Drax Group plc
Annual report and accounts 2014

Power in perspective

Contents

Strategic report

Total revenue
£2,805m
(2013: £2,062 million)

Gross profit
£450m
(2013: £445 million)

Net (debt)/cash
£(99)m
(2013: £71 million)

Total recordable injury rate
0.33
(2013: 0.29)

EBITDA
£229m
(2013: £230 million)

Underlying basic earnings per share
24p
(2013: 35p)

Carbon dioxide emissions
583t/GWh
(2013: 725t/GWh)

+ **Read more:** Operational and financial performance **26–45**

+ **Read more:** Principal performance indicators **20–21**

Introduction

Our world relies on energy. Looking ahead, the right balance is needed to provide an energy mix which delivers affordable, sustainable and reliable supplies of energy for future generations.

We are an essential part of that energy mix. Our role is to provide cost-effective, low carbon and reliable renewable power contributing to the UK's climate change targets as well as security of supply.

**We are part of the future.
We are powering tomorrow.**

Chairman's introduction

In perspective

The last year serves as a stark reminder of factors in the external environment which cause uncertainty for our business. During the year, regulatory uncertainty and much weaker commodity markets have proved challenging. It is, however, our job to navigate through such uncertainties and to that end I am able to report good operational performance and solid progress with our biomass transformation during 2014.

Back in 2012, we declared our intention to convert three of our six generating units to burn sustainable biomass in place of coal by the end of 2016. The transformation work is now well advanced with two units converted and the third scheduled to be converted in the time frame indicated above.

Our transformation extends beyond the conversion works at Drax Power Station, both upstream and downstream. The benefit of a presence in the upstream supply market is significant, in the southern US our two wood pellet plants are in commissioning and our port facility is "pellet-ready".

Downstream the continued attraction of renewable power amongst businesses keen to meet their own sustainability commitments has seen our retail sales increase. Our commitment to becoming a leading provider of sustainable power is as strong as it has always been.

We offer a source of power which is sustainable, secure and reliable, cost-effective and low carbon. We continue to see future value for our business and our shareholders in our biomass strategy, and we are on track to deliver that.

We also take very seriously our responsibility to the communities where our operations are based. This is well illustrated by our visitor programme at Drax Power Station where we hosted more than 12,500 visitors in 2014.

Earnings and dividend

Our earnings (EBITDA[(1)]) for 2014 at £229 million were broadly level with those in 2013 (£230 million). In accordance with our dividend policy, the Board proposes a final dividend in respect of 2014 of 7.2 pence per share, equivalent to £29 million. This would give total dividends for the year of £48 million (2013: £71 million).

Board changes

As announced in September 2014, I shall be retiring from the Board at the Company's Annual General Meeting this coming April. I have served on the Board for some nine years and I have been privileged to be its Chairman for the last seven. During that time Drax has seen tremendous change, from a business with purely electricity generation interests to a growing Group with interests along the electricity and biomass supply chain.

It has been an exciting journey for everyone involved and I have every confidence that the Group has a successful future ahead of it. I am delighted in the choice of my successor, Phil Cox CBE. Phil has significant experience of the power sector and is no stranger to the boardroom.

We have an effective Board with good and complementary skills, knowledge and experience across all directors, both executive and non-executive, and Phil is well placed to lead them. I wish him and the Group every success.

Our people

As always my final say is about the people at Drax. I have enjoyed getting to know many during the last nine years and I have valued the time I have spent with them. What is common throughout the Group is the unfaltering support and commitment of everyone. My sincere thanks and very best wishes go to all staff across the Group.

Chas Berry

Charles Berry
Chairman

23 February 2015

(1) EBITDA is defined as profit before interest, tax, depreciation, amortisation, unrealised gains and losses on derivative contracts and the one-off settlement of CESP in 2014.

Charles Berry
Chairman

"Faced with challenges in the external environment, it is our job to navigate through uncertainties and control the controllable."

Explore more detail elsewhere in this report…

Read more: Operational and financial performance
26–45

Read more: Governance
58–96

At a glance

How we manage our business

Drax Group has three principal activities: sourcing fuel (including sustainable biomass); electricity production; and electricity sales to the wholesale market and business customers.

Source

Fuel

We use a range of fuels, including coal, sustainable biomass and others, for example, petcoke and pond fines, which can be economically advantageous. When our biomass transformation completes we will burn predominantly sustainable biomass. In the US we are investing in wood pellet plants and a port facility to deliver a secure and reliable wood pellet supply to meet some of our biomass needs.

4.1
Million tonnes of biomass burnt

0.3
Million tonnes of economically advantageous fuel burnt

7.2
Million tonnes of coal burnt

+ **Read more:** Operational and financial performance **26–45**

£2.8bn
Group revenue in 2014.

Total capacity across two US pellet plants in commissioning.

900kt

Generate

Generation

Drax Power Station is the largest power station in the UK, almost twice the size of the next largest power station.

Environment

We work hard to reduce our impact on the environment with a policy of regarding compliance with legislation as a minimum level of achievement. As we progress our biomass conversion project our carbon footprint will reduce dramatically.

3,960
MW connected capacity at Drax Power Station

6.7
Million tonnes of CO_2 saved through burning sustainable biomass in place of coal

+ **Read more:** Sustainable business review **50–57**

Supply

Trading

Through keeping a constant eye on the commodity markets within which we operate we are able to optimise the commercial despatch of our power. The growth of sales through our retail business, Haven Power, is becoming increasingly important to our trading strategy.

Retail

Haven Power is focused on providing businesses with power contracts that are simple, flexible and designed to meet their specific requirements. Importantly, these contracts are backed by an excellent standard of customer service.

+ **Read more:** Operational and financial performance **26–45**

26.7
TWh net sales of power generated

11.8
TWh net power supplied

46
% retail sales growth by volume

Group EBITDA for 2014.

£229m

On-site storage capacity for sustainable biomass at Drax Power Station.

300kt

Our business model

Maximising our value

Our objective is to maximise the value of the Drax business. There are several steps in the Drax value chain, with each one providing incremental value to the business.

Read more: A look at the detail
28–29

Our value chain...

Source

How we maximise value...

Fuel

- Currently we burn sustainable biomass in two converted units, which earn ROCs and LECs.
- In our coal units we have the ability to burn other fuels, such as petcoke and pond fines, which can be economically advantageous.
- By diversifying our fuel sources not only are we less reliant on a single fuel type, but we are also able to capture value from commodity market cycles, and in the case of biomass avoid the cost of carbon.
- Our investments in the US will help secure the timely delivery of reliable wood pellet supplies to Drax Power Station, and consolidate third party and own supplies to secure more efficient and cost-effective delivery logistics.

Read more: Operational and financial performance
26–45

Supply

How we maximise value...

Trading

- We are always looking to increase the trading options available to us, such as through our retail business.
- We benefit from having a physical asset to trade around and a seamless interface with the operations side of the business.

Retail

- We have already achieved significant growth in a competitive marketplace and have become an established supplier to businesses across the UK.
- We have plans to grow further and deliver our supply contracts to more business customers.
- Our retail business increases the trading options available providing an important and credit-efficient direct route to market for our power, as well as a route to market for our ROCs and LECs.

Read more: Operational and financial performance 26–45

Generate

How we maximise value...

Generation

- Through our turbine upgrade project we secured our position as the most efficient coal-fired power station in the UK, and together with our increasing use of biomass we are delivering coal and CO_2 savings.
- With leading operational performances across all aspects of the generation business, from safety to maintenance, we are able to deliver high reliability.
- In addition, the flexibility of our despatch allows us to respond quickly to changes in demand.

Environment

- Through burning increasing volumes of sustainable biomass and our efficiency improvements we are able to significantly reduce emissions of CO_2, the amount of coal we burn and save on carbon costs.
- We generate additional revenue through sales of our by-products, which also reduces disposal costs. By reducing emissions of SO_2, we produce gypsum which, like ash, is sold to the construction industry.
- We are investing to continue to meet increasingly stringent emission control requirements.

Read more: Sustainable business review 50–57

Achieving our vision

Power in perspective

Our business is influenced by a number of factors. Through focusing on our five key priorities we aim to achieve our vision and maximise our value.

Our vision for Drax is...

To be a bold, customer oriented power generation and retail business, driven by biomass innovation.

Enabled by our strategy...

We have three key strategic initiatives to enable us to achieve our vision, namely:

- Developing our biomass fuel supply business in the US.
- Our project to convert Drax Power Station into a predominantly biomass-fuelled generating asset.
- Our programme for the expansion of our retail business, Haven Power.

This is delivered through five key priorities...

- Deliver our biomass strategy
- Drive Group operational excellence
- Grow our retail business
- Maximise the value of the Group
- Deliver excellent people leadership across our business

Deliver our biomass strategy

In 2012, we announced our plan to transform Drax Power Station into a predominantly renewable generator through converting three of its six generating units to burn sustainable biomass in place of coal.

Today, two generating units have been converted and the third is on track to be converted by mid-2016. On completion, around 12 million tonnes of carbon dioxide emissions will be saved each year, making the transformation the largest decarbonisation project in Europe.

+ **Read more:** Chief Executive's statement 16–19

12Mt

On track to deliver carbon dioxide savings of 12Mt a year on completion of our biomass transformation

This image features a typical sample of the wood pellets we receive at Drax Power Station.

Achieving our vision (continued)

Drive Group operational excellence

Our operational interests span the supply chain from sourcing and processing sustainable biomass, through generating reliable supplies of power, to supplying power to business customers.

We are committed to maintaining operational excellence, with leading performances.

Read more: Plant operational performance 35

0.33
Total recordable injury rate in 2014

26.7TWh
Net power sales in 2014

11.8TWh
Retail sales in 2014

This image features a process control module at Drax Power Station.


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Achieving our vision (continued)

Grow our retail business

Haven Power continues to deliver significant growth in a highly competitive market with our renewable power offer becoming increasingly attractive amongst UK businesses.

An excellent standard of customer service is central to our proposition for our retail operation.

Read more: Retail financial performance
36

46%

Growth in retail sales volume in 2014 (compared to 2013)

This image features part of the runway lighting at London Stansted Airport, one of Haven Power's significant contract wins.

Achieving our vision (continued)

Maximise the value of the Group

A wider focus on all areas across the Group will help drive our ultimate value. By maximising the value of the Group we are positioning ourselves for future development.

Read more: Operational and financial performance 26–45

£229m

Group EBITDA for 2014

This image represents the importance we attach to all areas across the Group that underpin value.

Deliver excellent people leadership across our business

We are committed to developing leadership at all levels within the organisation.

Our aim is to help our people be better leaders in the job they do, whichever stage of their career they are at.

Read more: Sustainable business review 50–57

2015

Pilot year for our UK-wide leadership development programme

This image represents vision and direction; qualities we link with excellent leadership.

Chief Executive's statement

A challenging year, but good progress made on our biomass transformation

Dorothy Thompson CBE
Chief Executive

"Our main priority in 2014 was the delivery of our biomass transformation project."

Review of the year

Our main priority in 2014 was the delivery of our biomass transformation project. For the business and our shareholders, 2014 proved to be a very difficult year as various regulatory risks materialised and we faced a major deterioration in commodity market conditions. Despite these challenges I am able to report very good progress in our transformation into a predominantly renewable electricity provider. We are on track to deliver according to the plan we initially laid out in 2012.

Our vision for Drax is to be a bold, customer oriented power generation and retail business, driven by biomass innovation. In moving towards achieving our vision, we made good progress during 2014 on our biomass supply chain construction projects in the US, our biomass conversion project at Drax Power Station, and our growth in electricity sales to businesses.

Earnings

Our earnings for 2014 reflect our progress in delivering reliable biomass-fired generation as the earning potential of our coal-fired generation fell following the near doubling of the UK carbon tax. At £229 million, EBITDA is roughly level with last year (2013: £230 million).

Securing sustainable biomass supplies

Sustainability is critical to our biomass strategy. All our biomass, whether in raw fibre or pellet form, is procured against our own robust sustainability criteria. These include requirements for high greenhouse gas emission reduction, habitats and biodiversity protection, as well as due consideration to the important socio-economic factors in the source areas. A programme of independent audits verifies that all our suppliers comply with our sustainability criteria.

The dynamics of the forest industry are sometimes misunderstood. Demand for wood helps keep land in forest and incentivises investments in new and more productive forests, all of which have significant carbon benefits. Our calculations show that the range of sustainable biomass materials we have burnt over the last few years has a low carbon footprint. In 2014, the average greenhouse gas emissions from burning biomass were 34gCO_2/MJ; significantly below 79gCO_2/MJ which is the maximum to be permitted under the UK government's framework for sustainability requirements for biomass that are expected to become mandatory later this year.

Our developments in the US are an important part of our biomass sourcing strategy. They help us to optimise the biomass supply chain which is still in its infancy, particularly in the southeast US which is the main source of our biomass. The main drivers for our upstream investments are twofold: securing the timely delivery of reliable wood pellet supplies to Drax Power Station and consolidating third party and own supplies to secure more efficient and cost-effective delivery logistics.

Our two, 450 thousand tonnes per annum wood pellet plants – Amite (Mississippi) and Morehouse (Louisiana) – have now entered into commissioning. Our port facility at Baton Rouge (Louisiana) is now ready to receive and despatch wood pellets to the UK. We continue to evaluate further upstream development opportunities in the US.

Aside from our investments to secure a self-supply of sustainable biomass, we have made good progress towards securing near-term volumes of wood pellets from suppliers in the market with more than six million tonnes contracted for April 2015 to March 2016. We continue our negotiations for additional longer term volumes to support our third unit conversion.

Chief Executive's statement (continued)

Biomass conversion

In 2012, we embarked on our plan to convert three of our six generating units to burn sustainable biomass in place of coal, with a target to secure fuel for all three converted units by the end of 2016. We are on schedule to meet that target. Our second generating unit was converted to burn biomass in October 2014, after running as an enhanced co-firing unit, that is, burning at least 85% biomass, for five months. We plan to convert a third unit to biomass in the 12-month window from 1 July 2015.

Coal-fired generation performance

As in previous years, we delivered strong generation output from our coal-fired units. We were able to continue to deliver additional value to the business through providing flexible generation output and balancing services to the System Operator, National Grid, in support of system stability and security.

Health and safety

In the UK, our safety performance remains industry-leading. During 2014, we undertook a significant amount of project work and a single planned outage on one of our generating units. All work was completed without a worse than first aid injury.

In 2013, the safety performance in the US at our construction sites was weaker than safety performance of our UK operations. During last year we worked hard to drive improvements at these US sites to meet our UK standards. Together with our contractors we made good progress during the year. However, our achievements were marred by the tragic death of a sub-contractor towards the end of the year. Excellent safety management has always been at the centre of our management ethos. The incident serves as a poignant reminder of the importance of strong safety systems and controls in the construction and operation of large plant.

Retail performance

Selling our output through our retail business, Haven Power Limited ("Haven Power") continues to provide us with a credit-efficient route to market for our power sales compared to the wholesale electricity market. It also provides a good route to market for the Renewables Obligation Certificates and Levy Exemption Certificates earned when we generate renewable power.

During 2014, Haven Power delivered another year of substantial growth in a highly competitive market with retail sales 46% higher, in volume, than in 2013.

An excellent standard of customer service is central to our proposition for our retail operations. We are a consistent high performer in the Datamonitor Energy Buyers Survey and have a good renewals record.

We have been working to minimise the risk that we face from the implementation of a price freeze, as announced by the Labour Party at its 2013 Party conference, should the Party come to power following May's General Election. Apart from a small number of customers that take supply on default terms, all of Haven's customers are supplied under fixed term contracts. We do not believe that this form of contract is the primary target of the proposed freeze.

Regulatory framework

The regulatory framework is a key influencing factor on our business. At the start of 2014 we had expected to be awarded two early contracts for difference or investment contracts (in line with the new, forthcoming contracts for difference regime) to support our second and third unit conversions.

In April, the government concluded that the second unit was no longer eligible for such a contract. We mounted a legal challenge and the High Court found in our favour. However, the government appealed that judgment and won. We subsequently converted our second unit under the Renewables Obligation ("RO").

The investment contract for our third unit conversion has been executed, but is subject to EU State Aid clearance which is still under review.

In June, Ofgem referred the electricity wholesale and retail markets to the Competition and Markets Authority ("CMA"); the main focus being on supply competition in the residential market. The CMA initiated a market investigation to determine whether any feature, or combination of features, of these markets prevents, restricts or distorts competition in the sector. If it concludes that there are issues that need addressing, it has wide ranging powers to impose remedies. The CMA's updated issues statement, published in February 2015, reported no finding of major competition concerns in the generation sector. We expect the CMA to conclude its inquiry during 2015. We are co-operating fully with the CMA's investigation.

In November, we reached a settlement agreement with Ofgem regarding non-compliance with our obligation under the Community Energy Saving Programme. The settlement, worth £28 million, will see up to £20 million benefit vulnerable energy consumers through a programme of work to be developed by the charity, National Energy Action.

In December, the Government published a consultation on changes to the grandfathering policy for future biomass and co-firing conversion projects under the RO. The changes proposed would apply to all such projects except those already awarded with an investment contract, for example, our third unit conversion as mentioned above. The outcome of that consultation will have no impact on Drax's base strategy of converting three generating units to burn sustainable biomass in place of coal and becoming a predominantly biomass-fuelled power generator. However, if the consultation proposals are upheld, it will reduce our options for the conversion of a fourth unit.

Also in December, the first capacity market auction was held. The market is designed to ensure security of electricity supply by providing a payment for reliable sources of capacity. Two of Drax Power Station's coal units were successful in the auction, with the capacity required for delivery in 2018/19.

2020
Making a meaningful contribution to the UK's 2020 climate change targets.

Looking ahead

We are on track to complete our transformation into a predominantly biomass-fuelled power provider in 2016. The case for a three unit conversion is robust and we are committed to full execution of this project.

We remain convinced that sustainable biomass has an important and strategic role to play in the future energy mix of the UK. Not only does biomass bring the benefit of significant carbon savings over fossil fuels, but it does so without jeopardising the security of supply characteristics traditionally associated with fossil fuel technology.

The financial benefit of biomass generation from converted coal units is very significant. Independent economic analysis by Frontier Economics estimates that, if our biomass transformation project converting three of the six generating units at Drax Power Station to burn biomass in place of coal was replaced by offshore wind in 2020, the cost to the economy would be £3.4 billion more.

We trust that, over time, the significant benefits of biomass conversion as an attractive renewable will underpin support for further generating unit conversions at Drax.

We remain alert to future strategic opportunities and will continue to review options that build on the wider strengths and competences of the Group with the potential to generate value for our shareholders.

As ever, it is a complex picture for our stakeholders to evaluate, but I am confident that our transformation will deliver an attractive future for the business and our shareholders, whilst delivering a significant amount of cost-effective renewable power to UK consumers and making a meaningful contribution to the UK's 2020 climate change targets.

Dorothy Thompson CBE
Chief Executive

23 February 2015

Principal performance indicators

Monitoring our performance

Our principal performance indicators provide a snapshot of the progress we are making against our key priorities and in delivering our strategic initiatives.

Maximise the value of the Group

EBITDA (£m)

2012	298
2013	230
2014	229

Earnings before interest, tax, depreciation, amortisation, unrealised gains and losses on derivative contracts and the one-off settlement of CESP in 2014

Why we measure
EBITDA is our key financial performance metric.

Comment
Our EBITDA performance has been adversely impacted in recent years by the increasing cost of carbon allowances and the UK Carbon Price Support ("CPS") mechanism. In 2014, good operational performance and the increasing influence of biomass in our fuel mix meant, despite the cost of carbon, our EBITDA was broadly in line with that achieved in 2013.

Net (debt)/cash (£m)

2012	311
2013	71
2014	(99)

Includes cash and short-term investments, less borrowings net of deferred finance costs

Why we measure
Monitoring net (debt)/cash ensures an efficient capital structure is maintained to support our business, alongside sufficient liquidity to manage our future obligations.

Comment
Through our biomass transformation we continue to invest significant amounts of capital expenditure, funded by a combination of term loans, secured in 2014 and previous years, and share placing proceeds. Associated increases in ROC and biomass assets held on the balance sheet have combined to eliminate net cash and give rise to net debt.

Average achieved price of electricity (£/MWh)

2012	51.3
2013	51.0
2014	51.3

Revenues from the sale of power in our generation business, divided by the volume of net generation sales (includes balancing revenues/charges)

Why we measure
The average achieved price of electricity tracks the power price component of the dark green and bark spreads achieved.

Comment
Our average achieved price of electricity reflects the contracted position at the start of the year, as well as power prices during the period. Power prices remained relatively stable during 2013 but have fallen steadily in 2014. The timing of our hedges has provided some protection against market price weaknesses.

Average cost of fuel excluding carbon (£/MWh)

2012	30.6
2013	27.9
2014	31.4

Fuel costs in respect of generation, excluding carbon allowances, divided by the volume of net generation sales

Why we measure
The average cost of fuel (excluding carbon and including the value of renewable support) tracks the fuel cost component of the dark green and bark spreads achieved, and reflects the value captured from effective fuel procurement and diversified fuel sources.

Comment
Falling coal costs over the last three years have been offset by the introduction of CPS in 2013 and increase in the CPS rate from April 2014. Additionally, the increasing influence of biomass in our fuel mix has increased average fuel costs.

Average cost of carbon (£/tonne)

2012	6.3
2013	6.1
2014	4.6

Carbon costs divided by volume of allowances purchased

Why we measure
The average cost of carbon (excluding CPS) tracks the carbon cost component of the dark green spread achieved.

Comment
Market prices for carbon fell dramatically in the second half of 2011 and remained low until this year, when they have been steadily rising reflecting increased expectation of political intervention to resolve the oversupply in the market. Our average cost is influenced by the timing of securing purchases and much of our 2014 carbon requirement was contracted in 2013 when prices were low. As a result, our average cost of carbon reduced compared to the previous year.

Grow our retail business

Retail customer volume (TWh)

2012	5.1
2013	8.1
2014	11.8

Net power sales distributed through our retail business, Haven Power, measured at customer meter

Why we measure
A measure of the rate of growth in our retail business.

Comment
Haven continued to deliver strong growth in competitive markets during 2014 as planned, supported by its reputation for very good customer service.

Drive Group operational excellence

Net generation sales (TWh)

2012	27.1
2013	26.2
2014	26.7

The aggregate of net merchant sales and net Balancing Mechanism activity

Why we measure
Net sales tracks the volume of power we can sell at positive margins.

Comment
Good operational performance in our generation business in 2014, taking into account a single major planned outage and biomass modification and conversion activity, allowed us to increase net electrical output compared to 2013.

Biomass generation (TWh)

2012	
2013	2.9
2014	7.9

Net sales from biomass-fired generation

Why we measure
As well as tracking performance against our biomass transformation strategy, biomass generation levels provides an indicator of operating performance from our biomass units.

Comment
Following conversion of our first biomass unit in April 2013, we have expanded our biomass generation capacity in 2014 with the modification of a further unit to run as an enhanced co-firing unit from May 2014 and subsequent conversion in October.

Lost time injury rate

2012	0.06
2013	0.09
2014	0.06

The frequency rate is calculated on the following basis: lost time injuries/hours worked x 100,000

Total recordable injury rate

2012	0.17
2013	0.29
2014	0.33

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

Why we measure
These injury rate metrics track our health and safety performance and enable us to maintain a strong health and safety culture.

Comment
2014 was a year of significant project activity across the Group, with a single major outage and conversion activity in the UK and continued construction work in the US. Against this backdrop of activity our safety performance continues to be strong, although we are continuing to work hard to improve safety records in the US, which remain behind our UK standards and have contributed to higher total recordable injury rates in 2013 and 2014.

Deliver our biomass strategy

Carbon dioxide emissions (t/GWh)

2012	784
2013	725
2014	583

CO_2 emissions rate per unit of output

Why we measure
This measure of carbon emissions illustrates our progress in reducing the carbon footprint of Drax Power Station.

Comment
With our progression towards converting three of our generating units to biomass, we are realising significant savings in carbon dioxide emissions. We now have two converted biomass units (2013: one biomass unit) resulting in a decreasing trend in emissions over the last two years. This metric should continue to fall as we conclude our transformation plans.

Biomass burnt (million tonnes)

2012	0.7
2013	1.6
2014	4.1

Tonnes of sustainable biomass fuel burnt during the year

Why we measure
Measuring the levels of sustainable biomass burnt tracks our progress in producing power from renewable and sustainable sources.

Comment
Following the conversion of our first unit to run fully on biomass from April 2013, we have seen a significant increase in our biomass volumes burnt. We will continue to increase these volumes as we progress our biomass transformation.

Read more Operational and financial performance
26–45

Marketplace

We play an essential part in the electricity market

Each of our businesses is positioned in the key parts of the electricity supply chain. Complex practices and arrangements characterise the marketplace in which we operate.

The structure of the electricity market

The electricity market in Great Britain is characterised by six large vertically integrated companies, with interests in both the generation and supply of electricity, and a number of smaller independent companies, some of which are purely generation or supply companies and others which have an interest in both sectors. Drax is an independent company, with both generation and supply interests.

The electricity mix

Today, the electricity mix benefits from a diversity of fuel sources, including gas, coal, nuclear and renewables. The shares of 2013 (the latest figures available[1]) generation by fuel type, on an output basis, are given below.

36% Coal

27% Gas

20% Nuclear

14.9% Renewables

2.4% Other

(1) Digest of UK Energy Statistics, 2014.

Source

At Drax Power Station, electricity is generated from both sustainable biomass and coal.

Sourcing biomass

We only burn sustainable biomass to produce renewable power. Predominantly the biomass we source comes from woody (forest) material, the remainder comes from agricultural residues, such as straw, and purpose grown energy crops, such as miscanthus.

Forest product industry

The global forest industry is already a large, well-established marketplace, serving the building, furniture and paper industries with high and low grade wood fibre. In producing electricity from biomass, we are able to use the low grade wood fibre, such as, thinnings, branches and tops, as well as sawmill residues. The table opposite gives a breakdown of the woody biomass sourced and burnt by Drax in 2014 by type and country.

Sometimes such fibre and residues have no other alternative use. Providing a market for them increases the production efficiency and the economics of the forest, incentivising forest and land owners to keep their land forested.

Sustainable forest management

Sustainable forest management practices are fundamental to maintaining healthy and productive working forests with stable and increasing carbon stocks. When the fibre harvested from forests is completely offset by new growth the losses of carbon are also offset. Therefore, when comparing forest growth to harvest in any one year, if the growth exceeds the harvest there is surplus of fibre which equates to an increased carbon stock. Fibre taken from forests with a surplus means that there is no addition to the carbon levels in the atmosphere. In 2013, across the southeast US states, where Drax sources much of its fibre, there was a significant surplus.

Ensuring sustainable sourcing

It is a prerequisite that all our biomass comes from sustainable sources. To ensure this we have implemented a sustainability policy which embeds comprehensive criteria into our procurement activities. Through a programme of information exchange, documentary evidence, due diligence activities and independent third party verification we are confident that all the biomass we procure comes from sustainable sources. Read more about biomass sustainability and procurement in the Sustainable business review on page 56.

