16 February 2017

DRAX GROUP PLC (Symbol: DRX)

PRELIMINARY RESULTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2016

Good operational performance, 65% of electricity from renewable biomass and progress with strategic initiatives

Twelve months ended 31 December	2016	2015
Key financial performance measures		
EBITDA (£ million)[(1)]	140	169
Underlying earnings (£ million)[(2)]	21	46
Underlying earnings per share (pence)[(2)]	5.0	11.3
Total dividends (pence per share)[(3)]	2.5	5.7
Net debt (£ million)[(4)]	93	187
Statutory accounting measures		
Profit before tax (£ million)	197	59
Reported basic earnings per share (pence)	48	14

Financial and Operational Highlights

- 2016 EBITDA in line with guidance
  - Year on year reduction driven by challenging commodity markets and loss of LECs[(5)]
  - Mitigated by growth in system support, improving retail and pellet supply profitability
- Three converted biomass units, CfD approved in December
  - 65% of generation from biomass in 2016 (2015: 43%)
  - Investment completed on budget
- Statutory profit before tax includes unrealised gains related to foreign currency hedging
- Strong cash flows and balance sheet

Strategic Highlights and Outlook

- Acquisition of Opus Energy and open cycle gas turbine projects
- Focus on delivery of strategy
  - Higher quality diversified earnings and targeted long-term growth opportunities
  - Significant earnings growth
- Maintain operational excellence across base business
- Refinancing of existing debt facilities
- 2017 EBITDA expectations in line with consensus

Dorothy Thompson, Chief Executive of Drax Group plc, said:

"We are playing a vital role in helping change the way energy is generated, supplied and used as the UK moves to a low carbon future.

"With the right conditions, we can do even more, converting further units to run on compressed wood pellets. This is the fastest and most reliable way to support the UK's decarbonisation targets, whilst minimising the cost to households and businesses.

"In a challenging commodity environment Drax has delivered a good operational performance with 65% renewable power generation.

"The acquisition of Opus Energy and rapid response open cycle gas turbine projects are an important step in delivering our strategy, diversifying our earnings base and contributing to stronger, long-term financial performance across the markets in which we operate."

NOTES FOR ANALYSTS AND EDITORS

2016 Group Financial Review

- EBITDA for 2016 down 17% at £140 million
  - Year on year reduction driven by challenging commodity markets and loss of LECs[5]
  - Mitigated by growth in system support, improving retail and pellet supply profitability
- Underlying earnings per share decreased 54% to 5.0 pence
- Reported basic earnings per share of 48 pence includes unrealised gains on derivative contracts of £177million (and the associated tax), principally related to the foreign currency hedging programme to support biomass procurement activities
- Tax on underlying profits reflects impact on deferred tax of corporation tax rate reductions and excludes the one off tax credit arising on recognition of the tax value of US start-up costs
- Capital investment: biomass transformation in line with original guidance of £650 - £700 million (three unit conversions, US supply chain investments and IED[6] compliance)
  - 2016 capital investment of £96 million, in line with guidance
- Full year dividend of 2.5 pence per share, or £10 million (2015: 5.7 pence per share, or £23 million), in line with policy to distribute 50% of underlying earnings
- Net debt of £93 million (31 Dec 2015: £187 million), including cash on hand of £228 million

2016 Business Review

Generation

- Biomass – increase in generation electricity output (net sales) 12.7TWh (2015: 11.5TWh)
- Coal – strong operational performance with increased system support role
  - Flexible operation in prompt and balancing markets
  - Increase in Ancillary Services revenue to £47 million (2015: £14 million)
  - Targeted maintenance strategy – deferred major planned outage to 2018
- Consultation on closure of unabated coal generation
  - Expect end of coal generation by 2025
  - Accelerated depreciation of coal-specific assets from 2017

Retail

- Haven Power – established challenger in I&C[7] market
  - Good operational performance
- Opus Energy – profitable challenger brand in SME[8] market
  - Significant addition to 2017 earnings

Biomass Supply

- Port and pellet plants – good operations, providing supply chain flexibility

Notes:

(1) EBITDA is defined as profit before interest, tax, depreciation, amortisation and unrealised gains and losses on derivative contracts.

(2) 2016 underlying earnings exclude unrealised gains on derivative contracts of £177 million and the associated tax, plus a deferred tax credit of £31 million in relation to start-up losses in the US (2015: unrealised gains of £124 million and asset obsolescence charges of £109 million).

(3) Based on 50% of underlying earnings.

(4) Cash and cash equivalents, less borrowings.

(5) LEC is Levy Exemption Certificate.

(6) IED is Industrial Emissions Directive.

(7) I&C is Industrial & Commercial.

(8) SME is Small Medium Enterprise.

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 **JP Morgan, 60 Victoria Embankment, London, EC4Y 0JP.**

Would anyone wishing to attend please confirm by either e-mailing epayne@brunswickgroup.com or calling Emma Payne at Brunswick Group on +44 (0) 20 7396 5323.

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 are set out below.

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

Event Title:	Drax Group plc: Preliminary Results
Event Date:	Thursday 16 February 2017
Event Time	9:00am (UK time)
Webcast Live Event Link	http://cache.merchantcantos.com/webcast/webcaster/4000/7464/7467/71349/Lobby/default.htm
Start Date:	Thursday 16 February 2017
Delete Date:	Monday 12 February 2018
Archive Link:	http://cache.merchantcantos.com/webcast/webcaster/4000/7464/7467/71349/Lobby/default.htm

For further information please contact Emma Payne at Brunswick Group on +44 (0) 207396 5323.

Website:	www.drax.com
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CHAIRMAN'S STATEMENT

2016 was a pivotal year for Drax, marking the completion of the biomass transformation project which commenced in 2012, and the announcement of a new strategy to deliver long-term sustainable value.

Against a background of low wholesale electricity prices, and a volatile and demanding environment for renewable energy providers, the Group has again delivered strong operational performance.

CREATING LONG-TERM VALUE FROM A DIVERSIFIED BASE

In 2016 a key focus for the Board was the development of a new strategy for the Group, in order to ensure we are well placed to create long-term value across all three segments of the business: smart upstream sustainable pellet manufacturing, smart power generation and smart retail.

Following a comprehensive review, initiated in 2015, the Group's new strategy has been defined and is based on creating a more diversified earnings base that will produce higher-quality returns in the long term. Central to this strategy, Drax aims to play an increasing role in delivering a robust low-carbon energy system for the UK.

We announced our new strategy to the market in December. Evidence of delivering on the new strategy can already be seen in the acquisition of Opus Energy and four projects to construct fast-response Open Cycle Gas Turbine generation plants.

RESULTS AND DIVIDEND

Our EBITDA for 2016 at £140 million was in line with our guidance, although below 2015 (£169 million). This result principally reflects very challenging commodity markets and the removal of Climate Change Levy exemptions. However, we were able to partly offset the impact of these factors with a focus on flexible system support, the prompt and balancing markets, ancillary services and improving retail margins, all of which are important parts of our strategy to develop broader, non-commodity exposed earnings.

In accordance with our dividend policy, the Board proposes to pay a final dividend in respect of 2016 of 0.4 pence per share, equal to £1.8 million. This would give total dividends for the year of £10 million (2015: £23 million).

Given the evolution of our business, the Board believes that it is appropriate to review our dividend policy. Discussions with our shareholders will take place in the first half of 2017.

POLITICAL AND REGULATORY

The government's decision to apply the Climate Change Levy to renewables continued to have a significant effect on our results, reducing EBITDA by an estimated £34 million in 2016. On a much more positive note, following an exhaustive and rigorous process, the European Commission approved our Contract for Difference (CfD).

2016 was a year of significant change for the UK Government, not least with the Brexit vote and its implications. Our strategy of long-term hedging against currency fluctuations ensured we were protected against a negative impact on the cost of our predominantly US dollar and Euro denominated biomass supply.

A new Prime Minister, a newly created department in BEIS (Department for Business, Energy and Industrial Strategy), and changes to their respective teams mean new opportunities to make the case for further biomass upgrades at Drax. Our aim for the power station is to deliver 100% sustainable, renewable and reliable biomass generation.

Continuing to demonstrate the affordability of biomass is also critical, and an independent report[1] commissioned by Drax in early 2016 showed that biomass is the lowest cost, scale, renewable generation available once total system costs have been accounted for.

CRITICAL ROLE TO PLAY IN THE ELECTRICITY MARKET

Drax has a major role to play, not just producing electricity when it is needed, but also in securing the stability of the electricity grid. We are a generator that combines flexibility, reliability and sustainability. Our unique profile enables us to help National Grid provide power whenever it is needed. We renewed our contract with National Grid to provide support services, and there are clearly greater opportunities for Drax to support the UK energy system in the future.

Drax's four planned rapid-response Open Cycle Gas Turbine plants have the potential to provide the flexible and reliable electricity that the UK's homes and businesses will need in the years to come.

Changes in the retail energy market mean there are now greater opportunities for challenger brands to succeed. The acquisition of Opus Energy, with its strong track record of supplying power to small to medium-size businesses, will complement our existing

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(http://www.nera.com/publications/archive/2016/NERA_Imperial_Feb_2016_Renewable_Subsidies_and_Whole_System_Costs_FINAL_160215.html)

offering from Haven Power, which is well established in the large commercial and industrial sector.

CORPORATE GOVERNANCE

Drax remains committed to the highest standards of corporate governance. The Board and its committees play an active role in guiding the Company and leading its strategy, which is why we are determined to ensure we have the right skillset to steer the Group forward.

We are strong advocates of diversity – in terms of thinking, background and gender.

In the course of 2016, Melanie Gee left the Board. I would like to thank her for her years of commitment and service as a non-executive director. We are actively seeking new non-executive directors whose skills will help us determine and deliver our strategy for long-term value. In this context, retail and sustainability are our primary focus.

OUR PEOPLE

Finally, I must thank all the employees and contractors who have worked so hard to help Drax succeed in the last 12 months. As I said, it has continued to be an extremely busy period for everyone across all of our business, yet our team has once again pulled together to help us meet all of those challenges. We are privileged to have colleagues from such a diverse range of backgrounds and skills.

What we all share is the determination to do things in a sustainable way, and to continue to help the UK reduce its carbon emissions while continuing to provide the power our country requires.

It only remains for me to say that your Board remains totally committed to the complementary aims of delivering sustainable long-term value for the Drax business, and of helping our country build a low-carbon future through smart energy solutions.

Philip Cox CBE
Chairman

CHIEF EXECUTIVE'S REVIEW

2016 began with some of the most challenging power and commodity markets I have seen in my career and in a similar way to 2015 this created a headwind to profitability.

Operationally, performance across the group has been good.

The strong operational performance across our business helped us to respond to the financial challenge posed by the difficult commodity markets and the removal of Climate Change Levy exemptions. This enabled us to deliver EBITDA for 2016 at £140 million, in line with our guidance, but still below 2015 (£169 million). There is more detail on our financial performance in the Group Financial Review.

In response to the challenging commodity market conditions we evolved the operation of our coal units to provide increasingly important flexible system support services to the power grid, whilst at the same time our biomass units delivered a record level of renewable electricity.

In the US our pellet plants operated well. During the year we used the flexibility of self-supply to manage production to allow the Group to benefit from attractively priced biomass cargoes in the short-term spot market.

In Retail, Haven Power has delivered a good performance with volumes at scale and improved Gross Margin.

2016 was also a year of completion and delivery for Drax Group.

In December the European Commission granted state aid approval for the CfD contract to support the upgrade of our third generating unit at Drax power station to produce electricity from sustainable compressed wood pellets. That same month we completed the upgrade works and started producing 100% renewable power from the unit. This marked the final stage of our biomass transformation project which we have been implementing since 2012.

The transformation extends right across our supply chain. From the working forests of the southern US to ports in the UK, it extends right through to the millions of homes and businesses across the UK that use the renewable power we produce.

In 2016 we produced 16% of the UK's renewable electricity from sustainable wood pellets. In total we produce enough electricity to power Sheffield, Leeds, Liverpool and Manchester together. We stand ready to do more.

