.2

SECTION 6: OUR PEOPLE

6.2 SHARE-BASED PAYMENTS CONTINUED

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 2017 (number)	Shares acquired during year (number)	Shares transferred during year (number)	Shares held at 31 December 2017 (number)	Cost at 31 December 2017 £000	Nominal value at 31 December 2017 £000	Market value at 31 December 2017 £000
SIP	153,034	–	(95,435)	57,599	–	7	156

2017 Performance Share Plan (PSP) and Deferred Share Plan (DSP)

In 2017, a new share plan was introduced for directors and senior executives, replacing the Bonus Matching Plan. Under the PSP, annual awards of performance and service-related shares are made for no consideration to executive directors and other senior executives up to a maximum of 175% of their annual bonus. Vesting of a proportion of shares is conditional upon whether the Group's Total Shareholder Return (TSR) matches or outperforms an index (determined in accordance with the scheme rules) over three years and vesting of a proportion of shares is conditional upon performance against the internal balanced corporate scorecard. The fair value of the 2017 PSP awards of £2.8 million is being charged to the income statement on a straight-line basis over the three-year vesting period.

The fair value of PSP awards is calculated using a Monte-Carlo valuation model, which takes into account the estimated probability of different levels of vesting. The key inputs to the valuation model for the 2017 awards are the share price at the grant date (325 pence), expected volatility (44%), and risk-free interest rate (0.13%).

In addition, the Group operates the DSP, which was introduced in 2017 as a vehicle for deferring 35% of the annual bonus of executive directors, which are granted at nil cost and vest after three years subject to continued employment or "good leaver" termination provisions. The share price on the grant date of DSP awards made in 2017 was 325 pence and the fair value of these awards of £0.6 million is being charged to the income statement on a straight-line basis over the three-year vesting period.

Movements in the number of share options outstanding for the PSP and DSP awards are as follows:

	2017 PSP (number)	2017 DSP (number)
At 1 January	–	–
Granted	1,582,309	170,227
Forfeited	(292,547)	(59,418)
Exercised	–	–
Expired	–	–
At 31 December	1,289,762	110,809

50% of the PSP options granted in 2017 will vest conditional on Group TSR relative to the TSR of a comparator group of companies, with the remaining 50% vesting conditional upon the internal balanced corporate scorecard. The share price on the grant date for PSP options awarded in the year was 325 pence and the weighted average fair value of the PSP options granted during the year was 177 pence.

All of the PSP options outstanding at the end of the period had an exercise price of £nil. The weighted average remaining contractual life was 28 months.

The number of options exercisable at the year end was nil.

6.2 SHARE-BASED PAYMENTS CONTINUED

Bonus Matching Plan (BMP)

Under the BMP, annual awards of performance and service-related shares were made for no consideration to executive directors and other senior executives up to a maximum of 150% of their annual bonus up until 2016. The BMP was replaced in 2017 by the PSP. For awards prior to 2017, a proportion of the shares vesting under the BMP are conditional upon whether the Group's Total Shareholder Return (TSR) matches or outperforms an index (determined in accordance with the scheme rules) over three years and a proportion of the shares vesting is conditional upon performance against the internal balanced corporate scorecard. The fair value of the 2017, 2016 and 2015 BMP awards of £0.6 million, £2.6 million and £3.3 million respectively, are being charged to the income statement on a straight-line basis over the corresponding three-year vesting periods.

The fair value of BMP awards is calculated using a Monte-Carlo valuation model, which takes into account the estimated probability of different levels of vesting. No BMP awards were made in 2017.

Movements in the number of share options outstanding for the BMP awards is as follows:

	2017 BMP (number)	2016 BMP (number)
At 1 January	**3,193,932**	3,411,792
Granted	**–**	1,686,095
Forfeited	**(196,402)**	(623,597)
Exercised	**(131,952)**	(337,146)
Expired	**(551,423)**	(943,212)
At 31 December	**2,314,155**	3,193,932

For the BMP options exercised during the period, the weighted average share price at the date of exercise was 308 pence (2016: 232 pence).

All of the BMP options outstanding at the end of the period had an exercise price of £nil (2016: £nil). The weighted average remaining contractual life was nine months (2016: 17 months).

The number of options exercisable at the year end was nil (2016: nil).

Savings-Related Share Option Plan (SAYE)

In April 2017, participation in the SAYE plan was offered again to all qualifying employees. Options were granted for employees to acquire shares at a price of 280 pence (2016: 203 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 £0.9 million (2016: £3.9 million) is being charged to the income statement over the term of the relevant contracts.

Movements in the number of share options outstanding for the SAYE plans are as follows:

	2017		2016	
	SAYE three-year (number)	SAYE five-year (number)	SAYE three-year (number)	SAYE five-year (number)
At 1 January	**3,286,906**	**996,709**	1,948,209	934,041
Granted	**752,414**	**140,974**	3,150,023	919,723
Forfeited	**(81,269)**	**(32,324)**	(73,907)	–
Exercised	**(34,525)**	**(6,526)**	(8,618)	(8,604)
Expired	**(301,057)**	**(91,544)**	(1,728,801)	(848,451)
At 31 December	**3,622,469**	**1,007,289**	3,286,906	996,709

The fair value of SAYE awards is calculated using a Black-Scholes model, which compares exercise price to share price at the date of grant.

SECTION 6: OUR PEOPLE

6.2 SHARE-BASED PAYMENTS CONTINUED

The fair value of SAYE options granted and the inputs to the option pricing model used in the current and previous year are set out in the table below:

Grant date	5 April 2017	5 April 2017	5 April 2016	5 April 2016
Share price at grant date (pence)	328	328	286	286
Vesting period	3 years	5 years	3 years	5 years
Exercise price (pence)	280	280	203	203
Dividend yield	1.8%	2.5%	2.9%	5.0%
Annual risk-free interest rate	0.73%	0.90%	0.81%	0.95%
Expected volatility	41.2%	37.3%	40.0%	37.6%
Fair value of options granted (pence)	106	103	101	82

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three and five years respectively. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

For the SAYE options exercised during the period, the weighted average share price at the date of exercise was 305 pence (2016: 337 pence).

The weighted average exercise price of SAYE options outstanding at the end of the period was 224 pence (2016: 216 pence). The weighted average remaining contractual life was 22 months (2016: 31 months).

The number of options exercisable at the year end was nil (2016: nil).

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 one defined benefit and four defined contribution pension schemes.

The Drax Power Group (DPG) section of the Electricity Supply Pension Scheme (ESPS) is a defined benefit scheme; a pension arrangement under which participating members receive a pension benefit at retirement determined by the scheme rules. Members are typically entitled to an annual pension on retirement of 1/80th of final pensionable salary for each year of service plus a tax-free lump sum of three times pension.

The Drax Group Personal Pension Plan, Haven Power Personal Pension Plan, Opus Energy Group Personal Pension Plan and Drax Biomass Inc. 401(K) Plan are defined contribution schemes, which provide a retirement benefit that is dependent upon actual contributions made by the Group and members of the relevant scheme.

Accounting policy

Payments to defined contribution schemes are recognised as an expense when employees have rendered services that entitle them to the contributions. The income statement charge for the defined contribution scheme represents the contributions due to be paid by the Group in respect of the current period.

For the defined benefit pension scheme, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement of the obligation, comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest), is recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which it occurs. Defined benefit costs, including current service costs, past service costs and gains and losses on curtailments and settlements are recognised in the income statement as part of operating and administrative expenses in the period in which they occur. The net interest expense is recognised in finance costs.

Significant estimation uncertainty

Measurement of the defined benefit obligation using the projected unit credit method involves the use of key assumptions, including discount rates, inflation rates, salary and pension increases, and mortality rates. These actuarial assumptions are reviewed annually and modified as appropriate. The Group believes that the assumptions utilised in measuring obligations under the scheme are reasonable based on prior experience, market conditions and the advice of scheme actuaries. However, actual results may differ from such assumptions.

The assumptions applied in 2017 have been prepared on a consistent basis with those in the previous period and in accordance with independent actuarial advice received.

6.3 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Defined contribution schemes

The Group operates four defined contribution schemes, the Drax Group Personal Pension Plan, Haven Power Personal Pension Plan, Opus Energy Group Personal Pension Plan and Drax Biomass Inc. 401(K) Plan, for all qualifying employees. Pension costs for the defined contribution schemes are as follows:

	Years ended 31 December 2017 £m	2016 £m
Total included in staff costs (note 6.1)	**8.1**	5.6

As at 31 December 2017, contributions of £nil (2016: £0.5 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 DPG section of the 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.
Discount rate risk	A decrease in corporate bond yields will increase the value placed upon the scheme's liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.
Longevity risk	The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities of the scheme.
Inflation risk	The majority of the scheme's obligations to pay benefits are linked to inflation, and, as such, higher inflation will lead to higher liabilities. The majority of the assets held by the scheme are either unaffected by or only loosely correlated with inflation, such that an increase in inflation will also increase the deficit. In most cases, caps on inflationary increases are in place to protect against extreme inflation.

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 (GMP). See note 7.5 for details.

The most recent funding valuation of the DPG ESPS was carried out by Aon Hewitt, a qualified independent actuary, as at 31 March 2016. The actuarial review at 31 December 2017 is based on the same membership and other data as this funding valuation. The scheme board accepted the advice of the actuary and approved the use of these assumptions for the purpose of assessing the scheme cost. Future valuations are required by law at intervals of no more than three years.

The results of the latest funding valuation at 31 March 2016 have been adjusted to the balance sheet date, taking into account experience over the period since 31 March 2016, changes in market conditions and differences in financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service costs were measured using the projected unit credit method. The principal assumptions used, which reflect the nature and term of the scheme liabilities, are as follows:

	As at 31 December 2017 % p.a.	2016 % p.a.
Discount rate	**2.6**	2.8
Inflation (RPI)	**3.2**	3.2
Rate of increase in pensions in payment and deferred pensions	**3.0**	3.1
Rate of increase in pensionable salaries	**3.8**	3.8

Mortality assumptions are based on recent actual mortality experience of scheme members and allow for expected future improvements in mortality rates. The assumptions are that a member aged 60 in 2017 will live, on average, for a further 26 years if they are male (2016: 27 years) and for a further 29 years if they are female (2016: 29 years). Life expectancy at age 60 for male and female non-pensioners currently aged 45 is assumed to be 27 and 30 years respectively (2016: 28 and 31 years respectively).

SECTION 6: OUR PEOPLE

6.3 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

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 2017 £m	2016 £m
Defined benefit obligation	306.5	311.4
Fair value of plan assets	(305.3)	(281.3)
Net liability recognised in the balance sheet	1.2	30.1

The amounts recognised in the income statement, within other operating and administrative expenses and finance costs, are as follows:

	Years ended 31 December 2017 £m	2016 £m
Included in staff costs (note 6.1):		
Current service cost	7.3	6.0
Included in finance costs (note 2.5):		
Interest on net defined benefit liability	0.5	0.9
Total amounts recognised in the income statement	7.8	6.9

Actuarial gains and losses are recognised in the statement of comprehensive income in full, as follows:

	Years ended 31 December 2017 £m	2016 £m
Cumulative actuarial losses on defined benefit pension scheme at 1 January	(79.2)	(70.8)
Actuarial gains/(losses) on defined benefit pension scheme recognised in the year	21.4	(8.4)
Cumulative losses recognised in the statement of comprehensive income at 31 December	(57.8)	(79.2)

Changes in the present value of the defined benefit obligation are as follows:

	Years ended 31 December 2017 £m	2016 £m
Defined benefit obligation at 1 January	311.4	244.6
Current service cost	7.3	6.0
Employee contributions	0.1	0.2
Interest cost	8.5	9.4
Actuarial (gains)/losses	(4.8)	58.8
Benefits paid	(16.0)	(7.6)
Defined benefit obligation at 31 December	306.5	311.4

The actuarial gains of £4.8 million (2016: £58.8 million losses) reflect losses of £4.5 million arising from changes in financial assumptions (2016: losses of £71.4 million), offset by £5.5 million gains arising from changes in demographic assumptions and gains arising from scheme experience of £3.8 million (2016: gains of £1.9 million and £10.7 million respectively).

The losses due to changes in financial assumptions principally reflect the increase in the present value of the scheme liabilities arising as a result of the change in discount rate assumption to 2.60% (2016: 2.75%) following reductions in corporate bond yields.

6.3 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Changes in the fair value of plan assets are as follows:

	Years ended 31 December 2017 £m	2016 £m
Fair value of plan assets at 1 January	**281.3**	215.1
Interest income on plan assets	**8.0**	8.5
Remeasurement gains	**16.6**	50.4
Employer contributions	**15.3**	14.7
Employee contributions	**0.1**	0.2
Benefits paid	**(16.0)**	(7.6)
Fair value of plan assets at 31 December	**305.3**	281.3

Employer contributions included payments totalling £7.5 million (2016: £8.3 million) to reduce the actuarial deficit.

The actual return on plan assets in the period was £24.5 million (2016: £58.9 million).

The fair values of the major categories of plan assets were as follows:

	As at 31 December 2017 £m	2016 £m
Gilts	**104.1**	105.9
Equities(1)	**76.6**	65.2
Fixed interest bonds(2)	**71.6**	61.3
Property	**32.2**	29.5
Cash and other assets(3)	**20.8**	19.4
Fair value of total plan assets	**305.3**	281.3

Notes:
(1) At 31 December 2017 the scheme's long-term asset strategy was: global equity (20%), direct lending (10%), emerging market equity (5%), fixed interest bonds (15%), corporate bonds (6%), liability driven investing (29%) and long lease property (15%)
(2) Fixed interest bonds include a mixture of corporate, Government and absolute return bonds. Approximately 10% of the bonds have a sub-investment grade credit rating (i.e. BB+ or lower)
(3) Other assets include £19.0 million of investments in direct lending, a type of private equity vehicle, which is not quoted in an active market (2016: £17.9 million)

The pension plan assets do not include any ordinary shares issued by Drax Group plc or any property occupied by the Group.

The Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class relative to the actual asset allocation for the scheme.

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 2017 to changes in these assumptions:

		%	(Decrease)/ increase in net liability £m
Discount rate	– Increase	0.25	(15.6)
	– Decrease	0.25	16.3
Inflation rate(1)	– Increase	0.25	13.7
	– Decrease	0.25	(13.2)
Life expectancy	– Increase	1 year	10.9
	– Decrease	1 year	(10.9)

Note:
(1) The sensitivity of the scheme liabilities to salary and pension increases is closely correlated with inflation

The Group is exposed to investment and other experience risks, as described above, and may need to make additional contributions where it is estimated that the benefits will not be met from regular contributions and expected investment income.

SECTION 6: OUR PEOPLE

6.3 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

	As at 31 December				
	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Defined benefit obligation	(306.5)	(311.4)	(244.6)	(242.1)	(220.9)
Fair value of plan assets	305.3	281.3	215.1	207.8	179.2
Deficit	(1.2)	(30.1)	(29.5)	(34.3)	(41.7)
Experience adjustments on plan liabilities	3.8	10.7	1.7	1.6	8.7
Experience adjustments on plan assets	16.6	50.4	(4.6)	13.6	9.4

The defined benefit obligation includes benefits for current employees of the Group (60%), former employees of the Group who are yet to retire (5%) and retired pensioners (35%). The weighted-average period over which benefit payments are expected to be made, or the duration of the scheme liabilities, was assessed at the 31 March 2016 funding valuation to be 21 years.

Future contributions

The Group expects to make regular contributions, in respect of service costs, of £10.8 million to the defined benefit pension plan during the 12 months ended 31 December 2018.

In addition to regular contributions, deficit contributions have been agreed with the Trustees based upon the Technical Provisions as at the 31 March 2016 valuation. The Technical Provisions indicate a deficit of £64 million including an estimate of the impact of future service costs, which do not meet the definition of a liability at 31 December 2017 for inclusion in the financial statements. This valuation has not changed materially between the 31 March 2016 valuation date and 31 December 2017.

The Group has agreed to make additional contributions over the period to 31 December 2025 to eliminate the deficit. At this point the scheme is expected to be self-sufficient, unless material adverse changes in economic conditions arise compared to those assumed in the valuation. The Group is confident that the additional contributions are manageable within the Group's business plan. The terms of the Trust Deed allow the Group to recover any surplus once the liabilities of the scheme have been settled, accordingly the deficit contributions will not give rise to an unrecognised surplus.

SECTION 7
Risk management

This section provides disclosures around financial risk management, including the financial instruments we use to mitigate such risks.

7.1 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including commodity price risk, interest rate risk, foreign currency risk, liquidity risk, counterparty risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of commodity and financial markets and seeks to manage potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by the risk management committees as explained in principal risks and uncertainties (page 51) which identify, evaluate and hedge financial risks in close coordination 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 wood fibre and pellets 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:

- loss after tax for the year ended 31 December 2017 would decrease/increase by £1.5 million (2016: profit after tax would increase/decrease by £3.4 million). This is mainly attributable to the Group's exposure to oil derivatives; and
- the hedge reserve would increase/decrease by £5.6 million (2016: increase/decrease by £36.3 million) mainly as a result of the changes in the fair value of financial coal and power derivatives.

Interest rate risk

The Group is exposed to interest rate risk, principally in relation to its net debt to the extent arising from floating rate debt instruments. Historically, the Group 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 loss after tax and net assets for the year ended 31 December 2017 would decrease/increase by £2.2 million (2016: profit after tax would decrease/increase by £1.8 million) as a result of the changes in interest payable during the period.