We calculate the life cycle carbon footprint of all the biomass we burn, from forest or field to furnace. In that way we take account of the carbon emissions along the biomass supply chain, including those associated with harvesting, processing and transportation. In 2014, the average greenhouse gas saving over the full life cycle resulting from burning sustainable biomass in place of coal was 86%.

Sourcing coal

We buy coal from a range of sources. In 2014, 38% of the coal we burnt came from UK deep and surface mines with the remainder coming from major supply basins around the world, including the US, Colombia and Russia.

Our focus is on responsible procurement, and our continued membership of Bettercoal, an organisation that promotes continuous improvement in corporate responsibility in the supply chain, supports that focus. See more on our coal procurement practices in the Sustainable business review on page 50.

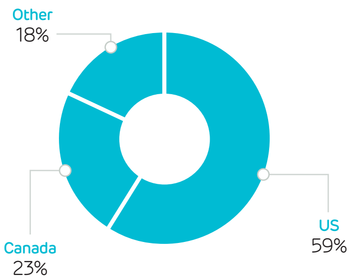
Where we source coal from

Woody biomass by type and country, 2014

	Forest-derived[1]	Sawmill-derived[2]	Total
US	1.9Mt	0.4Mt	2.3Mt
Canada	0.1Mt	0.8Mt	0.9Mt
Other	0.4Mt	0.3Mt	0.7Mt
Total	2.4Mt	1.5Mt	3.9Mt

Notes:
(1) Forest-derived = thinnings, branches, tops and other low grade wood.
(2) Sawmill-derived = sawdust and chips.

Woody biomass by country, 2014

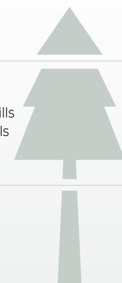


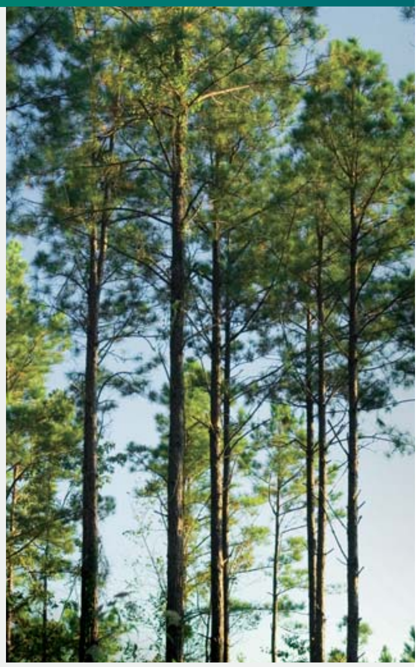
Forest products

Harvesting residues — Pellets

Small dimension e.g. Pulpwood — Pellets; Wood panel mills; Pulp/paper mills

Large dimension e.g. Sawlog — Sawmills





"Rather than leading to wide-scale loss of forest lands, growing markets for tree products can provide incentives for maintaining or increasing forest stocks and land cover, and improving forest health through management."

Intergovernmental Panel on Climate Change, 2014

"Using materials, products and fuels made from forest biomass instead of more fossil fuel-intensive alternatives is one key approach to mitigating increases in atmospheric CO_2. Moreover, demand for forest products helps keep land in forests and can increase carbon stocks. Demand for wood and products derived from it helps preserve forests, expand forested area and ultimately promotes sustainable forest management."

World Business Council for Sustainable Development, Forest Solutions Group, 2015

Marketplace (continued)

Generate

Drax Power Station typically meets around 7-8% of the UK's electricity needs. There are two routes to market for the power we generate – the wholesale market (see below) and the retail market (see Supply on page 25).

The wholesale electricity market

Various mechanisms exist to allow power to be traded at the wholesale level. Trading can take place bilaterally or on exchanges, and contracts for electricity can be struck over timescales ranging from several years ahead to on-the-day trading markets. It can also be traded for specific periods, for example, specific half hours or specific seasons. The wholesale electricity market trades across three sub-markets:

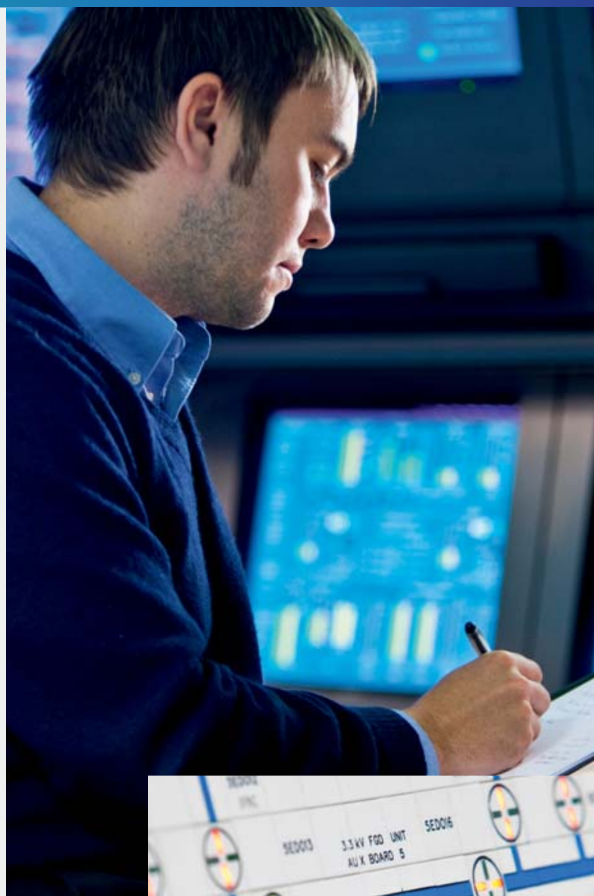
- long-term forward market allowing contracts to be struck up to several years ahead of delivery in response to market participants' requirements;
- short-term bilateral market operated through power exchanges which gives market participants the opportunity to fine tune their contractual positions; and
- Balancing Mechanism (real-time market) through which the System Operator accepts offers and bids for electricity to enable it to balance supply and demand on the system.

Wholesale prices

Power prices are driven by a number of factors, such as underlying commodity prices, the availability of generating capacity on the electricity system, and the physical positions taken by individual market participants.

The wholesale market operates on price and the relative prices of gas and coal. Carbon costs for fossil fuelled generators along with the operating efficiencies of the various power stations will determine which of gas-fired generation or coal-fired generation is the more expensive and so operates at the margin. If gas prices are high relative to the costs of coal-fired generation then gas-fired generation becomes the marginal plant. These dynamics of price setting can be expected to change in the future when higher penetration of renewable generation combined with nuclear generation displace fossil-fuelled generation.

As well as selling power through the wholesale electricity market, we are selling an increasing proportion of our output directly to business customers through our retail company, Haven Power. This provides us with a credit-efficient route to market for power, as well as a good route to market for Renewables Obligation Certificates and Levy Exemption Certificates earned by our renewable power generation.



Supply

The supply market

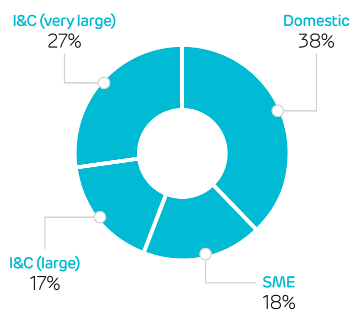
In 2012 (the latest figures available[1]), electricity sales in Great Britain to all consumers accounted for 291TWh. The electricity supply market is characterised by three sectors: domestic, industrial and commercial ("I&C"), and small and medium-sized enterprises ("SMEs"). The domestic sector accounts for 38% of the total electricity sales in Great Britain, the I&C sector 44% and SMEs 18%.

Through our retail company, Haven Power, we serve businesses of all sizes. In 2014, Haven Power sold 11.8TWh to the I&C and SME sectors.

The business sectors of the market have continued to be very competitive with our established competitors being joined by a number of new entrants. Against this backdrop, Haven Power has succeeded in growing its market share by offering innovative and tailored contracts at competitive prices.

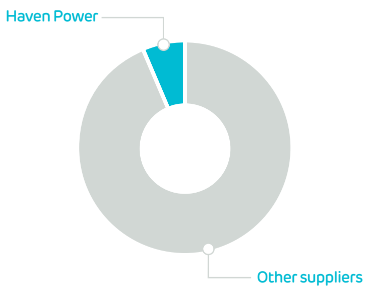
Notes:
(1) Digest of UK Energy Statistics, 2014.

GB electricity supply market by sector, 2012



Sources:
Digest of UK Energy Statistics, 2014; Cornwall Energy, 2014.

Haven Power's share of the business market



Sources:
Digest of UK Energy Statistics, 2014; Cornwall Energy, 2014.

Operational and financial performance

A challenging year...

...but we are on track with our biomass conversion plans, which create a fundamentally stronger business. Our EBITDA is in line with last year, despite absorbing increased carbon costs.

Tony Quinlan
Finance Director

Introduction

In a year during which trading and regulatory conditions have been challenging, EBITDA for the year to 31 December 2014 was £229 million, compared to £230 million in 2013.

We have continued to make good progress with our biomass transformation project, having converted our first unit in May 2013. We modified a second unit in May 2014 to operate as an enhanced co-firing unit, burning at least 85% of its fuel from biomass, which was subsequently fully converted to biomass in October. Both biomass units continue to perform very well and are operating in line with plans.

A third of our generation capacity is now biomass-fired, with biomass representing 29% of our overall fuel mix in 2014, compared to 12% in 2013. As a result, carbon (CO_2) emissions and the associated cost of allowances purchased under the EU ETS have fallen year-on-year.

The transformation is providing significant earnings protection to the Group, compared to being a solely coal-fired generator.

Our coal-fired generation remains subject to increases in the cost of carbon incurred through the UK carbon price support ("CPS") mechanism, first introduced in April 2013. CPS rates increased by 93% with effect from April 2014, adding £56 million to our cost of fuel in 2014. As a result, the overall cost of carbon increased compared to the previous year.

Our capital investment plans remain on schedule and budget. The new on-site biomass facilities at Drax Power Station are now fully commissioned and fuelling our two converted units. In the US Gulf, we continue to expect commercial operations to commence at our first pellet plant and port facility in the first quarter of 2015, with commercial operations following at the second plant in the second quarter. This continued investment in our transformation is reflected in capital expenditure of £201 million for 2014 (2013: £286 million).

Our retail business, Haven Power Limited ("Haven Power"), has continued to deliver strong sales growth in highly competitive markets, with 11.8TWh of sales in the year ended 31 December 2014, compared to 8.1TWh in 2013.

The expected increase in ROC assets and biomass stocks arising from increased biomass generation has resulted in a reduction in cash generated from operations from £171 million in 2013 to £127 million. We have utilised available agreements to accelerate ROC cash flows in 2014 where possible.

Our balance sheet remains robust. In May 2014, we agreed a new £100 million private placement with M&G Investments, which complements our existing financing structure secured in previous years and provides additional liquidity to the Group.

With £325 million of loans drawn down, net debt at 31 December 2014 was £99 million (2013: net cash of £71 million).

At the forthcoming Annual General Meeting, the Board will recommend a final dividend for 2014 of 7.2 pence per share, taking total dividends for the year to £48 million.

Key developments in the year

EBITDA

£229m
2014
(2013: £230m)

EBITDA for the Group is our key measure of profit or loss. Our biomass strategy has helped us to maintain EBITDA performance year-on-year despite the increased cost of carbon and challenging trading conditions.

Read more: Group EBITDA
38

Retail sales

11.8TWh
2014
(2013: 8.1TWh)

Haven Power continued to deliver strong growth in sales during 2014, and is well on track to achieve continuing growth targets.

Read more: Retail
36

Underlying EPS

24p per share
2014
(2013: 35p per share)

Implementing the asset base and financing platform to realise our biomass strategy has resulted in increased depreciation and financing charges, which have contributed to the reduction in underlying earnings per share.

Read more: Profit after tax and earnings per share
41

Capital investment

£201m
2014
(2013: £286m)

The majority of capital spend in the last two years has related to our biomass transformation project, with further spend expected through to the completion of this work.

Read more: Capital expenditure
43

Net (debt)/cash

£(99)m
2014
(2013: £71m)

Throughout our biomass transformation, operating cash flows have been reinvested to support the significant expenditure required.

Read more: Liquidity and capital resources
42

Biomass generation

7.9TWh
2014
(2013: 2.9TWh)

Two out of six generating units are converted to run solely on sustainable biomass, which now accounts for more than 29% of our total fuel burnt by energy content.

Read more: Plant operational performance
35

Operational and financial performance (continued)

A look at the detail

Our financial performance is driven by the gross margin achieved by our generation and retail businesses.

Source

Fuel costs

Fuel costs make up the largest portion of our cost of sales, and reflect the cost of coal and CO_2 emissions allowances purchased, as well as the cost of sustainable biomass offset by the benefit of associated renewable support received.

Total fuel costs are influenced by market prices at the time we secure fuel purchases but are also subject to changes in our fuel mix as we progress our biomass transformation.

Biomass now represents 29% of the fuel we burn (by energy content), a significant increase from 12% in 2013.

Increased biomass burn results in a number of changes in the composition of our fuel costs.

Biomass is a more expensive fuel than coal, increasing the gross cost of fuel purchased; however it attracts renewable support in the form of ROCs and LECs that are recognised at the point of generation and reduce the overall cost of fuel. A reduction in the volume of coal burnt also reduces CO_2 emissions and thus the number of allowances we have to purchase under the EU ETS. However, in 2014, this benefit has been offset by increases in the rate of UK carbon tax charged from April 2014.

Generate

Capacity, efficiency and flexibility

In 2014, our net generation sales were 26.7TWh compared to 26.2TWh in 2013. Generation volumes are driven by plant availability and commodity market conditions.

Net generation sales increase when availability is high and commodity prices make it profitable for us to generate. Availability is driven by plant outages (both planned and forced) and the load factor (actual generation as a proportion of the maximum available) increases when market conditions are favourable and plant is available.

Operational performance remained good in 2014. Availability levels were comparable with recent performance and reflected a single major scheduled outage, forced outages for plant maintenance requirements and biomass conversion activity.

Key to our ability to maximise value is the efficiency and flexibility of our plant. High efficiency reduces the volume of fuel required to generate a given volume of power, increasing margins. Flexible plant enables us to take advantage of opportunities to provide system balancing and ancillary support to the electricity system operator.

Supply

Wholesale and retail sales

We sell power into the wholesale market and through our retail business to non-domestic customers in the Industrial and Commercial ("I&C") and Small and Medium Enterprise ("SME") markets. The revenue achieved is driven by market prices at the time of securing the sale.

Generation sales revenue, excluding power purchased in the market, increased from £1,335 million in 2013 to £1,373 million in 2014, reflecting both the increase in output described above and an increase in the average price achieved – the timing of our hedges providing protection from market price weakness described on page 30.

Retail sales grew from £751 million to £1,090 million in 2014, underpinned by strong volume growth although average prices fell slightly as market prices reduced in the year.

ROC and LEC sales represent an increasing element of our total revenue as we expand our output from biomass generation. ROC and LEC revenues are influenced by the number of ROCs and LECs generated, the price that can be achieved in the market and the timing of the sales. Increasingly, we are able to utilise monetisation agreements to accelerate sales of ROCs and the associated cash flows.

Today

With two units (out of six) converted so far, biomass exerts increasing influence on our results; however the performance of our coal operations and the dark green spreads we can achieve still remain very important to our earnings...

Generation – 26.7TWh net sales in 2014 (2013: 26.2TWh)

Dark green spread

The difference between the power price and the cost of coal and carbon, including CO_2 allowances under the EU ETS and the UK Carbon Price Support ("CPS") mechanism.

Bark spread

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

Wholesale power sales

Our generation business sells power both to Haven Power, our retail business, and into the wholesale markets.

The price achieved for power sold into the wholesale market is based on market prices at the time we secure the sale of power. The timing of our sales is driven by our hedging strategy, but can be influenced by liquidity in the market and requirements for collateral.

Market prices fell in 2014 (see page 30); however our hedging strategy provided some protection from recent market weakness. As a result, the average achieved price for generation power sales increased slightly compared to 2013.

Whilst the market spreads available, in comparison to our short run marginal cost of producing, determine whether it is optimal to generate, the operational performance of the power station determines whether we are able to generate and benefit from good market spreads.

Read more: Generation gross profit
32–34

Coal and carbon

The cost of coal and carbon allowances is driven by market prices at the time we secure the purchases. Our aim is to match the timing of our coal and carbon purchases to the related power sales in order to lock in a margin (or spread).

CPS rates are set by government and are levied on coal deliveries to the power station. The cost of CPS is therefore influenced by the rates prevailing at the date coal was delivered.

We are able to burn a variety of fuels including petcoke, pond fines (a coal mining residue) and a wide range of coals, all of which allow us to maximise value where alternatives are economically advantageous.

Under the EU ETS we are obliged to submit carbon emissions allowances equivalent to the tonnes of carbon we emit through burning fossil fuels. The volume of allowances we are required to purchase is dependent on the volume and quality of coal we burn and the efficiency of the station.

Biomass

The cost of biomass burnt is made up of two elements, the gross cost of purchasing the fuel, less the value of the renewable support receivable.

The gross cost of the fuel includes the cost of the raw material, processing costs, logistics, handling and storage costs, and is influenced by exchange rates where the fuel is contracted in a foreign currency. As a renewable fuel, biomass is exempt from the CPS regime.

The renewable support reflects the value of the ROCs and LECs earned through generating electricity from burning sustainable biomass. This value is recognised as a reduction in cost of sales when the related biomass is burnt.

Upon sale the value of the ROCs and LECs is recognised in revenue and transferred from cost of sales. Traditionally, sales have been made at the end of a compliance period resulting in a significant build up of working capital. We have successfully accelerated ROC cash flows this year utilising available ROC monetisation agreements.

Read more: Financing and cash flow management
43

Retail – 11.8TWh sales in 2014 (2013: 8.1TWh)

Retail power sales

Haven Power sells electricity to business customers in the I&C and SME markets.

The revenue achieved is determined by contracted prices and customer demand.

Haven has a very good service reputation which has helped to drive strong growth over the last few years.

Selling power into the retail market attracts low margins, but provides a credit-efficient route to market for the power generated by, and a route to market for ROCs and LECs earned by, the generation business.

Power purchases

Power purchases represent approximately 60% of the total costs of sale of the retail business.

The cost of power purchases is driven by market prices and the timing of purchases. Haven offers flexible contracts that enable the customer to determine when to fix the price of their power.

The cost of power purchases fell during 2014, as market prices decreased across the year as described on page 30.

Third party costs

Third party costs are the other costs of supply that we do not directly control – notably charges for transmission, distribution and balancing of the electricity system (known collectively as grid charges) and environmental and regulatory costs such as the renewables obligation, levy exemption certificates (LECs) and small-scale feed-in-tariffs.

Third party costs have risen during 2014 and now represent over 40% of the total costs of supply.

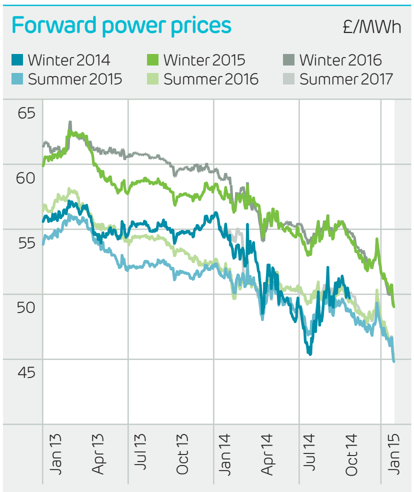
Read more: Retail gross margin performance **36–37**

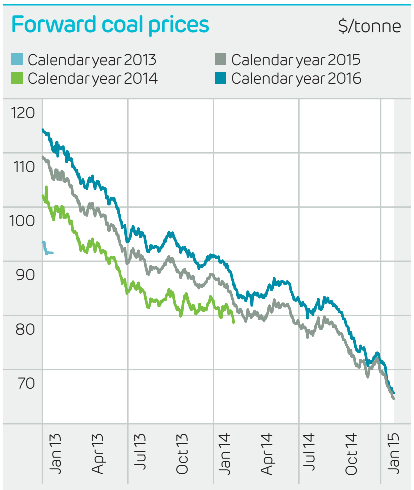
Tomorrow

...as we move towards our objective of converting three units the cost of sustainable biomass, the value of renewable support and therefore the bark spread will increasingly drive our profitability.

Operational and financial performance (continued)

Our year in review





Commodity markets

The margins of our generation business are driven by commodity market movements and the timing of our fuel purchases and power sales described in more detail on pages 28-29. The key profit drivers are those commodities that make up the dark green and bark spreads, as described on the previous page, being power, coal, carbon and biomass.

The trends in commodity prices witnessed in the last two years are described in the following paragraphs and illustrated in the accompanying charts.

Power and gas

Following a period of relative stability through 2013 and early 2014, power prices reduced substantially through the second half of 2014. The gas market continues to drive power prices.

Limited Japanese nuclear generation, in the aftermath of the Fukushima disaster, continued to provide support to Japanese liquefied natural gas ("LNG") demand. However, growth in new LNG supplies and a relatively mild winter led to muted gas demand and increasing stored inventories, resulting in some price pressure in the second half of the year.

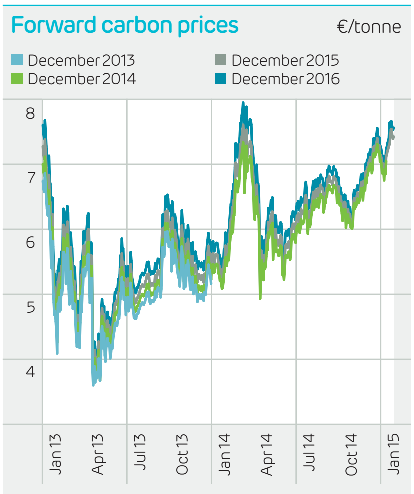
International LNG and oil-indexed European gas prices came under pressure due to a falling oil market. Weaker than expected global demand and increased supplies driven by the prevalence of US production coupled with key OPEC oil producers not making supply cuts caused a crash in global oil prices – down 50% during the second half of 2014.

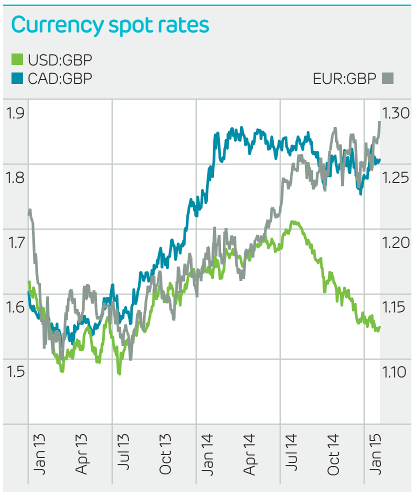
Coal

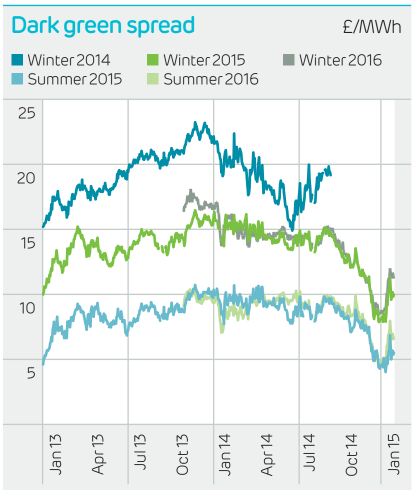
Market prices for international coal have continued to fall steadily as the global coal market remains oversupplied. Delivered prices have also fallen as a result of lower global freight rates.

During Summer 2014 UK coal demand from power generators was down 31% year-on-year and indigenous coal production is under pressure with two of the remaining deep mines expected to close by the end of 2015. China seabourne coal demand has fallen year-on-year, with growth focus now on India.

With prices falling, producers focused on reducing production costs and increasing output to improve efficiencies. The strengthening of the US dollar during the year also supported many exporting nations.







Carbon

A downward trend in market prices for EU ETS carbon allowances continued through 2012 and 2013.

Carbon prices spiked early in 2014 due to the introduction of the much-debated "back loading" (postponing the sales of 900mt of emissions allowances to 2019/20 in order to restrict current supplies) in an attempt to alleviate the oversupply in the market. However, the oversupply of allowances resulting from the European recession and emission reductions persists and as a result prices fell back to pre-back loading levels almost immediately.

Political intervention remains the key driver for carbon prices and further possible measures, such as discussions around the market stability reserve proposed for phase four of the EU ETS in 2021, drove a steady rise in carbon prices over the second half of 2014.

Biomass

The majority of biomass used for large-scale power generation is imported from North America and Europe and accordingly is priced in US dollars, Canadian dollars or euros. Movements in these exchange rates, set out in the chart to the left, therefore drive the changes in biomass costs during the period.

Our extensive foreign currency hedging programme provides some protection from these fluctuations in exchange rates.

Dark green spread and bark spread

As a result of falling gas and power prices throughout the second half of 2014 and an increase in carbon prices, dark green spreads reduced from the levels seen earlier in the year and in 2013. The increase in carbon price support ("CPS"), a levy on coal deliveries, from April 2014, continued to reduce margins for coal-fired generators.

The fall in power prices also impacted bark spreads, which fell steadily during the year. The US dollar strengthened against sterling, increasing the overall cost of fuel to UK generators. Looking forward, if soft power markets persist bark spreads could fall further as the cost of fuel does not fall in line with weaker power and gas prices.

However, bark spreads were stronger than dark green spreads throughout the period and further increases in CPS from April 2015 will continue to erode the competitive position of coal-fired plant.

The performance of our coal operations and the dark green spreads we can achieve remain important to our earnings. However, as we progress our biomass strategy, with a third unit due to be high biomass from the second half of 2015, the value of renewable support and the bark spread will increasingly drive our profitability.

Operational and financial performance (continued)

£54m

Additional carbon costs in 2014 as a result of CPS mechanism.

ROC and LEC assets on the balance sheet

	2014 £m	2013 £m
As at 1 January	**139.5**	18.7
ROCs and LECs generated	**354.7**	143.9
ROCs and LECs purchased	**5.7**	37.6
ROCs and LECs sold/utilised	**(315.4)**	(60.7)
As at 31 December	**184.5**	139.5

Generation

Generation gross profit

Generation gross profit	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Revenue		
Power sales	**2,079.9**	1,668.9
ROC and LEC sales	**314.8**	62.8
Ancillary services income	**13.3**	12.1
Other income[1]	**41.8**	36.1
	2,449.8	1,779.9
Cost of sales		
Fuel costs in respect of generation	**(1,224.8)**	(945.8)
Cost of power purchases	**(710.4)**	(334.1)
Grid charges	**(81.5)**	(70.4)
	(2,016.7)	(1,350.3)
Gross profit	**433.1**	429.6

(1) Includes £34 million (2013: £28 million) for fuel sales.

The generation gross profit for the year ended 31 December 2014 was £433 million, compared to £430 million in 2013. Dark green spreads, which currently account for the majority of our gross profit, were weaker in 2014, but good operational performance and the increasing influence of biomass in our fuel mix means profitability was slightly higher than in 2013.