Through our retail business we supplied 7.5% of electricity required by UK businesses, whilst our pellet supply business produced 607,000 tonnes of compressed wood pellets.

According to a study published by Oxford Economics in 2016 (Draximpact.co.uk), Drax's total economic impact – including our supply chain and the wages our staff and suppliers' staff spend in the wider consumer economy was £1.2 billion, supporting 14,150 jobs across the UK.

MARKET OVERVIEW

The markets in which we operated were dominated by three major trends in 2016:

1. A tipping point for UK electricity

Firstly, the electricity market in Britain has now passed a tipping point. Until recently, intermittent generators such as wind and solar power have played a relatively small role in the electricity system. They are now playing an ever more significant role and the electricity system needs to adjust accordingly.

Britain now has 26GW of wind and solar installed – a six-fold increase over the last six years, and biomass has almost doubled its output since 2014 to over 14TWH.

Coal, which in the past has played a critical role in system stability and security, contributed just 9.3% of Britain's electricity during 2016 – down from 42% in 2012.

Of course, these changes represent good news from the point of view of creating a low-carbon energy future. But they also create an increased need for flexible and responsive solutions to ensure stability and security of electricity supply for the UK's homes and businesses. This offers a major opportunity for Drax to provide more support services to the network in the areas of security of supply and system stability.

2. The growth of challenger brands in the retail market

Secondly, in the retail electricity marketplace, 2016 has seen a continued growth of challenger brands. It also saw the conclusion of a very important report from the Competition and Markets Authority (CMA) on the electricity market. This concluded that both the wholesale energy market and the business retail market are working well, with the exception of some concerns about micro-businesses. The CMA did conclude that concerns remain about the domestic retail market. Their recommendations focused on how consumers could get better deals.

3. Stress on wood pellet prices

Meanwhile the wood pellet market has suffered from a significant excess of supply over demand. This follows three warm winters in Europe where there is a large market for wood pellets for heating. Consequently, demand in this market has been depressed and many pellet producers have struggled to find customers for their output.

However, against this backdrop, there has been increased interest in biomass generation, particularly in the Netherlands and Japan with parallel policy developments expected to support more biomass generation. So, although the market has been severely stressed by excess supply, it is expected that demand for biomass will increase in future years.

POLITICAL AND ECONOMIC BACKGROUND

In 2016 we have been working against a background of significant political change in the UK. In general, the Brexit vote did not affect us because our electricity is used in UK homes and businesses. We purchase large quantities of fuel in foreign currency. However, we are well hedged against currency fluctuations for the next five years including the devaluation of Sterling in 2016.

2016 saw a reduction in our dependency on commodity-related earnings. A growing proportion of our earnings are now based on system support, pellet supply and retail sales, rather than pure commodity spread earnings from generating electricity. This will be even more evident in 2017, as a third of our biomass generation is supported under a CfD, which is not subject to movements in commodity prices.

The UK Government continues to be clear that affordability of energy is a priority.

We commissioned research from Imperial College London and economic consultancy NERA to look at the affordability of biomass by factoring in whole system costs – essentially the hidden costs of power generation required to flex up and down to meet demand created by intermittent renewables. When these costs are built in biomass is seen to be the best value large scale renewable technology. If these new levels of support were to be reflected in the government's planned energy auctions, the mix of generation that could win contracts is shown to save consumers up to £2.2 billion over a 15 year period.

SUSTAINABILITY

We apply robust and thorough sustainability standards in all of our biomass sourcing. Since 2008 we have used external experts to independently verify our compliance with these stringent standards. In 2015 the Sustainable Biomass Partnership introduced the first sustainability certification system, including full life cycle analysis, for woody biomass. We are very pleased that in 2016, the Sustainable Biomass Partnership fully certified both our compressed wood pellet manufacturing plants.

Because sustainability is so central to our business, we are also delighted to report that carbon emissions from the generation of electricity at Drax power station fell by 53%* in 2016, partially driven by replacement of coal with Biomass.

*Based on CO2 emissions of 13.3 million in 2015 falling to 6.2 million in 2016.

HEALTH AND SAFETY

The health and safety of all our employees and contractors is of paramount importance to Drax. The Group delivered a world-leading performance in 2016. Overall, this has been our best year since 2012. It is especially pleasing given that it was delivered against a backdrop of an intense schedule of planned maintenance on our generating units during the year which resulted in man hours worked being nearly 5 million across the Group.

Safety remains at the centre of our operational philosophy and we are continuing to work to improve our performance across the Group.

BUSINESS PERFORMANCE

Drax Biomass

2016 was a year characterised by flexible operations at Drax Biomass, curtailing production for a time to enable the Group to capture value in the distressed wood pellet spot market. Both our pellet plants are now working at full capacity and delivering pellets of good quality.

In 2016 we continued to work on optimising production from both pellet plants and identified the opportunity for making low cost, incremental capital investment which will increase the capacity of each of the facilities from 450,000 tonnes to 525,000 tonnes. We will make this investment in 2017 and deliver the increased capacity by the end of the year.

Drax Power

In 2016, 65% of our electricity was generated from sustainable compressed wood pellets.

Of the much smaller proportion of our electricity generated by coal, the vast majority was used to fill the gaps when additional capacity or flexibility was needed by the grid. All of our generating units at Drax are flexible, dispatchable, and responsive, making them ideal to adapt to the changing needs of the market, and to fill the gaps created by the increasing amount of intermittent renewable generation.

The future of our coal units remains uncertain. The government published a consultation in November 2016 requesting views on whether conditions should be put in place requiring all coal power stations to close by 2025.

In 2016, Drax participated once again in the capacity market. While we are prohibited from doing this with our biomass units we did bid in two of our three coal units. Both units succeeded in securing a contract worth £13.6 million per unit per year for 2020/21. We elected not to bid for our third coal unit as with the right conditions we remain committed to upgrading further coal units to biomass. Had we bid this unit in the capacity market this would not have been possible in a timely manner.

Haven Power

In 2015, Haven achieved the scale of business which we were targeting for market access for renewable products and power.

The focus for 2016 has been to design a strategy that would deliver attractive levels of profitability at that scale. This strategy is focused on rebalancing our portfolio of sales to increase the number of small- and medium-sized enterprise (SME) customers in our portfolio compared to those from large industrial and commercial (I&C) businesses.

With a new leadership team in place, Haven is now well placed to become a more nimble, agile business, embracing change and providing intelligent energy solutions for its customers.

Billington Bioenergy

For our wood pellet business Billington Bioenergy, 2016 was a year of uncertainty as the government reviewed its policy for renewable heat across the UK. The new Renewable Heat Incentive tariff rates were finally confirmed in December, at a level that should support steady growth in biomass heating for both domestic properties and larger commercial scale plants.

Against this backdrop Billington continued to deliver a steady performance and has developed an attractive new strategy to grow the business at the scale and rate required to play a significant role in the Group.

OUR NEW STRATEGY

We announced the Group’s new strategy in December 2016. It reflects our determination to continue playing a vital role in the way energy is generated, supplied and used as the UK moves to a low carbon future.

It is designed to help us deliver a stronger, more predictable, long-term financial performance for the Group along with greater diversification in the markets in which we operate.

In December we also made it clear how we would start delivering the strategy. We announced our proposed acquisition of business-to-business energy supplier Opus Energy along with that of a project to build four new rapid response Open Cycle Gas Turbines (OCGT) power stations.

The Opus acquisition was a major transaction and was subject to shareholder approval. The acquisition was approved by shareholders on 8 February 2017 and completed on the 10 February 2017.

Acquiring Opus is directly in line with our strategy of expanding our retail activities into the SME marketplace where it is already very successful as a challenger brand.

Opus has a well-established business as a dual fuel supplier, enabling us to supply gas as well as electricity to end users, which is critical to succeeding in the SME market.

As the UK has now passed the tipping point where intermittent renewable generation plays a significant role in the electricity market, more rapid response power plants are required to keep the system stable.

This is exactly what the four 299MW OCGT plants we are planning to develop and build are designed to do. Two could be generating electricity as early as 2020/21, and the others by 2023/24. Each is capable of reaching full capacity in just 10 minutes – one third of the time taken by a conventional gas plant, enabling them to ‘fill gaps’ whenever they might arise.

This capability for rapid response generation can enable Drax to play a vital supporting role in the UK’s transition to secure low-carbon electricity which is cost-effective and reliable.

Our intention is only to go ahead with building these plants if we can secure an attractive capacity contract to provide the base revenues required.

Similarly, we have also announced our intention to expand our sustainable compressed wood pellet production operations to support self-supply of at least 20–30%. This will require a capacity of at least 2 million tonnes per annum, double our current capacity.

However, we will only move forward with this expansion if we identify attractive opportunities, including the potential acquisition of financially distressed pellet plants in the US.

STRATEGY ENABLERS

The first key enabler is our new people strategy. We are nothing without our people, and our greatest challenge will be further developing the excellence, talent and skill sets of the teams to ensure the successful delivery of our new strategy across all our businesses, including our recent acquisitions. That is the driving force behind our new people strategy.

The second key enabler is our new IT strategy which will deliver a step-change in the way we work across the Group. It will not only transform our day to day ways of working, making us more efficient, but also improve our analytic capacity and create a digital capability that will put data at the heart of all our work.

OUTLOOK

Our focus in 2017 is on delivering the new strategy whilst continuing to deliver excellence across the base business.

For Retail the year ahead will see Haven and Opus working closely together to deliver a compelling offer to the UK's businesses. The two businesses complement each other perfectly, and two challenger brands will between them offer expertise and experience in supplying gas and electricity to both SME and I&C customers.

There is a clear focus on embedding Opus into the Group. This is based on recognising the fact that the key to our future success together will be continuing to enable the Opus team to develop their skills and share their best practice across the Drax family.

For Drax Biomass the focus will be on quality and stability for existing capacity, low cost expansion at existing plants and where available targeting low cost acquisition of operating pellet plants and identifying possible opportunities to supply compressed wood pellets to new markets.

In our Generation business we will continue to deliver renewable electricity that is reliable and responsive through our biomass units. With the right conditions, we will convert three more units to run on compressed wood pellets. We see our coal units as playing an important role in system stability and capacity support. And we will work on the development of our four rapid-response OCGT plants with the firm intention of committing to further investment as soon as the UK capacity market clears at a price that provides a robust underpinning for such investment.

Having taken the first steps in developing our new strategy, we will continue to look for opportunities to further enhance and build on it, ensuring we play an even greater role in delivering the secure and stable supply of low-carbon, reliable and affordable electricity the UK needs.

Dorothy Thompson
Chief Executive, Drax Group

GROUP FINANCIAL REVIEW

In a year of significant operational and market challenge, we have performed in line with our guidance.

INTRODUCTION

In 2016 we continued to face a challenging business environment, with sustained weakness in power prices and uncertainty following the UK's decision to leave the European Union in June.

However, whilst Group EBITDA of £140 million is some £29 million lower than in 2015, once the impact of a full year of lost Levy Exemption Certificate (LEC) income is taken into account (circa £30 million), the underlying financial performance of our business was creditable and in line with our guidance. This is a clear indicator of the continued strength in our operations, the resilience of the business and its agility in responding to the challenges faced.

A major feature of our results during 2016 was the impact of Sterling depreciation following the Brexit vote. This led to significant gains in our balance sheet and income statement from unrealised gains on derivative contracts, largely relating to foreign exchange hedges. A gain relating to Sterling depreciation was also recognised within interest charges. In the medium term these changes will be managed through our extensive hedging programme, but in the longer term, without action on our part, Sterling's sustained depreciation may lead to increases to our fuel costs. We are already working on solutions, should this occur.

Furthermore, 2016 was the year we laid the groundwork for future growth, with the final clearance of our CfD in December marking the conclusion of our biomass transformation, the conditional acquisition of Opus Energy, subsequently completed in February 2017 and investment in four Open Cycle Gas Turbine (OCGT) generation opportunities in the UK.