Foreign currency risk

Forward foreign currency exchange contracts are entered into principally in order to hedge purchases of fuel for use in the Power Generation business. These purchases are typically denominated in US Dollars, Canadian Dollars or Euros.

Exchange rate exposures are managed within approved policy parameters utilising a variety of foreign currency exchange contracts. The Group enters into both forward currency purchase and currency option contracts to manage its anticipated foreign currency requirements over a rolling five-year period for both contracted and forecast transactions.

SECTION 7: RISK MANAGEMENT

7.1 FINANCIAL RISK MANAGEMENT CONTINUED

Foreign currency sensitivity

If Sterling exchange rates had been 5% stronger/weaker against other currencies and all other variables were held constant, the Group's:

- loss after tax for the year ended 31 December 2017 would increase/decrease by £351.1 million/£285.5 million (2016: profit after tax would decrease/increase by £252.6 million/£277.7 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 decrease/increase by £111.1 million/£122.8 million (2016: decrease/increase by £78.7 million/£87 million) as a result of the changes in the fair value of foreign currency exchange contracts.

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 2017			
	Within 3 months £m	3 months–1 year £m	>1 year £m	Total £m
Term loan, gross value	–	1.6	41.7	43.3
Revolving credit facilities, gross value	18.7	–	–	18.7
Loan notes, gross value	2.2	21.9	637.2	661.3
Finance lease liabilities, carrying value	–	0.1	0.8	0.9
Borrowings, contractual maturity	20.9	23.6	679.7	724.3
Trade and other payables	525.2	204.8	6.5	736.5
	546.1	228.4	686.3	1,460.8

	As at 31 December 2016			
	Within 3 months £m	3 months–1 year £m	>1 year £m	Total £m
Term loans, gross value	3.0	46.7	326.7	376.4
Finance lease liabilities, carrying value	0.1	0.1	1.0	1.2
Borrowings, contractual maturity	3.1	46.8	327.7	377.6
Trade and other payables	400.1	181.7	10.1	591.9
	403.2	228.5	337.8	969.5

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 4.38% (2016: 4.17%).

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 2017			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts, net	161.9	69.4	16.6	247.9
Forward foreign currency exchange contracts, net	1,104.0	1,173.9	2,331.0	4,608.8
	1,265.9	1,243.3	2,347.6	4,856.7

	As at 31 December 2016			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts, net	78.7	(25.1)	(14.2)	39.4
Forward foreign currency exchange contracts, net	903.5	870.9	1,696.5	3,470.9
	982.2	845.8	1,682.3	3,510.3

7.1 FINANCIAL RISK MANAGEMENT CONTINUED

In managing liquidity risk, the Group has access to facilities that enable it to accelerate the cash flows associated with certain of its receivables (principally those related to ROC sales and retail power sales). Each of these facilities is provided on a non-recourse basis and accordingly receivables sold under each facility are derecognised from the balance sheet at the point of sale. The impact on the Group's cash flows is detailed in note 4.4.

Counterparty risk

As the Group relies on third party suppliers for the delivery of currency, coal, sustainable compressed wood pellets and other goods and services, it is exposed to the risk of non-performance by these third party suppliers. If a large supplier were to fall into financial difficulty and/or fail to deliver against its contract with the Group, there would be additional costs associated with securing the lost goods or services from other suppliers.

The Group enters into contracts for the sale of electricity to a number of counterparties. The failure of one or more of these counterparties to perform their contractual obligations may cause the Group financial distress or increase the risk profile of the Group.

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	
	2017 £m	2016 £m
Financial assets:		
Cash and cash equivalents	222.3	228.4
Trade and other receivables	409.2	296.9
Other fixed asset investments	1.3	–
Derivative financial instruments	366.2	891.3
	999.0	1,416.6

Trade and other receivables are stated gross of the provision for doubtful debts of £28.2 million (2016: £4.0 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 historically 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 shareholders 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 debt. Net debt is comprised of borrowings disclosed in note 4.3 and cash and cash equivalents in note 4.2.

	As at 31 December	
	2017 £m	2016 £m
Borrowings	589.7	321.9
Cash and cash equivalents	(222.3)	(228.4)
Net debt	367.4	93.5
Total shareholders' equity, excluding hedge reserve	1,594.1	1,739.8

SECTION 7: RISK MANAGEMENT

7.2 DERIVATIVE FINANCIAL INSTRUMENTS

We enter into forward contracts for the purchase and sale of physical commodities (principally power, gas, coal, sustainable biomass and CO_2 emissions allowances) to secure market level bark and dark green spreads on future electricity sales, and also financial forward and option contracts (principally currency exchange contracts and financial coal and oil derivatives) to fix Sterling cash flows.

We hold these contracts 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 fix exposures to commodity price movements and changes in foreign exchange rates using derivative contracts such as those described above. This strategy aims to de-risk the business, providing security and certainty over cash flows into the future. As at 31 December 2017, due to the strengthening of Sterling against the US Dollar, the fair value of our forward derivative contracts, consisting largely of forward contracts for the purchase of foreign currencies (principally for the purpose of fixing the Sterling cost of sustainable compressed wood pellet purchases), decreased to £160.0 million (2016: £527.8 million). The strengthening in Sterling during 2017 partially reversed the significant mark to market gains posted during 2016 as its value fell following the Brexit vote.

Accounting policy

At the balance sheet date all contracts (subject to certain exemptions described below) must be measured at fair value, which is in essence the difference between the price we have secured in the contract, and the price we could achieve in the market at that point in time.

Changes in fair value are recognised either within the income statement or the hedge reserve, dependent upon whether the contract in question qualifies as an effective hedge under IFRS (see note 7.4).

Where possible, the Group has taken advantage of the own-use exemption which allows qualifying contracts to be excluded from fair value mark-to-market accounting. This applies to certain contracts for physical commodities entered into and held for 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 in accordance with IAS 39 and are recorded in the balance sheet at fair value, with changes in fair value reflected through the hedge reserve (note 7.4) to the extent that the contracts are designated as effective hedges in accordance with IAS 39, or the income statement where the hedge accounting requirements are not met. The Group enters into forward contracts solely for the purpose of financial risk management and considers all of its contracts to be economic hedges, regardless of whether the specific criteria for hedge accounting are met.

Derivative financial instruments with a maturity date within 12 months from the balance sheet date are classified as current assets or liabilities. Instruments with a maturity date beyond 12 months are classified as non-current assets or liabilities.

The location in the consolidated financial statements of the changes in fair value of derivative contracts in 2017 is summarised in the table below:

Accounting for derivative contracts	Gains/(losses) on contracts in 2017 £m	Gains/(losses) on contracts in 2016 £m	Accounting treatment for gains/(losses) in the consolidated financial statements
Commodity contracts			
Power	**3.8**	(88.6)	Hedge reserve
Coal from international sources	**(0.8)**	5.6	Income statement
Coal from domestic sources	**n/a**	n/a	Own-use exemption
Biomass	**n/a**	n/a	Own-use exemption
CO_2 emissions allowances	**11.0**	(2.7)	Hedge reserve
Gas	**0.1**	(76.5)	Income statement
Financial contracts			
Foreign currency exchange contracts	**(234.6)**	241.9	Income statement
	(225.6)	384.1	Hedge reserve
Financial coal	**12.9**	(13.7)	Income statement
	1.5	37.3	Hedge reserve
Financial oil and other financial products	**66.3**	19.5	Income statement
Total net losses in hedge reserve	**(209.3)**	330.1	
Total net losses in income statement	**(156.1)**	176.8	

7.2 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

Significant estimation uncertainty

The fair values of derivative instruments for commodities and foreign currency exchange contracts are determined using forward price curves. Forward price curves represent the Group's estimates of the prices at which a buyer or seller could contract today for delivery or settlement of a commodity or foreign exchange payment or receipt, at future dates. The Group generally bases forward price curves upon readily obtainable market price quotations, as the Group's commodity and forward foreign exchange contracts do not generally extend beyond the actively traded portion of these curves. However, the forward price curves used are only an estimate of how future prices will move and are, therefore, subjective. Where derivative financial instruments include options these are valued using an option pricing model. Inputs to the model include market commodity prices, forward price curves, the term of the option, discount rate and assumptions 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 recorded in the balance sheet at fair value as follows:

	As at 31 December 2017		As at 31 December 2016	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Commodity contracts:				
Less than one year	60.5	(79.3)	91.1	(164.0)
More than one year but not more than two years	8.4	(14.4)	9.8	(51.7)
More than two years	0.5	(1.1)	1.9	(7.5)
Forward foreign currency exchange contracts:				
Less than one year	115.0	(30.3)	313.9	(87.0)
More than one year but not more than two years	85.5	(20.0)	185.8	(26.0)
More than two years	96.3	(58.7)	288.8	(27.3)
Total	366.2	(203.8)	891.3	(363.5)
Less: non-current portion				
Commodity contracts	(8.9)	15.5	(11.7)	59.2
Forward foreign currency exchange contracts	(181.8)	78.7	(474.6)	53.3
Total non-current portion	190.7	(94.2)	486.3	(112.5)
Current portion	175.5	(109.6)	405.0	(251.0)

The total reduction in the fair value of these contracts of £365.4 million (2016: £506.9 million gain) 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	
	2017 £m	2016 £m
Unrealised (losses)/gains on derivative contracts recognised in arriving at operating profit	(156.1)	176.8
Unrealised (losses)/gains on derivative contracts recognised in the hedge reserve (note 7.4)	(209.3)	330.1
Total unrealised (losses)/gains on derivative contracts	(365.4)	506.9

We maintain a substantial foreign currency hedging programme to secure the Sterling cost of future purchases of fuel in foreign currencies. The vast majority of our fuel purchases, and therefore our currency exchange contracts, are denominated in US Dollars. As noted on page 164, the unrealised losses reflect the strengthening of Sterling against the US Dollar in the year.

SECTION 7: RISK MANAGEMENT

7.2 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

A material proportion of these contracts are not designated in hedge accounting relationships under IAS 39 and thus the gains on these contracts were recognised in the income statement.

Unrealised losses recognised in the hedge reserve principally reflect losses on the portion of our forward currency exchange contracts that are designated in effective hedge relationships in accordance with IAS 39.

Fair value measurement

- **Commodity contracts fair value –** The fair value of open commodity contracts that do not qualify for the own-use exemption is calculated by reference to forward market prices at the balance sheet date. As contracts are generally short-term, forward market price curves are available for the duration of the contracts. The quoted market price used for financial assets held by the Group is the current bid price; the quoted price for financial liabilities is the current ask price.
- **Forward foreign currency exchange contracts fair value –** The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the balance sheet date.
- **Other financial contracts fair value –** The fair value of other financial contracts that do not qualify for the own-use exemption, is calculated by reference to forward market prices at the balance sheet date. As contracts are generally short-term, forward market price curves are available for the duration of the contracts.

The fair values of all derivative financial instruments are discounted to reflect the credit risk inherent within the instrument.

The Group has reviewed all significant contracts for the presence of embedded derivatives. Where contracts were found to contain embedded derivatives, they were considered to be closely related to the economic characteristics and risks of the host contract, and therefore do not require separate valuation from their host contracts.

We are required by IFRS to categorise our financial instruments in accordance with the following hierarchy in order to explain the basis on which their fair values have been determined:

- Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair value measurements are those derived from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Categorisation within this fair value measurement hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset or liability.

The fair value of commodity contracts, forward foreign currency exchange contracts and the contingent consideration in the Open Cycle Gas Turbine sites acquisition (see note 3.6) are largely determined by comparison between forward market prices and the contract price; therefore these contracts are categorised as Level 2.

There have been no transfers during the year between Level 1, 2 or 3 category inputs.

7.3 OTHER FINANCIAL INSTRUMENTS

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), trade and other receivables (note 3.5), and trade and other payables (note 3.6) generally have a short time in which to mature. For this reason their carrying values, on the historical cost basis, approximate to their fair value. The Group's borrowings are set out in detail in note 4.3.

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	
	2017 £m	2016 £m
At 1 January	**305.4**	34.9
Gains/(losses) recognised:		
– Commodity contracts	**1.5**	(18.3)
– Forward foreign currency exchange contracts	**(161.9)**	397.3
Released from equity:		
– Commodity contracts	**14.8**	(35.7)
– Forward foreign currency exchange contracts	**(73.6)**	(13.2)
Related deferred tax, net (note 2.6)	**39.9**	(59.6)
At 31 December	**126.1**	305.4

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 currency contracts, this is when the associated foreign currency transaction is recognised. Further information about the Group's accounting for financial instruments is included in note 7.2.

No ineffectiveness was recognised in the income statement in the year (2016: £6.4 million).

The expected release profile from equity of post-tax hedging gains and losses is as follows:

	As at 31 December 2017			
	Within 1 year £m	**1–2 years £m**	**>2 years £m**	**Total £m**
Commodity contracts	**2.3**	**(1.7)**	**–**	**0.6**
Forward foreign currency exchange contracts	**40.0**	**39.9**	**45.6**	**125.5**
	42.3	**38.2**	**45.6**	**126.1**

	As at 31 December 2016			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	(12.8)	(0.6)	0.1	(13.3)
Forward foreign currency exchange contracts	42.8	69.0	206.9	318.7
	30.0	68.4	207.0	305.4

SECTION 7: RISK MANAGEMENT

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 and cannot be measured reliably.

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.

Guarantees

In addition to the amount drawn down against the bank loans, certain members of the Group guarantee the obligations of a number of banks in respect of letters of credit issued by those banks to counterparties of the Group. As at 31 December 2017, the Group's contingent liability in respect of letters of credit issued under the revolving credit facility amounted to £35.7 million (2016: £57.9 million).

The Group also guarantees obligations in the form of surety bonds with a number of insurers amounting to £41.3 million (2016: £nil).

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	
	2017 £m	2016 £m
Contracts placed for future capital expenditure not provided in the financial statements	11.6	33.0
Future support contracts not provided in the financial statements	6.5	5.9
Future commitments to purchase fuel under fixed and variable priced contracts	5,803.5	5,194.4

The contractual maturities of the future commitments to purchase fuel are as follows:

	As at 31 December	
	2017 £m	2016 £m
Within one year	1,054.2	873.7
Within two to five years	2,885.5	2,773.0
After five years	1,863.8	1,547.7
	5,803.5	5,194.4

Commitments to purchase fuel reflect long-term forward purchase contracts with a variety of international suppliers, primarily for the delivery of sustainable wood pellets for use in electricity production at Drax Power Station over the period from 2018–2027. To the extent these contracts relate to the purchase of wood pellets, they are not reflected elsewhere in our financial statements owing to application of the "own-use" exemption from fair value accounting to such contracts (see note 7.2).

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2017 £m	2016 £m
Within one year	8.9	3.7
Within two to five years	25.5	10.8
After five years	9.1	5.2
	43.5	19.7

The lease commitments principally comprise of a number of leases for office space.

SECTION 8
Reference information

This section details reference information relevant to the accounts. Here we describe the general information about the Group (e.g. operations and registered office). We also set out the basis of preparation of the accounts and general accounting policies that are not specific to any one note.

8.1 GENERAL INFORMATION

Drax Group plc (the Company) is incorporated in England and Wales under the Companies Act. The Company and its subsidiaries (together, the Group) have three principal activities:

- electricity generation;
- electricity supply to business customers; and
- manufacturing of sustainable compressed wood pellets for use in electricity production.

The Group's activities are principally based within the UK, with the wood pellet manufacturing activities situated in the US.

The address of the Company's registered office and principal establishment is Drax Power Station, Selby, North Yorkshire, YO8 8PH, United Kingdom. A full list of operating companies of the Group is disclosed in note 5 to the Company's separate financial statements, which follow these consolidated financial statements.

8.2 BASIS OF PREPARATION

Adoption of new and revised accounting standards

A number of new and amended standards became effective for the first time in 2017. The Group adopted the following from 1 January 2017:

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.

The adoption of these updates and amendments 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 2 – Classification and Measurement of Share-based Payment Transactions – effective for annual periods beginning on or after 1 January 2018.

IFRS 9 – Financial Instruments – effective for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 (including clarifications issued on 12 April 2016) – Revenue from Contracts with Customers – effective for annual reporting periods beginning on or after 1 January 2018.

IAS 40 (amended) – Investment Property – effective for annual reporting periods beginning on or after 1 January 2018.*

IFRIC 22 – Foreign Currency Transactions and Advance Consideration – effective for annual reporting periods beginning on or after 1 January 2018.*

IFRIC 23 – Uncertainty over Income Tax Treatments – effective for annual reports beginning on or after 1 January 2019.*

IFRS 16 (amended) – Leases – effective for annual reporting periods beginning on or after 1 January 2019.

IFRS 10 (amended) – Consolidated Financial Statements and IAS 28 (amended) – Investments in Associates and Joint Ventures (2011) – effective date deferred indefinitely.*

Adoption of the other standards in future periods is not expected to have a material impact on the financial statements of the Group, other than the three standards noted below.

IFRS 9 – Financial Instruments

The Group adopted IFRS 9 with effect from 1 January 2018. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets, replacing the previous requirements of IAS 39.

The Group's current accounting for financial instruments is set out in further detail in note 7.2.

SECTION 8: REFERENCE INFORMATION

8.2 BASIS OF PREPARATION CONTINUED

The Group does not expect the new requirements to have a significant impact on the classification and measurement of its financial assets or financial liabilities.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. The Group's existing hedge relationships will continue to qualify as hedges. No new hedge relationships have been designated as at 1 January 2018; however, we anticipate opportunities to designate additional contracts into hedge relationships in future, potentially reducing income statement volatility from fair value movements on such contracts.