The introduction of the UK CPS mechanism from April 2013 has added a levy to our coal purchases and, as expected in its first full year of operation, which saw a rate increase applicable from April 2014, continued to erode the profitability of our coal generating plant.

However, with biomass now accounting for 29% of fuel burnt (by energy content), this was mitigated somewhat by the reduced cost of CO_2 emissions allowances purchased under the EU ETS. This reinforces the economic case for the strategy we have developed to become a predominantly biomass-fuelled power generator.

Revenue

Total generation revenue for the year ended 31 December 2014 was £2,450 million, compared to £1,780 million in 2013.

Our generation business recognises revenue when it sells power into the wholesale market, or to Haven Power (see Retail, on page 36). Intra-group sales totalled £735 million in 2014 (2013: £468 million). We can meet our power delivery obligations either by generating the power ourselves or by buying power from the market. We purchase power from the market either when it is more economical to do so, or to meet delivery obligations that cannot be covered by generation.

Power purchases of £710 million (2013: £334 million) are included within cost of sales and the associated revenue within power sales. Increasing retail sales have increased our power delivery obligations which, along with falling market power prices during 2014 (illustrated by the charts on the previous page) has resulted in a substantial increase in the amount of power we have purchased from the market. As prices fall, the overnight power price drops below our marginal cost of production more frequently at the point of delivery.

Increasing levels of intermittent generation (principally wind and solar) on the electricity system in the UK, which can contribute to falling power prices and increased grid charges, are also providing opportunities to capitalise on the flexibility of the Drax plant through balancing and system support activities.

Excluding the cost of power purchased in the market, our power sales revenue of £1,369 million was higher than the equivalent comparative for 2013 (£1,335 million). This increase reflects both a 0.5TWh increase in net power sold (electrical output) and a small increase in the average achieved electricity price from £51.0 per MWh to £51.3 per MWh, despite a fall in market prices during the year. The timing of our power sales hedges has provided protection from recent power market weakness.

Generation revenue also includes sales of ROCs and LECs of £315 million (2013: £63 million). With two units now fully converted and biomass now accounting for 29% of our fuel mix (2013: 12%) we are entitled to considerably more ROCs and LECs from our renewable generation.

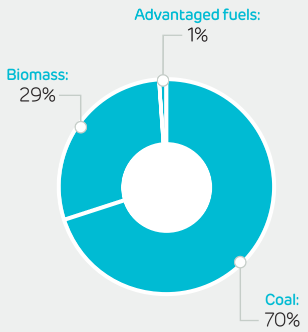
The timing of ROC sales is driven by a combination of Renewables Obligation deadlines and commercial considerations. Increasingly, we are able to utilise available agreements (described in more detail in Financing and cash flow management) to monetise ROC sales, accelerating the recognition of sales as well as the associated cash flows.

This trend, in addition to the greater entitlement to ROCs and LECs described above, is demonstrated in the table at the foot of the opposite page.

It is the value of ROC and LEC support earned in any given period, rather than the income received for those sold, that drives the bark spreads achieved. This support is recognised in the income statement as a reduction in fuel costs in the month the associated biomass is burned – matching the benefit against the cost of the biomass.

Fuel burn composition (heat)

%



	2014	2013
Coal	**70%**	85%
Biomass	**29%**	12%
Advantaged fuels	**1%**	3%

Fuel burnt (million tonnes)

	Year ended 31 December 2014	Year ended 31 December 2013
Coal	**7.2**	8.5
Biomass	**4.1**	1.6
Advantaged fuels	**0.3**	0.8

Cost of sales

As explained on pages 28 to 29, our fuel costs are driven by a combination of market prices at the time of securing the fuel and the mix of different fuels burnt during the period.

Fuel costs in respect of generation	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Gross fuel costs (coal, biomass, oil, petcoke)	**1,074.9**	842.0
Carbon price support (CPS)	**117.7**	61.8
Carbon emissions allowances	**76.3**	123.5
Costs of ROCs/LECs sold	**314.4**	62.3
ROC/LEC support earned	**(358.5)**	(143.8)
Total fuel costs in respect of generation	**1,224.8**	945.8

Total fuel costs in respect of generation for the year ended 31 December 2014 were £1,225 million (2013: £946 million).

The average gross cost of fuel, before the impact of carbon allowances, CPS and ROC support, was £40.3 per MWh in 2014 compared with £32.1 per MWh in 2013, reflecting the increasing proportion of biomass in our fuel mix.

Following the conversion of our first unit to run on biomass in April 2013, we modified a second unit to run as an enhanced co-fired unit in May 2014, burning up to 85% biomass, which was subsequently fully converted in October.

Within cost of sales, net biomass costs are made up of the cost of the fuel delivered to site less the value of renewable support received. The cost of the fuel includes raw material and delivery costs. The renewable support reflects the value assigned to ROCs and LECs earned through generating electricity from burning biomass, that value being derived from prevailing market prices for ROCs and LECs at the point of generation. The value of the renewable support therefore reduces the net cost of biomass.

Operational and financial performance (continued)

16.6m

16.6 million tonnes of CO_2 emissions allowances purchased in 2014 (2013: 20.3 million tonnes).

0.33

Total recordable injury rate in 2014 (2013: 0.29).

When renewable support is taken into account, the average cost of fuel for the year is £26.8 per MWh, compared to £26.6 per MWh in 2013.

Coal remains the largest component of our fuel mix and as a result the cost of the UK carbon tax introduced in April 2013, which was subject to a 93% rate increase from April 2014, has continued to add to our fuel costs. The total cost in respect of CPS in 2014 was £118 million, compared to £62 million in 2013.

However, as our proportion of generation from biomass increases our requirement to purchase emissions allowances under the EU ETS reduces. In 2014 our emissions reduced to 16.6 million tonnes (with allowances purchased at an average price of £4.6 per tonne) from 20.3 million tonnes last year (with allowances purchased at an average price of £6.1 per tonne), a saving of £47 million year-on-year.

When we sell ROCs and LECs, to a third party or Haven Power, the value previously recognised as a reduction in fuel costs and held in our balance sheet is recognised as a cost of sale. The cost of ROCs and LECs sold in 2014 is £314 million (2013: £62 million), with the increase compared to last year reflecting both increased generation and our ability to accelerate sales using ROC agreements as described above.

When it is more economical to do so, we can meet our power delivery obligations (created through forward sales of power in prior periods) by buying power from the market. Power purchases in 2014 totalled £710 million (2013: £334 million).

Generation cost of sales also includes grid charges of £82 million (2013: £70 million) which continue to increase as the level of intermittent generation on the UK electricity system impacts system balancing costs.

Generation operating performance

Health and safety

2014 saw another year of significant project activity at Drax Power Station, with the modification of a second unit to run as an enhanced co-firing unit from May and its subsequent conversion in October alongside a single major scheduled planned outage. Against this backdrop our safety performance in the UK remains industry-leading, with no worse than first aid injuries during annual major planned outages at Drax Power Station for two years.

In the US, substantial progress has been made on the construction of two pellet plants and a port facility. We have worked hard this year, with our contractors, to improve safety standards at these sites and bring them into line with performance levels at our UK operations.

Regrettably, as noted in the Chief Executive's statement, the tragic death of a sub-contractor at one of our US construction sites in the year stands as a reminder to the critical importance of strong safety standards and culture. The safety of all of our employees and contractors across the Group is of paramount importance and has always been at the centre of our management ethos.

The Group's lost time injury rate and total recordable injury rate ("TRIR") in 2014 were 0.06 and 0.33 respectively, compared to 0.09 and 0.29 in 2013. Despite the increase in TRIR, which was related to our US construction programme, our performance continues to be in the upper quartile amongst global coal power plants.

Plant operational performance

Biomass

When initially converted in April 2013, our first biomass unit was materially constrained by the use of temporary fuel storage, handling and distribution systems. The commissioning of our bespoke systems late last year has largely overcome these start-up issues.

With two converted units at the end of the year, both running fully on our bespoke receipt, storage and handling infrastructure, biomass now represents 29% of our electrical output, having increased from 2.9TWh in 2013 to 7.9TWh in 2014. Both units are performing well and to plan, delivering 630MW of capacity on a consistent basis.

We have made good progress with biomass unit optimisation. In addition, we completed a successful grid flexibility test during 2014. As a result, we expect to undertake greater system balancing activities from biomass units, enhancing potential value streams.

Outage activity in the year included a one-month outage to modify the second unit for enhanced co-firing from May and a further outage ahead of full conversion from October, in addition to scheduled routine maintenance and fuel trials. The first biomass unit, which has now been running for over 18 months, ran very reliably throughout 2014.

Our maintenance regime includes a major planned outage for each of our six units once every four years. Consequently, there is an irregular pattern to planned outages and associated expenditure, since in two of the four years two units will each undergo a major planned outage. In 2015, our first converted biomass unit will undergo a major planned outage.

Coal

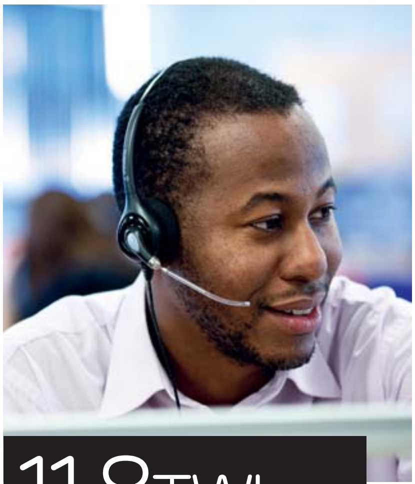
We have continued to realise good operating performance from our remaining coal units. Generation from coal-fired capacity was 18.8TWh (2013: 23.3TWh) in 2014, the reduction from the prior period caused by biomass conversion activity described above.

A single major planned outage took place on coal units in 2014, compared to two in the previous year. There are no major outages planned for coal-generating units in 2015.

7.9TWh

Electrical output generated from biomass fuel in 2014 was 7.9TWh (2013: 2.9TWh).

Operational and financial performance (continued)



11.8TWh

Retail sales in 2014
(2013: 8.1TWh)

Retail

Retail gross profit	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Revenue	1,090.4	750.6
Cost of sales		
Cost of power purchases	(629.0)	(455.1)
Grid charges	(253.1)	(168.4)
Other retail costs	(191.6)	(111.6)
	(1,073.7)	(735.1)
Gross profit	16.7	15.5

Strategic value

The strategic value of Haven Power, the Group's retail business, is in providing an alternative credit-efficient route to market for power, ROCs and LECs.

ROCs earned by the generation business from burning biomass can be utilised by the retail business through its sales of power. In 2014, Haven Power utilised 36% of ROCs generated by Drax. In addition, where Haven Power supplies Renewable or Levy Exempt Power this utilises the LECs earned by burning biomass. Such sales account for over half of Haven Power's volumes.

With our growth targets for the business, Haven Power should utilise all the ROCs generated from one of our converted units and a substantial proportion of the LECs from the three planned unit conversions.

In selling power into the retail market, rather than wholesale, the Group swaps collateral risk for credit risk, which is more controllable. Haven Power actively manages credit risk by assessing the financial strength of its customers and applying rigorous credit management processes, reflected in very low bad debt experience to date. Further information on credit risk is provided in note 22 to the financial statements.

We continue to have a strong focus on cash collection and working capital. This focus, combined with the growth at Haven Power, has again resulted in the retail business being a net contributor of cash to the Group.

Revenue

Movements in key financial metrics for Haven Power are underpinned by continued good volume growth. Haven Power delivered net sales volume growth of 46% this year to 11.8TWh from 8.1TWh in 2013.

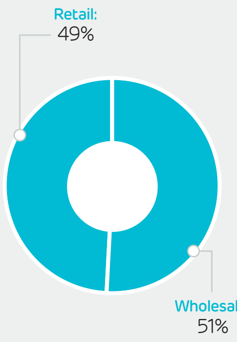
Haven Power has built its business on a good service reputation, which has supported the achieved growth and has resulted in an excellent renewals performance in the I&C sector.

As a result of this growth, revenue increased to £1,090 million at an average price of £92.4 per MWh (2013: £751 million at an average price of £92.7 per MWh).

Much of Haven's sales growth continues to be from the larger but more competitive I&C market. Many larger I&C customers are signed up to flexible contracts where the customer decides when to fix the price of their power, or leave it to day or month ahead prices. As a result, the declining wholesale power price in 2014 has contributed to the reduced average price for retail sales.

With over 13TWh of sales already contracted for the next 12 months we expect Haven to continue to grow in the future, with our proven infrastructure providing the foundation from which future growth can be achieved.

Net generation split by customer %



	2014	2013	Change
Wholesale	**51%**	66%	(15%)
Retail	**49%**	34%	15%

Retail sales based on volume at Notional Balancing Point.

Cost of sales

Total power purchases increased to £629 million in 2014 (2013: £455 million), primarily as a result of the increase in sales volumes described above. Haven purchases most of its power requirement from Drax Power Station, with all non-long-term intra-group purchases made at market equivalent prices. Accordingly, the average price paid of £53.3 per MWh has fallen slightly from £56.2 per MWh in 2013 reflecting changes in the wholesale market over the period.

In addition to the cost of purchasing power, cost of sales comprise third party costs including grid charges, the cost of meeting our obligations under the Renewables Obligation, small-scale Feed-in-Tariff schemes and the cost of LECs required to deliver Renewable or Levy Exempt Power to our customers. Grid charges include costs of distribution, transmission and system balancing.

The rates charged by the network and system operators have increased compared to 2013. Distribution costs increased by 9% on average in April 2014 and transmission costs increased by 15% on average for the same period. As described under Generation, the increase in intermittent generation on the UK electricity system has driven an increase in system balancing costs. As a result, total grid charges for 2014 were £253 million, equivalent to £21.4 per MWh sold (2013: £168 million, equivalent to £20.8 per MWh sold).

In April 2014 the costs of the Renewables Obligation increased from £8.66 per MWh to £10.57 per MWh sold, an increase of over 22%. Small-scale Feed-in-Tariff costs also increased by 30% in the second quarter of 2014 compared to the same period last year.

Approximately half of the power sold by Haven is levy exempt. Accordingly the associated total cost of LECs sold has increased year-on-year as sales volumes grow.

Total third party costs, at £445 million, represented 41% of the overall costs of supply (2013: £280 million, 38% of the overall costs of supply).

Gross margin

The markets in which Haven Power operates have been very competitive in both the current and prior period. It is these challenging trading conditions that drive the gross margin performance of the retail business.

As noted above, revenues from flexible sales contracts have reduced due to the falling wholesale power price in the year. Conversely, rising third party costs put further pressure on the margins achievable on fixed price sales.

The majority of the growth achieved at Haven Power over recent years has come from the more competitive I&C market, which typically has a lower gross margin than the SME market.

Taking all of these factors into account, retail gross margin for 2014 was £17 million compared to £16 million in 2013.

£17m

Retail gross profit in 2014 (2013: £16 million).

Overview
Marketplace, performance and risk
Sustainable business review
Governance
Financials

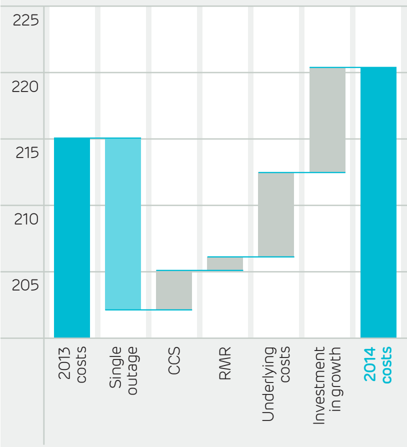
Operational and financial performance (continued)

Group summary financial performance

Group results	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Generation gross profit	**433.1**	429.6
Retail gross profit	**16.7**	15.5
Total gross profit	**449.8**	445.1
Operating and administrative expenses	**(220.4)**	(215.1)
EBITDA	**229.4**	230.0
CESP settlement	**(20.0)**	–
Depreciation	**(80.7)**	(64.8)
Unrealised gains/(losses) on derivative contracts	**65.8**	(110.2)
Operating profit	**194.5**	55.0
Finance costs	**(28.6)**	(23.2)
Profit before tax	**165.9**	31.8
Tax credit/(charge)	**(37.2)**	19.6
Profit after tax	**128.7**	51.4
Underlying profit after tax	**96.0**	142.3

	Pence per share	Pence per share
Basic earnings per share	**32**	13
Underlying earnings per share	**24**	35

Group operating and administrative expenses £m



Group operating and administrative expenses

Group operating and administrative expenses before depreciation were £220 million for the year ended 31 December 2014 compared to £215 million in 2013, the increase reflecting investment in our US-based pellet production operation as it approaches commercial operations.

In addition, we invested £3 million into the White Rose Carbon Capture and Storage ("WRCCS") project during the year. The project is at the mid-point of a two-year Front-End Engineering and Design process. We have committed to provide a further £1 million of funding to enable the project to conclude this process, with a final investment decision expected in 2016. Further details of our investment in WRCCS are set out in note 12 to the financial statements.

Further costs associated with Retail Market Reform added £1 million to the cost base of Haven Power in 2014, compared to the previous year.

Despite these incremental costs, the result for the year demonstrates our continued commitment to strong operational cost control. The chart to the left of this page illustrates good year-on-year performance in managing the underlying cost base of the Group, with low inflation in underlying costs after allowing for a single major outage (2013: double major outage) in 2014.

Group EBITDA

Group EBITDA (earnings before interest, taxation, depreciation and amortisation) which excludes the impact of unrealised gains and losses and the one-off settlement of CESP in 2014 (see below), is our primary financial performance indicator. Changes in EBITDA are primarily driven by factors influencing the gross margin.

Despite challenging market conditions and absorbing additional carbon costs through CPS, our gross margin improved modestly this year as a result of the increasing influence of our biomass transformation, good operational performance at Drax Power Station and continued strong growth at Haven Power.

However, investment in our cost base to support our US operations as they approach commercial operations and the increasing costs of meeting regulatory requirements in both generation and retail mean our EBITDA is in line with last year at £229 million.

£229m

Group EBITDA
(2013: £230 million).

Looking forward, we remain committed to our plan to convert a third unit to biomass; however our trading environment is challenging and the expected trajectory of CPS may continue to erode the margins achieved by our remaining coal-fired plant.

Community Energy Saving Programme ("CESP")

In November 2014 we reached a settlement agreement with Ofgem regarding non-compliance with our obligations under the Community Energy Saving Programme ("CESP"). The settlement requires us to contribute a total of £28 million, which will see up to £20 million benefit vulnerable energy consumers through a programme of work to be developed with the charity National Energy Action.

A further £5 million fine will be payable and £3 million delivered as further consumer redress measures.

The objective of CESP was to deliver energy saving measures to domestic energy users in specified low-income areas of Great Britain.

We voiced our concerns at the outset regarding the inclusion of independent generators in the scheme given their lack of experience in delivering the energy efficiency schemes requested and lack of any direct relationships with domestic electricity consumers.

For these reasons, we outsourced our obligation to a third party provider operating within the sector. Unfortunately, the chosen provider failed to deliver the obligation in full and, despite procuring additional measures, we did not comply with our obligations under the scheme by the end of the obligation period.

We have agreed a settlement with the third party for breach of contract in this regard, which will result in Drax receiving settlement of £5 million in cash and the third party delivering the consumer redress measures described above.

The net impact of these settlements to Drax is therefore a cash cost of £20 million which, as a material one-off item which is non-operational in nature, has been excluded from our underlying performance measures, including EBITDA, in line with previous policy.

Depreciation

Depreciation was £81 million for the year ended 31 December 2014, compared to £65 million in 2014. The commissioning of our biomass storage, handling and distribution systems at Drax Power Station late in 2013 drives the majority of this increase. As we progress our biomass transformation and the US supply chain investments come online in 2015, depreciation charges will continue to increase.

Unrealised gains and losses on derivative contracts

A key component of the Group's risk management strategy, set out in more detail on pages 46 to 49, is the use of forward contracts to secure and de-risk the future cash flows of the business.

The Group uses forward contracts in two ways – forward purchases and sales of physical commodities to secure market level dark green and bark spreads on future sales and the use of financial contracts (either currency exchange contracts or contracts underpinned by commodity prices which are settled financially, rather than by delivery of physical goods) to fix sterling cash flows.

As we progress our biomass transformation, we have entered into an extensive hedging programme to support our biomass procurement activities and secure the sterling cost of biomass. This has included forward contracts for the purchase of physical biomass, the use of financial products to fix variable elements of indexation – notably oil-linked – within these contracts, and foreign exchange contracts to secure the sterling cash flows. This programme covers all contracted and a substantial proportion of uncontracted but forecast purchases.

This programme, in conjunction with the established hedging strategy for our coal operations, provides a significant degree of protection from adverse market price movements.

Operational and financial performance (continued)

The accounting for these contracts is described in further detail in note 20 to the financial statements, but briefly, the unrealised gains and losses recognised in the income statement reflect changes in the fair value of forward commodity and financial contracts that do not qualify for the own-use exemption or as hedges (from an accounting perspective, even though the contracts represent an economic hedge) under International Financial Reporting Standards.

The fair value of a forward contract is primarily derived with reference to prevailing market prices at the start and end of the period. The location of the unrealised gains and losses arising on our portfolio of these contracts within the 2014 financial statements is summarised in the table below:

Accounting for derivative contracts	Gains/(losses) on contracts in 2014	Accounting treatment for gains/losses in the consolidated financial statements*
Commodity contracts		
Power	£52.7 million	Hedge reserve
Coal from international sources	(£13.9 million)	Income statement
Coal from domestic sources	n/a	Own-use exemption
Biomass	n/a	Own-use exemption
CO_2 emissions allowances	£11.0 million	Hedge reserve
Gas	£11.2 million	Income statement
Financial contracts		
Foreign currency exchange contracts	£106.6 million	Income statement
	£44.2 million	Hedge reserve
Financial coal	£24.5 million	Income statement
	(£7.5 million)	Hedge reserve
Financial oil and other financial products	(£62.6 million)	Income statement
Total net gains in hedge reserve (note 28)	£100.4 million	
Total net gains in income statement (note 20)	£65.8 million	

* Accounting treatment is determined by the availability of the own-use exemption or the hedge relationship being designated as and meeting the definition of an effective hedge under IFRS. Where neither of these items apply, unrealised gains and losses are recognised in the income statement.

Unrealised gains recognised in the income statement of £66 million this year (2013: unrealised losses of £110 million) principally reflect the strengthening US dollar, relative to sterling during the period, which improved the value of our contracted position relative to prevailing market rates. These gains were offset to an extent by unrealised losses on financial oil contracts, utilised in securing the element of biomass costs linked to oil price indices, as global oil prices fell significantly in the final quarter of the year.

In considering these movements it is important to recognise that profitability is driven by our strategy to deliver market level dark green and bark spreads, not by the absolute price of any single commodity at a given date. The unrealised gains and losses on forward contracts represent a subset of our total forward contracted position, driven by accounting regulations, and are not indicative of future financial performance. Accordingly we exclude these gains and losses from our key underlying performance measures.

Interest

Net finance costs for the year ended 31 December 2014 were £29 million compared to £23 million in 2013.

The £6 million increase in net finance costs reflects the additional costs associated with financing our biomass transformation. This includes interest on our borrowings which are described in further detail in the Liquidity and capital resources section on page 42.

Profit before tax

The profit before tax for 2014 is £166 million, compared to £32 million in the previous year.

The settlement of CESP, additional depreciation and interest charges have resulted in an incremental pre-tax charge of £41 million in 2014; however the increase in pre-tax profits has been driven by unrealised gains on derivative contracts of £66 million, compared to unrealised losses of £110 million last year.

Underlying profit before tax, which excludes the impact of unrealised gains and losses and the one-off effect of the CESP settlement in 2014, amounted to £120 million compared to £142 million in 2013. The £22 million reduction is primarily attributable to additional depreciation and interest charges.

Tax

	Statutory		Underlying	
Tax reconciliation 2014	£m	%	£m	%
Profit before tax	165.9		120.1	
Tax at 21.5%	35.7	21.5	25.8	21.5
Reconciling items:				
Prior year adjustments	(1.6)	(1.0)	(1.6)	(1.3)
Other	3.1	2.0	–	–
Total tax charge	37.2	22.5	24.2	20.0

The 2014 tax charge of £37 million compares to a £20 million tax credit in 2013. The increase principally reflects the increase in profit before tax in 2014 versus 2013, which was driven primarily by the unrealised gains recognised in respect of derivative contracts (2013: unrealised losses).

The 2013 tax credit included non-recurring tax credits of £22 million relating to reductions in UK corporation tax rates, and £7 million in respect of research and development claims agreed with HMRC.

The underlying effective rate of tax (excluding the after tax impact of unrealised gains and losses on derivatives contracts and settlement of CESP, as described above) is 20% in 2014, in line with the standard rate of corporation tax in the UK as expected. The comparable underlying rate in 2013 was 0%, driven by the non-recurring tax credits described above.

Cash taxes paid during the year were £16 million (2013: £18 million), principally reflecting lower underlying profit before tax. These payments were offset by tax refunds in settlement of prior years, bringing net taxes paid in 2014 to £14 million (2013: £11 million).

Profit after tax and earnings per share

Profit after tax for the year ended 31 December 2014 was £129 million, compared to £51 million in 2013, driving basic earnings per share of 32 pence in 2014, compared to 13 pence in 2013.

Underlying profit after tax, which strips out the impact of unrealised gains and losses on derivative contracts and the settlement of CESP in 2014, was £96 million (2013: £142 million) resulting in underlying earnings per share of 24 pence per share (2013: 35 pence per share).

The reduction in underlying earnings per share in 2014 reflects the impact of increased depreciation, interest and tax charges described above. This is the basis for dividend distributions.

£96m

Underlying profit after tax (2013: £142 million).

Operational and financial performance (continued)

Cash generated from operations
Cash generated from operations of £127 million in 2014, compared to £171 million in 2013, incorporates an increase in working capital of £84 million, driven primarily by rising biomass stocks. This was compounded by increased ROC and LEC assets of £45 million, following the conversion of our second biomass unit in the year. As noted above, the value of our ROCs and LECs generated is held in the balance sheet until the assets are sold to a third party – the timing of which is driven by RO deadlines and commercial considerations. This outflow was only partially offset by the inflows from reductions in carbon assets as our emissions decrease.

Net cash flows from operating activities
2014 taxes paid relate to settlement of the 2013 liability and 2014 payments on account, and are shown net of £2 million of refunds in relation to previous years. Such credits were greater in 2013, arising from the research and development claims agreed with HMRC, reducing overall tax payable in the prior period. As noted on page 41, our underlying tax charge for the 2014 was in line with standard rates of corporation tax in the UK.

Net cash used in investing activities
Purchases of property, plant and equipment of £200 million in 2014 (2013: £302 million) are reflective of the significant amount of investment across the business as we continue to progress our biomass transformation. See more detail on page 43.

Net cash flows from financing activities
In order to support our biomass transformation we completed and drew down a further £100 million in loan facilities during 2014 (2013: £125 million), as described in Financing and cash flow management.

Net cash
From £287 million at 31 December 2013 the decrease in cash and cash equivalents of £66 million during the year leaves cash and short-term investments of £221 million at 31 December 2014. Increased borrowings have been used to support cash generated from operations in funding the capital investment programme. As such net debt (after deducting borrowings) at 31 December 2014 of £99 million compares to net cash of £71 million in 2013.

