23 February 2016

DRAX GROUP PLC (Symbol: DRX)

PRELIMINARY RESULTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2015

Severe market deterioration and difficult regulatory challenges mitigated by strong operations

Twelve months ended 31 December	**2015**	**2014**
Key financial performance measures		
EBITDA (£ million)(1)	169	229
Underlying earnings (£ million)(2)	46	96
Underlying earnings per share (pence)(2)	11.3	23.7
Total dividends (pence per share)(3)	5.7	11.9
Statutory accounting measures		
Profit before tax (£ million)	59	166
Reported basic earnings per share (pence)	14	32

Financial and Operational Highlights

- 2015 EBITDA in line with guidance – despite severe market deterioration and difficult regulatory challenges
- Record sales at Haven Power – now at long-term target
- Challenging 2016 outlook – continued deterioration in commodity markets and loss of LECs(4)
  - Mitigated by flexible operations, focus on tight cost control and capital discipline

Biomass Transformation Highlights

- Investment on schedule and budget – predominantly biomass fuelled from Q4 2015
- CfD for third unit conversion referred to Phase 2 EU State aid investigation
  - Full conversion post State aid conclusion
- US pelleting and port facilities commissioned and operational

Dorothy Thompson, Chief Executive of Drax, said:

"In a challenging year we have delivered another strong operational performance and realised our vision to become a predominantly biomass fuelled generator.

"We are clear on the challenges ahead and how we will respond. The fastest, most affordable and safest way to reduce carbon emissions is to further deploy the world leading biomass technology Drax has pioneered to upgrade more of the UK's existing coal fired power stations to sustainable biomass.

"With the right support framework, we stand ready to help the UK decarbonise further."

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NOTES FOR ANALYSTS AND EDITORS

2015 Group Financial Review

- EBITDA for 2015 down 26% at £169 million
  - Adverse impact of LEC removal and severe deterioration in commodity prices
  - Mitigated by strong hedge, flexible operations and increasing biomass generation
- Underlying earnings per share decreased 52% to 11.3 pence
  - Higher depreciation, reflecting biomass investments
- Reported basic earnings per share of 14 pence includes the following non-cash items (and the associated tax):
  - Unrealised gains on derivative contracts of £124 million, principally related to foreign currency hedging programme to support biomass procurement activities
  - Asset obsolescence charges of £109 million related to assets previously utilised in coal generation but no longer required for biomass, principally FGD(5) plant
- Small tax credit on underlying profits reflects impact on deferred tax of corporation tax rate reductions enacted in 2015
- Capital investment: on track to complete biomass transformation in line with original cost guidance of £650 - £700 million (3 unit conversions, US supply chain investments and IED(6) compliance)
  - 2015 total capital investment £174 million, includes acceleration of IED and biomass optimisation investment
- Final dividend of 0.6 pence per share, or £2 million (2014: 7.2 pence per share, or £29 million), in line with policy to distribute 50% of underlying earnings
- Net debt of £187 million, including cash on hand of £134 million (net debt at 31 December 2014: £99 million)

2015 Business Review

Generation (Drax Power)

- Generation: electricity output (net sales) of 26.7TWh (2014: 26.7TWh)
  - Significant increase in biomass generation to 11.5TWh (2014: 7.9TWh)
- Fuel: good progress with near-term biomass volumes
  - CfD necessary to underpin acceleration of long-term supply chain development

Retail (Haven Power)

- Delivered 13.8TWh of sales through Haven (2014: 11.8TWh), now at long-term target
  - Sales of £1.3 billion (2014: £1.1 billion)

Biomass Supply (Drax Biomass)

- Baton Rouge port facility operational and exporting biomass pellets
- Morehouse and Amite pellet plants operational – pellet production increasing

Notes:
(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 settlement of CESP in 2014.
(2) 2015 underlying earnings exclude the following non-cash items (and the associated tax): unrealised gains on derivative contracts of £124 million (2014: £66 million) and asset obsolescence charges of £109 million. 2014 underlying earnings also exclude the net settlement of the Community Energy Savings Programme (£20 million).
(3) Based on 50% of underlying earnings.
(4) LEC is Levy Exemption Certificate.
(5) FGD is Flue Gas Desulphurisation.
(6) IED is Industrial Emissions Directive.

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Forward Looking Statements

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

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Results presentation meeting and webcast arrangements

Management will host a presentation for analysts and investors at 9:00am today (UK Time), at **Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB**.