IFRS 9 allows a policy choice to designate the fair value movements relating to forward basis points and the time value of money of options as a "cost of hedging" and recognise these movements as a component of other comprehensive income (OCI). The Group intends to adopt this policy. Currently these values are recognised in the unrealised gains/losses on derivative contracts line in the income statement. Had this policy been in place during the year ended 31 December 2017, the impact would have been to reduce the loss before tax by approximately £32 million and the loss after tax by approximately £26 million, with an identical post-tax expense recognised in other comprehensive income. There is no impact on the balance sheet valuation of derivative contracts.

As unrealised gains and losses on derivative contracts are currently recognised in the income statement below EBITDA and are excluded from underlying earnings (see note 2.7), the changes described above will have no impact on EBITDA or underlying earnings.

The new impairment model requires the measurement of impairment provisions to be based on expected credit losses, rather than incurred credit losses as is the case under IAS 39. We expect this to impact the Group's calculation of impairment provisions in respect of trade receivable balances. We estimate that such impairment provisions will increase modestly as a result (less than £1 million) with a one-off corresponding reduction in EBITDA and underlying earnings in 2018.

The new standard also introduces additional disclosure requirements in respect of financial instruments. We anticipate an increase in the level of financial instrument disclosure, particularly in the year ended 31 December 2018 following the adoption of the new standard.

IFRS 15 – Revenue from Customer Contracts

The Group has completed an impact assessment for the adoption of IFRS 15. The standard has been adopted from 1 January 2018.

IFRS 15 introduces a five-step model for determining the recognition and measurement of revenue, which is more in-depth and provides additional guidance compared to the previous revenue standard. The Group's main sources of revenue and existing revenue recognition policies are described in more detail in note 2.2.

Having assessed the Group's material contracts against the new model, a significant change to the quantum and timing of the recognition of revenue and profits is considered unlikely. The review has included the sources of revenue referred to in note 2.2.

IFRS 15 introduces a number of areas of judgement into the revenue recognition process. In determining that no significant change is anticipated, the most critical areas of judgement relate to the B2B Energy Supply businesses. Our assessment has considered the identification of performance obligations within the customer contracts, the assessment of when each performance obligation is satisfied and the treatment of variable consideration. In all three of these areas, the current policies have been assessed and we have concluded that they are in line with the new requirements.

In the Group's other businesses, the significant contracts are not complex, being characterised by a single performance obligation that is satisfied at a point in time with a fixed consideration. Therefore, we have concluded that there will be no impact on transition to IFRS 15.

IFRS 16 – Leases

IFRS 16 introduces a new model for accounting for leases. The principal change compared to the current standard is to bring leases previously classified as operating leases onto the balance sheet, subject to exemptions and exceptions for short-term and low-value leases.

This will result in an increase in assets, lease liabilities, depreciation and finance charges, and a reduction in operating expenditure, when compared to previous periods.

At 31 December 2017, the Group has non-cancellable operating lease commitments of £43.5 million (see note 7.6).

The Group intends to undertake a comprehensive review, prior to the effective date, to quantify the above effects. This review will also consider whether certain contracts currently not classified as leases meet the definition of a lease under IFRS 16.

The Group intends to adopt IFRS 16 in the first period it becomes mandatory, which commences on 1 January 2019.

8.3 RELATED PARTY TRANSACTIONS

A related party is either an individual or entity with control or significant influence over the Group, or a company that is linked to us by investment (such as an associated company or joint venture). Our primary related parties are our key management personnel.

Remuneration of key management personnel

The remuneration of the directors and Executive Committee members, who are considered to be the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors, together with the directors' interests in the share capital of Drax Group plc, is provided in the audited part of the Remuneration Committee report.

	Years ended 31 December	
	2017 £000	2016 £000
Salaries and short-term benefits	**4,900**	5,011
Aggregate amounts receivable under share-based incentive schemes	**1,221**	1,146
Company contributions to money purchase pension schemes	**34**	44
	6,155	6,201

Amounts included in the table above reflect the remuneration of the 12 (2016: 10) members of the Board and Executive Committee as described on pages 81–107, including those who have resigned during the year.

Amounts receivable under incentive schemes represents the expenses arising from share-based payments included in the consolidated income statement, determined based on the fair value of the related awards at the date of grant (note 6.2), as adjusted for non-market-related vesting conditions.

There were no other transactions with directors for the periods covered by these consolidated financial statements.

Audited consolidated financial statements of Drax Group plc and its subsidiaries as of and for the year ended 31 December 2016.

Extracted from the 2016 annual report and accounts of Drax Group plc

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 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including 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 that we have audited 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), including FRS 101 "Reduced Disclosure Framework".

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: – Asset impairment – Useful economic life assumptions – Valuation of commodity and foreign exchange contracts – Existence and valuation of biomass stocks – Valuation and recoverability of ROCs
Materiality	The materiality that we used in the current year was £4.2 million which was determined based on a blended basis taking into consideration a number of available metrics.
Scoping	We focused our group audit scope primarily on the audit work at three locations, being Drax Power, Haven Power and Drax Biomass. All of these were subject to a full scope audit. These three locations represent the principal business units and account for all of the group's net assets, revenue and profit before tax.
Significant changes in our approach	Our audit approach remains consistent to the prior year. We have refined our key risk in relation to stocks and have focused specifically on biomass existence and valuation and identified a new risk in relation to the useful economic life assumptions adopted.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

We are required to state whether we have anything material to add or draw attention to in relation to: – the directors' confirmation on page 61 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 55 to 61 that describe those risks and explain how they are being managed or mitigated; – the directors' statement on page 111 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 12 months from the date of approval of the financial statements; and – the directors' explanation on page 54 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 confirm that we have nothing material to add or draw attention to in respect of these matters. 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 confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.	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.

This year we have refined the risk relating to stocks to focus on the existence and valuation of biomass stocks, as opposed to coal and biomass stocks in the prior year as this is where we consider the most judgement to exist. As per note 3.3, biomass stocks have increased from £119 million at 31 December 2015 to £198 million at 31 December 2016. Coal stocks have reduced from £89 million at 31 December 2015 to £66 million at 31 December 2016. This reflects the development of the plant.

Useful economic life assumptions has been identified as a new risk in the year. As part of the most recent annual review of asset lives, the estimated useful life of coal-specific assets at Drax Power Station will be revised with effect from 1 January 2017 and this is considered to be a key judgement.

Risk	How the scope of our audit responded to the risk
Asset Impairment The Group's market capitalisation continues to be below its asset value. Additional contributing factors in the current year which increase the risk of impairment includes the depreciation of sterling following the Brexit vote, delays in the approval of the CfD, the UK Government consultation on the future of coal generating assets within the UK power industry and continued softness in commodity markets. 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 2.4 and the Audit Committee report on page 77, asset impairment has been considered a key risk by the Audit Committee. The impairment testing is subject to the application of management judgement in identifying cash-generating units (CGUs) and various assumptions underlying the calculation of the value in use for each CGU identified. This assessment also considers changes in the business which may give rise to additional CGUs, for example the approval of the CfD on Unit 1 in the current year. Additionally, these assumptions include the achievability of the long-term business plan and related modelling assumptions underlying the valuation process. The significant judgements have been disclosed by management in note 2.4 and include: – The expected operating lives of the six generating units – Future commodity prices beyond the horizon of existing contracted purchases, particularly long-term power prices at both baseload and peak times, and biomass prices in the long term given that biomass is not a standardised commodity traded openly on exchanges; – Future foreign exchange rates beyond the horizon of existing contracted purchase commitments; – the continuance of existing biomass support regimes until 2027 and the existence of a favourable economic environment for biomass generation thereafter; and – The discount rate applied to forecast future cash flows.	We carried out testing of the design and implementation of key controls related to asset impairment. We have challenged management's identification of CGUs, taking into consideration the independence of cash flows across key components of the business and generating units. We utilised our valuation specialists to benchmark key market related assumptions including commodity prices, current and future capacity and other support mechanisms and discount rates against external data where available. For example, we have compared the commodity price assumptions to the latest available Department for Business, Energy and Industrial Strategy (DBEIS), Department of Energy and Climate Change (DECC) and National Grid forecasts. 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; and – Assessing whether the disclosures in note 2.4 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.
Useful economic life assumptions Previously, the useful economic life of the power station was assumed to end in 2039. Estimated useful lives are based on past experience, future replacement cycles and other available evidence; however an inherent degree of judgement remains. As per note 3.1, as part of the most recent annual review of asset lives, the estimated useful life of coal-specific assets at Drax Power Station will be revised with effect from 1 January 2017. On 9 November 2016 the Government announced a consultation on the future closure of unabated coal-fired generation. Following this, management concluded that coal generation will most likely cease during 2025, shortening the useful lives of the coal-specific assets which will not be required to support generation after this date. Management believe this change will result in an increase of approximately £27 million per annum in depreciation charges from 1 January 2017 to 31 December 2025.	We have considered a number of factors as part of our audit including challenging the reasonableness of key assumptions such as: – the adequacy of the current and proposed depreciation assumptions across the generation asset base; – consideration of the future ability to generate economic value; – factors affecting primary income streams including forecast spreads and external factors including political and regulatory requirements; and – Consistency of the UEL assessment with the impairment analysis above. We have also assessed whether 1 January 2017 is an appropriate date from which to amend the useful economic life.

Risk	How the scope of our audit responded to the risk
Valuation of commodity and foreign exchange contracts Unrealised gains on derivative contracts recognised in the income statement are £177m (2015: £124m), with total assets of £891m and liabilities of £364m recognised on the balance sheet as at the year end. We note that £666m of assets relate to foreign currency derivatives at the current year end (2015: £36m). The valuation of derivative contracts is complex and requires judgement in areas including the selection of appropriate valuation methodologies and assumptions in respect of future market prices and credit risk factors. Further detail of the key judgements are disclosure in the Group's critical accounting judgements, estimates and assumptions set out on pages 117 and 118 and the Audit Committee report on page 77.	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 instrument specialists to test management's key judgements and calculations, including testing a sample of trades undertaken to trade tickets confirming key information such as volumes and contracted prices. We have assessed the valuation models used by management to determine the fair value of the derivative instruments and performed independent valuations across a sample of both commodity and foreign exchange contracts. We have analysed the appropriateness of management's forward price curve assumptions by benchmarking these to third party sources and reviewed the consistency of the assumptions used across other areas of the financial statements such as asset impairment. We have challenged management's approach and assumptions involved in assessing fair value adjustment such as credit risk, time value of money and spread adjustments.
Existence and valuation of biomass stocks Biomass stocks of £198 million (2015: £119 million) are held on the balance sheet at year end. The most significant judgement relating to stock is considered to be the existence and valuation of biomass stocks held on-site £21 million. Given the storage and handling characteristics of the on-site biomass stocks, judgement is inherent in calculating the volume of biomass stocks owned by the Group because it is not practical to physically count the stocks at year end. Further details of the key accounting policy judgements are included in note 3.3, and as noted, the calibrated weighers and efficiency calculations are subject to a range of tolerable errors. The valuation of biomass is dependent upon the estimation or measurement of the tonnage held, the calorific value, its purchase price and its net realisable value. The weighted average cost calculation is complex and dependant on the tonnage held. This results in an increasing risk of management error or bias and therefore increased risk of misstatement.	We carried out testing of the design and implementation of key controls related to the existence and valuation of on-site biomass stocks. Our audit procedures include testing the underlying weighted average cost calculation by agreeing key inputs such as price and volumes to source data including purchase invoices for amounts delivered in the year. We also sample testing the calorific value of biomass to third party laboratory reports or purchase invoice as appropriate. We gained assurance of stock volumes on site during the year through management's dome emptying programme. We also sample tested metering data subsequent to the dome emptying by agreeing to third party sources and internal operational data. We assessed the tolerable errors in the weighing equipment through agreement to a sample of third party calibration certificates.
Valuation and recoverability of ROCs ROCs with a value of £258 million are held on the balance sheet at the year end (2015: £266 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 consumed in the income statement) and subsequently written down to net realisable values as appropriate. Judgement is required by management in estimating both the initial fair value and estimating net realisable value, including value recovered through the recycling fund. Further detail is explained in the Group's critical accounting judgements, estimates and assumptions set out on pages 117 and 118 and in the Audit Committee report on page 77.	We carried out testing of the design and implementation of key controls related to the valuation of ROCs. We gained assurance over the ROCs generated in the year by agreement to Ofgem confirmation certificates and operational data confirming the level of generation eligible for ROCs. 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 estimates made by management of the recoveries through the recycling fund, the level of 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.

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 have determined materiality by considering a range of possible benchmarks and the figures derived from those, with a particular focus on selecting a materiality within the range that we considered appropriate. This included underlying EBITDA (excluding unrealised gains or losses on derivative contracts, one-off asset obsolescence charges and losses on disposal of assets), profit before and after interest and tax as well as the scale of the balance sheet and the overall size of the business. We determined materiality for the Group on a blended basis to be £4.2 million (2015: £6.1 million).

This materiality equates to 0.2% of net assets and 17% of underlying profit before tax (excluding unrealised gains or losses on derivative contracts, one-off asset obsolesce charges and losses on disposal of assets). Last year materiality was also based on a blended rate.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.2 million (2015: £0.1 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The change in the reporting threshold has been made following our reassessment of what matters require communicating. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope primarily on the audit work at three locations (2015: the same three locations), being Drax Power, Haven Power and Drax Biomass. All of these locations were subject to a full scope audit and they represent the principal business units and account for all of the group's net assets, revenue and profit before tax, in line with 2015. There 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 three locations was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £2.1 million to £3.8 million (2015: £3.0 million to £4.8 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 of them at least once a year. During 2016 the Senior Statutory Auditor visited two of these locations, and other senior team members visited the third.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: – we have not received all the information and explanations we require for our audit; or – adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or – the parent company financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.	We have nothing to report 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
15 February 2017

FINANCIAL STATEMENTS

Introduction

The consolidated financial statements provide detailed information about the financial performance (Consolidated income statement), financial position (Consolidated balance sheet), and cash flows (Consolidated cash flow statement) of Drax Group plc (the Company) together with all of the entities controlled by the Company (collectively, the Group).

The notes to the financial statements provide additional information on the items in the Consolidated income statement, Consolidated balance sheet and Consolidated cash flow statement. The notes include explanations of the information presented. In general, the additional information in the notes to the financial statements is required by law, International Financial Reporting Standards (IFRS) or other regulations to facilitate increased understanding of the primary statements set out on pages 120 to 124.

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 61 of this document.

In the viability statement on page 54 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.

Changes in foreign currency exchange rates

The substantial depreciation of Sterling against the US dollar and Euro during the second half of 2016 has had a material impact on our financial statements, resulting in a significant increase in the fair value of our forward currency purchase contracts in the balance sheet and income statement volatility due to realised and unrealised currency exchange gains and losses.

Where the impact is material, we have extended certain disclosures to highlight the impact of currency exchange gains and losses in the period. Where relevant, we have re-presented the prior year comparatives to provide the relevant information to gauge the impact.

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 are eliminated on consolidation. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

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 119).

We have not changed any of our accounting policies in the period; however we have adopted a material new policy in respect of accounting for the Contract for Difference (CfD) (see page 118).

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. Useful economic lives are reviewed annually, we reduced the useful lives of certain assets in our generation business from 1 January 2017.

MORE INFORMATION: note 3.1 on page 137

Impairment – an impairment review is conducted annually for goodwill and for other assets and cash-generating units where an indicator of possible impairment exists. The assessment of future cash flows that underpins such a review is based on 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 2.4 on page 130

Derivatives – derivative financial instruments are recorded in the Group's balance sheet at fair value. The assessment of fair value is derived from assuming a market price for the instrument in question. The Group bases its assessment of market prices upon forward curves that are largely derived from readily obtainable quotations and third party sources. However, any forward curve is based at least in part upon assumptions about future transactions and market movements. Where such instruments extend beyond the liquid portion of the forward curve, the level of judgement increases as the number of observable transactions decreases.

MORE INFORMATION: note 7.2 on page 160

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 140

Renewable Obligation Certificates (ROCs) – the carrying amount of ROCs in the Group's balance sheet is stated at their expected realisable value. This assessment is based on estimated future sales prices, which involves judgement.

MORE INFORMATION: note 3.2 on page 139

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 152

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 2.6 on page 132

Revenue recognition – the nature of some of the Group's activities, particularly within the Retail segment, results in revenue being based on the estimated volumes of power supplied to customers at an estimated average price per unit. Assumptions that underpin these estimates are applied consistently and comparison of past estimates to final settlements suggests a high degree of accuracy. However, given the level of judgement involved, actual outcomes may vary from initial estimates.

MORE INFORMATION: note 2.2 on page 127

CfD accounting policy – the CfD is a material new contract for the Group and the specific accounting treatment is not prescribed by an existing IFRS. Accordingly, management has had to exercise judgement in adopting an appropriate policy in accordance with IAS 8. Management considered the requirements of a number of standards, including IAS 18 (revenue), IAS 39 (financial instruments), IAS 16 (leases) and IAS 20 (Government Grants) in determining the policy to be adopted. In particular, management concluded that the contract did not meet the definition of a derivative financial instrument in IAS 39 on the grounds that cash flows do not become contractually due until the point of generation and the Group is under no obligation to generate. Accordingly, amounts due under the CfD are recognised at the point of generation.