Liquidity and capital resources

Analysis of cash flows

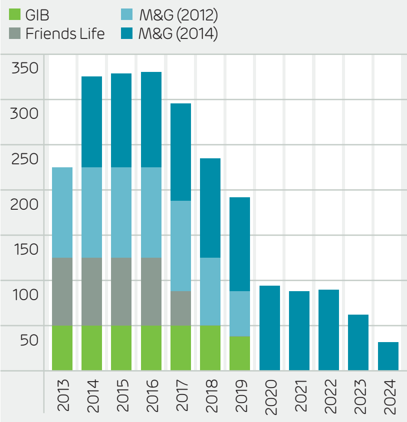
	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
EBITDA	229.4	230.0
(Increase)/decrease in ROC and LEC assets	(45.0)	(120.8)
Decrease/(increase) in carbon assets	26.5	12.5
Increase/(decrease) in working capital	(83.9)	48.0
Other	0.3	0.8
Cash generated from operations	127.3	170.5
Income taxes paid	(14.5)	(10.6)
Other (losses)/gains	(0.4)	2.2
Net interest paid	(23.0)	(19.8)
Net cash from operating activities	89.7	142.3
Cash flows from investing activities		
Purchases of property, plant and equipment	(200.1)	(301.7)
Short-term investments	(20.1)	10.0
Net cash used in investing activities	(220.2)	(291.7)
Cash flows from financing activities		
Equity dividends paid	(55.0)	(78.8)
Proceeds from issue of share capital	0.6	1.9
Repayment of borrowings	(0.3)	(0.7)
New borrowings	100.0	125.0
Other financing costs paid	(0.9)	(2.4)
Net cash from financing activities	44.1	45.0
Net (decrease)/increase in cash and cash equivalents	(86.5)	(104.4)
Cash at 1 January	267.3	371.7
Cash at 31 December	180.9	267.3
Short-term investments at 31 December	40.1	20.0
Borrowings at 31 December	(319.6)	(216.1)
Net (debt)/cash at 31 December	(98.6)	71.2

£99m

Net debt
(2013: Net cash of £71 million).

Term loan maturity

£m



£201m

Capital expenditure (2013: £286 million).

Financing and cash flow management

In May 2014, we agreed a new private placement for £100 million with various funds managed by M&G Investments. This complements our existing term loan facilities secured in 2012 and 2013 and enhances the existing financing structure by providing additional liquidity to the Group and ensuring a smooth profile of debt maturities. Furthermore, the all-in cost of the new facility is very competitive.

The financing structure also incorporates the £75 million amortising term loan facility with Friends Life, underpinned by a guarantee from HM Treasury under the Infrastructure UK Guarantee Scheme, agreed last year, a £50 million amortising term loan from the Green Investment Bank, a £100 million amortising term loan facility with the M&G UK Companies Financing Fund and a £400 million working capital and letter of credit facility. The term loans have varying maturity profiles ranging from 2017 to 2025. As envisaged under the terms of the original agreement, the working capital and letter of credit facility has been extended for one year and is now due to mature in April 2017.

In addition, a commodity trading facility allows us to transact prescribed volumes of commodity trades at attractive prices without the requirement to post collateral. This facility continues to operate well, offering trading counterparties uncapped access to the security package available to our senior lenders.

Overall, the financing structure is a key component of the steps we have taken over the past few years to restructure our business, financing and trading arrangements to enable Drax to both invest to strengthen and secure the potential of the business, whilst being able to operate comfortably at a sub-investment grade level.

ROCs and LECs earned from renewable generation can drive significant working capital absorption, with the associated cash income typically received up to 12 months after burning the associated biomass. At the end of 2013 we executed an £80 million ROC monetisation agreement with Lloyds Bank Commercial Finance Ltd, expanding our capability to enhance cash flows by selling ROC receivables. The agreement has been utilised during the year to accelerate over £50 million of cash from ROC sales to third parties. We have recently concluded further similar agreements with HSBC and Lloyds, taking the total of ROC monetisation agreements in place to £200 million. We continue to explore ways to further enhance our ROC cash flows.

Capital expenditure

Fixed asset additions were £201 million in the year ended 31 December 2014, compared to £286 million in 2013. This includes £125 million on our biomass transformation project (2013: £228 million), which is now mostly focused on our US developments following the commissioning of the on-site facilities at Drax Power Station in late 2013.

Total capital expenditure to date on the biomass transformation project, with two units complete, necessary supporting infrastructure in place and significant progress with the two US pellet plants and port facility, amounts to approximately £550 million. We expect to spend a further £130 million over the period to 2017 concluding these projects and ensuring compliance with the requirements of the Industrial Emissions Directive (IED), bringing total development expenditure to £650-£700 million, in line with our original guidance.

Our lead case investment for IED compliance remains unchanged, incorporating the implementation of low nitrogen oxide burners and Selective Non-Catalytic Reduction technology across all units.

At Drax Power Station, the on-site infrastructure and systems that underpin our transformation strategy are now in place and provide us with the ability to unload rail wagons efficiently, store up to 300 thousand tonnes of biomass on-site and deliver it directly to the combustion systems of converted units.

In the US, our port facility is now "pellet-ready" and both pellet plants have entered a commissioning phase. We continue to expect commercial operations at our first pellet plant in the first quarter of 2015, with commercial operations at the second pellet plant following in the second quarter. Both plants are expected to reach full capacity six months later.

Operational and financial performance (continued)

£400m

Working capital facility.

Read more: Financing and cash flow management 43

Other information

Going concern

The Group's business activities, together with the factors likely to affect future developments, performance and position including principal risks and uncertainties are set out in the Chief Executive's statement, this Operational and financial performance review and the Principal risks and uncertainties section which follows. Our cash flows and borrowing facilities are described above. In addition, notes 20 to 22 to the consolidated financial statements explain our approach to capital risk management and give details of financial instruments and hedging activities, and exposure to credit, counterparty and liquidity risk.

We have significant headroom in our banking facilities, a recent history of cash generation, strong covenant compliance, and good visibility in near-term forecasts, due to our progressive hedging strategy. Our Business Plan takes account of our capital investment plans and reasonably possible changes in trading performance, including sensitivity analysis on downside scenarios. The Plan demonstrates that we expect to be able to operate within the level of our current banking facilities over the period under review.

Accordingly, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and continue to adopt the going concern basis of accounting when preparing these financial statements.

Read more: Capital risk management 129

Seasonality of borrowing

Our business is seasonal with higher electricity prices and despatch in the Winter period and lower despatch in the Summer months, when prices are lower and plant availability is affected by planned outages.

Accordingly, cash flow during the Summer months is materially reduced due to the combined effect of lower prices and output, while maintenance expenditures are increased during this period due to major planned outages. The Group's £400 million working capital and letter of credit facility assists in managing the cash low points in the cycle where required (see Financing and cash flow management).

Future developments

The market outlook for 2015 remains challenging. We will continue to see the erosion of dark green spreads as the cost of carbon increases following the CPS trajectory set by government. Our dark green spreads will also be impacted by changes to gas and power prices, which remain uncertain. Lower power prices will also impact bark spreads, where the fuel price is less variable and will not fall in line with revenues received. The timing of our hedges provides protection for a limited period, following which any persisting market weakness will impact our future financial results.

We remain committed to our strategy to convert three units to biomass with the funding platform already in place to deliver this. Our capital expenditure projects to support this ambition remain on schedule and on budget and are set to deliver a stronger, more robust business. In 2016 we will have converted three units to biomass, providing cost-effective, low carbon renewable energy.

As noted in the Chief Executive's statement, two of our coal generating units were successful in the first capacity market auction in December 2014, with capacity payments expected to commence in 2018.

The White Rose CCS project is now half way through its feasibility study, which is on schedule to complete towards the end of 2015. Drax has committed to provide a further £1 million of funding over this period.

Positions under contract

As at 16 February 2015, the positions under contract for the sale of power for 2014 and 2015:	2015	2016
Power sales (TWh) comprising:	20.4	9.4
– Fixed price power sales (TWh) at an average achieved price (per MWh)	18.0 @ 50.8	8.0 @ 49.4
– Fixed margin and structured power sales (TWh)	2.4	1.4

£55m

Total dividends paid in 2014 were £55 million (2013: £79 million).

Distributions

Distribution policy

The Board has committed to distribute 50% of underlying earnings (being profit attributable to equity shareholders adjusted to exclude the after-tax impact of unrealised gains and losses on derivative contracts and the one-off CESP settlement in 2014) in each year. Underlying earnings for the year ended 31 December 2014 were £96 million.

Dividends paid

On 17 February 2014, the Board resolved, subject to approval by shareholders at the Annual General Meeting ("AGM") on 23 April 2014, to pay a final dividend for the year ended 31 December 2013 of 8.9 pence per share (£36 million). The final dividend was paid on 16 May 2014.

On 28 July 2014, the Board resolved to pay an interim dividend for the six months ending 30 June 2014 of 4.7 pence per share (£19 million), representing 50% of underlying earnings for the period. The interim dividend was paid on 10 October 2014.

7.2p

Final dividend proposed in respect of 2014 is 7.2 pence per share (2013: 8.9 pence per share).

Dividends proposed

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 2014 of 7.2 pence per share (£29 million), payable on or before 15 May 2015.

Shares will be marked ex-dividend on 23 April 2015.

This Operational and financial performance review forms part of the Strategic report, along with the Chairman's introduction, outline of our business At a glance, Our business model, Achieving our vision, the Chief Executive's statement, Marketplace description, Principal risks and uncertainties and Sustainable business review (pages 2 to 57). The Strategic report was approved by the Board on 23 February 2014.

Tony Quinlan
Finance Director

Principal risks and uncertainties

A structured approach to risk management

The effective management of risks within the Group underpins the delivery of our key priorities.

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

Internal control and risk management

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. A process has been established for identifying, evaluating, determining risk appetite and managing the significant risks faced by the Group and this has been in place for the year under review up to the date of approval of the 2014 Annual report and accounts.

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

Risk management committees

The Group Risk Management Committee is responsible for monitoring the risk management process on a Group wide basis. It assists the business risk management committees in risk analysis and identification of best practice, and provides additional assurance on the risk control environment to the Audit Committee and the Board.

During the year there was incremental enhancement of the structure as our operations develop and to improve risk optimisation across the Group.

There are six business risk management committees:

1. Treasury and commodity risk management committee
2. Safety, health, environmental and production integrity committee
3. Regulation and strategy risk management committee
4. Corporate services risk management committee
5. Haven Power risk management committee
6. Drax Biomass USA risk management committee

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

Philip Hudson
Group Company Secretary

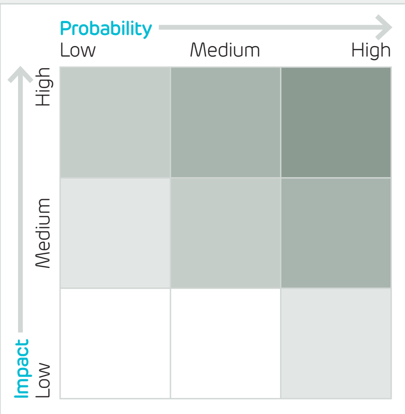
Risk management process

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

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

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

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



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

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

Internal control

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

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

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

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

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

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

Principal risks and uncertainties (continued)

Commodity market price risk

Change ↑

Context

The commodity markets in which we trade are inherently volatile, and generation remunerated through the Renewables Obligation increases the risk in relation to the ROC market.

Risk

- We are exposed to the effect of fluctuations in commodity prices, particularly the price of electricity and gas, the price of coal and sustainable biomass (and other fuels), the price of CO_2 emissions allowances and the market price of ROCs.

Potential impact

- Low dark green or bark spreads resulting in lower margins and reduced financial performance.
- Volatility in financial results.

Associated key priorities

Maximise the value of the Drax business

Examples of mitigating activities

- Well-understood progressive hedging strategy with forward power and ROC sales combined with corresponding purchases of fuel and CO_2 emissions allowances when profitable and appropriate to do so.
- Applications for conversions under the CfD regime which, if approved, remove potential income volatility associated with those units.

Counterparty risk

Change ↓

Context

Continued uncertainty in the global economy and cautious economic growth potentially impact on the financial strength of our counterparties.

Risk

- We rely on third party suppliers for the delivery of fuel and other goods and services. We purchase a significant quantity of our fuel under contracts with a number of large UK and international suppliers, so are exposed to the risk of non-performance by these suppliers.
- We enter into fixed price and fixed margin contracts for the sale of electricity to a number of counterparties, including non-domestic consumers via our retail business, so are exposed to the risk of failure of one or more of these counterparties.

Potential impact

- Additional costs associated with securing fuel and other goods and services from other suppliers.
- Failure to secure fuel from other suppliers resulting in limitation of operations.
- Adverse effect on cash flow and earnings arising from the failure of one or more of the counterparties to whom we sell power.

Associated key priorities

Maximise the value of the Group

Examples of mitigating activities

- Diversified fuel supply in terms of source and counterparties.
- Diversified logistics routes.
- Target to optimise holding of fuel stocks.
- Close monitoring and reporting of concentration risk in suppliers and power counterparties.
- Full suite of power counterparties with strong credit ratings.
- Power trading contracts generally include provisions that force counterparties to post collateral where their credit rating drops, subject to certain restrictions.
- Close monitoring and reporting of potential credit and collateral risk.

Regulatory and political risk

Change ↑

Context

The government's market reform agenda is driven predominantly by the need to move to a sustainable, low carbon energy sector which delivers affordable supplies to customers whilst maintaining security of supply over the longer term. Laws and regulations are many and complex, are frequently changing, and becoming ever more stringent, particularly in relation to environmental matters.

Risk

- Changes to the current renewable support regime could adversely impact our biomass strategy.
- Renewable support regime expires in 2027.
- Further financial disincentives such as the CPS mechanism, could further erode the competitiveness of coal-fired plant.
- The EU, UK and local environmental and health and safety laws and regulations affect our operations including limits on emissions to air and water, noise, soil/groundwater contamination, waste, and health and safety standards.

Potential impact

- Less funding available for plant retrofit/investment costs to meet increasingly stringent environmental requirements.
- Lower load factors/generation levels.
- Adverse effect on financial results and cash flows.

Associated key priorities

Deliver our biomass strategy

Drive Group operational excellence

Examples of mitigating activities

- Briefing, representation and engagement at EU and UK level.
- Development of abatement and alternative generation options.
- Apply for conversions under the CfD regime and grandfathered ROC regime to provide increased certainty over future revenue streams.
- Continue to promote and lobby the benefits of biomass, seek to secure support beyond current regime window.
- Pricing of biomass contracts to allow for adverse commodity market movements.
- Regular third party assurance over system effectiveness.
- Strong safety culture and related training.

Biomass market risk

Change →

Context

The biomass market is developing and investment in the supply chain is required.

Risk

- We could fail to secure sustainable biomass supplies and/or logistics arrangements which meet our hurdle return rates and operational requirements.
- Most of the sustainable biomass that we can procure is priced in foreign currency which increases our exposure to fluctuations against sterling and poses a risk to profitability.

Potential impact

- Inability to progress the biomass growth strategy.
- Adverse effect on financial results and cash flows.

Associated key priorities

- Deliver our biomass strategy

Examples of mitigating activities

- Contract with suppliers where a robust operational plant and logistics infrastructure is already in place; work with new suppliers to help develop such infrastructure.
- Invest in the supply chain whilst in its infancy to ensure security and timing of supplies.
- Hedge currency exposures or secure contracts in sterling to the extent that it is appropriate.

Plant operating risk

Change ↓

Context

Maintaining plant integrity is critical to securing stable and safe operation.

Risk

- Plant failure may be caused by the underperformance or outright failure of plant, transmission assets or other equipment and components including the IT systems used to operate the plant or conduct trading activities. The duration of the resultant forced outages is influenced by the lead time to manufacture and procure replacement components and to carry out repairs.
- As we progress our plans to convert to a predominantly biomass-fuelled generator, we are exposed to a broader range, and increased level, of technical risk. Whilst successful first conversion of a unit to biomass has been achieved, further units are planned.
- Good progress has been made on our US investments however, project execution risk remains.

Potential impact

- Personnel injury.
- Lower revenues.
- Increased costs and contractual penalties.
- Adverse effect on financial results and cash flows.

Associated key priorities

- Drive Group operational excellence
- Deliver excellent people leadership across our operations

Examples of mitigating activities

- Comprehensive risk-based plant investment and maintenance programme.
- Maintaining a trained and competent workforce.
- Strong health and safety culture.
- Target to optimise holding of spare components for use in the event of plant failure, particularly long lead time items.
- Business continuity plan for IT systems.
- Ensure adequate insurance in place to cover losses from plant failure where possible.
- Significant amounts of research and development work have been undertaken in terms of handling and burning biomass.

Power and renewables market liquidity risk

Change ↓

Context

Liquidity in the power and ROC markets is dependent on there being a sufficient number of counterparties willing to trade actively.

Risk

- The market structure and consolidation of the existing generation and supply businesses in the UK could result in a reduction in the number of active participants in the market with whom we are able to trade power and other commodities, including ROCs.

Potential impact

- Inability to hedge short to medium-term exposure to electricity prices through wholesale market trading.
- Increased exposure to short-term market volatility.
- Inability to sell all of our electricity output, or ROCs.
- Lower revenues and increased costs to achieve trading objectives.
- Adverse effect on financial results and cash flows.

Associated key priorities

- Grow our retail business
- Maximise the value of the Group
- Deliver our biomass strategy

Examples of mitigating activities

- Grow direct sales through Haven Power, our electricity supply business.
- Initiatives to be active and responsive make Drax an attractive business partner.
- Oppose structural changes that impact our market access, such as clearing and margining.
- Work with other independent generators (via Independent Generators Group) to achieve positive market and regulatory changes to improve liquidity.
- Secure longer-term structured deals when profitable to do so.
- Application for conversions under the CfD regime which, if approved, reduce our reliance on the liquidity of the ROC market.

Sustainable business review

Committed to sustainability

Sustainability underpins all that we do and the future of our business encompasses all three aspects of sustainable development – environmental, social and economic.

Our approach to a sustainable business

We have a major role to play in helping to protect and enhance the environment. This is in line with the wider goals of sustainable development. Our approach contributes to a sustainable, low carbon economy and offers opportunities for economic growth and job creation.

We operate our business within a framework of increasingly stringent and challenging legislative and regulatory requirements. We are, however, mindful of the still tougher expectations of our wider stakeholder group. For us, a sustainable business is about achieving a balance between the commercial and regulatory rigours of a competitive market and operating responsibly.

The Board establishes the policies in respect of sustainable development, such as our business conduct, environmental, and health and safety programmes. The Board's policies are implemented by dedicated specialists who make sure effective processes and procedures are in place to assure compliance and to identify and to report on risks and opportunities.

As in previous years we have continued to invest, not only to comply with environmental and health and safety requirements, but, where practicable, to go further. In 2014, we retained our presence in the FTSE4Good Index Series, which is designed to measure the performance of companies that meet globally recognised corporate responsibility standards and facilitate investment in those companies.

Materiality

Given the diversity of our stakeholders there are a wide range of topics and performance measures on which we could report. In determining which to report we consider their materiality in terms of their relevance to the Company and their importance to stakeholders.

Throughout this Annual report and accounts we aim to report on topics and performance measures that represent our significant environmental, social and economic impacts and those that would substantively influence the assessments and decisions of stakeholders. Further sustainability reporting is available on our website at: www.drax.com/sustainability/

Engaging with our stakeholders

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

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

Drax and Parliament:
- Briefing papers
- Face-to-face meetings
- Written and oral evidence
- Visit programmes

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

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

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

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

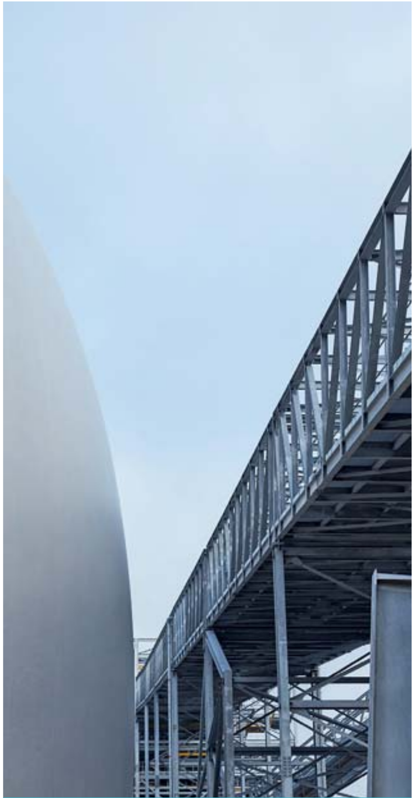
Drax and media:
- Press releases
- Face-to-face meetings
- Visit programme

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

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

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

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



The new biomass facilities at Drax Power Station are now supporting two converted biomass units.

Our environment

Towards a low carbon economy

We have an important role to play in the transition of the UK towards a low carbon economy whilst maintaining secure and affordable supplies of electricity. For us, a sustainable business principally implies delivering on our strategic carbon abatement initiative to generate increasing amounts of electricity from sustainable biomass in place of coal.

During 2014, significant progress was made on executing our plan to transform the business into a predominantly biomass-fuelled generator.
We converted our second generating unit to burn sustainable biomass in place of coal at the beginning of October. Through increasing the amount of sustainable biomass burnt in place of coal we are significantly reducing our carbon footprint.

Our electricity supply business, Haven Power, has been successful in selling the increased output of renewable power generated from our biomass conversion to our customers. Renewable power sales are exempt from the Climate Change Levy and even after our price premium many customers can make savings whilst enjoying the benefits of power from sustainable biomass.

In partnership with Alstom UK Limited and BOC (a member of the Linde Group) and in association with National Grid, we are involved in a Front End Engineering and Design ("FEED") study to develop an oxy-fuel carbon capture and storage ("CCS") power plant of up to 448MWe (gross) at the Drax Power Station site with supporting transportation and storage infrastructure. The project is dependent on technical and commercial viability, external funding and appropriate regulatory support. To that end we are participating in UK and EU funded programmes for CCS.

Environmental performance and compliance

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

There were no major breaches of our environmental consents during 2014.

Emissions to air

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

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

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

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

Sustainable business review (continued)

The majority of our emissions arise through the combustion of fossil fuel for generating electricity. As this single figure can shadow smaller, but still important trends, we have set a materiality threshold of 100 thousand tonnes, equivalent to approximately 0.5% of the reporting year's emissions, to ensure we strike the right balance between demonstrating important trends and limiting data to a meaningful level.

Carbon dioxide emissions, calculated under the EU ETS, as a ratio of electricity generated, before deductions for that used on-site, is a principal performance indicator for the Group. This metric has also been selected for mandatory carbon reporting.

Activity	2014	2013	2012
Scope 1 CO_2 emissions			
Fossil fuel combustion (kt)	**16,476**	20,162	22,513
Operations (kt)	**119**	157	180
Total Scope 1 (kt)	**16,595**(2)	20,320(1)	22,693(1)
Scope 2 CO_2 emissions			
Purchased electricity (kt)	**249**	293	341
Total Scope 1 and 2 (kt)	**16,844**	20,612	23,038
Biologically-sequestered carbon (kt) (biomass combustion)	**7,150**(2)	2,799(1)	1,214(1)
Gross generation (TWh)	**28.5**	28.0	29.0
Scope 1 and 2 CO_2 emissions(3) (t/GWh)	**591**	736	794

Notes:
(1) Externally verified by Lloyd's Register Quality Assurance.
(2) During 2014 will be subject to the same audit as 2013 figures.
(3) Using gross generation excluding biologically-sequestered carbon.

Figures may not add up due to rounding.

Beyond carbon dioxide we manage all our emissions effectively and have maintained high levels of investment in flue gas desulphurisation and combustion control systems to ensure compliance with environmental limits. All emissions in 2014 were within the limits set by the Environment Agency.

Trials were undertaken in 2014 to develop the lead solution to comply with the emission limits which will be in force beyond 2016 under the Industrial Emissions Directive.

Total emissions (kt)	2014	2013	2012
Sulphur dioxide	**23.8**	31.7	35.1
Nitrogen oxides	**35.5**	39.2	39.2
Dust	**0.9**	0.8	0.8

Discharges to water

Water is a key resource to Drax Power Station with the great majority of the cooling water abstracted from the River Ouse. Other minor sources include the Sherwood Sandstone Aquifer and the town's mains. Procedures are in place to manage and monitor the drainage and water systems on-site so as to ensure all discharge consent limits are met.

Water abstraction (Mt)	2014	2013	2012
River Ouse water	**62.5**	56.9	56.7
Mains water	**0.4**	0.3	0.2
Borehole water	**1.7**	1.9	1.8

Disposals to land

We have continued to invest in site infrastructure to maximise the sale of ash products into the construction industry and to reduce the disposal of surplus ash to landfill. In 2014, ash was sold in conformity with European construction product standards and in compliance with the Pulverised Fuel Ash Quality Protocol.

This has helped us to sell over 85% of the 1.1 million tonnes of ash produced in 2014 as replacement for virgin aggregates and as a cement replacement product.

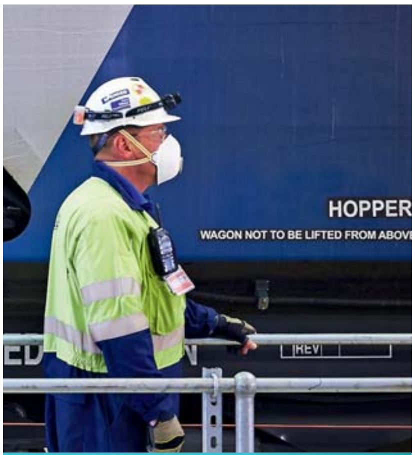
Any unsold ash is sent to the power station's ash disposal site, Barlow Mound. The completed area of the site has been fully restored for use as farmland and woodland.

We pay landfill tax on the ash disposed of to the site. Through the Landfill Communities Fund, we are able to claim a tax credit for our donations to recognised Environmental Bodies. We have worked with Groundwork North Yorkshire since 2001 on projects designed to help mitigate the effects of landfill upon our local community. During 2014, we contributed £23,305 towards local community-based projects designed to bring about sustainable environmental benefits and contribute to the social and economic regeneration of the area.

We continue to manage waste from our operations in a responsible manner. In 2014, we diverted 96% of non-ash waste from landfill.

GROUNDWORK
CHANGING PLACES
CHANGING LIVES

We have worked with Groundwork North Yorkshire since 2001 on community-based projects. Pictured above is the Selby "gateway" project celebrating the town's cultural heritage through pieces of artwork.



We are committed to developing a positive health and safety culture.

Our people

Health and safety

Health and safety is at the heart of our corporate responsibility. Protecting our employees, contractors , visitors and neighbours from injury and incident is fundamental to our business philosophy. Driven by our leadership approach and applied through our management systems, we are committed to developing and maintaining a positive health and safety culture in which statutory requirements are viewed as a minimum standard and leading performance as our goal.