We continue to maintain a robust balance sheet, with net debt of £93 million at 31 December reduced from £187 million in 2015 due to positive cash flows arising from our focus on efficient use of working capital. We will continue to focus on working capital and cash optimisation during 2017 and remain committed to maintaining a strong balance sheet. While the financing of the Opus acquisition will add leverage to our balance sheet, we expect our net debt to be back down to around 2xEBITDA by the end of 2017.

The new strategy the Group has adopted in 2016 is designed to accelerate the development of more long-term sustainable earnings and less dependence on commodity prices. I am increasingly confident that this new strategy, when combined with the Group's critical position in the UK energy system and strong asset base, provides an excellent platform upon which to increase shareholder value.

FINANCIAL PERFORMANCE

REVENUE

Consolidated revenue for 2016 of £2,950 million was £115 million lower than in 2015. Electrical output from our Generation business of 19.6TWH was significantly lower than 26.7TWH in 2015, as lower market power prices resulted in our coal-fired units being out of merit for much of the summer.

The impact of lower power prices, and the resultant lower load factors, was somewhat mitigated by a combination of the flexibility and reliability of our generation plant and increased ROC revenues, recognised when we sell ROCs to third parties, of £362 million. Our ability to quickly respond to changes in demand, combined with high availability, enabled us to capture real value in the short-term prompt and system balancing markets.

Revenue also includes £47 million in revenues arising from provision of Ancillary Services, an increase of £33 million from 2015. This included a twelve-month black start contract signed with National Grid in May 2016, and demonstrated the value of the flexible, reliable support services our generation plant can provide to the UK electricity network.

As described in the Chief Executive's Review the CfD contract for our third unit conversion was approved under State aid rules by the European Commission on 19 December 2016. We commenced generating power under this contract on 21 December and recognised revenue of £10 million in accordance with our accounting policy (set out in further detail in note 3 to the financial statements) in the period.

The CfD approval arrived much later in the year than originally anticipated, leading to a financial result at the lower end of market guidance.

Retail power revenues increased from £1,285 million in 2015 to £1,320 million in the year, underpinned by growth in sales to 14.6TWH (2015: 13.8TWH) which reflects strong performance in a highly competitive market.

GROSS MARGIN

Consolidated gross margin for 2016 of £376 million is primarily derived from our generation activities and reflects a creditable performance when considering the loss of income from LECs. This compares to £409 million in 2015.

The prior year included £34 million of income from LECs, earned prior to the cessation of the Climate Change Levy exemption in August 2015. Gross margin performance before LEC income was therefore consistent year-on-year, despite the challenging commodity price environment.

ROCs continue to form an essential component of our financial performance. The expected benefit of ROCs earned is recognised as a reduction in our biomass fuel costs at the point of generation and subsequently recognised as revenue when the ROC is sold to a third party. We earned ROCs, reducing costs, with a total value of £536 million in 2016 (2015: £482 million).

We delivered a strong operational performance across our Group, with our Retail and Biomass Supply businesses increasing their gross margin contributions by £4 million and £17 million respectively, driven by increased sales volumes.

EBITDA

Operating costs of £236 million were slightly lower than the previous year (2015: £240 million).

Our US-based wood pellet manufacturing business saw an increase in costs reflecting its first full year of commercial operations – with 558kt of pellets shipped to Drax Power Station compared to 243kt in 2015.

We incurred costs of £2 million in the delivery of strategic options across the business, including the acquisition of Opus Energy and four OCGT sites (see below). These investments have been offset by operating cost savings delivered from our ongoing focus on cost and value efficiency across our Group. In particular, our Generation business delivered a net saving of £12 million in operating costs compared to 2015, despite a record year for the volume and value of maintenance work completed.

As a result of these costs and the gross margin performance described above, consolidated EBITDA for 2016 was £140 million, compared to £169 million in 2015.

EBIT

Following the completion of our biomass transformation work, combined depreciation charges and losses on the disposal of fixed assets increased from £108 million in 2015 to £113 million in the year.

NET INTEREST CHARGES

Net interest charges of £6 million are very low compared to previous years (2015: £17 million) due to substantial gains on balances held in foreign currencies following the depreciation of Sterling in the second half of the year.

UNREALISED GAINS ON DERIVATIVE CONTRACTS

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.

Whilst these contracts are all entered for risk management purposes, a proportion of our portfolio is not designated into a hedge accounting relationship under IFRS. Where this is the case, the unrealised gains and losses arising from the change in market value of these contracts is recognised in our income statement.

In 2016, we recognised unrealised gains of £177 million (2015: £124 million) within the income statement, below EBITDA and excluded from underlying earnings, in respect of outstanding contracts for future delivery. In our balance sheet a similar gain was recognised of £327 million (2015: £23 million) in the hedged reserve.

The gains principally relate to forward foreign currency purchase contracts and reflect the value of our hedge as Sterling has weakened substantially against the US dollar and Euro in 2016, currencies in which the majority of our fuel purchases are denominated.

The term over which we can hedge is limited by available credit lines and market liquidity. Our existing currency hedge extends to 2021, beyond which if markets remain at current levels there is a risk that the cost of our fuel purchases will materially increase.

PROFIT BEFORE/AFTER TAX

Profit before tax, in accordance with IFRS, is £197 million for 2016, compared to £59 million for the previous year. The year-on-year change predominantly reflects one-off asset obsolescence charges of £109 million in 2015 and the £53 million increase in unrealised gains due to the increased value of our foreign currency purchase contracts described above.

The tax charge for the year of £3 million (2015: £3 million) is described further below and results in profit after tax of £194 million (2015: £56 million), or basic earnings per share of 48 pence (2015: 14 pence).

UNDERLYING PROFIT BEFORE/AFTER TAX ("UNDERLYING EARNINGS")

We also calculate underlying earnings, which excludes the effect of unrealised gains and losses on derivative contracts, to assess the performance of our Group without the P&L volatility introduced by non-cash fair value adjustments on our portfolio of forward commodity and currency purchase contracts.

In addition, in 2016 we have excluded from the underlying earnings the material one-off non-cash credit arising from the recognition of a £31 million deferred tax asset in relation to accumulated start-up losses in our US business. The business has now reached an operational maturity which makes future profitability probable. In 2015 we excluded an asset obsolescence charge of £109 million.

Underlying profit before tax for 2016 of £21 million reduced from £46 million in 2015, reflecting lower EBITDA and higher depreciation charges, partially offset by lower net interest costs.

The underlying tax credit for 2016 of £nil (2015: £1 million) excludes the tax effect of non-underlying translations.

This results in underlying EPS of 5 pence per share (2015: 11 pence per share).

FINANCIAL POSITION

CAPITAL EXPENDITURE

Capital expenditure of £96 million, reduced from £174 million in 2015, reflects lower biomass transformation spend and ongoing maintenance expenditure in respect of our generating assets partially offset by investment in our US pellet plants.

Total spend on our biomass transformation stands at £673 million. With the generation transformation complete and a small level of residual work to conclude our Industrial Emissions Directive compliance work in 2017 the project has been delivered in line with original cost estimates.

Looking forward, we have assessed the likely future prospects of our existing generation fleet and associated assets and have taken the decision to reduce the expected remaining useful economic life of coal-specific assets to a long stop date of 2025, in line with the government's stated ambition for the cessation of unabated coal generation. This will result in an acceleration of depreciation up to 2025 and higher depreciation charges of approximately £30 million per annum, from 2017.

We remain confident in the future prospects of our generating assets and stand ready to convert more of our units to run on biomass fuel with the right support. Furthermore, we will invest in our generating units' reliability and flexibility to ensure we can continue to provide the essential services required by the grid and maximise the value of our Generation business. We will continue to invest in optimising our generation and wood pellet manufacturing assets to ensure we can continue to deliver a secure and flexible energy source, and take opportunities to grow the Group's capabilities.

CASH GENERATED FROM OPERATIONS

Cash generated from operations amounted to £213 million in 2016, a £47 million increase from the previous year.

Despite the reduction in profitability year on year our continued focus on efficient working capital and cash management helped to release a further £62 million of cash, principally driven by the acceleration of Retail receivable cash flows following the execution of a new monetisation facility in the first half of the year.

We also realised a small net cash inflow of £13 million on our ROC and LEC assets (2015: outflow of £86 million) reflecting the value of these assets generated but not yet sold on our balance sheet, which reduced to £257 million (2015: £270 million). Historically, this value has increased as we generated additional ROCs from biomass-fired generation. Cash from ROCs is typically realised several months after the ROC is earned, however we have optimised our trading activities to monetise a proportion of these assets and accelerate these cash flows which, for the first time, offset this impact. With the conversion of our third unit under a CfD contract from December 2016, the volume of ROCs we generate in future years will reduce with a consequent benefit to our cash flows in 2017.

The overall net cash inflow for the year was £95 million (2015: net outflow of £47 million) and includes capital investments of £93 million (2015: £179 million) and dividend payments of £11 million (2015: £50 million).

NET DEBT AND FUNDING

Net debt at 31 December 2016 was £93 million, compared to £187 million at the end of 2015, reflecting a stable funding platform and the net cash inflow described above.

Our primary funding platform remains consistent with that in the previous year, with £325 million of term loans drawn down. The maturity profile of our loans extends to 2024, with the first repayments due in 2017.

We remain committed to a strong balance sheet and plan to refinance our existing debt as well as our Opus acquisition facility during 2017, while maintaining a rating in the BB range.

OTHER INFORMATION

ACQUISITION OF OPUS ENERGY GROUP LIMITED

On 6 December 2016 we announced the proposed acquisition of Opus Energy Group Limited (Opus), a well-established and proven energy retail business serving the SME market, for consideration of £340 million cash.

As a Class 1 transaction, the proposed acquisition was approved by shareholders at a general meeting on 8 February 2017 and concluded on 10 February 2017, with Drax obtaining control of Opus at that date. Opus is expected to deliver enhanced margins to Drax's retail business having experienced consistent mid-single digit operating profit/EBIT margins over the last three financial years.

The acquisition is partly financed by a new short-term debt facility of up to £375 million of which £200 million has been drawn down, repayable by July 2018. The facility is solely for acquisition purposes.

ACQUISITION OF OPEN CYCLE GAS TURBINE DEVELOPMENTS

On 6 December 2016, we also announced the acquisition of four 299MW Open Cycle Gas Turbine (OCGT) development projects in the UK for initial cash consideration of £18.5 million.

The initial consideration was funded from existing cash reserves. Assuming full development, the total investment in each project is expected to be in the range of £80-100 million with the timing of this investment dependent upon the timing of associated capacity market contracts.

The net assets acquired as part of this acquisition had a fair value of £22 million.

TAXATION

The 2016 tax charge of £3 million compares to £3 million in 2015. In 2016, the one-off non-cash deferred tax credits arising from the reduction of future UK corporation tax rates to 17% from 2021 (£12 million) and the recognition of deferred tax assets associated with start-up losses in our US business for which we consider the associated future tax benefit to be probable (£31 million) reduced the overall tax charge.

The underlying effective rate of tax (excluding the post-tax impact of unrealised gains on derivatives contracts and US deferred tax) is -10%, 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 2015, which excluded the post-tax impact of asset obsolescence charges, was -4% and also included the impact of future corporation tax rate changes announced in the 2015 Budget.

Cash taxes paid during the year were £2 million (2015: £6 million).

DISTRIBUTIONS

The Board has begun a review of our dividend policy, but for 2016 our policy remains to distribute 50% of underlying earnings in each year. Underlying earnings for the year ended 31 December 2016 were £21 million (2015: £46 million), as described above.

On 22 February 2016 the Board resolved, subject to approval by shareholders at the Annual General Meeting (AGM) on 20 April 2016, to pay a final dividend for the year ended 31 December 2015 of 0.6 pence per share (£2.4 million). The final dividend was subsequently paid on 13 May 2016.

On 25 July 2016, the Board resolved to pay an interim dividend for the six months ending 30 June 2016 of 2.1 pence per share (£8.6 million), representing 50% of underlying earnings for the period. The interim dividend was paid on 7 October 2016.