MORE INFORMATION: note 2.2 on page 127

Non-IFRS measures of financial performance

We present two non-IFRS measures on the face of our income statement: EBITDA and underlying profit.

EBITDA is the primary measure we use to assess our financial performance. EBITDA is defined as profit before interest, tax, depreciation, amortisation and unrealised gains and losses on derivative contracts.

Underlying measures, including underlying profit before and after tax and underlying earnings per share (EPS), exclude the impact of unrealised gains and losses on derivative contracts, plus particular transactions considered to be one-off in nature that do not reflect the underlying trading and operational performance of the Group. Underlying profit after tax and EPS exclude the post-tax effect of these items. In 2015, this excluded an asset obsolescence charge of £109 million. In 2016, this excludes a deferred tax credit of £31 million in relation to start-up losses in our US business.

A reconciliation of profit for the year attributable to equity holders (calculated in accordance with IFRS) to underlying profit after tax is provided in note 2.7.

Under our current distribution policy, dividends are calculated based upon 50% of underlying profit after tax.

CONTENTS

SECTION 1:

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	Notes	Years ended 31 December 2016 £m	2015 £m
Revenue	2.2	**2,949.8**	3,065.0
Fuel costs in respect of generation		**(1,154.2)**	(1,309.9)
Cost of power purchases		**(907.8)**	(851.3)
Grid charges		**(379.7)**	(369.5)
Other retail costs		**(131.8)**	(125.5)
Total cost of sales		**(2,573.5)**	(2,656.2)
Gross profit		**376.3**	408.8
Operating and administrative expenses	2.3	**(236.3)**	(239.8)
EBITDA[1]	2.3	**140.0**	169.0
Depreciation	3.1	**(109.5)**	(100.4)
Asset obsolescence charges		–	(109.2)
Loss on disposal		**(3.8)**	(7.1)
Unrealised gains on derivative contracts	7.2	**176.8**	123.7
Operating profit		**203.5**	76.0
Interest payable and similar charges	2.5	**(7.0)**	(18.4)
Interest receivable	2.5	**0.6**	1.4
Profit before tax		**197.1**	59.0
Tax:			
– Before effect of changes in rate of corporation tax	2.6	**(13.0)**	(20.5)
– Effect of changes in rate of corporation tax	2.6	**9.8**	17.8
Total tax charge		**(3.2)**	(2.7)
Profit for the year attributable to equity holders		**193.9**	56.3
Underlying profit after tax[2]	2.7	**20.5**	46.0
Earnings per share		**pence**	pence
– Basic	2.7	**48**	14
– Diluted		**47**	14

All results relate to continuing operations.

Notes:
(1) EBITDA is profit before interest, tax, depreciation, amortisation and unrealised gains and losses on derivative contracts.
(2) Underlying profit after tax excludes the post-tax effect of unrealised gains and losses on derivative contracts, plus particular transactions considered to be one-off in nature that do not reflect the underlying trading performance of the Group. A reconciliation of profit after tax (calculated in accordance with IFRS) to underlying profit after tax is provided in note 2.7.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Years ended 31 December 2016 £m	2015 £m
Profit for the year		**193.9**	56.3
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains on defined benefit pension scheme	6.3	**(8.4)**	1.2
Deferred tax on actuarial (losses)/gains on defined benefit pension scheme	2.6	**1.6**	(0.2)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(9.1)**	(2.9)
Fair value gains on cash flow hedges	7.2	**330.1**	23.4
Deferred tax on cash flow hedges before corporation tax rate change	2.6	**(62.6)**	(4.7)
Impact of corporation tax rate change on deferred tax on cash flow hedges	2.6	**3.0**	(0.2)
Other comprehensive income		**254.6**	16.6
Total comprehensive income for the year attributable to equity holders		**448.5**	72.9

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2016 £m	2015 £m
Assets			
Non-current assets			
Goodwill and other intangible assets	5.2	**36.2**	26.3
Property, plant and equipment	3.1	**1,641.5**	1,653.8
Deferred tax assets	2.6	**33.5**	–
Derivative financial instruments	7.2	**486.3**	278.4
		2,197.5	1,958.5
Current assets			
Inventories	3.3	**287.5**	224.0
ROC and LEC assets	3.2	**257.6**	270.1
Trade and other receivables	3.4	**292.9**	319.3
Derivative financial instruments	7.2	**405.0**	330.8
Cash and cash equivalents	4.2	**228.4**	133.8
Current tax assets		**–**	0.6
		1,471.4	1,278.6
Liabilities			
Current liabilities			
Trade and other payables	3.5	**591.9**	488.0
Current tax liabilities		**6.1**	–
Borrowings	4.3	**35.9**	0.3
Derivative financial instruments	7.2	**251.0**	274.3
		884.9	762.6
Net current assets		**586.5**	516.0
Non-current liabilities			
Borrowings	4.3	**286.0**	320.1
Derivative financial instruments	7.2	**112.5**	300.1
Provisions	5.3	**35.0**	30.5
Deferred tax liabilities	2.6	**275.2**	191.9
Retirement benefit obligations	6.3	**30.1**	29.5
		738.8	872.1
Net assets		**2,045.2**	1,602.4
Shareholders' equity			
Issued equity	4.5	**47.0**	46.9
Capital redemption reserve	4.5	**1.5**	1.5
Share premium	4.5	**424.2**	424.2
Merger reserve	4.5	**710.8**	710.8
Hedge reserve	7.4	**305.4**	34.9
Translation reserve	4.5	**(10.2)**	(1.1)
Retained profits	2.9	**566.5**	385.2
Total shareholders' equity		**2,045.2**	1,602.4

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 15 February 2017.

Signed on behalf of the Board of directors:

Dorothy Thompson CBE
Chief Executive

Will Gardiner
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued equity £m	Capital redemption reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Translation reserve £m	Retained profits £m	Total £m
At 1 January 2015	46.8	1.5	422.8	710.8	16.4	1.8	372.5	1,572.6
Profit for the year	–	–	–	–	–	–	56.3	56.3
Other comprehensive income/(expense)	–	–	–	–	18.5	(2.9)	1.0	16.6
Total comprehensive income for the year	–	–	–	–	18.5	(2.9)	57.3	72.9
Equity dividends paid (note 2.8)	–	–	–	–	–	–	(49.9)	(49.9)
Issue of share capital (note 4.5)	0.1	–	1.4	–	–	–	–	1.5
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	–	5.3	5.3
At 1 January 2016	**46.9**	**1.5**	**424.2**	**710.8**	**34.9**	**(1.1)**	**385.2**	**1,602.4**
Profit for the year	–	–	–	–	–	–	193.9	193.9
Other comprehensive income/(expense)	–	–	–	–	270.5	(9.1)	(6.8)	254.6
Total comprehensive income for the year	–	–	–	–	270.5	(9.1)	187.1	448.5
Equity dividends paid (note 2.8)	–	–	–	–	–	–	(11.0)	(11.0)
Issue of share capital (note 4.5)	0.1	–	–	–	–	–	–	0.1
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	–	5.2	5.2
At 31 December 2016	**47.0**	**1.5**	**424.2**	**710.8**	**305.4**	**(10.2)**	**566.5**	**2,045.2**

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Years ended 31 December 2016 £m	2015 £m
Cash generated from operations	4.4	213.1	166.0
Income taxes paid		(1.7)	(3.8)
Other gains/(losses)		0.7	(3.7)
Interest paid		(21.7)	(11.9)
Interest received		0.4	1.5
Net cash from operating activities		190.8	148.1
Cash flows from investing activities			
Purchases of property, plant and equipment		(93.2)	(179.1)
Acquisition of subsidiary		–	(4.0)
Redemption of short-term investments		–	40.1
Net cash used in investing activities		(93.2)	(143.0)
Cash flows from financing activities			
Equity dividends paid	2.8	(11.0)	(49.9)
Proceeds from issue of share capital		0.1	1.5
Repayment of borrowings		–	–
Other financing costs paid		–	(5.7)
Net cash absorbed by financing activities		(10.9)	(54.1)
Net increase/(decrease) in cash and cash equivalents		86.7	(49.0)
Cash and cash equivalents at 1 January		133.8	180.9
Effect of changes in foreign exchange rates		7.9	1.9
Cash and cash equivalents at 31 December	4.2	228.4	133.8

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 (2.2–2.6) and information regarding underlying earnings, distributable profits and dividends (2.7–2.9). Further commentary regarding our trading and operational performance during the year, which is predominantly reflected in EBITDA, can be found in the Strategic report on pages 1 to 61, with particular reference to key achievements and market conditions that have affected our results.

2.1 Segmental reporting

The Group is organised into three businesses, with a dedicated management team for each, and a central head office providing certain corporate functions. Our businesses are:

- 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. Information reported to the Board for the purposes of assessing performance and making investment decisions is based on these three operating segments. The measure of profit or loss for each reportable segment presented to the Board on a regular basis is EBITDA (as defined on page 118).

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

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 2016:

	Year ended 31 December 2016				
	Generation £m	Retail £m	Biomass Supply £m	Adjustments[(1)] £m	Consolidated £m
Revenue					
External sales	1,622.7	1,326.4	0.7	–	2,949.8
Inter-segment sales	868.2	–	72.9	(941.1)	–
Total revenue	2,490.9	1,326.4	73.6	(941.1)	2,949.8
Segment gross profit	337.0	23.5	18.1	(2.3)	376.3
Segment EBITDA	173.8	(4.3)	(6.3)	(2.3)	160.9
Central costs					(20.9)
Consolidated EBITDA					140.0
Depreciation and amortisation					(109.5)
Losses on disposal					(3.8)
Unrealised gains on derivative contracts					176.8
Operating profit					203.5
Net finance costs					(6.4)
Profit before tax					197.1

Notes:
(1) Adjustments represent the elimination of intra-group transactions.

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 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 costs					(24.5)
Consolidated EBITDA					169.0
Depreciation and amortisation					(100.4)
Losses on disposal					(7.1)
Asset obsolescence charges[2]					(109.2)
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) £102.6 million of the asset obsolescence charges arose in the Generation segment, with the remaining £6.6 in the Biomass Supply segment.

Assets and working capital are monitored on a consolidated basis, with no separate reporting by segment in the Group's management accounts. However, spend on key capital projects is monitored. Total spend on the biomass transformation project during 2016 was £29 million (2015: £90 million), of which £7 million (2015: £22 million) relates to construction of assets, in the US, within the Biomass Supply segment.

The accounting policies applied for the purpose of measuring the segments' profits or losses, assets and liabilities are the same as those used in measuring the corresponding amounts in the Group's financial statements. The external revenues and results of all 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 arm's-length, commercial terms that where possible equate to market prices at the time of the transaction. During 2016, the Biomass Supply segment sold wood pellets with a total value of £72.9 million (2015: £28.4 million) to the Generation segment and the Generation segment sold power, ROCs and LECs with a total value of £868.2 million (2015: £863.2 million) to the Retail segment.

The impact of all intra-group transactions, including any unrealised profit arising (£2.3 million at 31 December 2016), is eliminated on consolidation.

Major customers

Total revenue for the year ended 31 December 2016 includes amounts of £541.5 million and £399.3 million (2015: £597.7 million and £468.0 million) derived from two customers (2015: two customers), each representing 10% or more of the Group's consolidated revenue for the year. These revenues arose in the Generation segment.

2.2 Revenue

Accounting Policy

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 from our generating assets in Drax Power are measured based upon metered output delivered at rates specified under contract terms or prevailing market rates as applicable.

Two of our biomass-fuelled generating units earn Renewable Obligation Certificates (ROCs) under the UK Government's Renewables Obligation (RO) regime. The financial benefit of a ROC is recognised in the income statement at the point the relevant renewable biomass fuel is burnt and power dispatched as a reduction in the cost of the biomass fuel. A corresponding asset is recognised on the balance sheet (see note 3.2 on page 139). Revenue from sale of ROCs is recognised when the ROC is transferred to the account of a third party.

Revenue from the sale of electricity directly to business customers through our power retail business, Haven Power, 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 is measured based upon metered consumption and contractual rates; however where a supply has taken place but is not yet measured or billed, the revenue calculation is estimated based on consumption statistics and selling price estimates.

Revenues from the sale of wood pellets through our UK domestic pellet retail business, Billington Bioenergy are recognised at the point the pellets are delivered to the location specified in the contract, which is normally the customer's premises.

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

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

CfD payments

The Group is party to a Contract for Difference (CfD) with The Low Carbon Contracts Company (LCCC), a Government-owned entity responsible for delivering elements of the Government's Electricity Market Reform Programme. Under the contract, the Group makes or receives payments in respect of electricity dispatched from one of its three biomass-fuelled generating units. The payment is calculated with reference to a strike price of £100 per MWh. The strike price is in 2012 terms and increases each year indexed to UK CPI and system balancing costs. The strike price at 31 December 2016 was £106 per MWh.

Where market prices at the point of generation are above/below the strike price, the Group makes/receives an additional payment to/from LCCC equivalent to the difference between the market power price at the point of dispatch and the strike price. Such payments are in addition to amounts received from the sale of the power in the wholesale market and either increase or limit the total income from the power dispatched from the relevant generating unit to the strike price in the CfD contract.

The Group recognises the income or costs arising from the CfD in the income statement, as a component of revenue, at the point the flow of economic benefit becomes probable. This is considered to be the point at which the relevant generation is delivered and the payment becomes contractually due.

The Group began generating under the CfD contract on 21 December 2016 and, in accordance with this policy, accrued £10.3 million of revenue in respect of amounts due from the LCCC in the period ending 31 December 2016.

2.2 Revenue continued

ROC sales

The generation and sale of ROCs is a key driver of the Group's financial performance. The RO scheme started in April 2002 and places an obligation on electricity suppliers to source an increasing proportion of their electricity from renewable sources. Under the RO, ROCs are certificates issued to generators of renewable electricity which are then sold to suppliers to demonstrate they have fulfilled their obligations under the RO. ROCs are managed in compliance periods (CPs), running from April to March annually, CP1 commenced in April 2002. At 31 December 2016 we are in CP15.

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

The financial benefit of a ROC recognised in the income statement at the point of generation is thus comprised of two parts: the expected value to be obtained in a sale transaction with a third party supplier and the expected recycle fund benefit to be received at the end of the CP. See note 3.2 on page 139 for further details of ROCs generated and sold by our Generation business and those utilised by our Retail business in the year.

Further analysis of our revenue for the year ending 31 December 2016 is provided in the table below:

	Year ended 31 December 2016		
	External £m	Intra-group £m	Total £m
Generation			
Power sales	1,193.4	686.5	1,879.9
ROC and LEC sales	366.7	181.7	548.4
CfD income	10.3	–	10.3
Ancillary services	47.3	–	47.3
Other income	5.0	–	5.0
Retail			
Power sales	1,319.6	–	1,319.6
Pellet sales	6.7	–	6.7
Other income	0.1	–	0.1
Biomass Supply			
Pellet sales	–	72.9	72.9
Other income	0.7	–	0.7
Elimination of intra-group sales	–	(941.1)	(941.1)
Total consolidated revenue	2,949.8	–	2,949.8

The Group's principal revenues arise from the sale of power, both into the wholesale market via Drax Power, our generation business, and to Industrial and Commercial and small and medium-sized enterprise business customers via Haven Power, our energy retail business. The Group also sells wood pellets into the domestic UK heat market via Billington Bioenergy, part of our retail business. Drax Biomass, our US-based wood pellet manufacturing business, generates all of its revenues intra-group, selling sustainable wood pellets to Drax Power to be used in the electricity generation process.

ROC sales and CfD income reflect revenues received through Government programmes to support renewable generation. ROC sales reflect consideration received for sales of ROCs by Drax Power to third parties. CfD income reflects amounts received under the CfD contract awarded by the UK Government to one of our biomass-fuelled electricity generation units. See CfD payments above for further details.

2.2 Revenue continued

The following is an analysis of the Group's revenues in the year ended 31 December 2015:

	Year ended 31 December 2015		
	External £m	Internal £m	Total £m
Generation			
Power sales	1,461.2	702.2	2,163.4
ROC and LEC sales	290.8	161.0	451.8
CfD income	–	–	–
Ancillary services	14.0	–	14.0
Other income	9.0	–	9.0
Retail			
Power sales	1,284.9	–	1,284.9
Pellet sales	4.6	–	4.6
Other income	0.5	–	0.5
Biomass Supply			
Pellet sales	–	28.1	28.1
Other income	–	0.3	0.3
Elimination of intra-group sales	–	(891.6)	(891.6)
Total consolidated revenue	3,065.0	–	3,065.0

2.3 Operating expenses and EBITDA

This note sets out the material components of "Operating and administrative expenses" in our Consolidated income statement, page 120, 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	
	2016 £m	2015 £m
Gross profit	**376.3**	408.8
The following expenditure has been charged in arriving at operating profit/EBITDA:		
Staff costs (note 6.1)	**99.9**	106.8
Repairs and maintenance expenditure on property, plant and equipment	**68.9**	59.6
Other operating and administrative expenses	**67.5**	73.4
Total operating and administrative expenses	**236.3**	239.8
EBITDA	**140.0**	169.0

EBITDA is profit before interest, tax, depreciation, amortisation and unrealised gains and losses on derivative contracts.