Personal safety statistics

	2014	2013	2012
Fatality	**1**	0	0
Time losing injuries	**3**	6	3
Restricted work injuries	**1**	4	2
Medical treatment injuries	**19**	10	3
First aid injuries	**215**	297	220
RIDDOR[1] reportable	**1**	11	4

Note:
(1) Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

Following the weaker performance at our US construction sites last year, we are working hard to drive improvements to meet the standards set by our UK operations. Despite seeing some improvement during 2014, we were deeply saddened by the fatal injury sustained by an employee of a sub-contractor working in an area under the day-to-day supervision of a contractor.

In the UK , where our safety performance is industry-leading, we have continued to undertake a significant amount of project work. This work was completed without a worse than first aid injury. For outages alone, we have now completed over 1.3 million hours of work without injury.

Attaining leading performance

The lost time injury rate and total recordable injury rate for 2014 were 0.06 and 0.33 respectively compared to 0.09 and 0.29 in 2013. This performance was achieved against a backdrop of significant construction activity; one-third of the 7.2 million hours worked across the Group was in higher risk construction activities. Our safety record continues to compare very favourably with that of our sector peers and international benchmarks.

We have retained certification of our Health and Safety Management System to the internationally recognised Occupational Health and Safety standard, OHSAS 18001, at the Drax Power Station site and for our biomass pellet plant, based at Goole in the East Riding of Yorkshire. The standard is approved by Lloyd's Register Quality Assurance.

In addition to this, Drax Power Station was once again awarded the Royal Society for the Prevention of Accidents Gold Medal Award. Having achieved the Gold Medal Award for ten consecutive years, this year Drax was awarded the President's Award for outstanding performance in health and safety at work.

Safety leadership and recognition

We are constantly striving to improve the critical safety leadership contribution required from first line supervisors. The expectations of both management and supervisors continue to be reaffirmed in the Safety Leadership Charter, which is based on the Health and Safety Executive's approach to achieving a balance between the systems and behavioural aspects of management, treating health and safety management as an integral part of good management generally, rather than as a stand-alone system.

A Health and Safety Advisory Committee, which brings together a range of employees, including trade union representatives, safety representatives, occupational health and management team members, continues to play a vital role in facilitating staff consultation on health and safety issues, and driving standards upwards.

Our active involvement with the programmes of our trade body, Energy UK, and the Coal Generators Forum continues to provide new ideas and a stimulus to drive our health and safety improvement efforts forward.

Health and wellbeing

We are committed to promoting the health and wellbeing of all our staff and ensuring a professional response to first aid and emergency situations should any occur. We have occupational health policies in place which address industrial disease risks, and our occupational health team undertakes regular programmes to screen colleagues in accordance with risk, exposure and Health and Safety Executive requirements.

Sustainable business review (continued)

Health and wellbeing-based programmes and initiatives are run throughout the Group to raise awareness and promote a healthy lifestyle. All of the UK workforce is represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.

Employees

Employment

The Group employed 1,383 people at the year end, an increase of 103 people, or 8%. The pie charts on page 55 provide a breakdown of headcount across the Group's businesses. Most of our employees work full-time and are on permanent contracts.

At Drax Power Limited the annual staff turnover rate in 2014 was 6.4%, which included a significant number of retirements. Haven Power's annual staff turnover rate was 39%, reflecting some structural changes in the business. At Drax Biomass, the annualised turnover rate was 23%, including those staff who opted not to relocate to the new head office in Atlanta, Georgia.

Gender split both across the Group and the senior management team is illustrated in the pie charts on page 55. The Board's policy on diversity is given in the Nominations Committee report on page 77.

Employee engagement

Some 41% of the Group's workforce is covered by collective bargaining, and for the remainder who are employed on individual employment contracts we have representative employee consultation and information arrangements in place in our UK businesses, with plans to introduce similar arrangements in the US when the plants become operational. In 2015, we will conduct our first Group-wide engagement survey, designed and run in conjunction with Towers Watson. The survey will include measures of leadership, communications and involvement.

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

Employee policies and relations

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

Learning and development

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

Each year, Drax Power Limited recruits for the four-year apprentice training programme covering power station operations and engineering maintenance. In 2014, we took on eight apprentices across the three engineering disciplines of mechanical, electrical, and control and instrumentation.

Out of the 15 graduates who had commenced a two-year programme in September 2013, ten are now in substantive posts, four have left the business, and one is in his final placement rotation.

We have a structured process of succession planning for senior roles with a specific career management discussion integrated within the existing appraisal process. The process identifies succession potential and gaps, which in turn inform individual development/recruitment planning. Increasingly we look to identify cross-Group moves to accelerate development and improve the future leadership pipeline. In 2015, we will pilot a UK-wide leadership development programme with a view to extending this Group-wide in 2016.

Reward and recognition

We benchmark our reward packages at every level in the organisation against the industry sector and the market as a whole, nationally or locally, as appropriate to the role. We also participate in specialist industry meetings to exchange information and developments in employment policy.

Through a range of share plans we encourage all UK employees to build a personal stake in the ownership of the business. In 2015, we plan to extend the opportunity to our US colleagues.

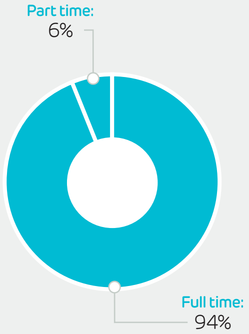
In 2014, we took on eight apprentices across three engineering disciplines.

Drax Group total workforce

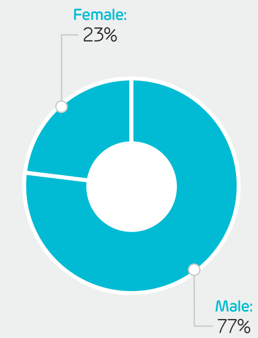
1,383

as at 31 December 2014

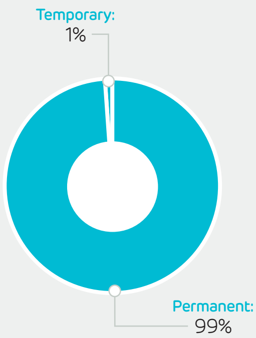
Employment contracts



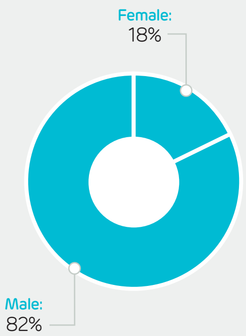
Employment gender



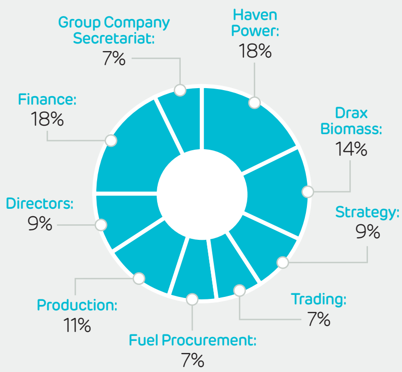
Employment status



Senior management group gender diversity



Senior management department distribution



Our stakeholders

Engaging with our stakeholders

Like most businesses, our stakeholders are many and diverse, including our shareholders, employees, customers, energy consultants, suppliers, the local community, government, non-governmental organisations, regulators, opinion formers and the media. Communication with all our stakeholders is considered to be an essential part of our business and we aim to be open and transparent in all that we do.

Business conduct

We are committed to high ethical standards and to conducting our business with honesty, integrity and in accordance with applicable laws and regulations. Honesty and integrity not only underpin how we do business, but how we expect our customers, suppliers, agents, partners, contractors and consultants to do business, whether in the UK, US or beyond.

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

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

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

Sustainable business review (continued)

The Group appreciates that public policy on taxation and the external tax environment are constantly evolving and this is reflected in our tax strategy.

The Group has a comprehensive structure of governance and controls in place to manage tax risk in accordance with the Group's risk management framework, and this is closely monitored by the Head of Tax, Audit Committee and internal audit functions. Drax is committed to maintaining a good relationship with HMRC and other tax authorities, and to be pro-active, collaborative and transparent in compliance and to paying our fair share of tax. The Group interprets and applies relevant tax laws in a reasonable way and in the spirit of that intended by tax legislators, consistent with this approach.

Recognising public perception of any links to low tax jurisdictions, the Group commenced a process to cut the legacy ties it inherited from its previous owners by removing several Cayman and Jersey incorporated companies from the Group. Whilst all such companies have always been UK tax resident and paid UK tax on all gains and losses arising, we recognise that such links create an adverse impression of the Group's approach to managing its tax affairs. Since then progress has been made with four companies being formally placed into liquidation and formally dissolved. Our next goal is to eliminate the remaining Cayman company in the Group and we anticipate taking similar steps once the tax losses it holds have been fully utilised.

In 2014, the Group made a significant contribution to local and national communities in which it operates, with paid taxes in excess of £200 million, comprising taxes on profit, labour and payroll taxes, taxes on burning fossil fuels, and environmental taxes (but excluding VAT).

Supply chain

Non-fuel procurement

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

Recognising that prompt payment is critical to the cash flow of our suppliers, particularly the smaller ones, we have signed up to the Prompt Payment Code. As a signatory to the Code we are committed to paying our suppliers according to clearly defined terms and conditions.

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

Coal procurement

We buy coal from a range of sources with the objectives of managing our commercial exposures, environmental obligations and diversity of supply. In 2014, 38% of the coal we burnt came from UK deep and surface mines with the remainder coming from major supply basins around the world, including the US, Colombia and Russia.

When buying from overseas we have continued to require, through our contracts, minimum standards with suppliers in respect of compliance with legislation, human rights, labour relations and health and safety arrangements. Our supply chain is fully informed of Drax's Code of Business Ethics. In order to support our focus on responsible procurement, we continue our membership of Bettercoal, a not-for-profit organisation that promotes continuous improvement in corporate responsibility in the coal supply chain.

Biomass sustainability and procurement

It is a prerequisite that all our biomass must be purchased from sustainable sources. To ensure this we have implemented a sustainability policy which embeds comprehensive criteria into our procurement activities. Our Biomass Sustainability Management System ensures commitment to our policy.

We are leading the introduction of credible sustainability standards into biomass procurement activities. Our procurement process is designed to ensure that the production and delivery of biomass will:

- Significantly reduce greenhouse gas emissions compared to coal-fired generation.
- Not result in a net release of carbon from the vegetation and soil of either forests or agricultural lands.
- Not endanger food supply or communities where the use of biomass is essential for subsistence (for example heat, medicines, building materials).
- Not adversely affect protected or vulnerable biodiversity and, where possible, give preference to biomass production that strengthens biodiversity.
- Deploy good practices to protect and/or improve soil, water (both ground and surface) and air quality.
- Contribute to local prosperity in the area of supply chain management and biomass production.
- Contribute to the social wellbeing of employees and the local population in the area of the biomass production.

We work collaboratively with our suppliers to ensure compliance with the UK government's sustainability criteria which have now been incorporated into legislation. Confidence in the sustainability of the biomass is achieved through a programme of information exchange, documentary evidence, due diligence activities and independent third party verification.

We have also been involved in the Sustainable Biomass Partnership ("SBP") which has developed a pan-European sustainability framework which involves third party certification of the management systems of biomass producers, at pellet mill level, supplying Drax with woody biomass. The SBP standards are a development of those currently employed by Drax and it is envisaged that they will continue to evolve as stakeholder views and practical experience mature.

Customer relations

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

Market conditions remained challenging with yet more change in the shape of Electricity Market Reform. For example, new legislation to ensure the UK's future demand for electricity is satisfied and that CO_2 emissions are reduced in line with statutory commitments.

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

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

Investor relations

We are committed to delivering shareholder value. We communicate our results and prospects to our shareholders in an accurate and timely manner using a variety of channels. In addition to the Annual General Meeting, we communicate through our Annual report and accounts, Half year report and Interim Management Statements. In November 2014, the Financial Conduct Authority removed the requirement to publish Interim Management Statements. However, it is our intention to provide updates on our trading performance in addition to the annual and half year reports, generally on a quarterly basis. All of these documents are made available on our website at www.drax.com. Significant matters relating to trading and the development of the business are disseminated to the market by way of announcements via a regulatory information service and those announcements appear as soon as practicable on our website.

Announcements are frequently followed up with either conference calls or presentations to provide further detail and greater understanding. In addition, face-to-face meetings are held with our major institutional shareholders, and other potential investors in the Group, to assist them in their understanding of the announcements and also to ensure that the Board is aware of their views and concerns. To aid our communication with private investors, the investor section of our website has been developed to be a readily accessible and transparent source of information to enhance understanding of the business.

Public affairs

As in previous years, we maintained our engagement with public affairs audiences on issues with implications for our business. With energy policy still high on the political agenda we had significant engagement with Parliamentarians and officials at all levels on issues including forthcoming environmental legislation, renewables policy and market reform issues.

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

No political donations were made in the UK or elsewhere during 2014 (2013: nil), and the Group's contact with those active in the political arena has been and will continue to be aimed solely at the promotion of the Group's business interests.

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

Community relations

We are committed to being a good neighbour to our local community and our "caring for the community" philosophy involves being part of local and regional communities. Our involvement takes the form of sponsoring a variety of local charities and fundraising events, promoting our own campaigns which focus on the three themes of youth sport, education and the environment, and maintaining open communication channels and good working relationships with the region's key opinion formers.

Sponsorship and fundraising

During 2014, the Group gave financial support of £228,000 (2013: £200,000) in total across a range of charitable and non-charitable community causes. Of that total, charitable donations amounted to £154,000 (2013: £142,000).

Education in the community

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

Another visitor opportunity exists at our nature reserve that lies at the heart of our ash disposal site. Established as a sanctuary for over 100 species of wildlife, it is specially designed to help schoolchildren understand more about the natural habitat and ecology of the area.

Campaigns such as "Cricket in the Community", "Art in the Community" and the "Community Pride Awards" are now established in the annual calendar of community events and continue to prove popular.

Visitors to Drax

During 2014, we played host to some 12,700 visitors through organised tours of the power station, and various activity days and charity events. The tours and activities have wide appeal attracting schools and colleges as well as business organisations, local and professional associations and members of our community.

The Board of directors

Membership and process: **Board of directors**

Role of the Board

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

Terms of reference

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

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

Chairman

Charles Berry

As Chairman, Charles is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. He liaises closely with the Chief Executive and ensures that the non-executive directors are provided with the right information to enable them to challenge and monitor the executive in a robust manner.

Appointment to the Board:
15 December 2005 and was appointed Chairman on 17 April 2008. Charles will retire as Chairman and a non-executive director at the conclusion of the Annual General Meeting in April 2015.

Committee membership:
Nominations (Chairman) and Remuneration.

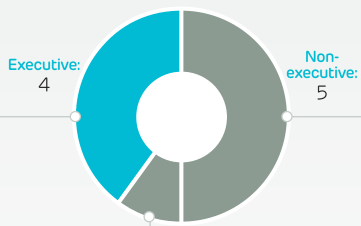
External appointments:
A non-executive director and Chairman of Senior plc and The Weir Group PLC.

Previous experience:
Charles has extensive experience within the UK power sector. He joined ScottishPower in 1991 and was appointed to the Board in 1999. From 2000 to 2005, Charles was Chief Executive of the company's UK operations. Charles is also a former non-executive Chairman of Eaga plc, Impax Environmental Markets, Securities Trust of Scotland and of THUS Group plc.

Qualifications:
BSc (Hons) in Electrical Engineering and MSc in Management.

Composition

With the exception of Phil Cox, (who was appointed as a director on 1 January 2015) all of the directors listed below served throughout the year and continued to be directors as at 23 February 2015. Their biographical details appear on pages 58 to 61.



Executive directors

- **Dorothy Thompson** – Chief Executive
- **Peter Emery** – Production Director
- **Tony Quinlan** – Finance Director
- **Paul Taylor** – Retail and Trading Director

Chairman

- **Charles Berry**

Independent non-executive directors

- **Phil Cox**
- **Tim Cobbold**
- **Melanie Gee**
- **David Lindsell** – Senior Independent Director
- **Tony Thorne**

Number of meetings held in 2014

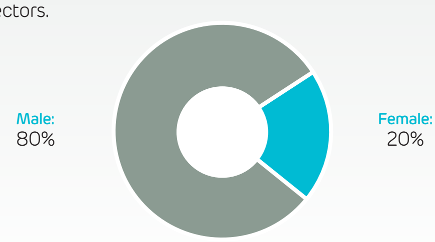
8
The Board has eight scheduled meetings each year. An additional meeting was held by telephone to address matters requiring formal decisions.

1
In addition, the Board meets at least annually to consider strategy.

Philip Hudson
Group Company Secretary

Board diversity

The following chart illustrates the proportion of female and male directors.



Directors' biographies

Phil Cox CBE
Independent non-executive director and Chairman designate

Phil's background is in finance and he also has a recent and successful decade-long track record in the power industry. In recent years, he has concentrated on his non-executive portfolio, developing valuable board experience.

Appointment to the Board:
1 January 2015.

Committee membership:
None.

External appointments:
A non-executive director, Senior Independent Director and Audit Committee Chairman of Wm Morrison Supermarkets PLC and a non-executive director of PPL Corporation, a US-listed energy utility company.

Previous experience:
Phil was previously Chief Executive Officer, International Power plc; Senior Vice President, Operational Planning, Invensys plc; and Finance Director of Siebe PLC. He was also previously a non-executive director and Chairman of the Audit Committee of Wincanton plc and a non-executive director of Meggitt PLC .

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

Dorothy Thompson CBE
Chief Executive

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

Appointment to the Board:
20 October 2005, having joined Drax in September 2005.

Committee membership:
Executive.

External appointments:
A non-executive director of Johnson Matthey plc and a non-executive director of the Court of the Bank of England.

Previous experience:
Dorothy was previously the head of the European business of InterGen NV, the power generation subsidiary of Shell NV and Bechtel Inc., responsible for the management and operation of four gas-fired power plants, totalling some 3,160MW of capacity across the UK and the Netherlands. Prior to joining InterGen NV in 1998, Dorothy was initially in banking and subsequently was assistant group treasurer for Powergen plc.

Qualifications:
BSc (Hons) and MSc in Economics.

Tony Quinlan
Finance Director

As Finance Director, Tony is responsible for the financial management of the Group, and for relationships with the Group's bankers and financial advisers. In addition to the Finance function, he is responsible for the Group's communications function.

Appointment to the Board:
1 September 2008.

Committee membership:
Executive. Tony is also on the Board of the Group's US subsidiary, Drax Biomass Inc.

External appointments:
Vice Chairman of the Port of London Authority, where he also chairs the Audit Committee.

Previous experience:
Tony qualified as a Chartered Accountant with Coopers & Lybrand and subsequently joined Marks & Spencer where he went on to hold a number of senior positions within Internal Audit, Corporate Finance, Investor Relations and Financial Control. From 2005, he was Director of Finance, the deputy to the Group Finance Director.

Qualifications:
BSc (Hons) in Chemistry with Business Studies and an Associate of the Institute of Chartered Accountants in England and Wales (ACA).

Directors' biographies (continued)

Peter Emery
Production Director

As Production Director, Peter is responsible for the operation of the Group's plant and equipment. This includes all aspects of safety management, plant integrity, plant operations, engineering support, maintenance and plant design.

Appointment to the Board:
20 October 2005, having joined Drax in June 2004.

Committee membership:
Executive.

External appointments:
A non-executive director of NG Bailey Limited. A member of The Energy Research Partnership.

Previous experience:
Peter joined Esso Petroleum upon leaving university and held a number of analyst and managerial roles in the UK before moving to Esso's parent, Exxon in the US to co-ordinate its downstream marketing and distribution investments outside North America and Canada. Peter returned to Esso's Fawley Oil Refinery in 1992 as plant technical services manager. In 1997 he became refinery maintenance manager, and in 2002 he was appointed operations manager with full management and operational responsibility for Fawley Oil Refinery, the UK's largest refinery. He was also a member of ExxonMobil's European leadership team for refining.

Qualifications:
BSc (Hons) in Mining Engineering, Fellow of the Institute of Materials, Minerals and Mining (FMIMM) and completed the Advanced Management Programme at INSEAD in 2007.

Paul Taylor
Retail and Trading Director

As Retail and Trading Director, Paul has responsibility for the trading of power, other associated commodities and freight and logistics. He is also responsible for the retail division, Haven Power, which sells electricity to customers in the industrial and commercial, and small and medium enterprises markets.

Appointment to the Board:
1 September 2011, having joined Drax in July 2004.

Committee membership:
Executive. Paul is also Chairman of the Group's retail subsidiary, Haven Power Limited.

External appointments:
None.

Previous experience:
Paul has more than 15 years' experience in energy trading previously working for TXU Europe and Powergen/E.ON UK. At TXU Europe Paul led the UK electricity trading function responsible for trading a combined portfolio of over 7GW of power plant and a retail position of more than 50TWh. Before energy trading Paul worked in operational research.

Qualifications:
BSc (Hons) in Business Operation and Control.

Tim Cobbold
Independent non-executive director

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

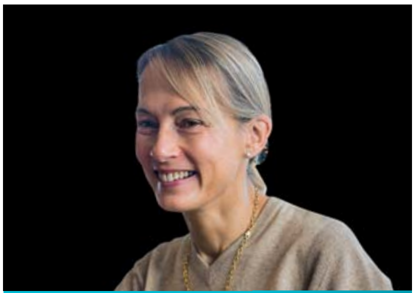
Appointment to the Board:
27 September 2010.

Committee membership:
Audit, Nominations and Remuneration.

External appointments:
Chief Executive of UBM Plc.

Previous experience:
Tim was previously the Chief Executive and an executive director of De La Rue Plc, and prior to that was the Chief Executive Officer of Chloride Group plc, the leading international provider of secure power solutions having joined them in 2007 as Chief Operating Officer. Following Emerson Electric's takeover of Chloride he held a senior position in Emerson, responsible for the Chloride Group of companies. He trained as a Mechanical Engineer and qualified as a Chartered Accountant in 1987 and joined Smiths Group plc (formerly TI Group plc) in 1989 where he held a number of senior financial and operational management positions over an 18-year period.

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



Melanie Gee
Independent non-executive director

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

Appointment to the Board:
1 January 2013.

Committee membership:
Audit, Nominations and Remuneration.

External appointments:
A senior adviser to Lazard & Co. Limited and a non-executive director of The Weir Group PLC.

Previous experience:
Melanie joined Lazard & Co. Limited in 2008 as a Managing Director and became a Senior Adviser at the end of 2012. Prior to that, she was at UBS Investment Bank (1982 to 2007), where she held a number of senior positions in Corporate Finance. Melanie was an alternate member of The Takeover Panel between 2006 and 2013.

Qualifications:
MA in Mathematics.

David Lindsell
Senior independent non-executive director

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

Appointment to the Board:
1 December 2008.

Committee membership:
Audit (Chairman), Nominations and Remuneration.

External appointments:
A non-executive director and Audit and Risk Committee Chairman of Premier Oil plc; a non-executive director and Remuneration Committee Chairman of HellermannTyton Group PLC; the deputy chair of governance of the University of the Arts London and a trustee and Audit Committee Chairman of Cancer Research UK.

Previous experience:
David was a partner at Ernst & Young for nearly 30 years. He specialised in audit and assurance services and has extensive experience across a range of industry sectors. He was Deputy Chairman of the Financial Reporting Review Panel from 2008 to 2012 and has served on a number of professional bodies relating to financial reporting, including the IFRS Advisory Council, the Auditing Practices Board, the Turnbull Committee and the European Financial Reporting Advisory Group.

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

Tony Thorne
Independent non-executive director

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

Appointment to the Board:
29 June 2010.

Committee membership:
Remuneration (Chairman), Audit and Nominations.

External appointments:
Chairman of the South East Coast Ambulance Service.

Previous experience:
Tony was Chief Executive of DS Smith plc, the international packaging and office products group, from 2001 until his retirement from the Board in May 2010. Previously he was President of SCA's corrugated packaging business. Prior to this he spent 20 years with Shell International, working throughout the world in senior management roles, including strategic planning and President of the Shell companies in Mexico.

Qualifications:
BSc (Hons) in Agricultural Economics.

The Executive Committee

Membership and process: **The Executive Committee**

Role of the Committee

The Executive Committee is the Chief Executive's committee and assists her in the execution of her duties focusing on strategy, financial structure, planning and performance, succession planning, organisational development and Group wide policies.

Committee Chairman

Dorothy Thompson CBE
Chief Executive

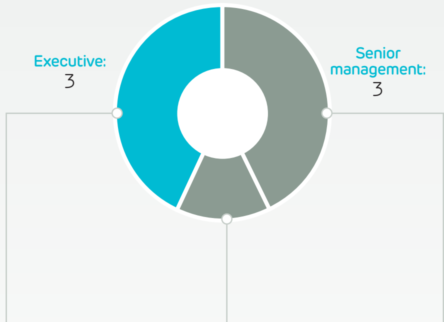
Number of meetings held in 2014

12

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

Committee members

The biographical details of the members below appear on pages 58 and 61 (executive directors) and page 63 (senior management)



Executive directors	Chairman	Senior management
Peter Emery Production Director	Dorothy Thompson Chief Executive	Philip Hudson Group Company Secretary
Tony Quinlan Finance Director		Andy Koss Director of Strategy
Paul Taylor Retail and Trading Director		Matthew Rivers Director of Fuel

The Deputy Company Secretary acts as Secretary to the Committee.

New structure of the executive management team

From March 2015 a new structure of the executive management team will come into operation.

The Group is now made up of three separate business units: Drax Biomass, Drax Power and Haven Power.

The new structure is designed so that:

- each business unit will run under its own management team; and
- the services needed to support the three business units, and operate and optimise the Group will be managed centrally through Group functions.

The new structure will see the creation of a Group Executive Board ("GEB"), which will replace the Executive Committee and be responsible for the overall running of the business. There are some changes to the roles and responsibilities of the senior management team:

- Peter Emery will become Group Operations Director, overseeing operational excellence across the Group;
- Paul Taylor will become Group Commercial Director, with responsibility for strategy and commercial optimisation across the Group;
- Matthew Rivers will become Group Sustainability Director. In this role he will lead the sustainability strategy and activities across the Group, and he will also retain responsibility for Drax Biomass;
- Andy Koss will take up the new position of CEO, Drax Power Limited and will draw together the management team to lead our power generation business;
- Tony Quinlan will continue in his current role; and
- Peter Bennell, CEO, Haven Power Limited will continue in his current role, but will join the GEB.

This structure is designed with an eye to the future and with growth of the business in mind. Drax has made good progress on its biomass transformation strategy. The GEB plans to launch a full strategic review in 2015 to consider what other opportunities might be attractive to the Group.

The Executive Committee members' biographies

Philip Hudson
Group Company Secretary

As Group Company Secretary Philip is responsible for the Group's corporate compliance and for the application of good standards of corporate governance. Philip is also Chair of Trustees for the Drax section of the Electricity Supply Pension Scheme.

Appointment to the Executive Committee:
8 May 2007 upon joining Drax.

Previous experience:
Philip joined Drax as General Counsel and Company Secretary. He was previously at Kelda Group plc (owner of Yorkshire Water), where he held the same role. Philip has previously been a solicitor in private practice. He also spent several years as a solicitor in the in-house legal department at Powergen.