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 2016 of 0.4 pence per share (£1.8 million), payable on or before 12 May 2017.

Shares will be marked ex-dividend on 20 April 2017.

VIABILITY STATEMENT

STATEMENT OF VIABILITY

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

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

ASSESSMENT PERIOD

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

- The Group's Business Plan (the Plan), which is reviewed and assessed on a quarterly basis and is used for strategic decision making, includes a range of financial forecasts and associated sensitivity analysis. This Plan covers a three-year period in detail.
- Within the three-year period liquid commodity market curves and established contract positions are used in the forecasts. Liquid curves typically cover a one to two-year window and contracts cover periods between one and ten years. In particular, we benefit from the stable and material earnings stream available from the CfD until 2027. Selecting a three-year period balances short-term market liquidity against our longer term contractual positions.
- Within a three-year horizon there is limited certainty around markets and regulatory regimes. However, in selecting this period the Board has assumed no material changes to the Group's mid-term regulatory environment and associated support regimes.

REVIEW OF PRINCIPAL RISKS

The Group's principal risks and uncertainties have been considered over the period.

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

The risks have been evaluated, where possible, to assess the potential impact of each on the viability of the Group, should that risk arise in its unmitigated form. The potential inputs 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 2016.

In addition, the Plan considers the financial impact of the Opus acquisition and the implications for the earnings, cash flows and working capital position of the Group.

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

The Board considers the most significant of these scenarios in the assessment period to be a significant deterioration of commodity market prices, leading to a fall in the available price for power and thus a fall in the margins available to the Group from 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 further detail below. 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.

The £375 million loan facility entered during February 2017 to finance the Opus acquisition matures during July 2018 and the debt drawn will therefore need to be refinanced or renewed during the three-year period. A full review of the Group's sources of funding is now underway and the Board remains confident that this will result in adequate funding being available beyond the viability horizon.

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.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board is responsible for defining risk appetite and ensuring the effectiveness of risk management and internal controls across the Group. The Group has a comprehensive system of governance controls to manage key risks.

GROUP APPROACH TO RISK MANAGEMENT

The Group has a Risk Management Policy in place, approved by the Board which defines the Group's approach to risk management. The key elements of the Policy are as follows:

– identify principal risks that threaten the achievement of our strategic objectives then assess their significance to the business;

– put in place appropriate mitigating controls to manage identified risks to an acceptable level;

– escalate and report principal risk and control information to support management decision making;

– assign responsibility and define accountabilities for risk management and put these into practice across the Group;

– continuously monitor the changing risk environment, the Group's principal risks, the effectiveness of mitigation strategies and the application of the risk framework.

The approach manages rather than eliminates the risk of failure to achieve business objectives, and provides reasonable, not absolute, assurance against material misstatement or loss.

The risk management governance structure includes seven business risk management committees (RMCs).

Each RMC reports to the executive management of that area, assisting in the management of their risks. In turn, each executive is responsible for their risks to the Group Executive Committee.

Each RMC is responsible for ensuring that all risks associated with its specific area of the business are identified, analysed and managed systematically and appropriately. Each RMC has terms of reference that require local level risk policies and control systems 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. Each RMC reports to the Board annually on the management of risks within the scope of its responsibilities.

RMCs review new and emerging risks and changes to existing risks. A top down review of risks is performed by each RMC and by the Group Executive Committee on at least an annual basis. New risks are also identified during development of the Business Plan.

A new Group risk scoring matrix has been adopted in 2016 to align scoring across all RMCs. Risks are scored based on impact and probability as follows:

The Group Executive Committee and the Board review reporting on critical and high risks from each RMC at least annually and from Group Risk biannually. In addition, the Audit Committee reviews the suitability and effectiveness of risk management processes and controls on behalf of the Board.

INTERNAL CONTROL

The Group has a comprehensive and well-defined internal control system with clear structures, delegated authority levels and accountability. The Board has adopted a Schedule of Matters which are required to be brought to it for decision. The internal control system is designed to ensure that the directors maintain full and effective control over all significant strategic, financial and organisational issues.

Through the Audit Committee, the Board has implemented a programme of internal audits of different aspects of the Group's activities. The programme is developed based on an assessment of the key risks of the Group, the existing assurance and controls in place to manage the risks and to the core financial control framework.

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

Based on the reporting from the RMCs and from the Audit Committee in 2016, the Board determined that it was not aware of any significant deficiency or material weakness in the system of internal control.

CHANGE IN RISK PROFILE

Risks are reported to the Board and disclosed in the annual report and accounts under eight principal risk headings. This has increased from five principal risks disclosed in 2015.

- Information Systems and Security risks have been included in their own right in 2016, rather than being combined under a Corporate risk heading as in 2015. Corporate Risk has been removed.
- Environment, Health and Safety risk has been separated out from Plant Operating Risk.
- Delivery of our Growth Strategy has been added to reflect the adoption of the Group's new growth strategy and the focus of senior management on ensuring its successful implementation.
- Whilst People risk has always existed for the Group, it is now a principal risk as there is increased reliance on key staff due to the pace of strategic change.

1. Strategic risks

Context	Mitigations	Movement	Changes in factors impacting risk in 2016	Strategic Priorities
The Group has adopted a new policy designed to reduce the exposure to commodity price movements and strengthen the long-term future at the Group. The strategy includes acquisitions and expansion into new activities with their associated risks. **Risk and impact** – The benefits from our strategy may not be realised fully if we do not integrate Opus effectively. – Development of the four OCGT plants is dependent on winning contracts in capacity market auctions which is not certain. – The markets where we operate and are looking to grow are constantly evolving, making the identification and implementation of further opportunities for growth more challenging.	– A rigorous programme management framework has been established to drive successful integration of Opus Energy. – Significant development costs for the OCGT plants will only be incurred if a contract is won in a capacity market auction. – We continually analyse the changing dynamics of the markets in which we operate. – A programme of research and development into new technologies, products and markets has been established.	Increased	– A new purpose and strategy and the acquisition of Opus Energy and four OCGT development projects. – We are actively pursuing potential acquisitions of pellet plant facilities.	Targeted long-term growth

2. Political and regulatory risks

Context	Mitigations	Movement	Changes in factors impacting risk in 2016	Strategic Priorities
We remain vulnerable to changes in government policy. The energy sector is subject to detailed legislation and regulation that is frequently changing and ever more stringent. **Risk and impact** – Changes to UK policy and regulations may reduce our ability to deliver our	– Engagement with politicians across the political spectrum and Government officials to influence thinking. – Communication of our socio-economic value to the UK. – Working with think tanks and specialist consultants to establish Drax as a	Constant	– The government has confirmed that biomass conversions will not be eligible to participate in the 2017 CfD auction. – The government has confirmed the Carbon Price Floor will remain unchanged at its current level until 2020/21.	Higher Quality Diversified Earnings Operational Excellence

forecast earnings from our base business and our growth strategy, putting pressure on our financial results and cash flows.

- More complex and challenging regulations could lead to non-compliance.

thought leader on priority policy and regulatory issues.

- Engagement with regulators to ensure compliance with regulatory requirements.
- Working with Energy UK to develop voluntary codes of practice in retail.

- Government has issued a consultation on the closure of all coal stations in the UK by 2025.
- Brexit has created uncertainty over UK participation in, and influence over, discussions on new EU legislation
- The growing importance of principles based regulation in the retail sector was emphasized by Ofgem's plans to extend the scope of principles in the supply licence, and by significant penalties on suppliers for failures under the standards and conduct principle.
- There has been an increase in the momentum of the smart meter roll-out. Ofgem has been consistent on the importance of achieving the roll-out timetable and has fined one company for failures under the related advanced meter programme.
- The obligation from the CMA enquiry on improving customer engagement and competition, to disclose prices of all acquisition and retention contracts for microbusinesses, will result in increased costs.

3. Biomass acceptability risks

Context	Mitigations	Movement	Changes in factors impacting risk in 2016	Strategic Priorities
The biomass market is still relatively new, sustainability legislation at both an EU and UK level is evolving, and public understanding of the benefits of the technology needs to be improved. **Risk and impact** – EU or UK sustainability policy changes could be excessively onerous and make it difficult for us to comply with policy requirements and claim subsidy in support of economic biomass generation. – Detractors and some eNGOs have been known to act in concert to try and influence policymakers against wider biomass use and future biomass conversions, which could make it difficult to gain support for further conversions.	– Increased engagement across all European Institutions (Commission, Parliament, Council), and relevant UK government departments. – Strong coalition with other utilities and those engaged in forest industries including using EU and US forestry expertise to brief Brussels. – Increased transparency in how we evidence sustainability. – Working with academics, think tanks and specialist consultants to improve understanding and analysis of the benefits of biomass. – Engagement with key NGOs to discuss issues of contention. – Media, including social media, presence to respond in the public domain to eNGOs.	Constant	– UK sustainability standards became mandatory in December 2015 and we have demonstrated full compliance to date – The European Commission has published its draft biomass sustainability criteria as part of the new Renewable Energy Directive (so called Winter Package), following extensive consultation. The proposal includes substantial elements similar to the UK's existing sustainability regime but is still subject to Council and Parliament scrutiny and negotiation.	Higher Quality Diversified Earnings Operational Excellence

4 . Plant operating risks

Context	Mitigations	Movement	Changes in factors impacting risk in 2016	Strategic Priorities
The reliability of our operating plant is central to our ability to create value for the Group. **Risk and impact** – Single point failures of plant could result in forced outages in our generation or pellet production plants. – Changes in generation running regimes expose us to new and emerging technical risks which could result in higher than forecast forced outage levels. – Successful generation using biomass requires stringent	– Comprehensive risk based plant investment and maintenance programme. – Adequate insurance in place to cover losses from plant failure where possible. – Significant research and development on the production of wood pellets as well as the handling and burning of biomass. – Full testing of all biomass supplies prior to acceptance and the use of contractual rights to reject out of specification	Increased	– The increase in intermittent generation has led to a reduction in transmission system stability and a more volatile pattern of running for our units, principally the coal units, which places additional thermal stress on the units. – Lack of demand in the biomass market is putting suppliers under price pressure which in turn could compromise pellet quality as suppliers	– Operational Excellence

quality throughout the supply chain, which continues to evolve and mature. Poor quality could result in unplanned loss of generation.	cargoes. – Stringent safety procedures in place for handling biomass and dust management. – Increased sampling and analysis through the supply chain to increase understanding of causes of fuel quality issues.		look to reduce production costs.	

5. Trading and commodity risks

Context	Mitigations	Movement	Changes in factors impacting risk in 2016	Strategic Priorities
The margins of our generation and retail businesses are influenced by commodity market movements, which are inherently volatile. **Risk and impact** – Fluctuations in commodity prices, particularly gas and power, could result in lower margins and a reduction in cash flow in our generation business. – Drax Power may fail to secure future grid system services contracts which are a source of revenue diversity for the Group. – Following Brexit, foreign exchange rates have moved adversely against the pound sterling, which could result in higher costs on unhedged exposures in the midterm. – The value of ROCs generated may be lower than forecast if the recycle value outturns below BEIS' projections due to higher than anticipated renewable generation.	– High levels of forward power sales for 2017. – Hedging retail commodity price exposures when fixed price sales are executed with third parties. – Wood pellets purchased under long term contracts with fixed pricing. – Significant forward foreign exchange hedging in place.	Constant	– Low power prices and more intermittent generation have reduced economic off-peak running, especially for coal-fired generation. – Prices for wood pellets were depressed in 2016 due to oversupply in the market. – Sterling exchange rates against the euro and dollar have experienced significant adverse movements since Brexit and remain weak. – Low Recycle Fund outturn for 2015/16 RO compliance year as ROC production exceeded BEIS estimates.	Management of Commodity Market Exposure

6. Information systems and security risks

Context	Mitigations	Movement	Changes in factors impacting risk in 2016	Strategic Priorities
The availability, integrity and security of our IT systems and company data are essential to support operations of the Group. **Risk and impact**	– Business continuity, disaster recovery and crisis management plans in place across the Group. – Cyber security measures, including a defence,	Constant	– Significant investment in our critical IT systems has improved the general resilience of the core systems.	Operational Excellence

– Non-availability of IT systems, or a breach in their security, could result in the inability to operate systems or our information could be compromised. – If our IT architecture does not meet the increasingly demanding and complex requirements of the Group, we may not deliver our growth plans effectively.	detect, remedy strategy, in place. – IT transformation programme in place to deliver upgraded architecture.		– Development of the IT transformation programme which is now being implemented.	