2.3 Operating expenses and EBITDA continued

Auditor's remuneration

	Years ended 31 December 2016 £000	2015 £000
Audit fees:		
Fees payable for the audit of the Group's consolidated financial statements	**448**	361
Fees payable for the audit of the Company's subsidiaries	**27**	74
	475	435
Other fees:		
Review of the Group's half-year condensed consolidated financial statements	**71**	70
Other services	**2**	2
Total audit related fees	**548**	507
Taxation services	**–**	7
Other assurance services	**610**	36
Total non-audit fees	**610**	43
Total auditor's remuneration	**1,158**	550

Other assurance services provided by Deloitte LLP in 2016 consist largely of reporting accountant services associated with the shareholder circular in relation to the Opus transaction, published on 18 January 2017. Non-audit services are approved by the Audit Committee in accordance with the policy set out on page 81.

2.4 Review of fixed assets for impairment

Accounting policy

The Group reviews its fixed assets (or, where appropriate, groups of assets known as cash-generating units (CGUs)) whenever there is an indication that an impairment loss may have been suffered. The Group 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 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 CGU (value in use) or the expected price that would be received to sell the asset to another market participant (fair value). The initial assessment of recoverable amount is normally based on value in use.

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

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

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

Goodwill balances are assessed for impairment annually (see note 5.2).

Critical judgement areas

In 2015, the market capitalisation of the Group fell materially below the carrying value of the Group's net assets. Whilst the shortfall has reduced considerably during 2016, this remains the case at the balance sheet date. In addition, commodity markets are weak and the substantial weakening of Sterling against both the Euro and US dollar in the second half of 2016 indicated a potentially material increase in the long-term costs of fuel for our generation business, which are predominantly priced in these currencies. Accordingly an impairment review of the Drax Power CGU was undertaken at the balance sheet date. A review of other CGUs suggested no indicators of impairment.

2.4 Review of fixed assets for impairment continued

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 estimates of future prices, output, costs and economic support for renewable energy generation, including access to Capacity Market and Ancillary Services contracts. Where relevant and to the fullest extent possible, the key assumptions are based on observable market information. However, observable market information is only available for a limited proportion of the remaining useful lives of the assets under review,

The most critical of these assumptions are discussed below.

Impairment review

The carrying amount of the Drax Power CGU at 31 December 2016 was £1,911 million. The value in use of the Drax Power CGU was tested using the Group's established planning model.

The analysis assumed that Drax Power's three biomass-fuelled generating units would continue in operation until the end of their estimated useful lives, currently considered to be 2039. In line with our assumption that coal-fired generation will cease by 2025, applied in light of the Government consultation published in November 2016, the three remaining coal-fired units were assumed to cease coal-fired generation by this date but will then be available for conversion to biomass-fired units. No account has been taken of any cash inflows that could result from such a conversion (which could take place earlier than 2025) in measuring the value in use of the Drax Power CGU.

The analysis depends on a broad range of assumptions, including the expected life of the six power generating units and the regulatory regime under which they might operate. The key assumptions (i.e. those most sensitive to a change, possibly resulting in a different outcome for impairment) are considered to be:

- The expected operating lives of the six generating units, as described above;
- Future commodity prices beyond the horizon of our existing contracted purchase and sale commitments – notably power prices and biomass prices;
- Future foreign exchange rates beyond the horizon of our existing contracted purchase commitments; and
- The continuance of existing biomass support regimes – CfD and RO – until 2027 and the existence of a favourable economic environment for biomass generation thereafter. This includes future Capacity Markets and Ancillary Services revenues.

These assumptions are all dependent on external market movements. The historic volatility in these assumptions is reflected in the financial performance of the Group but past performance is not necessarily a reliable indicator of future values.

Where available, estimates of future prices are based on signed contracts for purchases and sales with third parties. Transactions beyond contracted positions are valued using market data and forward price curves, based where possible on data points provided by a reputable third party source, independent to the Group. In particular, longer-term power prices are based on Department for Business, Energy and Industrial Strategy and National Grid assumptions. The contracted period for biomass purchases is substantially longer, with the longest-dated contracts expiring in 2027. Beyond this point, estimated biomass prices are largely based on our internal models and expectations for the biomass market.

Future foreign exchange rates are based on contracted foreign currency purchases to the extent possible. Beyond our contracted position, exchange rate estimates are based on market forward curves and, beyond this point, Bloomberg data.

Current Government plans for existing renewable support mechanisms, namely the CfD and RO, assume these cease in 2027. The impairment analysis made no assumptions regarding the direct replacement of these support mechanisms beyond this date. The biomass-fuelled units that are assumed to continue to generate power do so supported by the prevailing wholesale power price, delivery of ancillary services to the UK grid and an expectation that capacity market revenues would be available to these units. Our power price forecasts reflect increased volatility between peak and baseload prices. Assumed revenues from ancillary services and the capacity market are based on projections derived from current contracts and capacity market outcomes and how we expect the market to evolve. These assumptions reflect our expectation that Drax will be required to provide generation to support intermittent renewable power and be an essential part of the UK's energy mix throughout the life of the units.

The expected future cash flows were discounted using a pre-tax nominal rate of 8.4%. The discount rate is supported by observable market reports and independent analysis commissioned by, and specific to the circumstances of the Group. This indicated that the recoverable amount of the Drax Power CGU exceeded its carrying value with headroom of approximately £200 million and therefore that no provisions for impairment were required.

Sensitivity analysis indicated that, when compared to our base case assumptions, a reduction of approximately 7% in market power prices, an increase in biomass prices of approximately 11%, or a depreciation of Sterling against the US dollar of some 8% throughout the 23-year term of the valuation would result in a recoverable amount for the Drax Power CGU that is lower than its carrying amount. This does not consider the interaction effect of potential changes in several or all of the assumptions simultaneously, and the sensitivities do not take account of any mitigating actions that could be taken should the changes referred to materialise. In addition, in relation to central costs, no reasonable change in the method of allocation would result in an impairment charge.

2.5 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 2016 £m	2015 £m
Interest payable and similar charges:		
Interest payable on bank borrowings	**(19.4)**	(18.0)
Unwinding of discount on provisions (note 5.3)	**(4.5)**	(0.7)
Amortisation of deferred finance costs	**(2.1)**	(3.7)
Net finance cost in respect of defined benefit scheme (note 6.3)	**(0.9)**	(1.1)
Other financing charges	**(2.1)**	(0.8)
Total interest payable and similar charges	**(29.0)**	(24.3)
Interest receivable:		
Interest income on bank deposits	**0.6**	1.4
Total interest receivable	**0.6**	1.4
Foreign exchange gains	**22.0**	5.9
Net interest charge	**(6.4)**	(17.0)

Foreign exchange gains and losses recognised in interest arise on the retranslation of balances and investments denominated in foreign currencies to prevailing rates at the balance sheet date. Sterling weakened against the US dollar and Euro following the EU referendum in June, resulting in gains being recognised on assets the Group holds denominated in these currencies.

Amortisation of deferred finance costs for the previous period include £0.7 million relating to the previous revolving credit facility for which amortisation was accelerated following the successful renegotiation of a replacement facility in December 2015.

2.6 Current and deferred taxation

The tax charge includes both current and deferred tax. Current tax is the estimated amount of tax payable on this year's taxable profits (which are adjusted for items upon which 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 2016 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the income statement.

Accounting policy

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on jurisdictional tax laws and rates that have been enacted or substantively enacted at the balance sheet date. In the UK 2016 Budget, the UK Government proposed a reduction in the rate of UK corporation tax from 18% to 17% from 1 April 2020. This change was enacted into law in September 2016 and accordingly these rates have been reflected in the UK deferred tax balance at 31 December 2016.

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

2.6 Current and deferred taxation continued

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 one with a history of losses, the Group seeks evidence other than its own internal forecasts to support recognition of the related deferred tax asset.

	Years ended 31 December	
	2016 £m	2015 £m
Tax charge comprises:		
Current tax	**8.5**	1.8
Deferred tax		
– Before impact of corporation tax rate change	**4.5**	18.7
– Impact of corporation tax rate change	**(9.8)**	(17.8)
Tax charge	**3.2**	2.7

	Years ended 31 December	
	2016 £m	2015 £m
Tax charged on items recognised in other comprehensive income:		
Deferred tax on actuarial gains on defined benefit pension scheme (note 6.3)	**(1.6)**	0.2
Deferred tax on cash flow hedges (note 7.4)	**59.6**	4.9
	58.0	5.1

UK corporation tax is the main rate of tax for the Group and is calculated at 20% (2015: 20.25%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The tax charge for the year can be reconciled to the profit per the income statement as follows:

	Years ended 31 December	
	2016 £m	2015 £m
Profit before tax	**197.1**	59.0
Profit before tax multiplied by the rate of corporation tax in the UK of 20% (2015: 20.25%)	**39.4**	11.9
Effects of:		
Adjustments in respect of prior periods	**(3.6)**	1.5
Expenses not deductible for tax purposes	**1.7**	0.9
Impact of change to corporation tax rate	**(9.8)**	(17.8)
Difference in overseas tax rates and other benefits	**(4.8)**	–
Deferred tax on prior year start up losses and other temporary differences	**(21.4)**	–
Other	**1.7**	6.2
Total tax charge	**3.2**	2.7

The Adjustments in respect of prior periods principally relates to a research and development claim which was successfully concluded with HMRC during the period. In 2015 Other items included the US losses which were not recognised for deferred tax purposes in that year.

2.6 Current and deferred taxation continued

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

Deferred tax (liabilities)/assets

	Financial instruments £m	Accelerated capital allowances £m	Non-trade losses £m	Trade losses £m	Other liabilities £m	Other assets £m	Total £m
At 1 January 2015	22.5	(198.4)	7.6	–	(26.6)	9.0	(185.9)
Credited/(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 1 January 2016	(7.3)	(162.5)	1.5	–	(30.9)	7.3	(191.9)
(Charged)/credited to the income statement	**(33.9)**	**(7.1)**	**(1.5)**	**35.3**	**5.3**	**7.2**	**5.3**
Charged to equity in respect of actuarial gains	–	–	–	–	–	**1.6**	**1.6**
Charged to equity in respect of cash flow hedges	**(59.6)**	–	–	–	–	–	**(59.6)**
Effect of changes in foreign exchange rates	–	(1.3)	–	3.5	–	0.7	**2.9**
At 31 December 2016	**(100.8)**	**(170.9)**	–	**38.8**	**(25.6)**	**16.8**	**(241.7)**
Deferred tax balances (after offset) for financial reporting purposes:							
Net deferred tax asset	–	**(14.4)**	–	**38.8**	–	**9.1**	**33.5**
Net deferred tax liability	**(100.8)**	**(156.5)**	–	–	**(25.6)**	**7.7**	**(275.2)**

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

In the period the Group recognised a net deferred tax asset valued at £34 million in respect of start-up losses and other temporary differences in the US-based Drax Biomass business (£21 million of this asset relates to losses that arose in previous years). Recognition in 2016 reflects an improvement in operational performance and the Board's increased confidence regarding the delivery of future taxable profits against which the losses will be utilised currently expected by 2027. As a one-off and non-cash item, this credit has been excluded from the calculation of underlying earnings and the dividend for 2016 (see notes 2.7 and 2.8). These start-up losses are valued at the US Federal tax rate as was enacted at the balance sheet date (35%). Should Federal tax rates reduce/increase in the future, this will correspondingly reduce/increase (respectively) this net deferred tax asset.

The Group has not recognised deferred tax assets with an estimated value of £2 million at 31 December 2016 (2015: £2 million), in respect of UK losses totalling £12 million, that are carried forward against future taxable income. The business unit involved has 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.

2.7 Earnings per share and underlying earnings per share

Earnings per share (EPS) represents the amount of our earnings (post-tax profits) that is attributable to each ordinary share we have in issue. Basic EPS is calculated by dividing our earnings (profit after tax calculated in accordance with IFRS) by the weighted average number of ordinary shares that were in issue during the year. Diluted EPS demonstrates the impact if all outstanding share options (such as those to be issued under our employee share schemes – see note 6.2), that are 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 2.8). Underlying EPS removes the post-tax effect of unrealised gains and losses on derivative contracts, plus particular transactions considered to be one-off in nature that do not reflect the underlying trading performance of the Group, from post-tax profits. Multiplying underlying basic EPS by 50% will give the total dividends per share for the period.

2.7 Earnings per share and underlying earnings per share continued

The table below reconciles earnings, calculated in accordance with IFRS, to underlying profit after tax:

	Years ended 31 December 2016 £m	2015 £m
Earnings:		
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	193.9	56.3
Adjusted for:		
Unrealised gains on derivative contracts	(176.8)	(123.7)
Asset obsolescence charges	–	109.2
Tax impact of the above items	33.9	4.2
Deferred tax on start-up losses and other temporary differences	(30.5)	–
Underlying profit after tax attributable to equity holders of the Company	20.5	46.0

The effect of potentially dilutive options on the weighted average number of shares in issue at the balance sheet date is shown below:

	Years ended 31 December 2016	2015
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	406.6	406.0
Effect of dilutive potential ordinary shares under share plans	2.7	1.3
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	409.3	407.3

Earnings per share – basic (pence)	48	14
Earnings per share – diluted (pence)	47	14
Underlying earnings per share – basic (pence)	5	11
Underlying earnings per share – diluted (pence)	5	11

2.8 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 profit after tax (see note 2.7) to our shareholders each year. The remaining 50% is retained for reinvestment in the business.

	Years ended 31 December 2016 £m	2015 £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 2016 of 2.1 pence per share paid on 7 October 2016 (2015: 5.1 pence per share paid on 9 October 2015)	8.6	20.7
Final dividend for the year ended 31 December 2015 of 0.6 pence per share paid on 13 May 2016 (2015: 7.2 pence per share paid on 15 May 2015)	2.4	29.2
	11.0	49.9

At the forthcoming Annual General Meeting the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2016 of 0.4 pence per share (equivalent to approximately £1.8 million) payable on or before 12 May 2017. The final dividend has not been included as a liability as at 31 December 2016.

2.9 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 to our shareholders. The table below sets out the movements in our retained profits during the year.

	Years ended 31 December	
	2016 £m	2015 £m
At 1 January	385.2	372.5
Profit for the year	193.9	56.3
Actuarial (losses)/gains on defined benefit pension scheme (note 6.3)	(8.4)	1.2
Deferred tax on actuarial (losses)/gains on defined benefit pension scheme (note 2.6)	1.6	(0.2)
Equity dividends paid (note 2.8)	(11.0)	(49.9)
Net movements in equity associated with share-based payments (note 6.2)	5.2	5.3
At 31 December	566.5	385.2

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 of £228.4 million are set out in note 4.2 and the recent history of cash generation within note 4.4. The majority of these cash resources are held by the principal operating subsidiaries of the Group, in particular Drax Power Limited.

The Parent Company financial statements, set out on pages 167 to 172 of this report, disclose the Parent Company's distributable reserves of £229 million. The Group has, relative to previous dividend payments (note 2.8), sufficient retained profits, which are accessible by the Parent Company, for future distributions in accordance with the Group's dividend 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 2016 include a further £29 million (2015: £90 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 three fully converted units running on biomass fuel, the third of which completed its conversion following the award of the CfD in December 2016. Upstream, in our US-based wood pellet manufacturing business, both pellet plant facilities and the port facility ran commercial operations for the first full 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 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 (UEL) of the assets from the date of acquisition (where relevant, limited to the expected decommissioning date of the power station – currently expected to be 2039). The table below shows the range of useful lives at the date of acquisition and the average remaining useful life at the balance sheet date of the main categories of asset we own in years:

	Average UEL remaining	Range of UELs
Freehold buildings	23	8–32
Plant and equipment		
Electricity generation plant	19	3–32
Biomass specific assets	21	4–26
Coal specific assets	23	3–32
Pellet production plant	19	5–20
Other plant, machinery and equipment	15	2–30
Decommissioning asset	23	35
Plant spare parts	23	Up to 35

Freehold land, held at cost, is considered to have an unlimited useful life and is not depreciated.

Electricity generation plant refers to core electricity generation assets at Drax Power Station which are fuel agnostic. Biomass-specific and coal-specific assets are those assets that are only necessary to support electricity generation from the specified fuel and include fuel storage and distribution systems.

Within the plant and equipment categories shorter lives are attributed to components that are overhauled and upgraded as part of rolling outage cycles. The majority of assets within these categories have a remaining useful life in excess of 15 years.

Plant spare parts are depreciated over the remaining useful life of the power station.

Costs relating to major inspections, overhauls and upgrades to the power station are included in the asset's carrying amount or recognised as a separate asset, as appropriate, if the recognition criteria are met; namely, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

Estimated useful lives and residual values are reviewed annually, taking into account regulatory change and commercial and technological obsolescence as well as normal wear and tear. Residual values are based on prices prevailing at each balance sheet date. Any changes are applied prospectively.

3.1 Property, plant and equipment continued

Critical judgement areas

The carrying values of property, plant and equipment are reviewed for impairment 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.

Asset lives are reviewed annually at each balance sheet date. As part of the most recent annual review of asset lives, the estimated useful life of coal-specific assets at Drax Power Station will be revised with effect from 1 January 2017. On 9 November 2016 the Government announced a consultation on the future closure of unabated coal-fired generation. Having considered this event, management concluded that coal generation will cease during 2025, but that the three coal units will be retained for conversion to biomass-fuelled generation in the period to 2039. This results in the shortening to 2025 of the useful lives of the coal-specific assets which will not be required to support generation after this date. This change is applied prospectively, from the point of management's decision, and will result in an increase of approximately £27 million per annum in depreciation charges from 1 January 2017 to 31 December 2025.