Qualifications:
LLB (Hons), Solicitor.

Andy Koss
Director of Strategy

Andy has responsibility for regulatory issues, environmental strategy and business development. Andy joined Drax in 2005 to lead the refinancing as part of the initial public offering in that year. He has subsequently held a number of positions, leading the corporate finance, investor relations and commodity risk management functions.

Appointment to the Executive Committee:
1 November 2013, having joined Drax in June 2005.

Previous experience:
Prior to joining Drax, Andy was Deputy Group Treasurer at Provident Financial plc. He has also worked in investment banking managing middle office functions for derivatives trading at UBS and Dresdner Kleinwort Benson.

Qualifications:
BSc (Hons) Maths, Associate of the Institute of Chartered Accountants England and Wales (ACA). Member of the Association of Corporate Treasurers (MCT).

Matthew Rivers
Director of Fuel

Matthew is responsible for our biomass and coal purchases. Successful biomass sourcing is at the core of the realisation of our strategy. An important part of Matthew's biomass responsibilities is that he has Group level responsibility for our upstream investment activities in the US. These activities are growing rapidly as we move from the initial development phase into commissioning pellet plants and running an operational business.

Appointment to the Executive Committee:
1 November 2013, having joined Drax in November 2011.

Previous experience:
Matthew has previously been the Director Energy Biomass and then Director Overseas Wood & Biomass Sourcing at UPM in Finland. Prior to that, Matthew was Managing Director of Forestal Oriental Uruguay, responsible for plantation management and wood supply. Matthew has also been Managing Director, UPM Tilhill, the UK's largest private sector forest management and timber harvesting business.

Qualifications:
BSc (For) Hons, MBA, FICFor, CEnv.

Corporate governance

A commitment to good governance

Drax is committed to good corporate governance, which is a cornerstone to a successful and sustainable company.

Charles Berry
Chairman

Chairman's letter

I am pleased to present the Group's Corporate governance report for 2014. In 2014, we complied with the requirements of the 2012 UK Corporate Governance Code except in relation to provisions on tendering the appointment of auditors as explained in the Audit Committee report on page 75.

At Drax we believe that governance is not only about following good rules and setting up the right processes. It is as much about how we actually do things. It is my role to ensure that the Group is led by an effective Board which sets a tone of openness, transparency and behaviour that matches our core values. Good governance needs to be embedded throughout the business to enable effective management. This is increasingly important as the scope of the Group's operations has changed through the growth of our retail business, the development of our supply chain operations and the US business. The role of the Board in establishing the right culture for all parts of the Group to work together is vital.

The Board regularly reviews the work involved in operating the Group's internal control and risk management systems. It is important that we have the assurance that these are embedded in the day-to-day operations of the business and are addressing risks in line with the overall risk appetite established by the Board. We have been pleased with the incremental enhancement of these processes, particularly as our operations have been changing, and with the additional review of risk to ensure optimisation across the Group.

Part of my role as Chairman is to ensure that the Board is aware of the views of shareholders. The Company and its management are fortunate to enjoy the support of a stable group of major shareholders who are extremely supportive. I have found this to be the case from my meetings with shareholders, which have been one of the most enjoyable aspects of my time with Drax. In addition to meeting with shareholders, we also commissioned a shareholder audit in 2014 which was undertaken by Makinson Cowell Limited ("Makinson Cowell"), an independent capital markets consultancy firm and part of the KPMG Group. This corroborated the Board's impression of shareholders' views, particularly their support for the Group's biomass strategy and its implementation. We do note that shareholders recognise that uncertainty can arise from the political and regulatory environment in which we operate. The Board has a clear focus on the need to ensure that the business is robust in this environment.

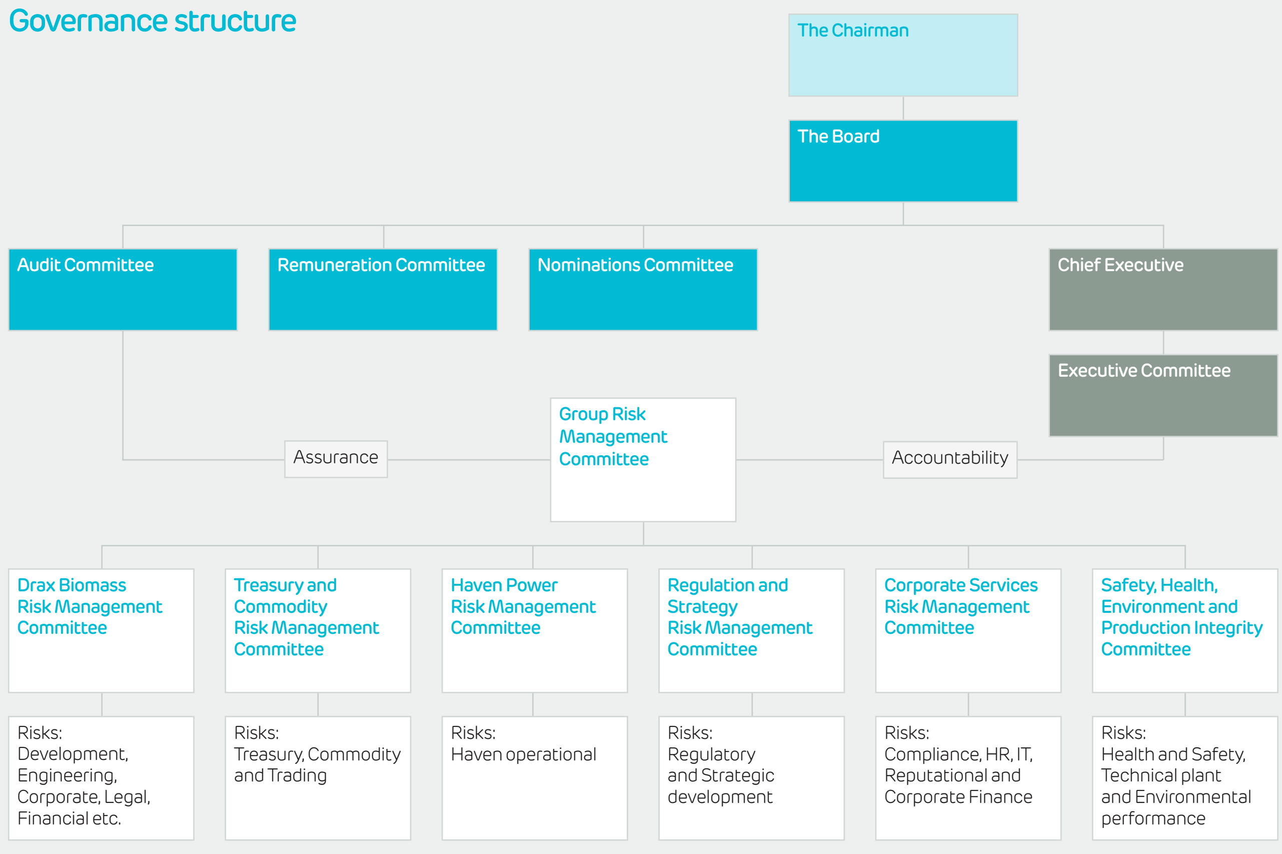
With Phil Cox taking over from me as Chairman after the Annual General Meeting ("AGM") I am confident that I will be leaving the Board with an excellent balance of skills, expertise and experience to take the Group forward. Diversity is part of this mix, and our policy is to ensure that diversity (including gender diversity) is one of the factors taken into account when considering appointments to the Board and senior roles.

More detail on our corporate governance arrangements is set out on the following pages.

Charles Berry
Chairman

Our governance framework

Governance structure



How the Board functions

The Board receives regular reports on performance against the Business Plan and periodic business reports from senior management. Directors are briefed on matters to be discussed at meetings by papers distributed in advance of Board and committee meetings.

The Board has adopted a policy whereby directors may, in the furtherance of their duties, seek independent professional advice at the Company's expense. During 2014, no director sought independent professional advice pursuant to the policy.

The Company Secretary is responsible for advising the Board on all governance matters, ensuring good information flows within the Board, its committees and senior management, and ensuring that Board processes are complied with. He is also responsible for compliance with the Listing, Prospectus, Disclosure and Transparency Rules and the Companies Act. In his role he is also responsible for advising the Board on legal matters and has responsibility for the Company Secretarial, Group Legal and Human Resources functions, and for the management of the Group's internal control and risk management framework and processes.

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

Each director has the benefit of a deed of indemnity from the Company and its subsidiaries in respect of claims made and liabilities incurred, in either case arising out of the bona fide discharge by the director of his or her duties. The Company has also arranged appropriate insurance cover in respect of legal action against directors of the Company and its subsidiaries.

Selection, appointment, review and re-election

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

Charles Berry will retire at the conclusion of the forthcoming AGM and will not seek re-election.

The Articles require that, following appointment to the Board, directors submit themselves for election by shareholders at the first AGM following their appointment. Phil Cox's appointment to the Board was since the last AGM and, therefore, he will retire and offer himself for election by shareholders at the forthcoming AGM .

The evaluation of the Board described below concluded that the directors offering themselves for election or re-election continue to demonstrate commitment, management and industry expertise in their particular role and to perform effectively.

Corporate governance (continued)

The election or re-election of each director is recommended by the Board. Details of the service contracts for the executive directors and letters of appointment for the non-executive directors are set out in a table on page 92.

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

The Board is satisfied that all the directors are able to devote sufficient time to their duties as directors.

Performance reviews and directors' development

The effectiveness of the Board is vital to the success of the Group. Having used an external facilitator in 2013 to conduct the annual review of the effectiveness of the Board, its committees and individual directors, the review was facilitated internally in 2014. Each director completed a questionnaire covering matters including strategy, objectives, performance monitoring, succession and management development, process and governance, and matters relating to the general business environment in which the Group operates. Directors were asked to provide scores against specific statements and to provide narrative comment. The review concluded that each of, the Board, its individual directors and its committees were effective. No significant areas of concern were identified, but some suggestions to improve effectiveness were made. In particular, directors recognised the importance of energy policy and the regulatory environment to the Group's strategy and agreed to consider further steps to maintain their knowledge and understanding in this area. There were also some practical suggestions made to improve the means by which non-executive directors can further contribute and add value to the Group.

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

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

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

Committees of the Board

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

Committee	Audit	Nominations	Remuneration	Defence	Executive(1)	Group Risk(2)
Charles Berry	Invited to attend	Chairman	Member	Member	–	–
Tim Cobbold	Member	Member	Member	Member	–	–
Peter Emery	–	–	–	–	Member	Member
Melanie Gee	Member	Member	Member	Member	–	–
Philip Hudson(3)	Secretary	Secretary	Secretary	Secretary	Member	Chairman
David Lindsell	Chairman	Member	Member	–	–	–
Tony Quinlan	Invited to attend	–	–	Chairman	Member	Member
Paul Taylor	–	–	–	–	Member	Member
Dorothy Thompson	Invited to attend	Invited to attend	Invited to attend	Member	Chairman	Invited to attend
Tony Thorne	Member	Member	Chairman	–	–	–

Notes:

(1) The Executive Committee is a committee through which the Chief Executive discharges her duties in respect of the day-to-day management of the Group. In addition to those named above, Andy Koss (Director of Strategy) and Matthew Rivers (Director of Fuel) are also members. Phil White (Deputy Company Secretary) acts as Secretary to the Executive Committee.

(2) In addition to those named above, Janet Arsenault (SVP Legal, US) and Rachel Kemsley (Finance Director, Haven Power) each chair a risk committee which reports to this Committee.

(3) Philip Hudson is the Group Company Secretary.

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

Group Risk Management Committee

The Group Risk Management Committee ("GRMC") overseas the operation of the Group's risk management system and internal controls and co-ordinates the activities of the six business risk committees. The GRMC provides oversight of Group risk optimisation and cross-Group risk issues. Four meetings of the GRMC were held in 2014.

The purpose of the GRMC is to:

- monitor the risk management process on a Group wide basis;
- maintain the Consolidated Risk Register and Cross-Group Risk Register;
- oversee the risk management process in relation to cross-Group risks;
- provide an escalation route for Risk Committees who disagree on materiality or probability of a shared or common risk;
- assist in the risk analysis conducted within the business units and identify areas where best practice in one area can be transferred to another;
- provide additional assurance on the control environment;
- make recommendations to improve effectiveness of internal controls; and
- make recommendations for changes in procedures and policies.

Directors' interests, indemnity arrangements and other significant agreements

Other than a deed of indemnity between each director, the Company and each of its subsidiaries in respect of claims made and personal liability incurred as a result of the bona fide discharge of the directors' responsibilities, a service contract between the executive directors and a Group company, or as noted in the Remuneration Committee report, no director had a material interest at any time during the year in any contract of significance with the Company or any of its subsidiary undertakings.

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

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

Board and Board Committee attendance

The table below shows the number of meetings and attendance at them by directors of the Board, Audit, Nominations and Remuneration Committees during 2014. The number in brackets represents the maximum number of meetings that each individual was entitled to and had the opportunity to attend.

	Time on the Board (years/months)	Time with Drax[(1)] (years/months)	Board[(2)]	Audit Committee	Nominations Committee[(3)]	Remuneration Committee
Charles Berry	9/0	9/0	9(9)	–	3(3)	4(4)
Tim Cobbold	4/3	4/3	8(9)	4(4)	6(6)	3(4)
Peter Emery	9/2	10/6	9(9)	–	–	–
Melanie Gee	2/0	2/0	9(9)	4(4)	6(6)	4(4)
David Lindsell	6/1	6/1	9(9)	4(4)	6(6)	4(4)
Tony Quinlan	6/4	6/4	9(9)	–	–	–
Paul Taylor	3/4	10/6	9(9)	–	–	–
Dorothy Thompson	9/2	9/3	9(9)	–	–	–
Tony Thorne	4/6	4/6	9(9)	4(4)	6(6)	4(4)

Notes:

(1) This includes both the time spent on the Board of Drax Group plc and also the effective predecessor companies Drax Group Limited and Drax Power Limited, up to 31 December 2014.

(2) The Board meetings identified include the Board's annual review of strategy. In addition to the meetings , there is a conference call arranged to update the Board in each month (except August) when there is no scheduled meeting.

(3) Charles Berry did not attend meetings of the Nomination Committee at which his succession was considered.

Time commitment

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

Under the non-executives' letters of appointment, the time commitment each is expected to give in respect of membership of the Board, is 12 to 15 full days a year. That includes attendance at Board meetings, the AGM, one annual Board strategy day and at least one site visit per year. In addition, they are expected to devote appropriate preparation time ahead of each meeting. The time commitment expected in respect of their membership of committees of the Board, notably the Audit, Nominations and Remuneration Committees, is an additional three to four full days a year in each case.

Non-executive directors also spend time with management in order to maintain their knowledge of the developing business and to understand the operational challenges being faced.

Corporate governance

The Group is committed to high standards of corporate governance, details of which are given in this Corporate governance report and the Audit, Nominations and Remuneration Committee reports set out on pages 73 to 96.

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

Corporate governance (continued)

Compliance with the UK Corporate Governance Code

It is the Board's view that throughout the period commencing on 1 January 2014, there has been full compliance with the principles of the UK Corporate Governance Code (the "Code") issued in September 2012, and this compliance is illustrated in the details set out in this report. However, the Board has, on the recommendation of the Audit Committee, taken the decision not to comply for the time being with provision C.3.7. of the Code, to put the external audit contract out to tender at least every ten years. A detailed explanation is included within the Audit Committee report on page 75.

Internal control

Details of the Group's system of internal control and risk management are contained in the Principal risks and uncertainties section together with the Directors' responsibilities statement in accordance with the UK Corporate Governance Code.

Relations with shareholders

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

The Board also reviews and discusses the investor feedback from post-results investor meetings conducted by the Chief Executive and the Finance Director in the UK, Europe and the US. These took place following both the preliminary and half year results announcements in 2014. Makinson Cowell is engaged by the Group to advise and assist in relation to communications with shareholders.

The Company's private registered shareholders hold, in aggregate, approximately 0.6% of the issued share capital. The Board is as interested in their concerns as it is in the concerns of institutional and corporate shareholders. All shareholders are free to put questions to the Board at the AGM. Questions asked in person at the AGM will receive a verbal response whenever possible. Otherwise a written response will be provided as soon as practicable after the AGM. Questions asked at other times will normally receive a written response. Shareholders attending the AGM will have an opportunity to meet informally with the directors immediately after the meeting.

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

The directors consider that this Annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. Pages 1 to 57 provide an assessment of the Group's affairs. The Annual report and accounts is available to shareholders at least 20 working days before the AGM. Registered shareholders receive a Form of Proxy which provides for a shareholder to vote in favour or against, or to indicate abstention as an alternative on each separate resolution. Particulars of aggregate proxies lodged are announced to the London Stock Exchange and placed on the Group's website as soon as practicable after the conclusion of the AGM.

Statutory information

Annual General Meeting

A separate document contains the notice convening the AGM and a description of the business to be conducted.

Share capital

The Company has only one class of equity shares, which are ordinary shares of $11\frac{16}{29}$ pence each. There are no restrictions on the voting rights of the ordinary shares.

Shares in issue

At 1 January 2014	**402,566,332**
Issued in period through the BMP(1)	2,129,475
Issued in period through the SAYE(2)	125,754
At 31 December 2014	**404,821,561**
Issued between 1 January and 24 February 2015 through the BMP(3)	8,184
At 23 February 2015	**404,829,745**

Notes:

(1) 85 members of the Bonus Matching Plan had shares Vest at the third anniversary following the Award and one member had shares vest upon his retirement.

(2) 101 members of the SAYE Plan exercised options at the maturity of their 2011 three-year grant, five members exercised options upon retirement and seven members exercised options following redundancy.

(3) Two members of the Bonus Matching Plan had shares vest upon retirement.

No other ordinary shares were issued during the year and the Company held no treasury shares during 2014.

Authority to purchase own shares

At the AGM held on 23 April 2014, shareholders resolved to authorise the Company to make market purchases of up to 10% of the issued ordinary share capital. At the forthcoming AGM, shareholders will be asked to renew this authority. Details are contained in the Notice of the AGM.

The Company did not purchase any of its own shares during 2014.

Rights and obligations attaching to shares

The rights and obligations attaching to the ordinary shares are set out in the Articles. The Articles may only be changed by the shareholders by special resolution.

Variation of rights

Subject to statute, the Articles specify that rights attached to any class of shares may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate General Meeting of the holders of those shares. At every such separate General Meeting the quorum shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class (calculated excluding any shares held as Treasury shares). The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

Transfer of shares

All transfers of shares which are in certificated form may be effected by transfer in writing in any usual or common form or in any other form acceptable to the directors and may be under hand only. The instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the register. All transfers of shares which are in uncertificated form may be effected by means of the CREST system.

The directors may decline to recognise any instrument of transfer relating to shares in certificated form unless it:

a) is in respect of only one class of share; and

b) is lodged at the transfer office (duly stamped if required) accompanied by the relevant share certificate(s) and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his/her behalf, the authority of that person so to do).

The directors may, in the case of shares in certificated form, at their absolute discretion and without assigning any reason therefore, refuse to register any transfer of shares (not being fully paid shares) provided that, where any such shares are admitted to the Official List of the London Stock Exchange, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The directors may also refuse to register an allotment or transfer of shares (whether fully paid or not) in favour of more than four persons jointly.

If the directors refuse to register an allotment or transfer, they shall send within two months after the date on which the letter of allotment or transfer was lodged with the Company, to the allottee or transferee, notice of the refusal.

A shareholder does not need to obtain the approval of the Company, or of other shareholders of shares in the Company, for a transfer of shares to take place.

The Articles provide that the directors must give reasons for any refusal to register a transfer of shares in accordance with the Companies Act.

Shares in uncertificated form

Directors may determine that any class of shares may be held in uncertificated form and title to such shares may be transferred by means of a relevant system or that shares of any class should cease to be held and transferred. Subject to the provisions of the Companies Act, the CREST Regulations and every other statute, statutory instrument, regulation or order for the time being in force concerning companies and affecting the Company. The provisions of the Articles shall not apply to shares of any class which are in uncertificated form to the extent that the Articles are inconsistent with the holding of shares of that class in uncertificated form, the transfer of title to shares of that class by means of a relevant system or any provision of the CREST Regulations.

Voting

Subject to the Articles generally and to any special rights or restrictions as to voting attached by, or in accordance with, the Articles to any class of shares, on a show of hands every member who is present in person at a General Meeting shall have one vote and, on a poll, every member who is present in person or by proxy shall have one vote for every share of which he/she is the holder. It has been the Company's practice since incorporation to hold a poll on every resolution at Annual General Meetings and Extraordinary General Meetings.

Shares are held by the trustee on behalf of employees in respect of the Group's Share Incentive Plan. The voting rights attached to such shares are not directly exercisable by the employees. The employee may direct the trustee on how to vote at the AGM and the trustee may only cast its vote in respect of shares/voting rights over which it has received a valid direction from employees.

Under the Companies Act, members are entitled to appoint a proxy, who need not be a member of the Company, to exercise all or any of their rights to attend and to speak and vote on their behalf at a General Meeting or class meeting. A member may appoint more than one proxy in relation to a General Meeting or class meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A member that is a corporation may appoint one or more individuals to act on its behalf at a General Meeting or class meetings as a corporate representative.

Overview
Marketplace, performance and risk
Sustainable business review
Governance
Financials

Corporate governance (continued)

Deadlines for exercising voting rights

Votes are exercisable at a General Meeting of the Company in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy, or in relation to corporate members, by corporate representative. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting.

Restrictions on voting

No member shall, unless the directors otherwise determine, be entitled in respect of any share held by him/her to vote either personally or by proxy at a shareholders' meeting or to exercise any other right conferred by membership in relation to shareholders' meetings if any call or other sum presently payable by him/her to the Company in respect of that share remains unpaid. In addition, no member shall be entitled to vote if he/she has been served with a notice after failing to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

Interests in voting rights

As at 23 February 2015, the Company has been notified, in accordance with the Financial Conduct Authority's Disclosure and Transparency Rules, of the following interests in the voting rights of the Company:

	Date last TR1 notification made	Number of voting rights directly held	Number of voting rights indirectly held	Number of voting rights in qualifying financial instruments	Total number of voting rights held	% of the issued share capital held(1)
Invesco plc	08.01.2015	–	105,534,864	–	105,534,864	26.06%
Artemis Investment Management LLP	10.02.2014	19,257,920	1,959,839	–	21,217,759	5.27%
Schroders plc	04.02.2015	–	20,269,066	–	20,269,066	5.00%
Orbis Holdings Limited	14.01.2015	_	16,452,561	_	16,452,561	4.06%
Woodford Investment Management LLP	19.08.2014	_	21,703,125	_	21,703,125	5.36%

Note:
(1) As at the date of the last TR1 notification made to the Company by the investor.

Other significant agreements

Under a £100 million amortising term loan facility agreement dated 20 December 2012 between, amongst others, Drax Finance Limited and the Prudential M&G UK Companies Financing Fund, on a change of control, if any lender requires, it may by giving notice to Drax Finance Limited and the facility agent within 30 days of receiving notice from Drax Finance Limited that a change of control has occurred, cancel its commitments and require the repayment of its share of any outstanding amounts within three business days of such cancellation notice being given.

Under a £50 million amortising term loan facility agreement dated 20 December 2012 between, amongst others, Drax Finance Limited and the Green Investment Bank, on a change of control, if any lender requires, it may by giving notice to Drax Finance Limited and the facility agent within 30 days of receiving notice from Drax Finance Limited that a change of control has occurred, cancel its commitments and require the repayment of its share of any outstanding amounts within three business days of such cancellation notice being given.

Under a £400 million revolving credit facility agreement dated 20 December 2012 between, amongst others, Drax Power Limited and Barclays Bank PLC (as facility agent), on a change of control, if any lender requires, it may by giving notice to Drax Power Limited and the facility agent within 30 days of receiving notice from Drax Power Limited that a change of control has occurred, cancel its commitments and require the repayment of its share of any outstanding amounts within three business days of such cancellation notice being given.

Under a £75 million guarantee issued by The Lords Commissioners of Her Majesty's Treasury dated 23 April 2013 in respect of a £75 million guaranteed loan note instrument issued by Drax Finance Limited to Friends Life Limited, on a change of control, if the guarantor requires, it may by giving notice to Drax Finance Limited within 30 days of receiving notice from Drax Finance Limited that a change of control has occurred, require redemption of the outstanding loan notes and repayment of any outstanding amounts due under the guarantee within three business days of such notice being given.

Under two note purchase agreements dated 8 May 2014 of £100 million in aggregate, in each case between Drax Finance Limited and various funds managed by M&G Investments, on a change of control, if a noteholder requires, it may by giving notice to Drax Finance Limited within 30 days of receiving notice from Drax Finance Limited that a change of control has occurred, require redemption of the outstanding loan notes held by the noteholder within three business days of such notice being given.

Under the terms of the above credit facility agreements, a "change of control" occurs if any person or group of persons acting in concert gains control of Drax Group plc.

There are no other significant agreements to which the Group is a party that take effect, alter or terminate upon a change of control of the Group following a takeover bid.

Auditors and the disclosure of information to the auditor

So far as each person who is a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing the report, of which the auditor is unaware. Having made enquiries of fellow directors, each director has taken all steps that he/she ought to have taken as a director to ascertain any relevant audit information and to establish that the auditor is aware of that information. This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act.

In accordance with Section 489 of the Companies Act, a resolution is to be proposed at the AGM for the reappointment of Deloitte LLP as the auditor of the Group. A resolution will also be proposed authorising the directors to determine the auditor's remuneration. The Audit Committee reviews the appointment of the auditor, the auditor's effectiveness and relationship with the Group, including the level of audit and non-audit fees paid to the auditor. Further details on the work of the auditor and the Audit Committee are set out in the Audit Committee report on pages 73 to 76.

Directors' report

The directors present their annual report on the affairs of the Group, together with the financial statement and auditor's report for the year ended 31 December 2014. The Corporate governance section set out on pages 64 to 71 forms part of this report.

No significant events since the balance sheet date have arisen. An indication of likely future developments in the business of the Company and details of research and development activities are included in the Strategic report on pages 1 to 57.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 20 to the consolidated financial statements.

By order of the Board.

Philip Hudson
Group Company Secretary

23 February 2015

Registered office:
Drax Power Station
Selby
North Yorkshire YO8 8PH
Registered in England and Wales No. 5562053

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with 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). 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.

By order of the Board

Dorothy Thompson CBE
Chief Executive

23 February 2015

Tony Quinlan
Chief Financial Officer

23 February 2015

Audit Committee report

Membership and process: **Audit Committee**

Role of the Committee

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

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

Terms of reference

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

No changes to the terms of reference were considered to be necessary following review in July 2014.

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

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

Main activities during the year

During the year, the Committee undertook its duties in accordance with an agreed annual work plan. The routine items which are put to each meeting are as follows the Committee's rolling annual plan review, reports from the internal audit function on the progress of their programme for the year including fee analysis and new internal audit reports. The Committee continues to focus on specifically identified strategic risk areas, as well as ensuring the provision of a core compliance assurance service. No significant weaknesses were identified in any of the internal audit reports although certain improvements in processes and procedures were made as a result of reviews.