7. People risks

Context	Mitigations	Movement	Changes in factors impacting risk in 2016	Strategic Priorities
We need to ensure we have the right people in place with the leadership and specialist skills to help the Group to compete, innovate and grow. **Risk and impact** – Our performance and the delivery of our strategy is dependent upon having strong, high-quality leaders and engaged and talented people at all levels of the organisation.	– Retention and talent development strategies in place. – Regular staff surveys to monitor engagement levels and alignment of people with Group values. – Career management programme. – Regular staff communications	Increased	– Development of the new strategy HR identified areas across the Group that will require strengthening as the strategy is executed.	Operational Excellence

8. Environment, health and safety risks

Context	Mitigations	Movement	Changes in factors impacting risk in 2016	Strategic Priorities
The health and safety risks of the environment in which we operate make our strong standards and culture crucially important. **Risk and impact** – The health and safety environment is subject to numerous and evolving health, safety and environmental laws, regulations and standards. If we do not operate safely and comply with regulations the wellbeing and satisfaction of our workforce and levels of outage could be adversely affected.	– Well embedded health and safety systems based on world leading systems – Continuous review of health and safety systems particularly as we increase our experience and operating knowledge of handling and burning biomass.	Constant	– World class personal safety performance for the year with TRIR well above the industry benchmark. – No legislative changes in the year.	Operational Excellence

Dorothy Thompson CBE
Chief Executive, Drax Group

Will Gardiner
Chief Financial Officer

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 15 February 2017 and is signed on its behalf by:

Dorothy Thompson CBE
Chief Executive, Drax Group

Will Gardiner
Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	Notes	Years ended 31 December **2016** **£m**	 2015 £m
Revenue	3	**2,949.8**	3,065.0
Fuel costs in respect of generation		**(1,154.2)**	(1,309.9)
Cost of power purchases		**(907.8)**	(851.3)
Grid charges		**(379.7)**	(369.5)
Other retail costs		**(131.7)**	(125.5)
Total cost of sales		**(2,573.4)**	(2,656.2)
Gross profit		**376.3**	408.8
Operating and administrative expenses		**(236.3)**	(239.8)
EBITDA[(1)]		**140.0**	169.0
Depreciation		**(109.5)**	(100.4)
Asset obsolescence charges		**–**	(109.2)
Loss on disposal		**(3.8)**	(7.1)
Unrealised gains on derivative contracts		**176.8**	123.7
Operating profit		**203.5**	76.0
Interest payable and similar charges	5	**(7.0)**	(18.4)
Interest receivable	5	**0.6**	1.4
Profit before tax		**197.1**	59.0
Tax:			
– Before effect of changes in rate of corporation tax	6	**(13.0)**	(20.5)
– Effect of changes in rate of corporation tax	6	**9.8**	17.8
Total tax charge		**(3.2)**	(2.7)
Profit for the year attributable to equity holders		**193.9**	56.3
Underlying profit after tax [(2)]	7	**20.5**	46.0
Earnings per share		**pence**	pence
– Basic	7	**48**	14
– Diluted		**47**	14

All results relate to continuing operations.

(1) EBITDA is profit before interest, tax, depreciation, amortisation and unrealised gains and losses on derivative contracts.

(2) Underlying profit after tax excludes the post-tax effect of unrealised gains and losses on derivative contracts, plus particular transactions considered to be one-off in nature that do not reflect the underlying trading performance of the Group. A reconciliation of profit after tax (calculated in accordance with IFRS) to underlying profit after tax is provided in note 7.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Years ended 31 December 2016 £m	2015 £m
Profit for the year		**193.9**	56.3
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains on defined benefit pension scheme		**(8.4)**	1.2
Deferred tax on actuarial (losses)/gains on defined benefit pension scheme		**1.6**	(0.2)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(9.1)**	(2.9)
Fair value gains on cash flow hedges		**330.1**	23.4
Deferred tax on cash flow hedges before corporation tax rate change		**(62.6)**	(4.7)
Impact of corporation tax rate change on deferred tax on cash flow hedges		**3.0**	(0.2)
Other comprehensive income		**254.6**	16.6
Total comprehensive income for the year attributable to equity holders		**448.5**	72.9

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2016 £m	2015 £m
Assets			
Non-current assets			
Goodwill and other intangible assets		**36.2**	26.3
Property, plant and equipment		**1,641.5**	1,653.8
Deferred tax assets	6	**33.5**	–
Derivative financial instruments		**486.3**	278.4
		2,197.5	1,958.5
Current assets			
Inventories		**287.5**	224.0
ROC and LEC assets		**257.6**	270.1
Trade and other receivables		**292.9**	319.3
Derivative financial instruments		**405.0**	330.8
Cash and cash equivalents		**228.4**	133.8
Current tax assets		**–**	0.6
		1,471.4	1,278.6
Liabilities			
Current liabilities			
Trade and other payables		**591.9**	488.0
Current tax liabilities		**6.1**	–
Borrowings	11	**35.9**	0.3
Derivative financial instruments		**251.0**	274.3
		884.9	762.6
Net current assets		**586.5**	516.0
Non-current liabilities			
Borrowings	11	**286.0**	320.1
Derivative financial instruments		**112.5**	300.1
Provisions		**35.0**	30.5
Deferred tax liabilities	6	**275.2**	191.9
Retirement benefit obligations		**30.1**	29.5
		738.8	872.1
Net assets		**2,045.2**	1,602.4
Shareholders' equity			
Issued equity		**47.0**	46.9
Capital redemption reserve		**1.5**	1.5
Share premium		**424.2**	424.2
Merger reserve		**710.8**	710.8
Hedge reserve		**305.4**	34.9
Translation reserve		**(10.2)**	(1.1)
Retained profits	9	**566.5**	385.2
Total shareholders' equity		**2,045.2**	1,602.4

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 15 February 2017.

Signed on behalf of the Board of directors:

Dorothy Thompson CBE
Chief Executive, Drax Group

Will Gardiner
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued Equity £m	Capital redemption Reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Translation reserve £m	Retained profits £m	Total £m
At 1 January 2015	46.8	1.5	422.8	710.8	16.4	1.8	372.5	1,572.6
Profit for the year	–	–	–	–	–	–	56.3	56.3
Other comprehensive income/(expense)	–	–	–	–	18.5	(2.9)	1.0	16.6
Total comprehensive income for the year	–	–	–	–	18.5	(2.9)	57.3	72.9
Equity dividends paid (note 8)	–	–	–	–	–	–	(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 1 January 2016	**46.9**	**1.5**	**424.2**	**710.8**	**34.9**	**(1.1)**	**385.2**	**1,602.4**
Profit for the year	–	–	–	–	–	–	193.9	193.9
Other comprehensive income/(expense)	–	–	–	–	270.5	(9.1)	(6.8)	254.6
Total comprehensive income for the year	–	–	–	–	270.5	(9.1)	187.1	448.5
Equity dividends paid (note 8)	–	–	–	–	–	–	(11.0)	(11.0)
Issue of share capital	0.1	–	–	–	–	–	–	0.1
Movement in equity associated with share-based payments	–	–	–	–	–	–	5.2	5.2
At 31 December 2016	**47.0**	**1.5**	**424.2**	**710.8**	**305.4**	**(10.2)**	**566.5**	**2,045.2**

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Years ended 31 December **2016** **£m**	 2015 £m
Cash generated from operations	12	**213.1**	166.0
Income taxes paid		**(1.7)**	(3.8)
Other gains/(losses)		**0.8**	(3.8)
Interest paid		**(21.7)**	(11.9)
Interest received		**0.4**	1.5
Net cash from operating activities		**190.9**	148.0
Cash flows from investing activities			
Purchases of property, plant and equipment		**(93.2)**	(179.1)
Acquisition of subsidiary		**–**	(4.0)
Redemption of short-term investments		**–**	40.1
Net cash used in investing activities		**(93.2)**	(143.0)
Cash flows from financing activities			
Equity dividends paid	8	**(11.0)**	(49.9)
Proceeds from issue of share capital		**0.1**	1.5
Repayment of borrowings		**–**	–
Other financing costs paid		**–**	(5.7)
Net cash absorbed by financing activities		**(10.9)**	(54.1)
Net increase/(decrease) in cash and cash equivalents		**86.7**	(49.0)
Cash and cash equivalents at 1 January		**133.8**	180.9
Effect of changes in foreign exchange rates		**7.9**	1.9
Cash and cash equivalents at 31 December		**228.4**	133.8

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 2016 (the financial statements).

This preliminary announcement does not constitute the full financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements were approved by the Board of directors on 15 February 2017. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered in due course.

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

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

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

The principal accounting policies adopted in the preparation of the financial statements are set out in the 2016 Annual report and accounts. These policies have been applied consistently to both years presented.

2. Segmental reporting

The Group is organised into three businesses, with a dedicated management team for each, and a central head office providing certain corporate functions. Our businesses are:

- Generation: the generation of electricity at Drax Power Station;
- Biomass Supply: production of sustainable compressed wood pellets at our processing facilities in the US; and
- Retail: the supply of power to business customers and wood pellets to the domestic heat market.

Each business is an operating segment for the purpose of segmental reporting. Information reported to the Board for the purposes of assessing performance and making investment decisions is based on these three operating segments. The measure of profit or loss for each reportable segment presented to the Board on a regular basis is EBITDA.

Operating costs are allocated to segments to the extent they are directly attributable to the activities of that segment. Head office costs are included within central operating costs.

Segment revenues and results

The following is an analysis of the Group's revenues and results by reporting segment for the year ended 31 December 2016:

	Year ended 31 December 2016				
	Generation £m	Retail £m	Biomass Supply £m	Adjustments[1] £m	Consolidated £m
Revenue					
External sales	**1,622.7**	**1,326.4**	**0.7**	**–**	**2,949.8**
Inter-segment sales	**868.2**	**–**	**72.9**	**(941.1)**	**–**
Total revenue	**2,490.9**	**1,326.4**	**73.6**	**(941.1)**	**2,949.8**
Segment gross profit	**337.0**	**23.5**	**18.1**	**(2.3)**	**376.3**
Segment EBITDA	**173.8**	**(4.3)**	**(6.3)**	**(2.3)**	**160.9**
Central costs					**(20.9)**
Consolidated EBITDA					**140.0**
Depreciation and amortisation					**(109.5)**
Losses on disposal					**(3.8)**
Unrealised gains on derivative contracts					**176.8**
Operating profit					**203.5**
Net finance costs					**(6.4)**

Profit before tax	**197.1**

Notes:

(1) Adjustments represent the elimination of intra-group transactions.

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	Retail	Biomass Supply	Adjustments[1]	Consolidated
	£m	£m	£m	£m	£m
Revenue					
External sales	1,775.0	1,290.0	–	–	3,065.0
Inter-segment sales	863.2	–	28.4	(891.6)	–
Total revenue	2,638.2	1,290.0	28.4	(891.6)	3,065.0
Segment gross profit	390.1	19.3	1.0	(1.6)	408.8
Segment EBITDA	214.6	(6.3)	(14.8)		193.5
Central costs					(24.5)
Consolidated EBITDA					169.0
Depreciation and amortisation					(100.4)
Losses on disposal					(7.1)
Asset obsolescence charges[2]					(109.2)
Unrealised gains on derivative contracts					123.7
Operating profit					76.0
Net finance costs					(17.0)
Profit before tax					59.0

Notes:

(1) Adjustments represent the elimination of intra-group transactions.

(2) £102.6 million of the asset obsolescence charges arose in the Generation segment, with the remaining £6.6 in the Biomass Supply segment.