Would anyone wishing to attend please confirm by either e-mailing hcrane@brunswickgroup.com or calling Hannah Crane at Brunswick Group on +44 (0) 20 7404 5959.

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

A copy of the presentation will be made available from 7:00am today (UK time) for download at: www.drax.com>>investors>>results_and_reports>>IR presentations>>2016 or use the link http://www.drax.com/investors/results-and-reports/ir-presentations/

Event Title:	Drax Group plc: Preliminary Results
Event Date:	Tuesday 23 February 2016
Event Time	9:00am (UK time)
Webcast Live Event Link	http://cache.merchantcantos.com/webcast/webcaster/4000/7464/16533/56573/Lobby/default.htm
Start Date:	Tuesday 23 February 2016
Delete Date:	Monday 20 February 2017
Archive Link:	http://cache.merchantcantos.com/webcast/webcaster/4000/7464/16533/56573/Lobby/default.htm

For further information please contact Hannah Crane at Brunswick Group on +44 (0) 20 7404 5959.

Website:	www.drax.com

Chairman's statement

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

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

Political and regulatory changes

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

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

In 2010 our power station burnt almost 10 million tonnes of coal. Because of our transformation by 2015 we had lowered this to 6 million tonnes.

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

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

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

Critical infrastructure

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

Results and dividend

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

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

Corporate governance

At Drax we are committed to excellent corporate governance and given the changes and challenges experienced during the year the Board and Committees remained very active.

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

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

Our people

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

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

Chief Executive's Review

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

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

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

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

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

Affordability

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

Sustainability

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

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

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

Safety

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

Strategic priorities

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

Commodities

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

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

Regulation

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

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

Strong operational performance from our business units

Each business unit has performed strongly during the year, as described below.

Drax Power

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

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

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

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

Haven

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

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

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

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

In these uncertain economic times firms have to prioritise stretched resources. Many have clear, long-standing commitments to purchase and use only renewable electricity and we hope that despite the removal of the CCL exemption they will continue to live up to both the spirit and letter of their public commitments. Certainly we have been pleased to work with many of our customers, such as Santander, in this regard.

Drax Biomass

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

Outlook

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

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

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

Group financial review

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

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

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

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

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

Our EBITDA for 2015 was £169 million, £60 million lower than 2014 but only slightly behind our expectations at the start of the year, in spite of the numerous challenges faced. Underlying earnings of £46 million drive a total dividend of 6 pence per share.

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

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

Financial performance

Gross Margin Performance

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

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

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

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

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

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

Operating Costs

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

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

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

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

EBITDA

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

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

Underlying Earnings

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

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

Financial Instruments

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

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

Financial position

Capital Expenditure

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

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

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

Asset Obsolescence Charges

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

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

Cash Generated from Operations

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

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

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

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

Net Debt & Funding

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

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

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

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

Other information

Taxation

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

The underlying effective rate of tax of (9)% (excluding the post-tax impact of unrealised gains on derivatives contracts and one-off asset obsolescence charges, as described above) is less than the standard rate of corporation tax in the UK, the difference arising predominantly from the impact of the corporation tax rate changes described above. The comparable underlying rate in 2014 was 20%, which was more aligned with the UK standard rate of tax.

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

Acquisition of Billington Bioenergy

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

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

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

Long-term Value

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

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

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

The review, which is further detailed in note 3, reinforced our view that the Group is well placed to deliver future value and that the carrying value of our assets remains appropriate.

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

Distributions

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

A full reconciliation of net profit, calculated in accordance with IFRS, to underlying earnings is provided within note 6.

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

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

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

Shares will be marked ex-dividend on 22 April 2016.

Viability Statement

In accordance with provision C.2.2 of the 2014 version of the UK Corporate Governance Code, the directors have assessed the prospects of the Group over a period significantly longer than the 12 months required by the going concern provision.

In preparing this assessment of viability the Board has considered the principal risks faced by the Group, relevant financial forecasts and sensitivities, the availability of adequate funding and the strength of the Group's control environment.

Assessment period

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

– The Group's Business Plan (the "Plan"), which is reviewed and assessed on a quarterly basis and is used for strategic decision making, includes a range of financial forecasts and associated sensitivity analysis. This Plan covers a three-year period in detail.

– Within the three year period liquid commodity market curves are used for valuations. Typically these curves cover a two year window and beyond this horizon, given the lack of forward liquidity in power markets, commodity price assumptions are derived using publically available information and the Group's own estimates.

– The majority of the Group's financing facilities are available beyond the three year horizon.