Committee Chairman

David Lindsell
Senior independent non-executive director

Committee members

Tim Cobbold, Melanie Gee, David Lindsell and Tony Thorne all of whom are independent non-executive directors.

The Board is satisfied that the membership of the Committee meets the requirement for recent and relevant financial experience. The Group Company Secretary acts as Secretary to the Committee.

Attending by invitation

Chairman of the Board, Chief Executive, Finance Director, Group Financial Controller, Group Finance Manager, Head of Risk Management, External auditor, Internal auditor.

Number of meetings held in 2014

4

At meetings in February and July 2014, the Committee reviewed the Group's Preliminary results announcement and Annual report and accounts, and the Half year results announcement and Half year report respectively. At these meetings, the Committee received reports from management and the external auditor on the application of accounting policies on significant estimates and judgements made in preparing the financial statements, and on the methods used to account for any significant or unusual transactions. Our principal accounting policies are set out in the notes to the accounts. In respect of all such matters, the external auditor concurred with the judgements made by management and the Committee was satisfied that the accounting policies were applied appropriately and the estimates and judgements made were appropriate. In addition, the Committee also satisfied itself of the independence and objectivity of the external auditor on the basis set out below under "Independence of the external audit".

Audit Committee report (continued)

Reviewing the 2014 Annual report and accounts

At the meeting in February 2015, the Committee reviewed the content of the 2014 Annual report and accounts, alongside a paper on accounting issues and judgements impacting the accounts. The significant issues and judgements considered were as follows:

- **ROCs and LECs** – The value of ROCs and LECs is recognised as they are earned through generating electricity from burning biomass. Accordingly, the value is deducted from the cost of the biomass burnt and held on the balance sheet until sold. The valuation is necessarily based on assumptions regarding future sales prices of these instruments in the market. The Committee was satisfied that the assumptions made by management were appropriate and that the Company's accounting policy for ROCs and LECs has been applied in a manner consistent with the previous year (see note 14 to the consolidated financial statements);
- **Derivatives** – As explained in more detail in note 20 to the consolidated financial statements, the Group enters into commodity contracts to manage its exposure to commodity price movements and forward foreign currency exchange contracts to manage its exposure to transactions denominated in currencies other than sterling. The Committee gained assurance regarding the valuation of and movements in the Group's derivative contracts through management reports on derivative valuations supported by market data, detailed reports of the year end positions, and discussion with management regarding the approach taken to fair value measurement and the application of hedge accounting. The Committee also noted that an independent review of internal controls over certain aspects of trading activities during the year had raised no significant issues; and
- **Property, plant and equipment** – The net book value of the Group's property, plant and equipment was £1.7 billion at 31 December 2014 (see note 11 to the consolidated financial statements). The useful economic lives of assets making up a large proportion of this balance are based on the assumed economic life of the Drax Power Station as a whole. This assumption therefore has a material impact on the depreciation charge in the income statement and the carrying value of the assets concerned. The Committee received a report on the outcome of a review by management of the useful economic life of Drax Power Station and was satisfied that the 35-year life set in 2004 remained appropriate. The Committee also discussed with management the possibility that, due for example to new regulatory requirements and/or the biomass transformation project, any assets in the balance sheet were impaired. The Committee was satisfied that, based on reviews carried out by management, no firm indicators of asset impairment had been identified.

Explanation of the critical accounting judgements, estimates and assumptions is set out in detail in note 3 to the consolidated financial statements.

In addition, other matters relating to the application of accounting policies or accounting treatment have been considered during the year at the February, July and November 2014 meetings, and again at the February 2015 meeting in relation to our financial reports. These included:

- the accounting judgements, estimates and assumptions in relation to ROC valuation and income recognition, obligations under the Community Energy Savings Programme, retirement benefit obligations (pension), taxation and investments. Further detail on these areas can be found in note 3 to the consolidated financial statements; and
- other accounting issues, namely in relation to application of accounting policies or accounting treatment (capital expenditure, segmental reporting), accounting for Contracts for Difference (CfDs) and new items in the financial statements were reviewed. Where applicable our accounting policies are set out in the relevant note to the consolidated financial statements.

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

In addition to the routine items outlined above, there were a number of specific items which are put to the meetings as follows:

Meeting	Item under review
February	Effectiveness of internal controls and consideration of fraud Disclosure of information to auditors Assessment of effectiveness of external audit process
April	Review of Senior Accounting Officer reporting Review of internal controls over ROC valuation and income recognition Auditor independence policy review Whistleblowing reporting policy review Ethics and Business Conduct Steering Committee review Review of the external auditor's management letter
July	IT key controls review Trading, Risk & Settlement project review Audit Committee terms of reference – annual review
November	Effectiveness of internal controls, consideration of fraud and review of risk register Biomass sustainability report Review of finance team Treasury controls review Fuel contracting controls review Review and approval of the internal audit plan for 2015 Review and approval of the external auditor terms of engagement

At the meeting in February 2015, in line with the Financial Reporting Council's Guidance on Audit Committees, the Committee undertook a review of its own effectiveness and concluded that the composition of its membership, the manner in which it operates and the reviews that it undertakes throughout the year all contribute to the continued effective functioning of the Committee.

Fair, balanced and understandable view

At the February 2015 meeting, the Committee reviewed the content of this Annual report and accounts and advised the Board that, in its view, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

External auditor effectiveness

At the February 2015 meeting, the Committee reviewed the effectiveness of the external auditor, Deloitte LLP. This process incorporated feedback from management and key individuals across the Group, as well as its own experience. The assessment considered the robustness of the audit process, the quality of delivery of the audit plan, the quality of reporting on findings and recommendations to the Committee and management, and the experience and expertise of the audit team and the quality of service provided.

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

Independence of the external audit

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

The provisions of the Policy include:

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

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

Details of the amounts paid to the external auditor during the year for audit and other services are set out in note 5 to the consolidated financial statements on page 111. The external auditor is required to rotate the audit partner responsible for the Group audit every five years and the current audit partner, James Leigh, is in his first year of tenure and took responsibility with effect from the 2014 audit.

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

Audit tendering

Last year, the Committee recommended that the Board decide not to comply for the time being with provision C.3.7 of the UK Corporate Governance Code (the "Code"), as revised in September 2012, which stipulates that the external audit contract should be put out to tender at least every ten years.

The Committee considered at that time the importance we place on the period of transformational change the business is undergoing to become a predominantly biomass-fired power generator. The incumbent auditor has accumulated knowledge and experience that allows it to carry out effective and efficient audits during this period of change and provide insightful and informed challenge. In addition, to conduct a thorough competitive audit tender process would require substantial Board and management participation at a time when the transformation of the business is placing greatly increased demands on them.

Accordingly, the Committee intended to recommend going through a full audit tender process for the 2016 year end, in line with the substantial completion of the biomass transformation process, and committed to review this decision annually.

Subsequently, in June 2014, EU audit reform legislation, effective from June 2016, was enacted requiring public interest entities to rotate their auditor every ten years. This would take effect for the first auditor appointment after June 2016, which for Drax would be the 2017 year end (appointed at the AGM in April 2017).

EU member states can opt, by derogation, to extend the maximum duration of the audit engagement to 20 years, subject to retendering at least every ten years. The government has issued a discussion document in which it states that it proposes to take up this option, but the results of this consultation are not expected until Summer 2015.

Audit Committee report (continued)

As a result, if Drax were to conduct an audit tender process in time for the appointment of auditors to be proposed at the 2016 AGM, it would have to commence the process without knowing whether it would be able to appoint the incumbent auditor for more than one year before having to conduct another audit tender process. In view of the small number of audit firms that have the experience and expertise required to carry out a high quality and efficient audit of the Group's financial statements and that are independent in accordance with Drax's auditor independence policy, and the relevant professional standards on independence, the Committee does not wish to reduce that number by excluding the incumbent auditor from the tender process if it is not necessary. Accordingly, the Committee considers that it would be appropriate to defer the tender process for a further year, i.e. to put the audit for 2017 out to tender during 2016.

In coming to a recommendation the Committee considered how, notwithstanding its recommendation to defer putting the external audit out to tender, the Group would adhere to the principle of the Code to maintain an appropriate relationship with the auditor. The independence and effectiveness of the auditor are reviewed annually by the Committee and no weakening in the level of the auditor's scepticism or in its desire to challenge management's assumptions and judgements in relation to financial reporting has been noted.

The Committee continues to undertake to review this decision annually.

Internal audit

Grant Thornton UK LLP undertakes the Group's internal audit function. The Committee periodically reviews whether the internal audit function is likely to be more effective or efficient if provided internally. In view of the nature and scope of the Group's business and its management structure, the Committee considers that it continues to be more effective and efficient for core internal audit functions to be undertaken by an external service provider, augmented as appropriate by additional reviews that require specialist expertise.

The Committee receives reports at each meeting regarding the internal audit programme and reviews undertaken. Recommendations are made to management for process improvements as appropriate. Topics dealt with by internal audit reports reviewed by the Committee during 2014 included:

- compliance with Regulation on Energy Market Integrity and Transparency (REMIT) and European Market Infrastructure Regulation (EMIR);
- Group risk management, oil and freight hedging;
- review of US operations – fibre procurement and shipments;
- key financial controls over revenue and financial reporting, compliance with Senior Accounting Officer legislation and HMRC guidance;
- key IT controls in relation to system access; and
- in respect of Haven Power, business continuity processes, planned infrastructure, position management and key financial controls in respect of revenue.

In November, the Committee supported a proposal from management to consider developing a different approach to internal audit with the introduction of an in-house internal audit team. An initial scoping exercise is underway to assess the appropriate areas of focus and balance between internal and external resources. The Committee will review progress during the course of 2015.

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

This report was reviewed and approved by the Audit Committee on 23 February 2015.

David Lindsell
Chairman of the Audit Committee

Nominations Committee report

Membership and process: **Nominations Committee**

Role of the Committee

The principal duties of the Committee are to;

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

Terms of reference

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

Committee Chairman

Charles Berry
Chairman of the Board

Committee members

Tim Cobbold, Melanie Gee, David Lindsell and Tony Thorne all of whom are independent non-executive directors. The Group Company Secretary acts as Secretary to the Committee.

Attending by invitation

Chief Executive, Head of Human Resources.

Number of meetings held in 2014

4

The Chairman of the Committee reports on the Committee's proceedings to the following Board meeting and, subject to redaction in the event that they include personal information, the minutes of each meeting of the Committee are circulated to all members of the Board.

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

- **Re-election and appointment of directors** – The Committee met on 17 February 2015, following the completion of the 2014 Board evaluation process, and determined that all of the directors who are the subject of annual re-election will retire at the forthcoming Annual General Meeting ("AGM") and, being eligible, offer themselves for re-election. The evaluation of the Board described on page 66 concluded that the directors offering themselves for re-election continue to demonstrate commitment to their particular role and to perform effectively;
- **Size, structure and composition of the Board** – At its meeting in June 2014 the Committee concluded that the Board, constituted with four executive directors, four independent non-executive directors and a chairman who was independent on appointment, was appropriate for the Company. It also concluded that the Board collectively has the necessary balance of skills, experience, independence and knowledge to enable it to discharge its duties;
- **Membership of Board Committees** – It the Board policy normally to invite all independent non-executive directors to join the Audit, Nominations and Remuneration Committees. The Defence Committee comprises executive and non-executive directors with particular skills and experience relevant to the work of that Committee. The Committee reviewed this policy and considered that it continues to ensure that each of the Committees is constituted with the skills, experience, independence and knowledge to enable it to discharge its duties; and
- **Succession planning** – The Committee reviews the succession plan at least annually. The Company has a well-established succession planning process which covers all Executive Committee members and their direct reports, as well as other individuals who have been identified as having long-term potential for senior roles. In the Committee's opinion the plan is well prepared and appropriate for the size of the Group's business and management structure and there are considered to be many good candidates for senior roles.

In addition to the regular programme of work, the Committee also considered the question of Board diversity, and gender diversity in particular. During the year the Company has actively engaged with initiatives promoted by the Department for Business Innovation and Skills to improve gender diversity at Board level. The Committee recognises the strength that can be achieved through diversity in its wider sense in the Group's management. In particular, it is the Board's policy to ensure that the proportion of women on the Board is one of the considerations for Board and senior management appointments. That policy is implemented as part of the recruitment and selection process. Further details of gender diversity in the Group are included in the Sustainable business review on page 54.

Finally, following my decision to step down as a director and Chairman of the Company at the conclusion of the AGM in April 2015, the Committee has undertaken a rigorous search and selection process for a successor.

The process was led by David Lindsell, the Senior Independent Director. Russell Reynolds Associates were engaged to assist with the process. The brief provided to Russell Reynolds was specifically targeted to search for someone capable of leading the Board through the next stage of the Group's development.

Nominations Committee report (continued)

As well as the necessary personal and leadership characteristics, the Committee's specification included experience and demonstrable achievement leading a listed company, relevant sector experience and an understanding of relationships with government and regulators.

The Committee considered a long list of candidates from a diversity of backgrounds and identified three short-list candidates. Initially, each of the short-listed candidates was interviewed by David Lindsell and one other member of the Committee, followed by a meeting with the Chief Executive.

The lead candidates subsequently met with each of the members of the Committee. The Committee agreed that Phil Cox was the preferred candidate to be recommended to the Board. Members of the Executive Committee then met Phil Cox. On the Committee's recommendation the Board agreed that Phil Cox should be invited to join the Board subject to receipt of satisfactory references. Excellent references were provided in discussion with Russell Reynolds by two chairmen of boards on which Phil Cox served. On 18 December 2014, an announcement of Phil Cox's appointment was made to the London Stock Exchange.

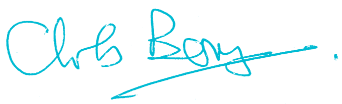
I am delighted that the Company has been able to appoint someone of Phil's calibre and experience as my successor and I wish him well.

The Company's Articles provide that directors retire by rotation. However, the UK Corporate Governance Code provides that all directors should be subject to annual re-election. The Company follows the provisions of the UK Corporate Governance Code on the annual re-election of all directors.

The Committee initiated a review of the effectiveness of the Board, its committees and individual directors and the outcome is reported in the Corporate governance report on page 66.

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

This report was reviewed and approved by the Nominations Committee on 23 February 2015.



Charles Berry
Chairman of the Nominations Committee

Remuneration Committee report

Membership and process: Remuneration Committee

Role of the Committee

The Committee's principal responsibilities are:

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

Terms of reference

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

Committee Chairman

Tony Thorne
Chairman of the Remuneration Committee

Committee members

Charles Berry, Tim Cobbold, Melanie Gee and David Lindsell. The Group Company Secretary acts as Secretary to the Committee.

Attending by invitation

Chief Executive, Head of Human Resources, External remuneration advisers.

Number of meetings held in 2014

7

Annual statement to shareholders from the Chairman of the Remuneration Committee

The Committee's work during 2014 has been mainly directed towards making sure that remuneration properly reflects progress on the Group's strategy. Our assessment of management's performance in executing the transformation to a predominantly renewable generator and supplier has been at the heart of our consideration as it is delivery of the biomass transformation that will enhance shareholder value in the longer term.

It has been a very good year in terms of strategy development and operations. The business now has two of its generating units converted to biomass and delivering excellent performance. The conversion of a third unit is well on track in line with the original plan. The retail business and the US pellet business continue to develop as planned. In assessing performance the Committee was very conscious of the fall in the share price during the year; this being related to the drop in commodity prices and to changes in the regulatory environment. The Committee recognises the significant influence that the Company's management has had in encouraging regulatory support for biomass conversions. Ultimately however, the extent of support is determined by government and the Committee's concentration was principally on the factors management can influence.

We continue to believe that directors' and shareholders' interests are properly aligned through the performance-related long-term share plan and directors' shareholding requirements.

Base salaries

The Committee last reviewed benchmarks in 2013. During 2013 we also consulted with the Company's largest shareholders. We made some adjustments to the structure of executive remuneration to reflect changes in the business and the executives' roles. We reported those changes last year. For 2014 the Committee agreed that the only changes needed to base salaries were annual adjustment in line with our policy.

Dorothy Thompson's and Tony Quinlan's salaries were increased by 3%. This was slightly below the level of increases in the rest of the business. Peter Emery's salary was increased by 8% to reflect the increasing scope of his role which encompasses responsibility for production, engineering, construction and safety in the wider Group beyond Drax Power Station. Paul Taylor's salary was also increased by 8% to reflect increasing experience in his role. These higher increases are in line with the remuneration policy.

Assessment of performance-related remuneration relating to 2014

The Balanced Corporate Scorecard is the key measure of management performance. The targets are designed to drive both annual performance and long-term development of the business. There is a detailed review of performance against scorecard measures on page 88. Profit in 2014 was very similar to 2013. Operationally, 2014 was a very good year with some excellent successes in execution and development. It was also a difficult year with a number of setbacks, particularly in regulatory matters.

Overview
Marketplace, performance and risk
Sustainable business review
Governance
Financials

Remuneration Committee report (continued)

Performance against the quantitative measures which management can control has been good, particularly controllable costs, safety and operational performance measures, biomass sourcing and retail business performance. There was also good progress made against strategic and development measures.

One of the scorecard measures was the development of the Company's capital structure and dividend policy. The Board agreed that this should be done when regulatory support and the long-term revenue base is clear. That position has not yet been reached and the Board decided to exclude this measure from the 2014 assessment.

The score can be between zero and 2.0. A score of 1.0 represents an on target performance and the score in any year is capped at 1.5. We assessed the performance score at 1.22.

The Board has a discretion to adjust the performance score in the light of matters not reflected in the scorecard. The main negative factors were the tragic death of a contractor working on the construction of the Group's pellet plant in Mississippi, the penalty for non-compliance with the Community Energy Savings Programme (CESP) and changes in regulatory support for the Group's biomass conversions. We weighed these respectively against the Group's own excellent safety performance, the general problems with CESP, and the execution of the original plan for three biomass units supported by the Renewables Obligation by the end of 2016.

The strategic progress towards delivery of the biomass transformation has been good during 2014. Logistics and operational performance of biomass units have been excellent. Audit findings show that Drax is meeting its own stringent sustainability criteria. Real progress has been made towards establishing an industry standard for biomass sustainability.

Looking at all of these factors we felt that the positive and negative balanced each other, and we decided not to make a discretionary adjustment to the scorecard.

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

The directors' performance score can be between zero and 1.5 and in 2014 it was assessed at 1.20.

The Committee's application of the scorecard and personal performance assessment resulted in annual bonus payments to executive directors of approximately 73% of maximum.

The Committee has also considered the vesting of the Bonus Matching Plan awards made in 2012, which were conditional upon performance over the three years from the start of 2012 to the end of 2014. The awards are 50% based on the Company's relative Total Shareholder Return ("TSR") performance and 50% on the three-year average of the Balanced Corporate Scorecard. The Company's TSR over the period was below the median of the comparator group, and the Committee therefore confirmed that none of the TSR element of the award vested. The Balanced average scorecard score over the same period was 1.39.

The Committee has a discretion to adjust the average to reflect achievement of strategic objectives over the three-year period. We considered this and decided not to exercise discretion to adjust the average score. The Committee determined that 81.30% of the Scorecard Award element would vest. Therefore based on the performance measures the Committee determined that 40.65% of the executive directors' 2012 BMP awards vested.

2015 targets and long-term incentives

The Committee also considered targets for 2015. These have been established to be at least as challenging as those for 2014. A description of the 2015 corporate targets is set out on page 94, with such detail as can be provided whilst safeguarding commercial confidentiality.

The Committee also agreed to the grant of 2015 Bonus Matching Plan awards to the executive directors to the value of 150% of their 2014 annual bonus, and subject to the same performance conditions as described in the policy section of this report.

Directors' remuneration policy

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

The core principles of the remuneration policy are to:

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

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

Remuneration policy report

Section 1

Key components of remuneration

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

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

<table>
<tr><th>Remuneration component</th><th>How this component relates to Group strategy</th><th>How this component operates in practice</th><th>Performance measures and maximum potential value</th></tr>
<tr><td>i) Base salary</td><td>Base salary helps to attract, reward and retain the right calibre of executive to deliver the leadership/management needed to execute the Group's vision and business plan.</td><td>Base salary reflects the role, the executive's skills and experience, and market level.
To determine market level, the Committee reviews remuneration data on executive positions at companies which the Committee considers to be appropriate comparators.
The comparator companies are selected, with advice from the Committee's remuneration advisers, taking into account relevant comparator factors such as, but not limited to, sector, size, and international presence.
On appointment, an executive director's base salary is set at the market level, or below if the executive is not fully experienced at this level.
Where base salary on appointment is below market level to reflect experience, it will over time, be increased to align with the market level, subject to performance.
Base salaries of all executive directors are generally reviewed once each year.
Reviews cover: individual performance; experience; development in role; and market comparisons.</td><td>The base salaries of executive directors in post at the start of the policy period and who remain in the same role throughout the policy period will not usually be increased by a higher percentage than the average annual percentage increase in salaries of all other employees in the Group.
The only exceptions are where:
(i) an executive director has been appointed at below market level to reflect experience. In this case, the maximum annual increase to base salary will be 5% over the normal maximum; or
(ii) there is a particular reason for a higher increase, such as a change in the scope or nature of responsibilities.
In the case of the Production Director and the Retail and Trading Director, some further adjustment is envisaged to reflect increasing scope of roles and increasing experience. The maximum increase to base salary in any year will be 5% over the normal maximum.</td></tr>
<tr><td>ii) Annual bonus</td><td>The award of annual bonuses is directly linked to personal performance and to the achievement of the annual Business Plan targets.
The multiplicative formula is designed to ensure that bonus payments for high personal performance are moderated where business performance is below target, or vice versa.</td><td>Strategic and Business plan targets are set by the Board as part of the Business Plan approval process.
The Committee determines Group performance measures using a Scorecard.
The Scorecard shows executive directors' annual targets and measures of performance (low, target and stretch), and weightings.
Score is zero if performance is below the low measure.
Maximum score is attributed to the stretch measure.
The Scorecard is amended each year in line with business strategy and objectives.
Summary Scorecard and performance results are published in the Annual report on remuneration.
To determine the actual bonus awards, the following formula is used:
Chief Executive's bonus
Target bonus is 75% of base salary
Actual bonus = basic salary x 75% x company score x personal score
Bonus is capped at 150% of salary
Other directors' bonus
Target bonus is 70% of salary
Bonus = basic salary x 70% x company score x personal score
Bonus is capped at 140% of salary</td><td><table><tr><th>Role</th><th>Maximum bonus potential (% of base salary)</th></tr><tr><td>Chief Executive</td><td>150%</td></tr><tr><td>Finance Director</td><td>140%</td></tr><tr><td>Production Director</td><td>140%</td></tr><tr><td>Retail and Trading Director</td><td>140%</td></tr></table>Group performance measures
Group performance measures include financial, production, strategic and other Business Plan objectives.
These measures and weightings are determined by the Board and adopted by the Committee.
Individual performance measures
The Remuneration Committee determines the personal objectives for the Chief Executive. The Chief Executive proposes personal objectives for the other executive directors, which are reviewed and approved by the Remuneration Committee. Generally, all executive directors will be awarded a single score based on their collective performance in providing effective day-to-day leadership of the Group as a unified leadership team. Personal scores may differ in circumstances of exceptional over or under performance.</td></tr>
</table>

Remuneration Committee report (continued)

Remuneration component	How this component relates to Group strategy	How this component operates in practice	Performance measures and maximum potential value
ii) Annual bonus (continued)		**Clawback** The Committee may require a director to repay to the Company such amount of any annual bonus payment as it considers appropriate in circumstances of financial misstatement, misconduct or if assessment of a performance condition is found to have been based on an error, inaccuracy or misleading information, or in other circumstances that the Committee considers to justify the operation of the clawback provision. In these circumstances, Bonus Matching Plan ("BMP") clawback provisions may also apply (see BMP below).	
iii) Deferred annual bonus	This is the deferred portion of annual bonus. The aim of deferral is to further align executives to the interests of shareholders, by linking share-based reward to long-term sustainable performance.	35% of any annual bonus is settled in shares deferred for three years. No performance conditions are used other than continued service. If the executive leaves the Group before the normal vesting day, the shares will vest (prorated to the date of leaving) only if the termination is for a specified reason including redundancy, retirement or death in service, or, if for any other reason, at the discretion of the Committee. In any other circumstances the award is forfeited.	100% of the shares will vest subject to continued employment up to the date of vesting.
iv) Bonus Matching Plan ("BMP")	This is the long-term incentive plan for executives. It links long-term share-based incentives to Total Shareholder Return ("TSR") and to the achievement of Business Plan strategic targets.	The Bonus Matching Plan ("BMP") is a long-term performance share plan. Under the BMP, executive directors receive an annual grant of conditional shares to a value of up to 1.5 times the amount of the executive's annual bonus for the prior year. It is the Committee's policy to grant BMP awards to executive directors at 1.5 times the amount of the annual bonus unless the performance of the director or of the business makes an award at that level inappropriate. No payment is made for the shares. Vesting is conditional upon service and performance conditions, and shares vest on the third anniversary of the grant subject to the achievement of performance conditions determined by the Committee. To the extent that vesting is determined by reference to Company Scorecard performance, at the end of the three-year performance period, the Committee will review each of the annual results going into an average Scorecard calculation and has the discretion to adjust the final outcome based on events over the period to ensure that the result is consistent with the underlying performance progression of the business. In exercising its discretion the Committee will have particular regard to progress against the strategic objectives incorporated in the Scorecard. If the executive leaves the Group before the normal vesting day, the shares will vest (prorated to the date of leaving and phased over the normal cycle of the performance periods) only if the termination is for a specified reason including redundancy, retirement or death in service, or, if for any other reason, at the discretion of the Committee. In any other circumstances the award is forfeited. **Performance condition override** The Committee will include an override provision in each grant under the BMP. This will give the Committee discretion to determine that no vesting shall occur or vesting shall be reduced if there are circumstances (relating to the Company's overall performance or otherwise) which make vesting as calculated by reference to the performance conditions alone inappropriate. **Clawback** If a repayment of bonus is required (see "annual bonus" above) the Committee shall also make an appropriate reduction in the number of shares that may vest under the BMP (in respect of an award made pursuant to the annual bonus payment subject to the clawback). The Committee may also reduce the number of shares under a BMP award in circumstances of financial misstatement, or if assessment of a performance condition is found to have been based on an error, inaccuracy or misleading information, or in other circumstances that the Committee considers to justify the operation of the clawback provision.	Maximum number of shares granted equals shares to the value of 1.5 times annual bonus for prior year. Maximum vesting of shares three years later is subject to performance. There are two vesting performance measures (vesting threshold is 15% in both measures): i) up to 50% of shares vest subject to TSR performance over three years relative to FTSE 51–150 as follows: Below median = 0% vesting At median = 15% vesting (threshold) Upper quartile = 100% vesting. ii) up to 50% of shares vest subject to Company Scorecard performance averaged over the three-year performance period, as follows: Score <1 = 0% vesting Score 1 = 15% vesting (threshold score) Score 1.5 = 100% vesting The three-year average Company performance score is capped at 1.5. Example: Year 1 Score 1.8 Year 2 Score 1.4 Year 3 score 1.4 Three-year BMP performance score = 1.5 For both the TSR and Scorecard conditions vesting between 15% and 100% is on a straight-line interpolation. In accordance with the rules of the BMP, Dividend Shares are awarded at the time and in the event that shares vest. They are calculated based on the dividends paid following the initial award until the award vests.