The useful lives of electricity generation plant currently fuelled by coal are unaffected by this change. These assets can be utilised using alternative fuel sources without material modification.

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 details of the impairment review conducted during 2016, are set out in note 2.4.

	Freehold land and buildings £m	Plant and equipment £m	Plant spare parts £m	Total £m
Cost:				
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 1 January 2016	318.1	2,111.3	58.5	2,487.9
On acquisition (note 5.1)	**1.3**	**0.2**	**–**	**1.5**
Additions at cost	**0.8**	**84.3**	**10.6**	**95.7**
Disposals	**(7.2)**	**(28.1)**	**–**	**(35.3)**
Issues/transfers	**(11.9)**	**19.0**	**(4.5)**	**2.6**
Effect of foreign currency exchange differences	**0.7**	**1.1**	**–**	**1.8**
At 31 December 2016	**301.8**	**2,187.8**	**64.6**	**2,554.2**
Accumulated depreciation and impairment:				
At 1 January 2015	57.9	594.3	15.0	667.2
Obsolescence charges	0.1	109.1	–	109.2
Depreciation charge for the year	8.1	90.8	1.5	100.4
Disposals	(11.7)	(31.4)	0.4	(42.7)
At 1 January 2016	54.4	762.8	16.9	834.1
Depreciation charge for the year	**11.2**	**96.7**	**1.6**	**109.5**
Disposals	**(6.5)**	**(25.0)**	**–**	**(31.5)**
Effect of foreign currency exchange differences	0.2	0.4	–	0.6
At 31 December 2016	**59.3**	**834.9**	**18.5**	**912.7**
Net book amount at 31 December 2015	263.7	1,348.5	41.6	1,653.8
Net book amount at 31 December 2016	**242.5**	**1,352.9**	**46.1**	**1,641.5**

Assets in the course of construction amounted to £120.5 million at 31 December 2016 (2015: £217.0 million). Additions to assets in the course of construction were £88.6 million in 2016.

3.1 Property, plant and equipment continued

Plant and equipment includes assets held under finance lease agreements with a carrying value at 31 December 2016 of £1.6 million (2015: £1.6 million).

Additions during the year include £nil (2015: £1.9 million) of capitalised borrowing costs directly attributable to the construction of specific assets.

3.2 ROC and LEC assets

We earn ROC assets, which are accredited by the Office for Gas and Electricity Markets ("Ofgem"), as a result of burning sustainable compressed wood pellets to generate electricity. This note sets out the value of these assets that we have earned but not yet sold.

As we generate more of our electricity by burning sustainable compressed wood pellets, the volume and therefore the total value of ROC assets we have generated has increased. With the approval of the CfD in December 2016, total ROC generation is expected to reduce in 2017. Haven Power provides us with a credit-efficient and timely route to market for these ROCs, as do the ROC monetisation facilities described in note 7.1.

Following the Government's decision to remove the Climate Change Levy exemption for power generated from renewable sources, as of 1 August 2015 we no longer earn LECs for electricity generated from sustainable compressed wood pellets.

Accounting policy

ROCs are recognised as current assets in the period they are generated and are initially measured at fair value based on anticipated sales prices. The value of ROCs earned is recognised in the income statement as a reduction in fuel costs in that period.

Where our 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 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 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 from those assumed.

ROC valuations also include an estimate of the future benefit that may be obtained from the ROC recycle fund at the end of the compliance period. The recycle fund provides a benefit where Supplier buy-out charges (incurred by Suppliers who do not procure sufficient ROCs to satisfy their obligations) are returned to renewable generators on a pro-rata basis. The estimate is based on assumptions about likely levels of renewable generation and supply over the compliance period and is thus subject to some uncertainty. The Group utilises external sources of information in addition to its own forecasts in calculating these estimates. Past experience indicates that the values arrived at are reasonable but they remain subject to possible variation.

	ROCs £m	LECs £m	Total £m
Fair value and carrying amount:			
At 1 January 2015	173.8	10.7	184.5
Earned from generation	482.1	34.0	516.1
Purchased from third parties	16.4	3.8	20.2
Utilised by our retail business/sold to third parties	(406.6)	(44.1)	(450.7)
At 1 January 2016	265.7	4.4	270.1
Earned from generation	**535.8**	**–**	**535.8**
Utilised by our retail business/sold to third parties	**(543.9)**	**(4.4)**	**(548.3)**
At 31 December 2016	**257.6**	**–**	**257.6**

Recognition of revenue from sales of ROCs and LECs is described in further detail on page 128.

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 raw materials and fuel stocks are valued at the lower of the weighted average cost to purchase and net realisable value.

The cost of fuel stocks includes all direct costs and overheads incurred in bringing the fuel to its present location and condition, including the purchase price, import duties and other taxes (including amounts levied on coal under the UK carbon price support mechanism) and transport/handling costs.

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 owned by the Group 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. 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, and a provision is made where the survey indicates a lower level of stock than indicated by the methods described above. Despite being an independent process, the survey depends on estimates and assumptions and as a result actual values may differ.

The characteristics of biomass require specialist handling and storage. On-site biomass 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, actual values may differ from initial calculations.

	As at 31 December	
	2016 £m	2015 £m
Coal	**66.4**	89.4
Biomass	**197.5**	118.7
Other fuels and consumables	**23.6**	15.9
	287.5	224.0

Inventories of biomass include £2.3 million of fibre and other raw materials utilised in the production of compressed wood pellets (2015: £2.0 million) and £2.0 million of work in progress (2015: £1.8 million) in our biomass supply business.

The cost of inventories recognised as an expense in the year ended 31 December 2016 was £1,173.5 million (2015: £1,306.9 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 relating to periods after the balance sheet date).

Accounting policy

Trade and other receivables, given their short tenor, are measured at cost. A provision for impairment of trade receivables is established 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.

3.4 Trade and other receivables continued

	As at 31 December	
	2016 £m	2015 £m
Amounts falling due within one year:		
Trade receivables	**87.0**	99.5
Accrued income	**100.0**	157.0
Prepayments and other receivables	**105.9**	62.8
	292.9	319.3

Trade receivables principally represent sales of electricity to counterparties within both our generation and retail businesses. At 31 December 2016, the Group had amounts receivable from four (2015: two) significant counterparties within the generation business, representing 46% (2015: 41%) 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 2016, £33.4 million (2015: £41 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 £4.0 million (2015: £4.9 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	
	2016 £m	2015 £m
At 1 January	**4.9**	6.8
Receivables written off	**(3.3)**	(5.0)
Provision for receivables impairment	**2.4**	3.1
At 31 December	**4.0**	4.9

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	
	2016 £m	2015 £m
Amounts falling due within one year:		
Trade payables	**87.4**	41.7
Fuel accruals	**77.6**	131.4
Other accruals	**341.7**	260.8
Other payables	**62.1**	54.1
Amounts payable for acquisitions (note 5.1)	**23.1**	–
	591.9	488.0

Other accruals includes £166 million (2015: £133 million) in relation to the Group's obligation to deliver ROCs arising from its Retail activities.

The Group recognises a liability in respect of its unsettled obligations to deliver emissions allowances under the EU Emission Trading Scheme (ETS). Accruals at 31 December 2016 include £2.8 million (2015: £10.0 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 4.3) and subtracting cash and cash equivalents (note 4.2). The table below reconciles net debt in terms of changes in these balances across the year.

	Years ended 31 December	
	2016 £m	2015 £m
Net debt at 1 January	**(186.6)**	(98.6)
Increase/(decrease) in cash and cash equivalents	**86.7**	(49.0)
(Decrease)/increase in short-term investments	–	(40.1)
Increase in borrowings	**(1.5)**	(0.8)
Effect of changes in foreign exchange rates	**7.9**	1.9
Net debt at 31 December	**(93.5)**	(186.6)

The increase in borrowings reflects the accrual of interest on the Group's term loans (see note 4.3).

4.2 Cash and cash equivalents

Cash and cash equivalents include cash held in current and other deposit 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	
	2016 £m	2015 £m
Cash and cash equivalents	**228.4**	133.8

4.3 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 2016 and 31 December 2015.

In addition, the Group has access to a £400 million revolving credit facility (RCF). The facility matures in December 2019 and has a margin of 175 basis points over LIBOR. At 31 December 2016 this facility had been utilised to draw down letters of credit with a total value of £57.9 million (2015: £37.9 million) (see note 7.5).

The Group also has a 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 2016 and 31 December 2015 consisted principally of amounts drawn down against bank loans.

4.3 Borrowings continued

	As at 31 December 2016		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Term loans	**327.9**	**(7.1)**	**320.8**
Finance lease liabilities	**1.1**	**–**	**1.1**
Total borrowings	**329.0**	**(7.1)**	**321.9**
Less current portion	**(37.9)**	**2.0**	**(35.9)**
Non-current borrowings	**291.1**	**(5.1)**	**286.0**

	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

The term loans and RCF are guaranteed and secured by a number of the Group's subsidiary undertakings that are party to the security arrangement.

Post balance sheet event
The acquisition of Opus Energy Group Limited on 10 February 2017 (see note 5.1) was partially financed by a new acquisition loan facility of £375 million. At the date of approval of these financial statements, £200 million of this facility had been drawn down. The facility is unsecured and matures in July 2018.

4.4 Cash generated from operations

Cash generated from operations is the starting point of our cash flow statement on page 124. The table below makes adjustments for any non-cash accounting items to reconcile our net profit for the year to the amount of cash we have generated from our operations.

	Years ended 31 December	
	2016 £m	2015 £m
Profit for the year	**193.9**	56.3
Adjustments for:		
Interest payable and similar charges	**7.0**	18.4
Interest receivable	**(0.6)**	(1.4)
Tax charge	**3.2**	2.7
Depreciation	**109.5**	100.4
Asset obsolescence charges	**–**	109.2
Losses on disposal	**3.8**	7.1
Unrealised gains on derivative contracts	**(176.8)**	(123.7)
Defined benefit pension scheme current service cost	**6.0**	6.4
Non-cash charge for share-based payments	**5.2**	5.3
Close out of currency contracts[1]	**14.0**	–
Operating cash flows before movement in working capital	**165.2**	180.7
Changes in working capital:		
(Increase)/decrease in inventories	**(63.5)**	18.0
Decrease in receivables	**28.6**	48.9
Increase in payables	**73.7**	26.8
Decrease/(increase) in carbon assets	**11.1**	(11.8)
Decrease/(increase) in ROC and LEC assets	**12.5**	(85.6)
Total cash released from working capital	**62.4**	(3.7)
Defined benefit pension scheme contributions	**(14.5)**	(11.0)
Cash generated from operations	**213.1**	166.0

Note:
1 During 2016 we closed out a number of in-the-money forward foreign currency purchase contracts. As these contracts were designated into hedge accounting relationships under IAS 39, the benefit is being recognised in the income statement in the period the hedged transaction occurs.

4.5 Equity and reserves

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

Accounting policy

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

	As at 31 December	
	2016 £m	2015 £m
Authorised:		
865,238,823 ordinary shares of $11^{16}/_{29}$ pence each	**100.0**	100.0
Issued and fully paid:		
2016 – 406,700,321 ordinary shares of $11^{16}/_{29}$ pence each	**47.0**	46.9
	47.0	46.9

4.5 Equity and reserves continued

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

	Years ended 31 December	
	2016 (number)	2015 (number)
At 1 January	**406,317,162**	404,821,561
Issued under employee share schemes	**383,159**	1,495,601
At 31 December	**406,700,321**	406,317,162

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 6 January a total of 30,081 shares were issued on early vesting of the Group's Bonus Matching Plan (BMP) by one individual whose employment had terminated and discretion was used to vest the shares. On 29 February 335,856 shares were issued in satisfaction of shares vesting in accordance with the rules of the Group's BMP. Throughout May to December a total of 17,222 shares were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan.

Translation reserve

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

	Years ended 31 December	
	2016 £m	2015 £m
At 1 January	**(1.1)**	1.8
Exchange differences on translation of foreign operations	**(9.1)**	(2.9)
At 31 December	**(10.2)**	(1.1)

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	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
At 1 January	**1.5**	1.5	**424.2**	422.8	**710.8**	710.8
Issue of share capital	**–**	–	**–**	1.4	**–**	–
At 31 December	**1.5**	1.5	**424.2**	424.2	**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 the hedge reserve, which reflect the change in fair value of derivative financial instruments designated into hedge accounting relationships in accordance with IFRS, are set out in note 7.4.

SECTION 5:

OTHER ASSETS AND LIABILITIES

This section provides information on the assets and liabilities in the Consolidated balance sheet that are not covered in other sections, including goodwill, other intangible assets and the provision for reinstatement.

5.1 Acquisitions

Accounting policy

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

Acquisitions in the financial year

The transactions in this section occurred in the year ended 31 December 2016 and are reflected in the consolidated financial statements.

Acquisition of four OCGT development projects

On 6 December 2016 the Group acquired 100% of the issued share capital of Progress Power Limited (PPL), Hirwaun Power Limited (HPL), Millbrook Power Limited (MPL) and Abergelli Power Limited (APL). PPL, HPL, MPL and APL each hold a proposed development option, on land located in England and Wales, for a 299MW Open-Cycle Gas Turbine (OCGT) project. Both PPL and HPL have obtained Development Consent Orders for their sites. The acquisitions represent diversification of our generation capability in response to the changing energy requirements of the UK.

Initial consideration of £18.6 million was settled in cash on 3 January 2017, with the amount held as a liability in the balance sheet at 31 December 2016. The final purchase price depends upon future clearing prices in T-4 capacity market auctions from 2016–2020. The range of possible outcomes being zero further consideration if the capacity market clearing price does not exceed £28/KW in these auctions, with a maximum contingent consideration payable of £72 million, based on a clearing price of £75/KW. The fair value of the contingent consideration at 31 December 2016 was assessed at £3.8 million based on a projection of likely future capacity market clearing prices, discounted to present value at a risk free rate of 2%.

The provisional amounts recognised in respect of the identifiable assets acquired and liabilities assumed in the acquisition of the four companies, and measured at fair value, are set out in the table below:

	PPL £m	HPL £m	MPL £m	APL £m	Total £m
Financial assets	2.9	3.0	–	–	5.9
Property, plant and equipment	0.4	0.6	0.2	0.2	1.4
Financial liabilities	(2.9)	(3.0)	–	–	(5.9)
Intangible development asset	8.9	8.7	1.7	1.7	21.0
Total identifiable net assets	**9.3**	**9.3**	**1.9**	**1.9**	**22.4**
Goodwill	–	–	–	–	–
Fair value of consideration payable	**9.3**	**9.3**	**1.9**	**1.9**	**22.4**
Comprised of:					
Initial consideration payable on 3 January 2017 in cash	**7.4**	**7.4**	**1.9**	**1.9**	**18.6**
Fair value of contingent consideration	**1.9**	**1.9**	–	–	**3.8**

The intangible development assets identified as part of the acquisitions represent the value of planning and consent obtained for each site. No cash or cash equivalents were acquired in the transaction, therefore the net cash outflow on acquisition was £18.6 million.

The four acquired companies did not trade in the period between the acquisition date and the balance sheet, and no further costs were incurred. Accordingly, the Consolidated income statement includes no revenue or EBITDA in respect of the acquired companies. Transaction costs of £0.7 million were recognised as an expense in the period.

Acquisitions after the balance sheet date but before the financial statements were approved

The following disclosures relate to acquisitions completed between 1 January and 15 February 2017.

5.1 Acquisitions continued

Acquisition of Opus Energy Group Limited

On 6 December 2016, the Group announced the proposed acquisition of Opus Energy Group Limited (Opus Energy) for a consideration of £340 million, plus interest calculated on the amount of Opus Energy's net assets from 31 March 2016 to the acquisition completion date.

Opus Energy is a well-established energy retail business serving business customers in the SME market. The transaction represents a diversification of the Group's retail offering, strengthening our presence in the SME market, and provides a range of strategic and financial benefits. Opus Energy is expected to contribute positively to earnings and cash flow immediately following the acquisition and the combination provides a robust platform for future growth.

The transaction was approved by shareholders on 8 February 2017 and subsequently completed on 10 February 2017, the Group acquired 100% of the issued share capital on this date.

Total consideration paid in cash, including interest as described above, amounted to £367 million. No deferred or contingent consideration is payable. The acquisition was funded by a combination of existing cash reserves and a new £375 million loan facility which was partially drawn on 10 February 2017. Further details regarding the new facility are disclosed in note 4.3.

Given the short period of time between the transaction completion date and the approval of these financial statements, the initial accounting for the business combination is not complete. The table below provides the approximate acquisition date fair values of the assets acquired and liabilities assumed in the transaction based as the most recently available management information. These figures, including the indicative goodwill, are provisional.

	Total £m
Financial assets	169.9
Property, plant and equipment	5.6
Financial liabilities	(130.3)
Total identifiable net assets	**45.2**
Goodwill	322.1
Fair value of consideration payable	**367.3**

The provisional goodwill reflects the economic and strategic benefits described above. A full review and finalisation of identifiable intangible assets acquired will be completed before the initial accounting for the transaction is completed. Accordingly, the amount of goodwill recognised in the financial statements may be lower than indicated above.

The provisional financial assets acquired include £170 million of receivables, the majority of which reflect trade receivables for energy supplied to customers measured at cost. By virtue of their short tenor, the contractual amounts receivable and the fair value of these receivables are considered to be the same. A provision for doubtful debts of £3 million is included within the values above and reflects the best estimate of the contractual cash flows not expected to be recovered.