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

Review of principal risks

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

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

Review of financial forecasts

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

The Plan includes certain assumptions, the most material of which relate to commodity market price curves and levels of subsidy support available to the Group through the generation of biomass-backed renewable power. The Group continues to await the outcome of a state aid review by the European Union of a Contract for Difference, providing a strike price for the sale of renewable power. The outcome of this review is expected during 2016 and the Plan includes an assumption that State aid clearance will be obtained during the year.

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

The Board considers the most significant scenario in the assessment period to be a combination of a failure to secure State aid clearance for the CfD during 2016 and a deterioration of commodity market prices, leading to a fall in the available price for power and thus a fall in the margins available to the Group from its power generation activities. This has been considered in the Plan and the Board is satisfied that in such a scenario sufficient actions could be taken to preserve the viability of the Group.

Availability of adequate funding

The sources of funding available to the Group are set out in note 10. The Board expects these sources, along with cash flows generated by the Group from its normal operations, to provide adequate levels of funding to support the execution of the Group's Plan over the three-year period.

Expectations

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

Dorothy Thompson CBE
Chief Executive

Will Gardiner
Chief Financial Officer

Principal risks and uncertainties

Principal risks and uncertainties

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

Internal control and risk management

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

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

Risk management committees

There are seven business risk management committees (RMCs):

1 Group corporate services risk management committee

2 Drax Power safety, health, environmental and production integrity committee

3 Drax Power currency and commodity risk management committee

4 Drax Power corporate services risk management committee

5 Haven Power risk management committee

6 Drax Biomass risk management committee

7 Billington Bioenergy risk management committee

Each Committee is responsible for ensuring that all risks associated with its specific area of the business are identified, analysed and managed systematically and appropriately. Each Committee has terms of reference that require systems and controls to be approved, implemented and monitored in order to ensure that activities are commensurate with the risk appetite established by the Board, are adequately resourced and comply with applicable legal and regulatory requirements.

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

Risk management process

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

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

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

Risks are then logged with reference to impact and probability.

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

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

Internal control

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

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

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

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

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

Following its review, the Board determined that it was not aware of any significant deficiency or material weakness in the system of internal control.

Change in risk profile

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

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

Regulatory and Political Risk			
Context The energy sector is subject to detailed legislation and regulation. This complex structure is frequently changing and becoming ever more stringent, particularly in relation to environmental matters **Risk** – Changes to EU and UK policy may make it difficult for Drax to comply with new regulations and may prevent us undertaking future biomass unit conversions	**Mitigations** – Taking a more prominent role in EU bodies in order to have our voice heard and try to influence policy makers – Co-operating with DECC and EU to accelerate the phase 2 investigation where possible – Open dialogue with DECC, Treasury and OFGEM on regulatory and political issues to highlight potential impact of new policies	**Movement** **Increased**	Changes in factors impacting risk in 2015 – Conservative government won the general election, increasing focus on affordability of energy policy rather than decarbonisation – EC announced formal investigation into the Drax CfD contract awarded by UK – Abolition of Levy Exempt Certificates at short notice and without industry consultation indicates the risk

– EC formal State Aid (phase 2) investigation may delay commissioning of the CfD unit or may impose terms and conditions which are unacceptable to Drax – Changes to existing UK support mechanisms may put pressure on our financial results and cash flows – Renewable support regime expires in 2027	**Associated priorities:** Critical infrastructure World-leading biomass technology		of future similar policy changes – Announcement by UK government that all coal fired power stations must close by 2025.

Biomass Risks			
Context The biomass market is still relatively new, the supply chain requires further investment and public understanding of the benefits of the technology need to be improved **Risk** – Detractors and eNGOs operate in concert to try and influence policy makers against future biomass conversions – We may fail to secure sufficient sustainable biomass due to the lack of new suppliers entering the market, financial failure of existing suppliers and / or increased competition for supply – Most of the sustainable biomass that we can procure is priced in foreign currency which increases our exposure to fluctuations against sterling and poses a risk to profitability – Failure to comply with sustainability certification requirements could put our ROC claims at risk	**Mitigations** – Developing new communications plan to highlight the benefit of biomass – Drax social media presence to respond to eNGO's – Building market awareness of potential new biomass demand – Contracting with suppliers where a robust operational plant and logistics infrastructure is already in place – Investment in our own supply chain to ensure security and timing of supplies – Supplementing supply with spot market purchases – Hedging currency exposures – Engagement with OFGEM and Sustainable Biomass Partnership on new sustainability standard requirements – Engaging with equipment suppliers and other pellet producers to ascertain optimal maintenance strategy for our pellet plants **Associated priorities:** Critical infrastructure World-leading biomass technology	**Movement** **Increased**	**Changes in factors impacting risk in 2015** – Negative coverage from eNGOs – Reduced volumes delivered from some suppliers as they face financial and operational pressures – Increased port storage capacity and logistics capability to accommodate increased fuel requirement – Increased exchange rate volatility – More stringent auditing requirements from Sustainable Biomass Partnership