Assets and working capital are monitored on a consolidated basis, with no separate reporting by segment in the Group's management accounts. However, spend on key capital projects is monitored. Total spend on the biomass transformation project during 2016 was £29 million (2015: £90 million), of which £7 million (2015: £22 million) relates to construction of assets, in the US, within the Biomass Supply segment.

The accounting policies applied for the purpose of measuring the segments' profits or losses, assets and liabilities are the same as those used in measuring the corresponding amounts in the Group's financial statements. The external revenues and results of all of our reporting segments are subject to seasonality with higher despatch and prices in the winter months, compared to summer months.

Intra-group trading

Intra-group transactions are carried out on arms-length, commercial terms that where possible equate to market prices at the time of the transaction. During 2016, the Biomass Supply segment sold wood pellets with a total value of £72.9 million (2015: £28.4 million) to the Generation segment and the Generation segment sold power, ROCs and LECs with a total value of £868.2 million (2015: £863.2 million) to the Retail segment.

The impact of all intra-group transactions, including any unrealised profit arising (£2.3 million at 31 December 2016), is eliminated on consolidation.

Major customers

Total revenue for the year ended 31 December 2016 includes amounts of £541.5 million and £399.3 million (2015: £597.7 million and £468.0 million) derived from two customers (2015: two customers), each representing 10% or more of the Group's consolidated revenue for the year. These revenues arose in the Generation segment.

3. Revenue

Accounting Policy

Revenue represents amounts receivable for goods or services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes and excluding transactions with or between Group companies.

Revenues from the sale of electricity from our generating assets in Drax Power are measured based upon metered output delivered at rates specified under contract terms or prevailing market rates as applicable.

Two of our biomass-fuelled generating units earn Renewable Obligation Certificates (ROCs) under the UK government's Renewables Obligation (RO) regime. The financial benefit of a ROC is recognised in the income statement at the point the relevant renewable biomass fuel is burnt and power dispatched as a reduction in the cost of the biomass fuel. A corresponding asset is recognised on the balance sheet. Revenue from sale of ROCs is recognised when the ROC is transferred to the account of a third party.

Revenue from the sale of electricity directly to business customers through our power retail business, Haven Power, is recognised on the supply of electricity when a contract exists, supply has taken place, a quantifiable price has been established or can be determined and the receivables are expected to be recovered at the point of sale. Energy supplied is measured based upon metered consumption and contractual rates; however where a supply has taken place but is not yet measured or billed, the revenue calculation is estimated based on consumption statistics and selling price estimates.

Revenues from the sale of wood pellets through our UK domestic pellet retail business, Billington Bioenergy are recognised at the point the pellets are delivered to the location specified in the contract, which is normally the customer's premises.

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

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

CfD payments

The Group is party to a Contract for Difference (CfD) with The Low Carbon Contracts Company (LCCC), a government-owned entity responsible for delivering elements of the government's Electricity Market Reform Programme. Under the contract, the Group makes or receives payments in respect of electricity dispatched from one of its three biomass-fuelled generating units. The payment is calculated with reference to a strike price of £100 per MWh. The strike price is in 2012 terms and increases each year indexed to UK CPI and system balancing costs. The strike price at 31 December 2016 was £106 per MWh.

Where market prices at the point of generation are above/below the strike price, the Group makes/receives an additional payment to/from LCCC equivalent to the difference between the market power price at the point of dispatch and the strike price. Such payments are in addition to amounts received from the sale of the power in the wholesale market and either increase or limit the total income from the power dispatched from the relevant generating unit to the strike price in the CfD contract.

The Group recognises the income or costs arising from the CfD in the income statement, as a component of revenue, at the point the flow of economic benefit becomes probable. This is considered to be the point at which the relevant generation is delivered and the payment becomes contractually due.

The Group began generating under the CfD contract on 21 December 2016 and, in accordance with this policy, accrued £10.3 million of revenue in respect of amounts due from the LCCC in the period ending 31 December 2016.

ROC sales

The generation and sale of ROCs is a key driver of the Group's financial performance. The RO scheme started in April 2002 and places an obligation on electricity suppliers to source an increasing proportion of their electricity from renewable sources. Under the RO, ROCs are certificates issued to generators of renewable electricity which are then sold to suppliers to demonstrate they have fulfilled their obligations under the RO. ROCs are managed in compliance periods (CPs), running from April to March annually, CP1 commenced in April 2002. At 31 December 2016 we are in CP15.

To meet its obligations a supplier can either submit ROCs or pay the "buy-out" price at the end of the CP. The buy-out price was set at £30/ROC in CP1 and rises with inflation. ROCs are typically procured in arms-length transactions with renewable generators at a market price typically slightly lower than the buy-out price for that CP. At the end of the CP, the amounts collected from suppliers paying the buy-out price form the "recycle fund", which is distributed on a pro-rata basis to ROC generators.

The financial benefit of a ROC recognised in the income statement at the point of generation is thus comprised of two parts: the expected value to be obtained in a sale transaction with a third party supplier and the expected recycle fund benefit to be received at the end of the CP.

Further analysis of our revenue for the year ending 31 December 2016 is provided in the table below:

	Year ended 31 December 2016

	External £m	Intra-group £m	Total £m
Generation			
Power sales	**1,193.4**	**686.5**	**1,879.9**
ROC & LEC sales	**366.7**	**181.7**	**548.4**
CfD income	**10.3**	**–**	**10.3**
Ancillary Services	**47.3**	**–**	**47.3**
Other income	**5.0**	**–**	**5.0**
Retail			
Power sales	**1,319.6**	**–**	**1,319.6**
Pellet sales	**6.7**	**–**	**6.7**
Other income	**0.1**	**–**	**0.1**
Biomass Supply			
Pellet sales	**–**	**72.9**	**72.9**
Other income	**0.7**	**–**	**0.7**
Elimination of intra-group sales	**–**	**(941.1)**	**(941.1)**
Total Consolidated Revenue	**2,949.8**	**–**	**2,949.8**

The Group's principal revenues arise from the sale of power, both into the wholesale market via Drax Power, our generation business, and to Industrial and Commercial and Small- and Medium-sized Enterprise business customers via Haven Power, our energy retail business. The Group also sells wood pellets into the domestic UK heat market via Billington Bioenergy, part of our retail business. Drax Biomass, our US-based wood pellet manufacturing business, generates all of its revenues intra-group, selling sustainable wood pellets to Drax Power to be used in the electricity generation process.

ROC sales and CfD income reflect revenues received through government programs to support renewable generation. ROC sales reflect consideration received for sales of ROCs by Drax Power to third parties. CfD income reflects amounts received under the CfD contract awarded by the UK government to one of our biomass-fuelled electricity generation units. See CfD Payments above for further details.

The following is an analysis of the Group's revenues in the year ended 31 December 2015:

	Year ended 31 December 2015		
	External £m	Internal £m	Total £m
Generation			
Power sales	1,461.2	702.2	2,163.4
ROC & LEC sales	290.8	161.0	451.8
CfD income	–	–	–
Ancillary Services	14.0	–	14.0
Other income	9.0	–	9.0
Retail			
Power sales	1,284.9	–	1,284.9
Pellet sales	4.6	–	4.6
Other income	0.5	–	0.5
Biomass Supply			
Pellet sales	–	28.1	28.1
Other income	–	0.3	0.3
Elimination of intra-group sales	–	(891.6)	(891.6)
Total Consolidated Revenue	3,065.0	–	3,065.0

4. Review of fixed assets for impairment

Accounting policy

The Group reviews its fixed assets (or, where appropriate, groups of assets known as cash-generating units) whenever there is an indication that an impairment loss may have been suffered. The Group considers the smallest collections of assets that generate independent cash flows to be its operating entities (Drax Power, Haven Power, Drax Biomass and Billington Bioenergy) and accordingly considers the Group to be comprised of four cash-generating units (CGUs).

If an indication of potential impairment exists, the recoverable amount of the asset or CGU in question is assessed with reference to the present value of the future cash flows expected to be derived from the continuing use of the asset or cash-generating unit (value in use) or the expected price that would be received to sell the asset to another market participant (fair value). The initial assessment of recoverable amount is normally based on value in use.

Where value in use is calculated, the assessment of future cash flows includes all of the necessary costs expected to be incurred to generate the cash inflows from the CGU's assets in their current state and condition, including an allocation of centrally managed costs. Central costs are only allocated where they are necessary for and directly attributable to the CGU's activities. Future cash flows include, where relevant, contracted cash flows arising from our cash flow hedging activities and as a result, the carrying amount of each CGU includes the mark-to-market value of those cash flow hedges.

The additional value that could be obtained from enhancing or converting the Group's assets is not reflected, nor the potential benefit of any future restructuring or reorganisation. In determining value in use, the estimate of future cash flows is discounted to present value using a pre-tax rate.

If the recoverable amount is less than the current carrying amount in the financial statements, a provision is made to reduce the carrying amount of the asset or cash-generating unit to the estimated recoverable amount. Impairment losses are recognised immediately in the income statement.

Goodwill balances are assessed for impairment annually.

Critical judgement areas

In 2015, the market capitalisation of the Group fell materially below the carrying value of the Group's net assets. Whilst the shortfall has reduced considerably during 2016, this remains the case at the balance sheet date. In addition, commodity markets are weak and the substantial weakening of Sterling against both the Euro and US dollar in the second half of 2016 indicated a potentially material increase in the long-term costs of fuel for our generation business, which are predominantly priced in these currencies. Accordingly an impairment review of the Drax Power CGU was undertaken at the balance sheet date. A review of other CGUs suggested no indicators of impairment.

The assessment of the present value of future cash flows on which such a review is based is dependent upon a number of assumptions. In particular, expected future cash flows are based upon management’s estimates of future prices, output, costs and economic support for renewable energy generation (including access to capacity market and ancillary services contracts). Where relevant and to the fullest extent possible, the key assumptions are based on observable market information. However, observable market information is only available for a limited proportion of the remaining useful lives of the assets under review.

The most critical of these assumptions are discussed below.

Impairment review

The carrying amount of the Drax Power CGU at 31 December 2016 was £1,911 million. The value in use of the Drax Power CGU was tested using the Group's established planning model.

The analysis assumed that Drax Power's three biomass-fuelled generating units would continue in operation until the end of their estimated useful lives, currently considered to be 2039. In line with our assumption that coal-fired generation will cease by 2025, applied in light of the government consultation published in November 2016, the three remaining coal-fired units were assumed to cease coal-fired generation by this date but will then be available for conversion to biomass-fired units. No account has been taken of any cash inflows that could result from such a conversion (which could take place earlier than 2025) in measuring the value in use of the Drax Power CGU.

The analysis depends on a broad range of assumptions, including the expected life of the six power generating units and the regulatory regime under which they might operate. The key assumptions (i.e. those most sensitive to a change, possibly resulting in a different outcome for impairment) are considered to be:

- The expected operating lives of the six generating units, as described above;
- Future commodity prices beyond the horizon of our existing contracted purchase and sale commitments - notably power prices and biomass prices;
- Future foreign exchange rates beyond the horizon of our existing contracted purchase and sale commitments; and

– The continuance of existing biomass support regimes – CfD and RO – until 2027 and the existence of a favourable economic environment for biomass generation thereafter. This includes future capacity market and ancillary services revenues.

These assumptions are all dependent on external market movements. The historic volatility in these assumptions is reflected in the financial performance of the Group but past performance is not necessarily a reliable indicator of future values.

Where available, estimates of future prices are based on signed contracts for purchases and sales with third parties. Transactions beyond contracted positions are valued using market data and forward price curves, based where possible on data points provided by a reputable third party source, independent to the Group. In particular, longer-term power prices are based on Department for Business, Energy and Industrial Strategy and National Grid assumptions. The contracted period for biomass purchases is substantially longer, with the longest-dated contracts expiring in 2027. Beyond this point, estimated biomass prices are largely based on our internal models and expectations for the biomass market.

Future foreign exchange rates are based on contracted foreign currency purchases to the extent possible. Beyond our contracted position, exchange rate estimates are based on market forward curves and, beyond this point, Bloomberg data.