As the transaction completed after the balance sheet date, there are no amounts included in these financial statements in respect of the transaction other than transaction costs of £1.6 million incurred before 31 December 2016, which have been recognised as an expense in Operating and administrative costs in the income statement.

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 development assets recognised on the acquisition of four OCGT development projects in 2016 and amounts paid in respect of carbon emission allowances for future years.

Accounting policy

Goodwill is initially recognised and measured at the acquisition date. Goodwill is not amortised but reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the CGU to which it relates and the recoverable amount for that CGU assessed. Intangibles are recognised at fair value or cost.

The table shows movements and balances:

	Goodwill £m	Development assets £m	Carbon £m	Total £m
Cost and carrying amount:				
At 1 January 2015	10.7	–	–	10.7
Additions at cost	3.8	–	11.8	15.6
At 1 January 2016	14.5	–	11.8	26.3
Utilised in period	**–**	**–**	**(11.8)**	**(11.8)**
Additions at cost	**–**	**21.0**	**0.7**	**21.7**
At 31 December 2016	**14.5**	**21.0**	**0.7**	**36.2**

Goodwill

Total goodwill in the Consolidated balance sheet at 31 December 2016 and 31 December 2015 was £14.5 million, with £10.7 million arising on the acquisition of Haven Power in 2009 attributed to the Haven Power CGU and £3.8 million arising on the acquisition of Billington Bioenergy in 2015 attributable to the Billington Bioenergy CGU.

The recoverable amount of both the Haven Power and Billington Bioenergy CGUs is calculated annually, based on a value in use calculation. The approach for this calculation is the same as that used for the wider asset impairment review conducted by the Group as at 31 December 2016 and is disclosed in note 2.4. At 31 December 2016, the value in use of goodwill was significantly in excess of its book value in both the Haven Power and Billington Bioenergy CGUs.

Development assets

The development assets arose on the acquisition of four OCGT projects in December 2016 (see note 5.1) and reflect the value of planning and consents acquired as part of that transaction. They were measured at fair value on acquisition and will be amortised over the expected period of useful economic life of the projects once they reach commercial operations. Until operations commence, the assets are considered to have an indefinite life and thus will be subject to impairment testing at each balance sheet date.

At 31 December 2016, given the short time since the acquisition of the assets, management consider the fair value of the development assets to be equivalent to the purchase price.

Carbon assets

Carbon assets arise on the purchase of CO_2 emissions allowances in excess of the amount allocated under the ETS and required for the current financial year, and are measured 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 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 discounted present value of the expected costs.

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. In view of the uncertainty of assessing the amount of any proceeds from the disposal of the assets at the decommissioning date, no reduction in the provision is made for any such proceeds. The discount rate used is a risk free pre-tax rate of 1.9% (2015: 2.4%), 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 2015	29.8
Unwinding of discount	0.7
At 1 January 2016	30.5
Unwinding of discount	**0.8**
Adjustment for change in discount rate	**3.7**
At 31 December 2016	**35.0**

The provision is estimated using the assumption that the decommissioning and reinstatement will take place at the end of the expected useful life of the power station in 2039, and has been estimated using existing technology at current prices based on independent third party advice, updated on a triennial basis. The most recent update took place in December 2014.

SECTION 6:
OUR PEOPLE

The notes in this section relate to the remuneration of our directors and employees, including our obligations under retirement benefit schemes.

6.1 Employees and directors
This note provides a more detailed breakdown of the cost of our employees, including executive directors. The average number of employees in Operations (staff based at production sites), Retail services (employees in our Retail segment) and Central services (those working in central functions) are also provided.

Further information in relation to pay and remuneration of the executive directors can be found in the report of the Remuneration Committee, starting on page 82.

Staff costs (including executive directors)

	Years ended 31 December	
	2016 £m	2015 £m
Included in other operating and administrative expenses (note 2.3)		
Wages and salaries	**74.3**	79.8
Social security costs	**8.1**	9.4
Other pension costs	**12.3**	12.3
Share-based payments (note 6.2)	**5.2**	5.3
	99.9	106.8

Average monthly number of people employed (including executive directors)

	Years ended 31 December	
	2016 (number)	2015 (number)
Generation operations	**645**	644
Biomass supply operations	**130**	144
Retail services	**399**	353
Central services	**293**	301
	1,467	1,442

6.2 Share-based payments
We operate two share option schemes for our employees – the BMP for directors and senior executives, and the Savings-Related Share Option Plan (SAYE) for all qualifying employees. We incur a non-cash charge in respect of these schemes in our income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding.

Accounting policy
All of the Group's share-based payments are equity-settled. Equity-settled share-based payments are measured at the fair value of the equity instrument at the date of grant and 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	
	2016 £m	2015 £m
BMP	**2.6**	3.7
SAYE	**2.6**	1.6
	5.2	5.3

6.2 Share-based payments continued

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 2016 (number)	Shares acquired during year (number)	Shares transferred during year (number)	Shares held at 31 December 2016 (number)	**Cost at 31 December 2016 £000**	**Nominal value at 31 December 2016 £000**	**Market value at 31 December 2016 £000**
SIP	188,465	–	(35,431)	153,034	**1,436**	**18**	**578**

Bonus Matching Plan

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 Total Shareholder Return (TSR) matches or outperforms an index (determined in accordance with the scheme rules) over three years and a proportion of the shares vesting is conditional upon performance against the internal balanced corporate scorecard. The fair value of the 2016, 2015 and 2014 BMP awards, of £2.6 million, £3.3 million and £5.4 million respectively, is being charged to the income statement on a straight-line basis over the corresponding three year vesting periods.

The fair value of BMP awards is calculated using a Monte-Carlo valuation model, which takes into account the estimated probability of different levels of vesting. The key inputs to the valuation model for the 2016 awards are the share price at the grant date (249.7 pence), expected volatility (41%), and risk free interest rate (0.45%). The fair value of each option granted was 153 pence.

Movements in the number of share options outstanding for the BMP awards is as follows:

	2016 BMP (number)	2015 BMP (number)
At 1 January	**3,411,792**	4,053,414
Granted	**1,686,095**	1,560,552
Forfeited	**(623,597)**	(505,781)
Exercised	**(337,146)**	(958,566)
Expired	**(943,212)**	(737,827)
At 31 December	**3,193,932**	3,411,792

50% of the BMP options granted in 2016 will vest conditional on Group TSR relative to the TSR of a comparator group of companies with the remaining 50% vesting conditional upon the internal balanced corporate scorecard (2015: 50% TSR-linked, 50% scorecard-linked). The share price on the grant date for BMP options awarded in the year was 250 pence (2015: 397 pence) and the weighted average fair value of the BMP options granted during the year was 153 pence (2015: 213 pence).

For the BMP options exercised during the period, the weighted average share price at the date of exercise was 232 pence (2015: 397 pence).

All of the BMP options outstanding at the end of the period had an exercise price of £nil (2015: £nil). The weighted average remaining contractual life was 17 months (2015: 14 months).

The number of options exercisable at the year end was nil (2015: nil).

6.2 Share-based payments continued

Savings-Related Share Option Plan (SAYE)

In April 2016, participation in the SAYE Plan was offered again to all qualifying employees. Options were granted for employees to acquire shares at a price of 203 pence (2015: 319 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 £3.9 million (2015: £4.4 million) is being charged to the income statement over the term of the relevant contracts.

Movements in the number of share options outstanding for the SAYE plans are as follows:

	2016		2015	
	SAYE three-year (number)	SAYE five-year (number)	SAYE three-year (number)	SAYE five-year (number)
At 1 January	1,948,209	934,041	963,911	1,107,420
Granted	3,150,023	919,723	2,127,867	862,670
Forfeited	(73,907)	–	(16,683)	(5,440)
Exercised	(8,618)	(8,604)	(2,414)	(437,976)
Expired	(1,728,801)	(848,451)	(1,124,472)	(592,633)
At 31 December	3,286,906	996,709	1,948,209	934,041

The fair value of SAYE awards is calculated using a Black-Scholes model, which compares exercise price to share price at the date of grant.

The fair value of SAYE options granted and the inputs to the option pricing model used in the current and previous year are set out in the table below:

Grant date	5 April 2016	5 April 2016	2 April 2015	2 April 2015
Share price at grant date (pence)	286	286	399	399
Vesting period	3 years	5 years	3 years	5 years
Exercise price (pence)	203	203	319	319
Dividend yield	2.9%	5.0%	1.9%	1.9%
Annual risk free interest rate	0.81%	0.95%	1.08%	1.36%
Expected volatility	40.0%	37.6%	43.0%	43.0%
Fair value of options granted (pence)	101	82	142	160

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three and five years respectively. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

For the SAYE options exercised during the period, the weighted average share price at the date of exercise was 337 pence (2015: 400 pence).

The weighted average exercise price of SAYE options outstanding at the end of the period was 216 pence (2015: 331 pence). The weighted average remaining contractual life was 31 months (2015: 32 months).

The number of options exercisable at the year end was nil (2015: 10,894).

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 (DPG) section of the Electricity Supply Pension Scheme (ESPS) is a defined benefit scheme; a pension arrangement under which participating members receive a pension benefit at retirement determined by the scheme rules. Members are typically entitled to an annual pension on retirement of 1/80th of final pensionable salary for each year of service plus a tax-free lump sum of three times pension.

The Drax Group Personal Pension Plan, Haven Power Personal Pension Plan and Drax Biomass Inc. 401(K) Plan are defined contribution schemes, which provide a retirement benefit that is dependent upon actual contributions made by the Group and members of the relevant scheme.

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 in the income statement as part of operating and administrative expenses in the period in which they occur. The net interest expense is recognised in finance costs.

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 applied in 2016 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 Group Personal 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	
	2016 £m	2015 £m
Total included in staff costs (note 6.1)	**5.6**	5.9

As at 31 December 2016, contributions of £0.5 million (2015: £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 DPG section of the 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.
Discount rate risk	A decrease in corporate bond yields will increase the value placed upon the scheme's liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.
Longevity risk	The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities of the scheme.
Inflation risk	The majority of the scheme's obligations to pay benefits are linked to inflation, and as such higher inflation will lead to higher liabilities. The majority of the assets held by the scheme are either unaffected by or only loosely correlated with inflation, such that an increase in inflation will also increase the deficit. In most cases, caps on inflationary increases are in place, to protect against extreme inflation.

6.3 Retirement benefit obligations continued

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.

The most recent funding valuation of the DPG ESPS carried out by Aon Hewitt, a qualified independent actuary, as at 31 March 2016 is not yet complete; however the actuarial review at 31 December 2016 is based on the same membership and other data as the initial results of this funding valuation. The scheme board accepted the advice of the actuary and approved the use of these assumptions for the purpose of assessing the scheme cost. Future valuations are required by law at intervals of no more than three years.

The results of the latest funding valuation at 31 March 2016 have been adjusted to the balance sheet date, taking into account experience over the period since 31 March 2016, changes in market conditions and differences in financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service 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	
	2016 % p.a.	2015 % p.a.
Discount rate	**2.8**	3.9
Inflation (RPI)	**3.2**	3.1
Rate of increase in pensions in payment and deferred pensions	**3.1**	3.0
Rate of increase in pensionable salaries	**3.8**	3.7

Mortality assumptions are based on recent actual mortality experience of scheme members and allow for expected future improvements in mortality rates. The assumptions are that a member aged 60 in 2016 will live, on average, for a further 27 years if they are male (2015: 27 years) and for a further 29 years if they are female (2015: 29 years). Life expectancy at age 60 for male and female non-pensioners currently aged 45 is assumed to be 28 and 31 years respectively (2015: 28 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	
	2016 £m	2015 £m
Defined benefit obligation	**311.4**	244.6
Fair value of plan assets	**(281.3)**	(215.1)
Net liability recognised in the balance sheet	**30.1**	29.5

The amounts recognised in the income statement, within other operating and administrative expenses and finance costs, are as follows:

	Years ended 31 December	
	2016 £m	2015 £m
Included in staff costs (note 6.1):		
Current service cost	**6.0**	6.4
Included in finance costs (note 2.5):		
Interest on net defined benefit liability	**0.9**	1.1
Total amounts recognised in the income statement	**6.9**	7.5

Actuarial gains and losses are recognised in the statement of comprehensive income in full, as follows:

	Years ended 31 December	
	2016 £m	2015 £m
Cumulative actuarial losses on defined benefit pension scheme at 1 January	**(70.8)**	(72.0)
Actuarial (losses)/gains on defined benefit pension scheme recognised in the year	**(8.4)**	1.2
Cumulative losses recognised in the statement of comprehensive income at 31 December	**(79.2)**	(70.8)

6.3 Retirement benefit obligations continued

Changes in the present value of the defined benefit obligation are as follows:

	Years ended 31 December 2016 £m	2015 £m
Defined benefit obligation at 1 January	**244.6**	242.1
Current and past service cost	**6.0**	6.4
Employee contributions	**0.2**	0.2
Interest cost	**9.4**	8.9
Actuarial (gains)/losses	**58.8**	(5.8)
Benefits paid	**(7.6)**	(7.2)
Defined benefit obligation at 31 December	**311.4**	244.6

The actuarial losses of £58.8 million (2015: £5.8 million gains) reflect losses of £71.4 million arising from changes in financial assumptions (2015: gains of £2.3 million), offset by £1.9 million gains arising from changes in demographic assumptions and gains arising from scheme experience of £10.7 million (2015: gains of £1.8 million and £1.7 million respectively).

The losses due to changes in financial assumptions principally reflect the increase in the present value of the scheme liabilities arising as a result of the change in discount rate assumption to 2.75% (2015: 3.9%) following reductions in corporate bond yields.

Changes in the fair value of plan assets are as follows:

	Years ended 31 December 2016 £m	2015 £m
Fair value of plan assets at 1 January	**215.1**	207.8
Interest income on plan assets	**8.5**	7.8
Remeasurement (losses)/gains	**50.4**	(4.6)
Employer contributions	**14.7**	11.1
Employee contributions	**0.2**	0.2
Benefits paid	**(7.6)**	(7.2)
Fair value of plan assets at 31 December	**281.3**	215.1

Employer contributions included payments totalling £8.3 million (2015: £5.1 million) to reduce the actuarial deficit.

The actual return on plan assets in the period was £58.9 million (2015: £3.2 million).

The fair values of the major categories of plan assets were as follows:

	As at 31 December 2016 £m	2015 £m
Gilts	**105.9**	–
Equities(1)	**65.2**	64.6
Fixed interest bonds(2)	**61.3**	113.9
Property	**29.5**	27.9
Cash and other assets(3)	**19.4**	8.7
Fair value of total plan assets	**281.3**	215.1

Notes:
(1) At 31 December 2016 the scheme's long-term asset strategy was: global equity (20%), direct lending (10%), emerging market equity (5%), fixed interest bonds (15%), corporate bonds (6%), liability driven investing (29%) and long lease property (15%).
(2) Fixed interest bonds include a mixture of corporate, Government and absolute return bonds. Approximately 27% of the bonds have a sub-investment grade credit rating (i.e. BB+ or lower).
(3) Other assets include £19.1 million of investments in direct lending, a type of private equity vehicle, which is not quoted in an active market (2015: £7.9 million).

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 2016 to changes in these assumptions:

		%	(Decrease)/ Increase in net liability £m
Discount rate	– Increase	0.25	(15.6)
	– Decrease	0.25	16.2
Inflation rate[1]	– Increase	0.25	(14.0)
	– Decrease	0.25	13.6
Life expectancy	– Increase	1 year	(10.9)
	– Decrease	1 year	11.0

Note:
(1) The sensitivity of the scheme liabilities to salary and pension increases is closely correlated with inflation.

The Group is exposed to investment and other experience risks, as described above, and may need to make additional contributions where it is estimated that the benefits will not be met from regular contributions and expected investment income.

	As at 31 December				
	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Defined benefit obligation	**(311.4)**	(244.6)	(242.1)	(220.9)	(199.0)
Fair value of plan assets	**281.3**	215.1	207.8	179.2	156.9
Deficit	**(30.1)**	(29.5)	(34.3)	(41.7)	(42.1)
Experience adjustments on plan liabilities	**10.7**	1.7	1.6	8.7	(1.7)
Experience adjustments on plan assets	**50.4**	(4.6)	13.6	9.4	(3.0)

The defined benefit obligation includes benefits for current employees of the Group (60%), former employees of the Group who are yet to retire (5%) and retired pensioners (35%). The weighted-average period over which benefit payments are expected to be made, or the duration of the scheme liabilities, was assessed at the 31 March 2016 funding valuation to be 21 years.

The Group expects to contribute £23.8 million to the defined benefit pension plan during the 12 months ended 31 December 2017 and make regular deficit contributions over the period to 2025.

The Group intends to fund the deficit, agreed at the 31 March 2013 funding 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 Financial risk management
The Group's activities expose it to a variety of financial risks including commodity price risk, interest rate risk, foreign currency risk, liquidity risk, counterparty risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of commodity and financial markets and seeks to manage potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by the risk management committees as explained in Principal risks and uncertainties (page 55) which identify, evaluate and hedge financial risks in close coordination 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 wood fibre and pellets 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 2016 would increase/decrease by £3.4 million (2015: decrease/increase by £6.7 million). This is mainly attributable to the Group's exposure to oil derivatives; and
– the hedge reserve would increase/decrease by £36.3 million (2015: decrease/increase by £11.5 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 2016 would decrease/increase by £1.8 million (2015: decrease/increase by £1.8 million) as a result of the changes in interest payable during the period.