Generating Plant Operating Risk			
Context The reliability of our generating plant is central to our ability to create value for the Group. There are inherent health and safety risks in our operations which make our strong safety standards and culture critically important. Compliance with laws and regulations could impact the cost of operation. **Risk** – Single point failures on the plant could result in forced outages, impacting financial results and / or health and safety – As we progress with our biomass unit conversions, we are exposed to new and emerging technical risks which could result in higher than forecast outage levels	**Mitigations** – Comprehensive risk based plant investment and maintenance programme – Maintaining a trained and competent workforce – Strong health and safety culture – Target to optimise holding of spare parts for use in the event of plant failure, particularly long lead time items – Adequate insurance in place to cover losses from plant failure where possible – Significant research and development undertaken on handling and burning biomass **Associated priorities:** Improve operational efficiency	**Movement** **Constant**	**Changes in factors impacting risk in 2015** – Low commodity prices have led to a reduction in load factor, with coal units operating only in peak periods. This places pressure on the units and can lead to higher forced outage rates – Awarded maximum five stars in the British Safety Council's Health and Safety Audit – Increased experience operating the converted biomass units – Performed first biomass unit outage with no new concerns

Trading and Commodity Risk			
Context The margins of our generation business are influenced by commodity market movements, primarily gas prices which drive power prices, and are inherently volatile. The increasing level of our renewables generation exposes us to risk in relation to the ROC market. **Risk** – Fluctuations in commodity prices, particularly gas and power could lead to low bark and / or dark green spreads resulting in lower margins in our generation business and a reduction in cash flow – Value of ROCs generated may be lower than forecast if the recycle value outturns below DECC's projections due to higher than anticipated renewable generation on the grid	**Mitigations** – Hedging strategy to sell forward bark spread where it is economic to do so – State aid process for CfD in progress, which if approved would remove the income volatility associated with that unit – On-going analysis of UK ROC generation to adjust pricing forecasts – Entering into fixed price ROC sales contracts where possible – Selling through Haven Power provides a route to market for ROC's **Associated priorities:** Grow revenues and improve margins	**Movement** **Increased**	**Changes in factors impacting risk in 2015** – Low gas prices continue to depress the power markets, making it uneconomic for us to generate in certain off-peak periods – Haven Power sales volumes continue to grow and offer a partial hedge to falling wholesale power prices – DECC has increased assumptions around wind load factors in the RO setting calculation which should make it more accurate

Corporate Risks			
Context The Group depends on its ability to fund ongoing operations. Drax is reliant on a number of key IT systems to support operations and cash flow. **Risk** – An inability to raise funds to finance the on-going business and remain compliant with banking covenants could lead to a covenant breach, loan default or credit rating downgrade – If the Haven Power billing system is unavailable for material invoicing, this could have a material impact upon cash flow – A breach of IT security could result in the inability to operate systems or in the release of unauthorised information	**Mitigations** – Safeguarding cash flow through improved working capital management – Disaster recovery procedures in place at Haven Power along with a manual billing process to use as a contingency – Group wide cyber policy – Business Continuity Plan in place – Seek to detect and investigate threats to IT security and apply several layers of control to mitigate entry. **Associated priorities:** Improve operational efficiency Grow revenues and improve margins	**Movement** **Constant**	**Changes in factors impacting risk in 2015** – Completed the refinancing of the £400m revolving credit facilities in December 2015 – ROC monetisation facilities of £200m in place with HSBC and Lloyds

Directors' responsibilities statement

The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), set out in FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the directors are required to:

– select suitable accounting policies and then apply them consistently;

– make judgements and accounting estimates that are reasonable and prudent;

– state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

– properly select and apply accounting policies;

– present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

– provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

– make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

– the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;

– the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

– the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of directors on 22 February 2016 and is signed on its behalf by:

Dorothy Thompson CBE
Chief Executive

Will Gardiner
Chief Financial Officer

Consolidated Financial Statements

Consolidated income statement

	Notes	Years ended 31 December 2015 £m	2014 £m
Revenue		**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		**(239.8)**	(220.4)
EBITDA(1)		**169.0**	229.4
CESP settlement		**–**	(20.0)
Depreciation and amortisation		**(100.4)**	(80.7)
Asset obsolescence charges	3	**(109.2)**	–
Losses on disposal		**(7.1)**	–
Unrealised gains on derivative contracts		**123.7**	65.8
Operating profit		**76.0**	194.5
Interest payable and similar charges	4	**(18.4)**	(29.9)
Interest receivable	4	**1.4**	1.3
Profit before tax		**59.0**	165.9
Tax:			
– Before effect of changes in rate of corporation tax	5	**(20.5)**	(37.2)
– Effect of changes in rate of corporation tax	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)	6	**46.0**	96.0
Earnings per share		**pence**	pence
– Basic and diluted	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 settlement of CESP 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.

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		**1.2**	3.4
Deferred tax on actuarial gains on defined benefit pension scheme	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		**23.4**	100.4
Deferred tax on cash flow hedges before corporation tax rate change	5	**(4.7)**	(20.1)
Impact of corporation tax rate change on deferred tax on cash flow hedges	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		**26.3**	10.7
Property, plant and equipment		**1,653.8**	1,697.2
Derivative financial instruments		**278.4**	111.2
		1,958.5	1,819.1
Current assets			
Inventories		**224.0**	242.4
ROC and LEC assets		**270.1**	184.5
Trade and other receivables		**319.3**	368.7
Derivative financial instruments		**330.8**	139.1
Short-term investments		**–**	40.1
Cash and cash equivalents		**133.8**	180.9
Current tax assets		**0.6**	–
		1,278.6	1,155.7
Liabilities			
Current liabilities			
Trade and other payables		**488.0**	468.3
Current tax liabilities		**–**	1.4
Borrowings	10	**0.3**	0.6
Derivative financial instruments		**274.3**	130.7
		762.6	601.0
Net current assets		**516.0**	554.7
Non-current liabilities			
Borrowings		**320.1**	319.0
Derivative financial instruments	10	**300.1**	232.2
Provisions		**30.5**	29.8
Deferred tax liabilities		**191.9**	185.9
Retirement benefit obligations		**29.5**	34.3
		872.1	801.2
Net assets		**1,602.4**	1,572.6
Shareholders' equity			
Issued equity		**46.9**	46.8
Capital redemption reserve		**1.5**	1.5
Share premium		**424.2**	422.8
Merger reserve		**710.8**	710.8
Hedge reserve		**34.9**	16.4
Retained profits	8	**384.1**	374.3
Total shareholders' equity		**1,602.4**	1,572.6

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 7)	–	–	–	–	–	(55.0)	(55.0)
Issue of share capital	0.3	–	0.3	–	–	–	0.6
Movement in equity associated with share-based payments	–	–	–	–	–	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 7)	–	–	–	–	–	(49.9)	(49.9)
Issue of share capital	0.1	–	1.4	–	–	–	1.5
Movement in equity associated with share-based payments	–	–	–	–	–	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	11	**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	7	**(49.9)**	(55.0)
Proceeds from issue of share capital		**1.5**	0.6
Repayment of borrowings		**–**	(0.3)
New borrowings	10	**–**	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		**133.8**	180.9

1. General information and basis of preparation

The consolidated financial information for Drax Group plc (the "Company") and its subsidiaries (together "the Group") set out in this preliminary announcement has been derived from the audited consolidated financial statements of the Group for the year ended 31 December 2015 (the "financial statements").

This preliminary announcement does not constitute the full financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"). The financial statements were approved by the Board of directors on 22 February 2016. Statutory accounts for 2014 have been delivered to the Registrar of Companies and those for 2015 will be delivered in due course.

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

The financial statements have been prepared in accordance with IFRSs adopted by the European Union and therefore the consolidated financial statements comply with Article 4 of the EU IAS Regulations.

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

The principal accounting policies adopted in the preparation of these financial statements are set in the 2015 Annual report and accounts. These policies have been consistently applied to both years presented.

2. 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 amortization					**(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 3.

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

(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.

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").

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 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").

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. 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 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. 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.

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	2014
	£000	£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 Industrial Emissions Directive. 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 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.

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 and net interest charged on the Group's defined benefit pension scheme obligation. 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	2014
	£m	£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	**(0.7)**	(1.1)
Amortisation of deferred finance costs	**(3.7)**	(3.0)
Net finance cost in respect of defined benefit scheme	**(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 10 for further details).

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 utilized.

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.