Current government plans for existing renewable support mechanisms, namely the CfD and RO, assume these cease in 2027. The impairment analysis made no assumptions regarding the direct replacement of these support mechanisms beyond this date. The biomass-fuelled units that are assumed to continue to generate power do so supported by the prevailing wholesale power price, delivery of ancillary services to the UK grid and an expectation that capacity market revenues would be available to these units. Our power price forecasts reflect increased volatility between peak and baseload prices. Assumed revenues from ancillary services and the capacity market are based on projections derived from current contracts and capacity market outcomes and how we expect the market to evolve. These assumptions reflect our expectation that Drax will be required to provide generation to support intermittent renewable power and be an essential part of the UK's energy mix throughout the life of the units.

The expected future cash flows were discounted using a pre-tax nominal rate of 8.4%. The discount rate is supported by observable market reports and independent analysis commissioned by, and specific to the circumstances of the Group. This indicated that the recoverable amount of the Drax Power CGU exceeded its carrying value with headroom of approximately £200 million and therefore that no provisions for impairment were required.

Sensitivity analysis indicated that, when compared to our base case assumptions, a reduction of approximately 7% in market power prices, an increase in biomass prices of approximately 11%, or a depreciation of Sterling against the US dollar of some 8% throughout the 23-year term of the valuation would result in a recoverable amount for the Drax Power CGU that is lower than its carrying amount. This does not consider the interaction effect of potential changes in several or all of the assumptions simultaneously, and the sensitivities do not take account of any mitigating actions that could be taken should the changes referred to materialise. In addition, in relation to central costs, no reasonable change in the method of allocation would result in an impairment charge.

5. Net finance costs

Finance costs reflect expenses incurred in managing our debt structure (such as interest payable on our bank loans) as well as foreign exchange gains and losses, the unwinding of discounting on provisions for reinstatement of our sites at the end of their useful lives 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	
	2016	2015
	£m	£m
Interest payable and similar charges:		
Interest payable on bank borrowings	**(19.4)**	(18.0)
Unwinding of discount on provisions	**(4.5)**	(0.7)
Amortisation of deferred finance costs	**(2.1)**	(3.7)
Net finance cost in respect of defined benefit scheme	**(0.9)**	(1.1)
Other financing charges	**(2.1)**	(0.8)
Total interest payable and similar charges	**(29.0)**	(24.3)
Interest receivable:		
Interest income on bank deposits	**0.6**	1.4
Total interest receivable	**0.6**	1.4

Foreign exchange gains	**22.0**	5.9

Net interest charge	**(6.4)**	(17.0)

Foreign exchange gains and losses recognised in interest arise on the retranslation of balances and investments denominated in foreign currencies to prevailing rates at the balance sheet date. Sterling weakened against the US dollar and Euro following the EU referendum in June, resulting in gains being recognised on assets the Group holds denominated in these currencies.

Amortisation of deferred finance costs for the previous period include £0.7 million relating to the previous revolving credit facility for which amortisation was accelerated following the successful renegotiation of a replacement facility in December 2015.

6. Current and deferred taxation

The tax charge includes both current and deferred tax. Current tax is the estimated amount of tax payable on this year's taxable profits (which are adjusted for items upon which we are not required to pay tax or, in some cases, for items which are not allowable for tax purposes and therefore on which we are required to pay additional tax). Deferred tax is an accounting adjustment which reflects where more or less tax is expected to arise in the future due to differences between the accounting and tax rules (reflected in differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profits). The tax charge reflects the estimated effective tax rate on profit before tax for the Group for the year ended 31 December 2016 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the income statement.

Accounting policy

Current tax, including UK corporation tax and foreign tax, is based on the taxable profit or loss for the year in the relevant jurisdiction. Taxable profit or loss differs from profit/loss before tax as reported in the income statement because it excludes items of income or expenditure that are either taxable or deductible in other years or never taxable/deductible. The Group's liability (or asset) for current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on jurisdictional tax laws and rates that have been enacted or substantively enacted at the balance sheet date. In the UK 2016 Budget, the UK Government proposed a reduction in the rate of UK corporation tax from 18% to 17% from 1 April 2020. This change was enacted into law in September 2016 and accordingly these rates have been reflected in the UK deferred tax balance at 31 December 2016.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are recognised in other comprehensive income or directly in equity respectively.

Significant judgement areas

In accounting for taxation the Group makes assumptions regarding the treatment of items of income and expenditure for tax purposes. The Group believes that these assumptions are reasonable based on prior experience and consultation with advisers. Full provision is made for deferred taxation at the rates of tax prevailing at the period end date unless future rates have been substantively enacted. Deferred tax assets are recognised where it is considered more likely than not that they will be recovered. Where such assets relate to losses incurred by a business unit, particularly one with a history of losses, the Group seeks evidence other than its own internal forecasts to support recognition of the related deferred tax asset.

	Years ended 31 December	
	2016	2015
	£m	£m
Tax charge comprises:		
Current tax	**8.5**	1.8
Deferred tax		
– Before impact of corporation tax rate change	**4.5**	18.7
– Impact of corporation tax rate change	**(9.8)**	(17.8)

Tax charge	**3.2**	2.7

	Years ended 31 December	
	2016	2015
	£m	£m
Tax charged on items recognised in other comprehensive income:		
Deferred tax on actuarial gains on defined benefit pension scheme	**(1.6)**	0.2
Deferred tax on cash flow hedges	**59.6**	4.9
	58.0	5.1

UK corporation tax is the main rate of tax for the Group and is calculated at 20% (2015: 20.25%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The tax charge for the year can be reconciled to the profit per the income statement as follows:

	Years ended 31 December	
	2016	2015
	£m	£m
Profit before tax	**197.1**	59.0
Profit before tax multiplied by the rate of corporation tax in the UK of 20% (2015: 20.25%)	**39.4**	11.9
Effects of:		
Adjustments in respect of prior periods	**(3.6)**	1.5
Expenses not deductible for tax purposes	**1.7**	0.9
Impact of change to corporation tax rate	**(9.8)**	(17.8)
Difference in overseas tax rates and other benefits	**(4.8)**	–
Deferred tax on prior year start up losses and other temporary differences	**(21.4)**	–
Other	**1.7**	6.2
Total tax charge	**3.2**	2.7

The Adjustments in respect of prior periods principally relates to a Research and Development claim which was successfully concluded with HMRC during the period. In 2015 Other items included the US losses which were not recognised for deferred tax purposes in that year.

The movements in deferred tax assets and liabilities during each year are shown below.

Deferred tax (liabilities)/assets

	Financial instruments £m	Accelerated capital allowances £m	Non-trade losses £m	Trade losses £m	Other liabilities £m	Other assets £m	Total £m
At 1 January 2015	22.5	(198.4)	7.6	–	(26.6)	9.0	(185.9)
Credited/(charged) to the income statement	(24.9)	35.9	(6.1)	–	(4.3)	(1.5)	(0.9)
Charged to equity in respect of actuarial gains	–	–	–	–	–	(0.2)	(0.2)
Charged to equity in respect of cash flow hedges	(4.9)	–	–	–	–	–	(4.9)
At 1 January 2016	(7.3)	(162.5)	1.5	–	(30.9)	7.3	(191.9)
(Charged)/credited to the income statement	**(33.9)**	**(7.1)**	**(1.5)**	**35.3**	**5.3**	**7.2**	**5.3**
Charged to equity in respect of actuarial gains	–	–	–	–	–	1.6	**1.6**
Charged to equity in respect of cash flow hedges	**(59.6)**	–	–	–	–	–	**(59.6)**
Effect of changes in foreign exchange rates	–	(1.3)	–	3.5	–	0.7	**2.9**
At 31 December 2016	**(100.8)**	**(170.9)**	**–**	**38.8**	**(25.6)**	**16.8**	**(241.7)**
Deferred tax balances (after offset) for financial reporting purposes:							
Net deferred tax asset	–	(14.4)	–	38.8	–	9.1	33.5
Net deferred tax liability	(100.8)	(156.5)	–	–	(25.6)	7.7	(275.2)

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so, otherwise are shown separately in the balance sheet.

In the period the Group recognised a net deferred tax asset valued at £34 million in respect of start-up losses and other temporary differences in the US-based Drax Biomass business (£21 million of this asset relates to losses that arose in previous years). Recognition in 2016 reflects an improvement in operational performance and the Board's increased confidence regarding the delivery of future taxable profits against which the losses will be utilised (currently expected by 2027). As a one-off and non-cash item, this credit has been excluded from the calculation of underlying earnings and the dividend for 2016. These start-up losses are valued at the US Federal tax rate as was enacted at the balance sheet date (35%). Should Federal tax rates reduce/increase in the future, this will correspondingly reduce/increase (respectively) this net deferred tax asset.

The Group has not recognised deferred tax assets with an estimated value of £2 million at 31 December 2016 (2015: £2 million), in respect of UK losses totalling £12 million, that are carried forward against future taxable income. The business unit involved has a history of making losses and until sufficient operational performance is established and maintained to give suitable confidence in future profitability, taxable income against which to utilise the benefit of the accumulated losses is not considered to be probable.

7. Earnings per share and underlying earnings per share

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

In addition to EPS, we calculate underlying EPS as it reflects the figures upon which our annual dividends are calculated (note 2.8). Underlying EPS removes the post-tax effect of unrealised gains and losses on derivative contracts, plus particular transactions considered to be one-off in nature that do not reflect the underlying trading performance of the Group, from post-tax profits. Multiplying underlying basic EPS by 50% will give the total dividends per share for the period.

The table below reconciles earnings, calculated in accordance with IFRS, to underlying profit after tax:

	Years ended 31 December	
	2016 £m	2015 £m
Earnings:		
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	**193.9**	56.3
Adjusted for:		
Unrealised gains on derivative contracts	**(176.8)**	(123.7)
Asset obsolescence charges	**–**	109.2
Tax impact of the above items	**33.9**	4.2
Deferred tax on start-up losses and other temporary differences	**(30.5)**	–
Underlying profit after tax attributable to equity holders of the Company	**20.5**	46.0

The effect of potentially dilutive options on the weighted average number of shares in issue at the balance sheet date is shown below:

	Years ended 31 December	
	2016	2015
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**406.6**	406.0
Effect of dilutive potential ordinary shares under share plans	**2.7**	1.3
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	**409.3**	407.3
Earnings per share – basic (pence)	**48**	14
Earnings per share – diluted (pence)	**47**	14
Underlying earnings per share – basic (pence)	**5**	11
Underlying earnings per share – diluted (pence)	**5**	11

8. Dividends

Dividends are amounts we return to our shareholders and are paid as an amount per ordinary share held. Our current dividend policy is to return 50% of underlying profit after tax (see note 7) to our shareholders each year. The remaining 50% is retained for reinvestment in the business.

	Years ended 31 December	
	2016	2015
	£m	£m
Amounts recognised as distributions to equity holders in the year (based on the number of shares in issue at the record date):		
Interim dividend for the year ended 31 December 2016 of 2.1 pence per share paid on 7 October 2016 (2015: 5.1 pence per share paid on 9 October 2015)	**8.6**	20.7
Final dividend for the year ended 31 December 2015 of 0.6 pence per share paid on 13 May 2016 (2015: 7.2 pence per share paid on 15 May 2015)	**2.4**	29.2
	11.0	49.9

At the forthcoming Annual General Meeting the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2016 of 0.4 pence per share (equivalent to approximately £1.8 million) payable on or before 12 May 2017. The final dividend has not been included as a liability as at 31 December 2016.

9. Retained profits

Retained profits are a component of our equity reserves. The overall balance reflects the total profits we have generated over our lifetime, reduced by the amount of that profit we have distributed to our shareholders. The table below sets out the movements in our retained profits during the year.