7.1 Financial risk management continued

Foreign currency risk

Forward foreign currency exchange contracts are entered into in order to hedge fixed price international coal purchases in US dollars, wood pellet purchases in US dollars, Canadian dollars and Euros, and CO_2 emissions allowances purchases in Euros.

Exchange rate exposures are managed within approved policy parameters utilising a variety of foreign currency exchange contracts. The Group enters into forward currency purchase contracts to hedge its anticipated foreign currency requirements over a rolling five-year period for both contracted and forecast transactions.

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 2016 would decrease/increase by £252.6 million/£277.7 million (2015: decrease/increase by £233.0 million/£241.1 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 £78.7 million/£87 million (2015: increase/decrease by £67.8 million/£75.0 million) as a result of the changes in the fair value of foreign currency exchange contracts.

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 2016			
	Within 3 months £m	3 months– 1 year £m	>1 year £m	Total £m
Term loans, gross value	**3.0**	**46.7**	**326.7**	**376.4**
Finance lease liabilities, carrying value	**0.1**	**0.1**	**1.0**	**1.2**
Borrowings, contractual maturity	**3.1**	**46.8**	**327.7**	**377.6**
Trade and other payables	**400.1**	**181.7**	**10.1**	**591.9**
	403.2	**228.5**	**337.8**	**969.5**

	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

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 4.17% (2015: 4.22%).

7.1 Financial risk management continued

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 2016			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts, net	78.7	(25.1)	(14.2)	39.4
Forward foreign currency exchange contracts, net	903.5	870.9	1,696.5	3,470.9
	982.2	845.8	1,682.3	3,510.3

	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

In managing liquidity risk, the Group has access to facilities that enable it to accelerate the cash flows associated with certain of its receivables (principally those related to ROC sales and retail power sales). Each of these facilities is provided on a non-recourse basis and accordingly receivables sold under each facility are derecognised from the balance sheet at the point of sale. At the balance sheet date there was £111.1 million utilised under ROC agreements and £74.4 million utilised under Receivable financing agreements.

Counterparty risk

As the Group relies on third party suppliers for the delivery of currency, coal, sustainable compressed wood pellets and other goods and services, it is exposed to the risk of non-performance by these third party suppliers. If a large supplier were to fall into financial difficulty and/or fail to deliver against its contract with the Group, there would be additional costs associated with securing the lost goods or services from other suppliers.

The Group enters into contracts for the sale of electricity to a number of counterparties. The failure of one or more of these counterparties to perform their contractual obligations may cause the Group financial distress or increase the risk profile of the Group.

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	
	2016 £m	2015 £m
Financial assets:		
Cash and cash equivalents	228.4	133.8
Trade and other receivables	296.9	324.2
Derivative financial instruments	891.3	609.2
	1,416.6	1,067.2

Trade and other receivables are stated gross of the provision for doubtful debts of £4.0 million (2015: £4.9 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 historically 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.

7.1 Financial risk management continued

Capital management

The Group manages its capital to ensure it is able to continue as a going concern, and maintain its credit rating while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of shareholders' equity (excluding the hedge reserve), plus net debt. Net debt is comprised of borrowings disclosed in note 4.3 and cash and cash equivalents in note 4.2.

	As at 31 December	
	2016 £m	2015 £m
Borrowings	**321.9**	320.4
Cash and cash equivalents	**(228.4)**	(133.8)
Net debt	**93.5**	186.6
Total shareholders' equity, excluding hedge reserve	**1,739.8**	1,567.5

Dividend policy

It is the Group's policy to distribute 50% of underlying profit after tax to shareholders each year. The policy is designed to ensure dividends reflect the underlying trading performance of the business whilst retaining sufficient cash within the Group to support strategic development objectives and working capital requirements. Underlying earnings are based on earnings calculated in accordance with IFRS adjusted to exclude the post-tax impact of unrealised gains and losses on derivative contracts and any other one-off or otherwise exceptional items that the Board considers to be unrepresentative of the Group's trading and operational performance.

7.2 Derivative financial instruments

We enter into forward contracts for the purchase and sale of physical commodities (principally power, gas, coal, sustainable biomass and CO_2 emissions allowances) to secure market level bark and dark green spreads on future electricity sales, and also financial 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 fix exposures to commodity price movements and changes in foreign exchange rates using derivative contracts such as those described above. This strategy aims to de-risk the business, providing security and certainty over cash flows into the future. As at 31 December 2016, due to the weakening of Sterling against the US dollar, our forward derivative contracts, consisting largely of forward contracts for the purchase of foreign currencies (principally for the purpose of fixing the Sterling cost of sustainable compressed wood pellet purchases), increased to £545.1 million (2015: £143 million) thereby protecting the Group to that extent from the increased cost of future supplies denominated in foreign currencies from the weakness of Sterling.

Accounting policy

At the balance sheet date all contracts (subject to certain exemptions described below) must be measured at fair value, which is in essence the difference between the price we have secured in the contract, and the price we could achieve in the market at that point in time.

Changes in fair value are recognised either within the income statement or the hedge reserve, dependent upon whether the contract in question qualifies as an effective hedge under IFRS (see note 7.4).

Where possible, the Group has taken advantage of the own use exemption which allows qualifying contracts to be excluded from fair value mark-to-market accounting. This applies to certain contracts for physical commodities entered into and held for 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 in accordance with IAS 39 and are recorded in the balance sheet at fair value, with changes in fair value reflected through the hedge reserve (note 7.4) to the extent that the contracts are designated as effective hedges in accordance with IAS 39, or the income statement where the hedge accounting requirements are not met. The Group enters into forward contracts solely for the purpose of financial risk management and considers all of its contracts to be economic hedges, regardless of whether the specific criteria for hedge accounting are met.

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.

7.2 Derivative financial instruments continued

The location in the consolidated financial statements of the changes in fair value of derivative contracts in 2016 is summarised in the table below:

Accounting for derivative contracts	Gains/(losses) on contracts in 2016	Accounting treatment for gains/(losses) in the consolidated financial statements
Commodity contracts		
Power	(88.6)	Hedge reserve
Coal from international sources	5.6	Income statement
Coal from domestic sources	n/a	Own-use exemption
Biomass	n/a	Own-use exemption
CO_2 emissions allowances	(2.7)	Hedge reserve
Gas	(76.5)	Income statement
Financial contracts		
Foreign currency exchange contracts	241.9	Income statement
	384.1	Hedge reserve
Financial coal	(13.7)	Income statement
	37.3	Hedge reserve
Financial oil and other financial products	19.5	Income statement
Total net gains in hedge reserve	330.1	
Total net gains in income statement	176.8	

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 recorded in the balance sheet at fair value as follows:

	As at 31 December 2016		As at 31 December 2015	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Commodity contracts:				
Less than one year	**91.1**	**(164.0)**	264.1	(226.1)
More than one year but not more than two years	**9.8**	**(51.7)**	81.2	(94.1)
More than two years	**1.9**	**(7.5)**	27.0	(53.4)
Forward foreign currency exchange contracts:				
Less than one year	**313.9**	**(87.0)**	66.7	(48.2)
More than one year but not more than two years	**185.8**	**(26.0)**	93.8	(81.7)
More than two years	**288.8**	**(27.3)**	76.4	(70.9)
Total	**891.3**	**(363.5)**	609.2	(574.4)
Less: non-current portion				
Commodity contracts	**(11.7)**	**59.2**	(108.2)	147.5
Forward foreign currency exchange contracts	**(474.6)**	**53.3**	(170.2)	152.6
Total non-current portion	**(486.3)**	**112.5**	(278.4)	300.1
Current portion	**405.0**	**(251.0)**	330.8	(274.3)

7.2 Derivative financial instruments continued

The total movement in the fair value of these contracts of £506.9 million (2015: £147.1 million gain) 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	
	2016 £m	2015 £m
Unrealised gains on derivative contracts recognised in arriving at operating profit	**176.8**	123.7
Unrealised gains on derivative contracts recognised in the hedge reserve (note 7.4)	**330.1**	23.4
Total unrealised gains on derivative contracts	**506.9**	147.1

We maintain a substantial foreign currency hedging programme to secure the sterling cost of future purchases of fuel in foreign currencies. The vast majority of our fuel purchases, and therefore our currency exchange contracts, are denominated in US dollars. Compared to market exchange rates immediately prior to the EU referendum in June 2016, Sterling depreciated by approximately 15–20% against the US dollar by the balance sheet date. As a result, combined with the high volume of such contracts held (shown in the table on page 161), the net unrealised gains recognised in the year principally reflect the value of our forward currency purchase contract portfolio.

A material proportion of these contracts are not designated in hedge accounting relationships under IAS 39 and thus the gains on these contracts were recognised in the income statement.

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.

Fair value measurement

- **Commodity contracts fair value –** The fair value of open commodity contracts that do not qualify for the own use exemption is calculated by reference to forward market prices at the balance sheet date. As contracts are generally short-term, forward market price curves are available for the duration of the contracts. The quoted market price used for financial assets held by the Group is the current bid price; the quoted price for financial liabilities is the current ask price.
- **Forward foreign currency exchange contracts fair value –** The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the balance sheet date.
- **Other financial contracts fair value –** The fair value of other financial contracts that do not qualify for the own use exemption, is calculated by reference to forward market prices at the balance sheet date. As contracts are generally short-term, forward market price curves are available for the duration of the contracts.

The fair values of all derivative financial instruments are discounted to reflect the credit risk inherent within the instrument.

The Group has reviewed all significant contracts for the presence of embedded derivatives. Where contracts were found to contain embedded derivatives, they were considered to be closely related to the economic characteristics and risks of the host contract, and therefore do not require separate valuation from their host contracts.

We are required by IFRS to categorise our financial instruments in accordance with the following hierarchy in order to explain the basis on which their fair values have been determined:

Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – fair value measurements are those derived from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Categorisation within this fair value measurement hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset or liability.

The fair value of commodity contracts, forward foreign currency exchange contracts and the contingent consideration in the OCGT acquisition (see note 5.1) are largely determined by comparison between forward market prices and the contract price; therefore these contracts are categorised as Level 2.

There have been no transfers during the year between Level 1, 2 or 3 category inputs.

7.3 Other financial instruments

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), 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 4.3) 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	
	2016 £m	2015 £m
At 1 January	**34.9**	16.4
Gains/(losses) recognised:		
– Commodity contracts	**(18.3)**	41.4
– Forward foreign currency exchange contracts	**397.3**	27.7
Released from equity:		
– Commodity contracts	**(35.7)**	(49.2)
– Forward foreign currency exchange contracts	**(13.2)**	3.5
Related deferred tax, net (note 2.6)	**(59.6)**	(4.9)
At 31 December	**305.4**	34.9

The Group's cash flow hedges relate to commodity contracts (principally commitments to sell power) and forward foreign currency exchange contracts. Amounts are recognised in the hedge reserve as the designated contracts are marked to market at each period end for the effective portion of the hedge, which is generally 100% of the relevant contract. Amounts held within the hedge reserve are then released as the related contract matures and the hedged transaction impacts profit or loss. For power sales contracts, this is when the underlying power is delivered. For currency contracts, this is when the associated foreign currency transaction is recognised. Further information about the Group's accounting for financial instruments is included in note 7.2.

The expected release profile from equity of post-tax hedging gains and losses is as follows:

	As at 31 December 2016			
	Within 1 year £m	**1–2 years £m**	**>2 years £m**	**Total £m**
Commodity contracts	**(12.8)**	**(0.6)**	**0.1**	**(13.3)**
Forward foreign currency exchange contracts	**42.8**	**69.0**	**206.9**	**318.7**
	30.0	**68.4**	**207.0**	**305.4**

	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

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 2016 the Group's contingent liability in respect of letters of credit issued under the revolving credit facility amounted to £57.9 million (2015: £37.9 million).

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	
	2016 £m	2015 £m
Contracts placed for future capital expenditure not provided in the financial statements	**33.0**	43.2
Future support contracts not provided in the financial statements	**5.9**	6.1
Future commitments to purchase fuel under fixed and variable priced contracts	**5,194.4**	4,739.0

The contractual maturity of the future commitments to purchase fuel are as follows:

	As at 31 December	
	2016 £m	2015 £m
Within one year	**873.7**	870.5
Within two to five years	**2,773.0**	2,440.7
After five years	**1,547.7**	1,427.8
	5,194.4	4,739.0

Commitments to purchase fuel reflect long-term forward purchase contracts with a variety of international suppliers, primarily for the delivery of sustainable wood pellets for use in electricity production at Drax Power Station over the period from 2017–2027. To the extent these contracts relate to the purchase of wood pellets, they are not reflected elsewhere in our financial statements owing to application of the "own-use" exemption from fair value accounting to such contracts (see note 7.2).

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2016 £m	2015 £m
Within one year	**3.7**	8.0
Within two to five years	**10.8**	8.1
After five years	**5.2**	7.0
	19.7	23.1

SECTION 8:
REFERENCE INFORMATION

This section details reference information relevant to the accounts. Here we describe the general information about the Group (e.g. operations and registered office). We also set out the basis of preparation of the accounts and general accounting policies that are not specific to any one note.

8.1 General information

Drax Group plc (the Company) is incorporated in England and Wales under the Companies Act. The Company and its subsidiaries (together, the Group) have three principal activities:

– Electricity generation;
– Electricity supply to business customers; and
– Manufacturing of sustainable compressed wood pellets for use in electricity production.

The Group's activities are principally based within the UK, with the wood pellet manufacturing activities situated in the US. The 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 5 to the Company's separate financial statements, which follow these consolidated financial statements.

8.2 Basis of preparation

Adoption of new and revised accounting standards

A number of new and amended standards became effective for the first time in 2016. The Group adopted the following from 1 January 2016:

IAS 27 (amended) – Separate Financial Statements – applicable to annual reporting periods beginning on or after 1 January 2016.

Annual improvements to 2012–2014 Cycle – all amendments are effective for 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 1 (amended) – Presentation of Financial Statements – effective for annual reporting periods beginning on or after 1 January 2016.

IAS 19 (amended) – Defined Benefit Plans: Employee contributions – effective for annual reporting periods beginning on or after 1 February 2015.

IFRS 11 (amended) – Joint Arrangements – applicable to annual reporting periods beginning on or after 1 January 2016.

The adoption of these updates and amendments 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 (including clarifications issued on 12 Aril 2016) – 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.*

IFRS 10 (amended) – Consolidated Financial Statements and IAS 28 (amended) Investments in Associates and Joint Ventures (2011) – effective date deferred indefinitely.*

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.*

IFRIC 22 – Foreign Currency Transactions and Advance Consideration – effective for annual reporting periods beginning on or after 1 January 2018.*

IAS 40 (amended) – Investment Property – effective for annual reporting periods beginning on or after 1 January 2018.

Following endorsement by the EU, the Group expects to adopt IFRS 9 in line with the 1 January 2018 effective date. The adoption of this standard is not expected to have a material impact on the recognition or measurement of the Group's financial instruments. However, following adoption it is anticipated that more of the Group's forward purchase contracts will in future qualify for hedge accounting under the new standard than under the existing standard. This will likely result in a greater proportion of unrealised gains and losses being recognised in the hedge reserve and an associated reduction in income statement volatility.

The Group is in the process of completing a preliminary impact assessment for the adoption of IFRS 15, which is expected to be adopted in line with the effective date of 1 January 2018. Whilst further work is required, the Group expects to review and update its revenue recognition policies in light of the updated requirements. Based on the initial findings of this process, a material change to the quantum and timing of profitability is considered unlikely at this stage.

The Group has not yet concluded its initial impact assessment into the adoption of IFRS 16; however at this stage the standard is not expected to have a material impact on the recognition, measurement or presentation of amounts within the financial statements in respect of leases. The Group currently expects to adopt IFRS 16 in the period it becomes 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.

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.

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items are not retranslated.

Foreign exchange gains and losses are recognised in the income statement within finance costs.

Foreign operations

The assets and liabilities of foreign operations with a functional currency other than sterling are translated into sterling using published exchange rates at the reporting date. The income and expenditure of such operations are translated into sterling using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the retranslation of the operation's net assets and its results for the year are recognised in the Consolidated statement of comprehensive income.

8.4 Related party transactions

A related party is either an individual or entity with control or significant influence over the Group, or a company that is linked to us by investment (such as an associated company or joint venture). Our primary related parties are our key management personnel.

Remuneration of key management personnel

The remuneration of the directors and Executive Committee members, who are considered to be the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures". Further information about the remuneration of individual directors, together with the directors' interests in the share capital of Drax Group plc, is provided in the audited part of the Remuneration Committee report.

	Years ended 31 December	
	2016 £000	2015 £000
Salaries and short-term benefits	**5,011**	4,552
Aggregate amounts receivable under share-based incentive schemes	**1,146**	1,651
Company contributions to money purchase pension schemes	**44**	33
	6,201	6,236

Amounts included in the table above reflect the remuneration of the 10 (2015: 11) members of the Board and Executive Committee as described on pages 68 to 71, in addition to two former members of the Board and Executive Committee who resigned from the Board during 2016.

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.

Audited consolidated financial statements of Drax Group plc and its subsidiaries as of and for the year ended 31 December 2015.

Extracted from the 2015 annual report and accounts of Drax Group plc

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	Years ended 31 December 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	Years ended 31 December 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	Years ended 31 December 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.

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