	Years ended 31 December	
	2015	2014
	£m	£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	2014
	£m	£m
Tax charge on items recognised in other comprehensive income:		
Deferred tax on actuarial gains on defined benefit pension scheme	**0.2**	0.7
Deferred tax on cash flow hedges	**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	2014
	£m	£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)**

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.

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), 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 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

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 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.

8. Retained earnings

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	**1.2**	3.4
Deferred tax on actuarial losses on defined benefit pension scheme (note 5)	**(0.2)**	(0.7)
Exchange differences on translation of foreign operations	**(2.9)**	(0.2)
Equity dividends paid (note 7)	**(49.9)**	(55.0)
Net movements in equity associated with share-based payments	**5.3**	5.6
At 31 December	**384.1**	374.3

9. Reconciliation of net debt

Net debt is calculated by taking our borrowings (note 10) and subtracting cash and cash equivalents and short-term investments. 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)

10. 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.

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.

	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

11. Cash generated from operations

Cash generated from operations is the starting point of our cash flow statement. 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 amortization	**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

Glossary

Advantaged fuels

Fuel that gives a price advantage against standard bituminous coals. Such fuels include pond fines, off-specification coal and petcoke.

Ancillary services

Services provided to National Grid used for balancing supply and demand or maintaining secure electricity supplies within acceptable limits. They are described in Connection Condition 8 of the Grid Code.

Availability

Average percentage of time the units were available for generation.

Average achieved price

Power revenues divided by volume of net sales (includes imbalance charges).

Balancing mechanism

The sub-set of the market through which the System Operator can call upon additional generation/consumption or reduce generation/consumption through market participants' bids and offers, in order to balance the system minute-by-minute.

Bark spread

The difference between the power price and the cost of biomass, net of renewable support.

Carbon price support mechanism (or carbon price floor or carbon tax)

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

Contracts for difference (CfD)

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

Dark green spread

The difference between the power price and the cost of coal and carbon.

EBITDA

Profit before interest, tax, depreciation and amortisation, gains or losses on disposal of property, plant and equipment and unrealised gains/(losses) on derivative contracts and CESP settlement.

EU ETS

The EU Emissions Trading System is a mechanism introduced across the EU to reduce emissions of CO_2; the scheme is capable of being extended to cover all greenhouse gas emissions.

Feed-in tariff

A long-term contract set at a fixed level where variable payments are made to ensure the generator receives an agreed tariff. The feed-in tariff payment would be made in addition to the generator's revenues from selling in the market.

Forced outage

Any reduction in plant availability, excluding planned outages.

Forced outage rate

The capacity which is not available due to forced outages or restrictions expressed as a percentage of the maximum theoretical capacity, less planned outage capacity.

Grid charges

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

IFRSs

International Financial Reporting Standards.

LECs

Levy Exemption Certificates. Evidence of Climate Change Levy exempt electricity supplies generated from qualifying renewable sources.

Levy control framework

A control framework for DECC levy-funded spending intended to make sure that DECC achieves its fuel poverty, energy and climate change goals in a way that is consistent with economic recovery and minimising the impact on consumer bills.

Load factor

Net sent out generation as a percentage of maximum sales.

Lost time injury rate (LTIR)

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

Net balancing mechanism

Net volumes attributable to accepted bids and offers in the balancing mechanism.

Net cash/(debt)

Comprises cash and cash equivalents, short-term investments less overdrafts and borrowings net of deferred finance costs.

Net sales

The aggregate of net volumes attributable to bilateral contracts, power exchange trades and net balancing mechanism.

Net sales at notional balancing point (NBP)

Net sales at NBP is the volume of power sold to customers by our Retail business expressed at the NBP. The NBP reflects the volume of power sold before deduction of transmission and distribution losses incurred in transporting this power from the grid to the customer meter.

Planned outage

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

Planned outage rate

The capacity not available due to planned outages expressed as a percentage of the maximum theoretical capacity.

Power exchange trades

Power sales or purchases transacted on the APX UK power trading platform.

ROCs

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

Summer

The calendar months April to September.

System operator

National Grid Electricity Transmission. Responsible for the co-ordination of electricity flows onto and over the transmission system, balancing generation supply and user demand.

Total recordable injury rate (TRIR)

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

UK NAP

UK National Allocation Plan.

Underlying financial measures

We report financial measures described as “underlying” such as profit after tax and earnings per share. Underlying measures are adjusted to exclude the impact of gains and losses on derivative contracts and the associated tax.

Winter

The calendar months October to March.