	Years ended 31 December	
	2016	2015
	£m	£m
At 1 January	**385.2**	372.5
Profit for the year	**193.9**	56.3
Actuarial (losses)/gains on defined benefit pension scheme	**(8.4)**	1.2
Deferred tax on actuarial (losses)/gains on defined benefit pension scheme	**1.6**	(0.2)
Equity dividends paid (note 8)	**(11.0)**	(49.9)
Net movements in equity associated with share-based payments	**5.2**	5.3
At 31 December	**566.5**	385.2

Distributable profits

The capacity of the Group to make dividend payments is primarily determined by the availability of retained distributable profits and cash resources.

The immediate cash resources of the Group of £228.4 million are set out in note 4.2 and the recent history of cash generation within note 4.4. The majority of these cash resources are held by the principal operating subsidiaries of the Group, in particular Drax Power Limited.

The Parent Company financial statements disclose the Parent Company's distributable reserves of £229 million. The Group has, relative to previous dividend payments (note 8), sufficient retained profits, which are accessible by the Parent Company, for future distributions in accordance with the Group's dividend policy.

10. Reconciliation of net debt

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

	Years ended 31 December	
	2016 **£m**	2015 £m
Net (debt)/cash at 1 January	**(186.6)**	(98.6)
Increase/(decrease) in cash and cash equivalents	**86.7**	(49.0)
(Decrease)/increase in short-term investments	**–**	(40.1)
Increase in borrowings	**(1.5)**	(0.8)
Effect of changes in foreign exchange rates	**7.9**	1.9
Net debt at 31 December	**(93.5)**	(186.6)

The increase in borrowings reflects the accrual of interest on the Group's term loans.

11. Borrowings

Our financing structure includes £325 million of term loans, comprised of a private placement of £100 million with various funds managed by M&G Investments, a £75 million amortising loan facility with Friends Life, underpinned by a guarantee from HM Treasury under the Infrastructure UK Guarantee Scheme, a £50 million amortising term loan with Green Investment Bank and a £100 million amortising term loan facility with M&G UK Companies Financing Fund. The loans have varying maturity profiles ranging from 2017 to 2025. All of the term loans were fully drawn down at 31 December 2016 and 31 December 2015.

In addition, the Group has access to a £400 million revolving credit facility (RCF). The facility matures in December 2019 and has a margin of 175 basis points over LIBOR. At 31 December 2016 this facility had been utilised to draw down letters of credit with a total value of £57.9 million (2015: £37.9 million).

The Group also has a commodity trading facility, which allows us to transact prescribed volumes of commodity trades without the requirement to post collateral.

Accounting policy

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Where this is the case, the fee is deferred until the draw-down occurs.

Analysis of borrowings

Borrowings at 31 December 2016 and 31 December 2015 consisted principally of amounts drawn down against bank loans.

	As at 31 December 2016		
	Borrowings before deferred finance costs £m	**Deferred finance costs £m**	**Net borrowings £m**
Term loans	**327.9**	**(7.1)**	**320.8**
Finance lease liabilities	**1.1**	**–**	**1.1**
Total borrowings	**329.0**	**(7.1)**	**321.9**
Less current portion	**(37.9)**	**2.0**	**(35.9)**
Non-current borrowings	**291.1**	**(5.1)**	**286.0**

	As at 31 December 2015		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Term loans	328.4	(8.9)	319.5
Finance lease liabilities	0.9	–	0.9
Total borrowings	329.3	(8.9)	320.4
Less current portion	(0.3)	–	(0.3)
Non-current borrowings	329.0	(8.9)	320.1

The term loans and RCF are guaranteed and secured by a number of the Group's subsidiary undertakings that are party to the security arrangement.

Post Balance Sheet Event

The acquisition of Opus Energy Group Limited on 10 February 2017 (See note 13) was partially financed by a new acquisition loan facility of £375 million. At the date of approval of these financial statements, £200 million of this facility had been drawn down. The facility is unsecured and matures in July 2018.

12. Cash generated from operations

Cash generated from operations is the starting point of our cash flow statement. The table below makes adjustments for any non-cash accounting items to reconcile our net profit for the year to the amount of cash we have generated from our operations.

	Years ended 31 December	
	2016 £m	2015 £m
Profit for the year	**193.9**	56.3
Adjustments for:		
Interest payable and similar charges	**7.0**	18.4
Interest receivable	**(0.6)**	(1.4)
Tax charge	**3.2**	2.7
Depreciation	**109.5**	100.4
Asset obsolescence charges	**–**	109.2
Losses on disposal	**3.8**	7.1
Unrealised gains on derivative contracts	**(176.8)**	(123.7)
Defined benefit pension scheme current service cost	**6.0**	6.4
Non-cash charge for share-based payments	**5.2**	5.3
Close out of currency contracts(1)	**14.0**	–
Operating cash flows before movement in working capital	**165.2**	180.7
Changes in working capital:		
(Increase)/decrease in inventories	**(63.5)**	18.0
Decrease in receivables	**28.6**	48.9
Increase in payables	**73.7**	26.8
Decrease/(increase) in carbon assets	**11.1**	(11.8)
Decrease/(increase) in ROC and LEC assets	**12.5**	(85.6)

Total cash released from working capital	**62.4**	(3.7)
Defined benefit pension scheme contributions	**(14.5)**	(11.0)
Cash generated from operations	**213.1**	166.0

(1) During 2016 we closed out a number of in-the-money forward foreign currency purchase contracts. As these contracts were designated into hedge accounting relationships under IAS 39, the benefit is being recognised in the income statement in the period the hedged transaction occurs.

13. Acquisitions

Accounting policy

Acquisitions of subsidiaries and businesses are recognised at the point the Group obtains control of the target (the acquisition date). The consideration transferred and the assets and liabilities acquired are measured at their fair value on the acquisition date. The assets and liabilities acquired are recognised in the consolidated balance sheet and the profits of the acquired business are recognised in the consolidated income statement from the acquisition date. Acquisition-related costs are recognised in the income statement in the period the acquisition occurs. Goodwill is measured as the excess of the fair value of the consideration transferred over the fair value of the identifiable net assets acquired.

Acquisitions in the financial year

The transactions in this section occurred in the year ended 31 December 2016 and are reflected in the consolidated financial statements.

Acquisition of four OCGT development projects

On 6 December 2016 the Group acquired 100% of the issued share capital of Progress Power Limited (PPL), Hirwaun Power Limited (HPL), Millbrook Power Limited (MPL) and Abergelli Power Limited (APL). PPL, HPL, MPL and APL each hold a proposed development option, on land located in England and Wales, for a 299MW Open Cycle Gas Turbine (OCGT) project. Both PPL and HPL have obtained Development Consent Orders for their sites. The acquisitions represent diversification of our generation capability in response to the changing energy requirements of the UK.

Initial consideration of £18.6 million was settled in cash on 3 January 2017, with the amount held as a liability in the balance sheet at 31 December 2016. The final purchase price depends upon future clearing prices in T-4 capacity market auctions from 2016-2020. The range of possible outcomes being zero further consideration if the capacity market clearing price does not exceed £28/KW in these auctions, with a maximum contingent consideration payable of £72 million, based on a clearing price of £75/KW. The fair value of the contingent consideration at 31 December 2016 was assessed at £3.8 million based on a projection of likely future capacity market clearing prices, discounted to present value at a risk free rate of 2%.

The provisional amounts recognised in respect of the identifiable assets acquired and liabilities assumed in the acquisition of the four companies, and measured at fair value, are set out in the table below:

	PPL £m	HPL £m	MPL £m	APL £m	Total £m
Financial assets	2.9	3.0	–	–	5.9
Property, plant and equipment	0.4	0.6	0.2	0.2	1.4
Financial liabilities	(2.9)	(3.0)	–	–	(5.9)
Intangible development asset	8.9	8.7	1.7	1.7	21.0
Total identifiable net assets	**9.3**	**9.3**	**1.9**	**1.9**	**22.4**
Goodwill	**–**	**–**	**–**	**–**	**–**
Fair value of consideration payable	**9.3**	**9.3**	**1.9**	**1.9**	**22.4**
Comprised of:					
Initial consideration payable on 3 January 2017 in cash	**7.4**	**7.4**	**1.9**	**1.9**	**18.6**
Fair value of contingent consideration	**1.9**	**1.9**	**–**	**–**	**3.8**

The intangible development assets identified as part of the acquisitions represent the value of planning and consent obtained for each site. No cash or cash equivalents were acquired in the transaction, therefore the net cash outflow on acquisition was £18.6 million.

The four acquired companies did not trade in the period between the acquisition date and the balance sheet, and no further costs were incurred. Accordingly, the consolidated income statement includes no revenue or EBITDA in respect of the acquired companies. Transaction costs of £0.7 million were recognised as an expense in the period.

Acquisitions after the balance sheet date but before the financial statements were approved

The following disclosures relate to acquisitions completed between 1 January and 15 February 2017.

Acquisition of Opus Energy Group Limited

On 6 December 2016, the Group announced the proposed acquisition of Opus Energy Group Limited (Opus Energy) for a consideration of £340 million, plus interest calculated on the amount of Opus Energy's net assets from 31 March 2016 to the acquisition completion date.

Opus Energy is a well-established energy retail business serving business customers in the Small and Medium-sized Enterprises (SME) market. The transaction represents a diversification of the Group's retail offering, strengthening our presence in the SME market, and provides a range of strategic and financial benefits. Opus Energy is expected to contribute positively to earnings and cash flow immediately following the acquisition and the combination provides a robust platform for future growth.

The transaction was approved by shareholders on 8 February 2017 and subsequently completed on 10 February 2017, The Group acquired 100% of the issued share capital on this date.

Total consideration paid in cash, including interest as described above, amounted to £367 million. No deferred or contingent consideration is payable. The acquisition was funded by a combination of existing cash reserves and a new £375 million loan facility which was partially drawn on 10 February 2017.

Given the short period of time between the transaction completion date and the approval of these financial statements, the initial accounting for the business combination is not complete. The table below provides the approximate acquisition date fair values of the assets acquired and liabilities assumed in the transaction, based on the most recently available management information. These figures, including the indicative goodwill, are provisional.

	Total £m
Financial assets	169.9
Property, plant and equipment	5.6
Financial liabilities	(130.3)
Total identifiable net assets	**45.2**
Goodwill	322.1
Fair value of consideration payable	**367.3**

The provisional goodwill reflects the economic and strategic benefits described above. A full review and finalisation of identifiable intangible assets acquired will be completed before the initial accounting for the transaction is completed. Accordingly, the amount of goodwill recognised in the financial statements may be lower than indicated above.

The provisional financial assets acquired include £170 million of receivables, the majority of which reflect trade receivables for energy supplied to customers measured at cost. By virtue of their short tenor, the contractual amounts receivable and the fair value of these receivables are considered to be the same. A provision for doubtful debts of £3 million is included within the values above and reflects the best estimate of the contractual cash flows not expected to be recovered.

As the transaction completed after the balance sheet date, there are no amounts included in these financial statements in respect of the transaction other than transaction costs of £1.6 million incurred before 31 December 2016, which have been recognised as an expense in Operating and administrative costs in the income statement.

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, for example Black Start contracts. They are described in Connection Condition 8 of the Grid Code.

Availability

Average percentage of time the units were available for generation.

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, including CO_2 allowances under the EU Emissions Trading Scheme and the UK Carbon Price Support (CPS) Mechanism.

Department for Business, Energy and Industrial Strategy (BEIS)

The government department bringing together the responsibilities for business, industrial strategy, science, innovation, energy and climate change (formerly DECC).

EBITDA

Profit before interest, tax, depreciation, amortisation and unrealised gains and losses on derivative contracts.

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EU ETS

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

Feed-in tariff

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

Forced outage

Any reduction in plant availability, excluding planned outages.

Forced outage rate

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

Grid charges

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

IFRSs

International Financial Reporting Standards.

LECs

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

Levy control framework

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

Load factor

Net sent out generation as a percentage of maximum sales.

Lost time injury rate (LTIR)

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

Net 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 (RO) is currently the main support scheme for renewable electricity projects in the UK.

Summer

The calendar months April to September.

System operator

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

Total recordable injury rate (TRIR)

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

UK NAP

UK National Allocation Plan.

Underlying financial measures

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

Winter

The calendar months October to March.