Remuneration component	How this component relates to Group strategy	How this component operates in practice	Performance measures and maximum potential value
v) Pension	Pension provision is one of the components to attract, reward and retain the right calibre of executive in order to ensure delivery of the leadership and management needed to execute the Group's vision and Business Plan.	Executive directors are entitled to non-contributory membership of the Group's defined contribution pension plan. The employer's contribution for executive directors is 20% of base salary. Alternatively, at their option, executive directors may either have contributions of the same amounts made to their personal pension schemes or cash in lieu of pension at the stated rate and subject to normal statutory deductions; or a combination of pension contributions up to the HMRC Annual Allowance with the remainder as cash in lieu of pension.	Maximum is 20% of base salary.
vi) Other benefits	In general, other benefits aim to align directors' total remuneration broadly with the market. In particular, all-employee share plans incentivise sustained long-term performance and strengthen teamwork by enabling all employees to share in the success of the business. The plans are vehicles for aligning staff remuneration with TSR performance.	Executive directors receive a car allowance, life assurance (4 times salary), the opportunity to participate in all-employee share plans on the same basis as other employees, annual private health assessment and annual private medical cover. Relocation expenses and/or second base expenses are paid where appropriate in individual cases. Directors' relocation expenses are determined on a case-by-case basis. The policy is designed to assist the director to relocate to a home of similar standing.	
vii) Share ownership	The Group's share ownership guidelines align the interests of executives with shareholders.	The share ownership guideline is that the Chief Executive should retain shares to the value of 175% of base salary and other directors should retain shares to the value of 125% of base salary. Until this level is reached, directors who receive shares by virtue of share plan awards or who receive deferred bonus shares must retain 50% of the shares received net (i.e. after income tax and national insurance contributions). Only shares that have actually vested count towards the threshold.	

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

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

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

Remuneration Committee report (continued)

Non-executive directors

Remuneration component	How this component operates in practice
Annual fee	The remuneration of the Chairman is determined by the Committee whilst that of the other non-executive directors is determined by the Chairman and the executive directors. These are determined in the light of: → fees of chairmen and non-executive directors of other listed companies selected for comparator purposes on the same basis as for executive directors; → the responsibilities and time commitment; and → the need to attract and retain individuals with the necessary skills and experience.
	The Chairman receives an annual fee.
	Non-executive directors receive an annual base fee.
	Additional annual fees are paid: → to the Senior Independent Director (which includes the fee for chairing a Board Committee other than the Audit Committee); → to the Chair of the Audit Committee; → to the Chair of the Remuneration Committee; and → to the Chair of any other Committee (this is not paid to the Chairman of the Nominations Committee if he or she is also the Chairman of the Board).
	Non-executive directors' fees are reviewed periodically against market comparators. They were last reviewed in July 2013. Current fee levels are shown in the annual report on remuneration.
	Non-executive directors are not entitled to participate in any performance-related remuneration arrangements.
Travel expenses	Reimbursement of reasonable travel and accommodation expenses as applicable.

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

Section 2

Approach to recruitment remuneration

The Committee will apply the core principles on page 80 and the remuneration components set out in the table on pages 81 to 83 determine the remuneration of newly appointed directors. Base salary will be set at a level appropriate to the role and the experience of the director being appointed. Where this is below the market level, it will be adjusted over time to align with the market level, subject to good performance. In relation to directors appointed from outside the Company, where the Committee considers it to be necessary to secure the appointment of the director, the Committee may:

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

Section 3

Service agreements

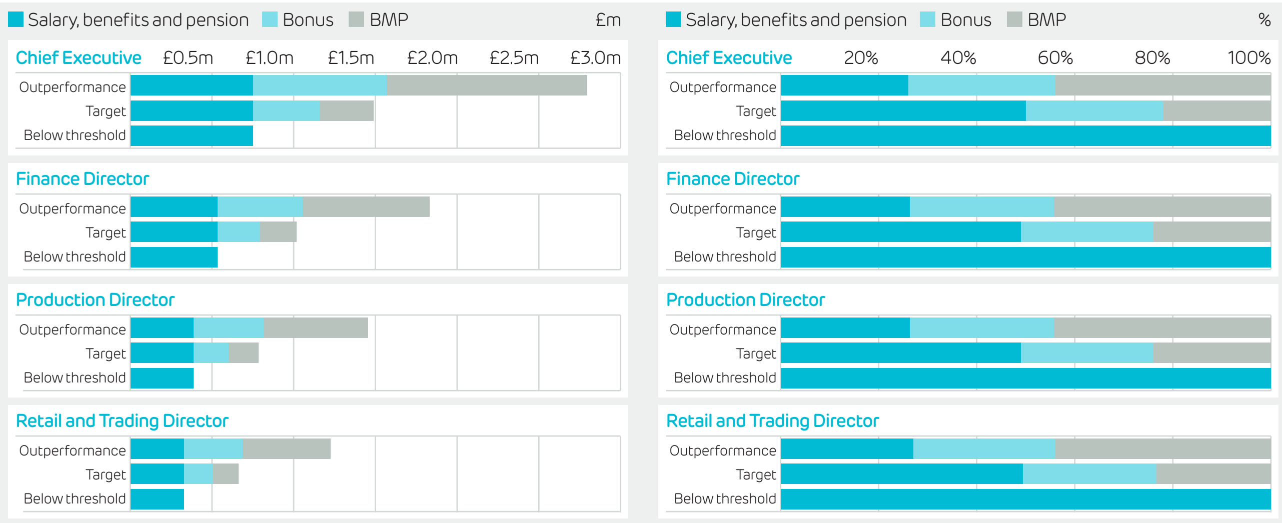
Executive directors' service agreements are of indefinite duration, terminable at any time by either party giving 12 months' prior notice.

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

Section 4

Remuneration scenarios

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



Notes:

(1) Annual bonus threshold is assumed at 25% of maximum, target at 50% of maximum and outperformance at 100% of maximum bonus.

(2) The BMP award threshold is assumed at 15% of maximum award and outperformance 100% of maximum, with target representing the average of the two.

(3) The award of conditional shares under the BMP is based on the individual's prior year annual bonus and therefore it is assumed that corresponding threshold, target and maximum bonus is earned for calculating threshold, target and maximum BMP award under each scenario.

Section 5

Policy on loss of office

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

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

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

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

Remuneration Committee report (continued)

If the termination is for any other reason a bonus payment will be at the discretion of the Committee. It is the Committee's policy to ensure that any such bonus payment properly reflects the departing director's performance and behaviour towards the Company. Therefore the amount of any such payment will be determined as described in the table on page 81, taking into account (i) the director's personal performance and behaviour towards the Company and (ii) the Group performance. If a bonus payment is made, it will normally be paid as soon as is reasonably practicable after the Group performance element has been determined for the relevant period. There may be circumstances in which the Committee considers it appropriate for the bonus payment to be made earlier, for example, on termination due to ill-health, in which case, on-target Group performance score shall be assumed.

No element of any such bonus payment shall be deferred.

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

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

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

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

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

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

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

Section 6

Context

Wider employee population

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

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

Views taken from the employee population

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

Environmental, social and governance issues

The Committee is able to consider corporate performance on environmental, social and governance issues when setting the remuneration of executive directors. Specific measures can be included in the balanced Corporate Scorecard. The Committee is able to consider those issues in considering whether to exercise its discretion to adjust the overall score, and in considering the performance conditions override under the BMP, as described on page 82.

Shareholder engagement

The Company holds regular meetings with its largest shareholders, and the Committee takes into account any views or representations of shareholders relating to executive remuneration.

The Company has consulted its ten largest shareholders in relation to the formulation of its directors' remuneration policy.

Annual report on remuneration

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

Base salaries

The base salaries of the executive directors as at 31 December 2014 and 31 December 2013 are shown in the following table:

	Base salary (£000) 31 December 2014	Base salary (£000) 31 December 2013	Percentage increase
Peter Emery	**330**	306	8.0%
Tony Quinlan	**383**	372	3.0%
Paul Taylor	**278**	257	8.0%
Dorothy Thompson	**563**	546	3.0%

Annual fees

The Chairman's fees were reviewed in March 2014 and increased with effect from 1 April 2014. Phil Cox will take over as Chairman on 22 April 2015. The Committee has determined his annual fees at £250,000. Non-executive directors' fees were last reviewed on 1 August 2013. Fee rates as at 31 December 2014 and 31 December 2013 are shown in the following table:

	Fees (£000) 31 December 2014	Fees (£000) 31 December 2013	Percentage increase
Chairman	**230**	220	4.5%
Non-Executive Director base fee	**54**	54	0%
Senior Independent Director(1)	**10**	10	0%
Audit Committee Chair	**10**	10	0%
Remuneration Committee Chair	**10**	10	0%
Nominations Committee Chair(2)	**7.5**	7.5	%

Notes:

(1) This includes the fee for chairing a Board Committee other than the Audit Committee.

(2) This is not paid if the Chairman of the Nominations Committee is also the Chairman of the Board.

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

The table below sets out the single figure of remuneration and breakdown for each executive director for 2014, together with comparative figures for 2013:

Name	Salary/Fees (£000)		Pension (£000)		Bonus(1) (£000)		BMP(2) (£000)		Other benefits (£000)		Total (£000)	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Peter Emery	**324**	303	**63**	62	**339**	367	**255**	997	**19**	18	**1,000**	1,747
Tony Quinlan	**380**	368	**76**	74	**392**	446	**309**	1,211	**21**	20	**1,179**	2,119
Paul Taylor	**273**	255	**55**	51	**285**	309	**214**	609	**18**	17	**844**	1,241
Dorothy Thompson	**559**	542	**112**	108	**618**	710	**493**	1,929	**73**	71	**1,854**	3,360

Notes:

(1) Bonus is the cash value of the annual bonus payable in respect of performance in the relevant year, including the value of bonus deferred and paid in shares after three years subject only to continued service.

(2) BMP is the value of the BMP Matching Awards vesting in March 2015, together with the Dividend Shares in relation to those vested shares. The value is calculated based on the average share price over the last quarter of 2014.

Remuneration Committee report (continued)

The table below sets out the single figure of remuneration and breakdown for each non-executive director for 2014 together with comparative figures for 2013:

	Board fee (£000)		Other fees (£000)		Total (£000)	
	2014	2013	**2014**	2013	**2014**	2013
Charles Berry Chairman of Board Chairman of Nominations Committee	**228**	220	**–**	–	**228**	220
Tim Cobbold	**54**	53	**–**	–	**54**	53
Phil Cox[(1)]	**–**	–	**–**	**–**	**–**	**–**
Melanie Gee	**54**	53	**–**	–	**54**	53
David Lindsell	**54**	53			**74**	70
Senior Independent Director			**10**	7		
Chairman of Audit Committee			**10**	10		
Tony Thorne	**54**	53			**64**	60
Chairman of Remuneration Committee			**10**	7		

Notes:
(1) Phil Cox was appointed 1 January 2015. His fee as a non-executive director is £54,000 per annum which will be increased to £250,000 per annum upon appointment as Chairman.

Details of performance against metrics for variable pay awards

Annual bonus plan outcome

A summary of the Committee's assessment in respect of the 2014 Scorecard is set out in the following table:

	Target weighting	Low target	Target	Stretch target	Outturn	Score
Underlying earnings per share[(1)]	20%	24	29	36	24	0.5
Interest cover ratio (no. times)	5%	2.0	3.8	5.0	8	2.0
Controllable costs (£m)	5%	207	202	197	193	2.0
Generation constrained due to biomass supply and logistics	5%	5%	3%	0%	0.1%	2.0
Total recordable injury rate	2.5%	0.60	0.35	0.20	0.33	1.1
RIDDOR occurrences	2.5%	12	8	2	1	2.0
Coal forced outage rate	2.5%	8.6%	6.0%	3.4%	7.6%	0.7
Biomass unit forced outage rate[(2)]	2.5%				Between low and stretch target	0.7
Biomass unit capacity and efficiency performance	10%				Efficiency and capacity both exceeded target but were below stretch target	1.5
Cumulative 2015 retail volume (TWh)	5%	10.5	13.0	14.5	13.2	1.2
Retail forecast value added 2015 onwards	5%	10% below Business Plan	Business Plan	10% above Business Plan	14% above Business Plan	2.0
Gulf cluster completion[(2)]	5%	On schedule	Accelerated schedule	Ahead of accelerated schedule	Low target achieved	0.5
Biomass pellet plant development	5%				Low target achieved	0.5
Biomass supplies secured and deliverable 2015[(2)]	10%				Between target and stretch target	1.5
Sustainability – UK mandatory compliance readiness	5%	Acceptable audit findings	Good audit findings	Excellent audit findings	Clean external audit report for 2013/14 confirmed that the Group is well placed to meet proposed UK mandatory standards	1.5
Development of capital structure and dividend policy[(3)]	10%					Not scored
Total weighting	**100%**					**1.22**

Note:
(1) Calculated using underlying earnings, being profit attributable to equity shareholders adjusted to exclude the after tax impact of unrealised gains and losses on derivative contracts, and exceptional items (see note 9 to the consolidated financial statements).
(2) Biomass performance, supply and development targets, and retail value added Business Plan are not disclosed because they are commercially confidential and disclosure may prejudice ongoing and future commercial negotiations.
(3) The Board decided that development of capital structure and dividend policy should be deferred and therefore the measure was not scored. Other scores were pro-rated accordingly.

Following this process, and based on the relative weightings and scores as set out in the table, the Committee assessed the corporate score for 2014 at 1.22. The Committee did not exercise its discretion to adjust the overall score.

Personal objectives

Each executive director is primarily assessed based on their performance in delivering the Company's strategy, enhancing shareholder value, their overall leadership of the Group and their respective divisions and in implementing the Company's values. In addition, each executive director has specific personal objectives covering the following key areas.

Director	Objective
Peter Emery	→ Group wide safety, environmental, engineering and plant performance and risk management; → Project development and execution including biomass conversion and supply chain and Industrial Emissions Directive compliance; → Development of the carbon capture and storage project consistent with agreed objectives; and → External representation of the Company in industry and business communities.
Tony Quinlan	→ Strategic developments; → Effective investor communications; → Efficient cash flow and balance sheet management; → Maintenance of core financial controls and system improvements; and → Development of senior finance support team.
Paul Taylor	→ Strategic developments; → Commodity trading performance; → Retail sales operations and strategy; → Logistics and optimisation; and → Lead commercial process and systems programme coordination.
Dorothy Thompson	→ Development of strategy and clear strategic objectives; → Lead process to embed the Group's core values; → Maintain effective external communications on regulation and policy; → Leadership for biomass transformation; and → Financial performance.

The Committee assessed the performance of each of the executive directors against the broad leadership and specific objectives. The executive directors, as members of the Executive Committee, were assessed as providing effective day-to-day leadership of the Group as a unified leadership team. Each were considered to have met or exceeded personal targets. The assessment resulted in a personal score of 1.2 for each director.

For 2014 bonus awards, the target bonuses for the Chief Executive and the other executive directors were 75% and 70% of base salary respectively. Their maximum bonuses were 150% and 140% of base salary respectively. 65% of any bonus award is paid in cash and 35% is deferred in shares that vest after three years and are forfeited if the executive leaves the Group other than as a "good leaver" before the end of that period.

Actual bonus awards for 2014

Executive director		Value of bonus £000	2014 bonus payment (as a % of base salary)
Peter Emery	Production Director	339	102%
Tony Quinlan	Finance Director	392	102%
Paul Taylor	Retail and Trading Director	285	102%
Dorothy Thompson	Chief Executive	618	110%

Note:
(1) The value of bonus shown in the table above is made up of 65% paid in cash and 35% deferred into shares.

Details of deferred bonus share awards (Audited information)

The following deferred bonus shares awarded in respect of the 2011 annual bonus vested in 2014.

Executive director		Value of vesting £000	Number of shares
Peter Emery	Production Director	166	20,943
Tony Quinlan	Finance Director	202	25,431
Paul Taylor	Retail and Trading Director	101	12,777
Dorothy Thompson	Chief Executive	321	40,515

Note:
(1) The value of the vesting is based on the quarter up share price (793.25 pence) at which the shares were subject to income tax and National Insurance Contributions on the vesting date..

Remuneration Committee report (continued)

Detail of BMP incentive outcomes (Audited information)

Awards under the BMP which were subject to performance conditions which vested in 2014 were:

TSR performance condition: 100%

Scorecard performance condition: 97.16%

Directors' interests under the BMP

The following information shows the interests of the directors as at the end of the financial year in the Company's BMP including awards made during the year:

	As at 1 January 2014	Awards made during the year	Awards vesting during the year	Awards lapsing during the year	**As at 31 December 2014**	Face value of awards (£)[4]
Peter Emery						
2011 Matching Award	125,660	–	123,875	1,785	**–**	–
2011 Deferred Award	20,943	–	20,943	–	**–**	–
Dividend shares awarded	–	22,797	22,797	–	**–**	–
2012 Matching Award	99,937	–	–	–	**99,937**	460,310
2012 Deferred Award	16,656	–	–	–	**16,656**	76,718
2013 Matching Award	83,817	–	–	–	**83,817**	386,061
2013 Deferred Award	13,970	–	–	–	**13,970**	64,346
2014 Matching Award	–	67,936	–	–	**67,936**	312,913
2014 Deferred Award	–	11,322	–	–	**11,322**	52,149
Total	360,983	102,055	167,615	1,785	**293,638**	1,352,497
Tony Quinlan						
2011 Matching Award	152,588	–	150,421	2,167	**–**	–
2011 Deferred Award	25,431	–	25,431	–	**–**	–
Dividend shares awarded	–	27,682	27,682	–	**–**	–
2012 Matching Award	121,353	–	–	–	**121,353**	558,952
2012 Deferred Award	20,225	–	–	–	**20,225**	93,156
2013 Matching Award	101,778	–	–	–	**101,778**	468,789
2013 Deferred Award	16,963	–	–	–	**16,963**	78,132
2014 Matching Award	–	82,494	–	–	**82,494**	379,967
2014 Deferred Award	–	13,749	–	–	**13,749**	63,328
Total	438,338	123,925	203,534	2,167	**356,562**	1,642,325
Paul Taylor						
2011 Matching Award	76,667	–	75,578	1,089	**–**	–
2011 Deferred Award	12,777	–	12,777	–	**–**	–
Dividend shares awarded	–	13,907	13,907	–	**–**	–
2012 Matching Award	83,981	–	–	–	**83,981**	386,816
2012 Deferred Award	13,996	–	–	–	**13,996**	64,466
2013 Matching Award	70,434	–	–	–	**70,434**	324,419
2013 Deferred Award	11,739	–	–	–	**11,739**	54,070
2014 Matching Award	–	57,089	–	–	**57,089**	262,952
2014 Deferred Award	–	9,514	–	–	**9,514**	43,281
Total	269,594	80,510	102,262	1,089	**246,753**	1,136,544
Dorothy Thompson						
2011 Matching Award	243,093	–	239,641	3,452	**–**	–
2011 Deferred Award	40,515	–	40,515	–	**–**	–
Dividend shares awarded	–	44,104	44,104	–	**–**	–
2012 Matching Award	193,332	–	–	–	**193,332**	890,487
2012 Deferred Award	32,222	–	–	–	**32,222**	148,415
2013 Matching Award	162,146	–	–	–	**162,146**	746,844
2013 Deferred Award	27,024	–	–	–	**27,024**	124,473
2014 Matching Award	–	131,425	–	–	**131,425**	605,344
2014 Deferred Award	–	21,904	–	–	**21,904**	100,890
Total	698,332	197,433	324,260	3,452	**568,053**	2,616,452

Notes:

(1) In accordance with the BMP Rules, Dividend shares are only awarded, at the time and in the event that, awards actually vest. No Dividend shares are awarded where the initial awards lapse. The number of Dividend shares awarded is calculated based on the actual dividends paid to ordinary shareholders in the period following the initial award up until the award vests.

(2) The Deferred Awards referred to above are the share awards made in respect of the deferral of cash bonus awarded each year. Those share awards operate under the rules of the BMP.

(3) Details of the conditions subject to which the above awards will vest are given on page 82.

(4) The face value of the awards is calculated based on the share price on 31 December 2014, which was 460.60 pence per share.

Total pension entitlements for defined contribution schemes (Audited information)

Executive directors are entitled to non-contributory membership of the Group's defined contribution pension plan with either an employer contribution of 20% of base salary, or have contributions to a personal pension, or cash in lieu of pension, or a combination of any of these up to a maximum contribution of 20% of base salary.

No director was a member of the defined benefit scheme.

Payments for loss of office

No director left the business during the year and therefore no payments for loss of office were made to directors during the financial year.

Shareholder voting

The table below shows the voting outcome for the Remuneration report at the Annual General Meeting held on 23 April 2014.

	For	(%)	Against	(%)	Abstain	(%)	Total
Approval of Remuneration Policy	272,348,741	82.01%	17,116,591	5.15%	42,643,941	12.84%	332,109,273
Approval of Remuneration report	271,115,051	81.63%	56,830,190	17.11%	4,164,032	1.25%	332,109,273

Statement of directors' shareholding and share interests (Audited information)

During the year, the shareholding guidelines required executive directors who receive shares by virtue of share plan awards or who receive deferred bonus shares to retain 50% of the shares received net (i.e. after income tax and national insurance contributions) until the value was equal to at least 175% and 125% of salary respectively for the Chief Executive and other executive directors. Only shares that have actually vested count towards the threshold.

In March 2014, immediately post the vesting of the 2011 BMP Awards, the shareholding guidelines were fully met to the extent that the value of the Chief Executive's shareholding was 311% of salary and each of the other executive directors held between 137% and 175% of salary. The following table shows the executive directors' shareholdings and share interests at 31 December 2014.

Name	Year ended 31 December 2014	Beneficial ownership of director or connected persons		Deferred Awards not subject to performance		BMP Awards subject to performance	Total
		Shares	SIP[2]	Share Awards[3]	SAYE Options	BMP Share Awards	
Peter Emery	Number	73,251	2,616	41,948	–	251,690	369,505
	Value at year end[1]	£337,394	£12,049	£193,212	–	£1,159,284	£1,701,940
Tony Quinlan	Number	84,450	803	50,937	3,304	305,625	445,119
	Value at year end[1]	£388,977	£3,699	£234,616	£15,218	£1,407,709	£2,050,218
Paul Taylor	Number	47,221	2,694	35,249	–	211,504	296,668
	Value at year end[1]	£217,500	£12,409	£162,357	–	£974,187	£1,366,453
Dorothy Thompson	Number	226,508	2,616	81,150	4,294	486,903	801,471
	Value at year end[1]	£1,043,296	£12,049	£373,777	£19,778	£2,242,675	£3,691,575

Notes:
(1) Share price at 31 December 2014 was 460.60 pence per share.
(2) SIP awards (operated until 2009) which are held by a Trustee, are shown above under the "Beneficial ownership" section.
(3) The deferred share awards not subject to performance are the annual bonus deferred shares.

There is no shareholding requirement for non-executive directors. The table below shows the shareholding of the non-executive directors and their connected persons and the value as at 31 December 2014.

Name	Number of shares	Value (£)[1]
Charles Berry	1,730	7,968
Tim Cobbold	1,000	4,606
Melanie Gee	7,900	36,387
David Lindsell	7,500	34,545
Tony Thorne	7,500	34,545

Notes:
(1) Share price at 31 December 2014 was 460.60 pence per share.

Remuneration Committee report (continued)

Service agreements

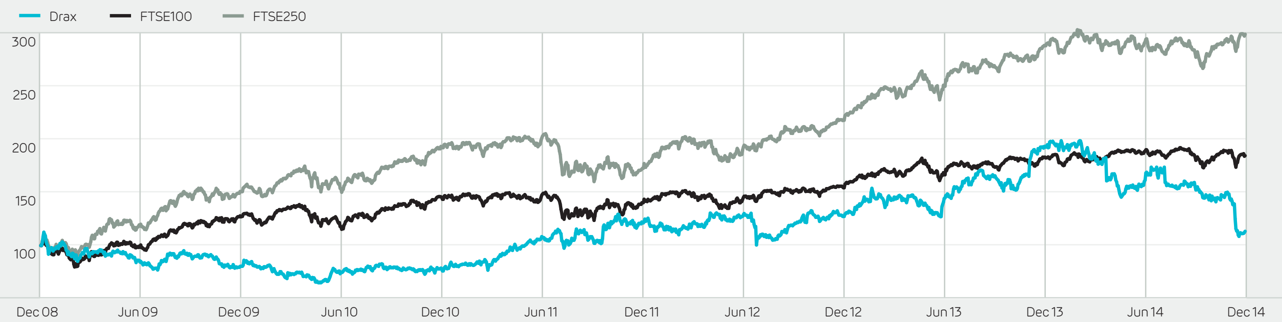
The following table shows for each person who was a director of the Company at 23 February 2015 or who served as a director of the Company at any time during the year ended 31 December 2014, the commencement date and term of the service agreement or contract for services, and details of the notice periods.

Director	Contract start date	Contract term (years)	Unexpired term at the date of publication (months)	Notice period by the Company (months)	Notice period by the director (months)
Charles Berry	17 April 2014	3 years	2 years and 2 months	6	6
Tim Cobbold	27 September 2013	3 years	1 year and 7 months	1	1
Phil Cox	1 January 2015	3 years	2 years and 10 months	6	6
Melanie Gee	1 January 2013	3 years	10 months	1	1
Peter Emery	3 September 2013	Indefinite term	Not applicable	12	12
David Lindsell	1 December 2014	3 years	2 years and 9 months	1	1
Tony Quinlan	3 September 2013	Indefinite term	Not applicable	12	12
Paul Taylor	3 September 2013	Indefinite term	Not applicable	12	12
Dorothy Thompson	3 September 2013	Indefinite term	Not applicable	12	12
Tony Thorne	29 June 2013	3 years	1 year and 4 months	1	1

Value of £100 invested

The following graph shows how the value of £100 invested in the Company on 31 December 2008 has changed and compares that performance with the changing value of the same amount invested at the same time in the FTSE100 and FTSE250 indices. These indices have been chosen as suitable broad comparators against which the Company's shareholders may judge their relative returns given that, in recent years, the Company has been a member of both the FTSE100 and FTSE250 indices. The graph reflects the TSR (determined according to usual market practice) for the Company and each of the indices referred to on a cumulative basis over the period from 31 December 2007 to 31 December 2014.

TSR performance – Drax versus FTSE100 and FTSE250



Chief Executive's pay in last five financial years

Year	2010	2011	2012	2013	**2014**
Dorothy Thompson's total single figure (£000)	1,155	1,196	1,406	3,360	**1,854**
Bonus % of maximum awarded %	100%	100%	100%	100%	**73%**
BMP Matching Award % of maximum vesting	–	–	–	–	**40.52%**

Percentage change in the Chief Executive's remuneration compared with the wider employee population

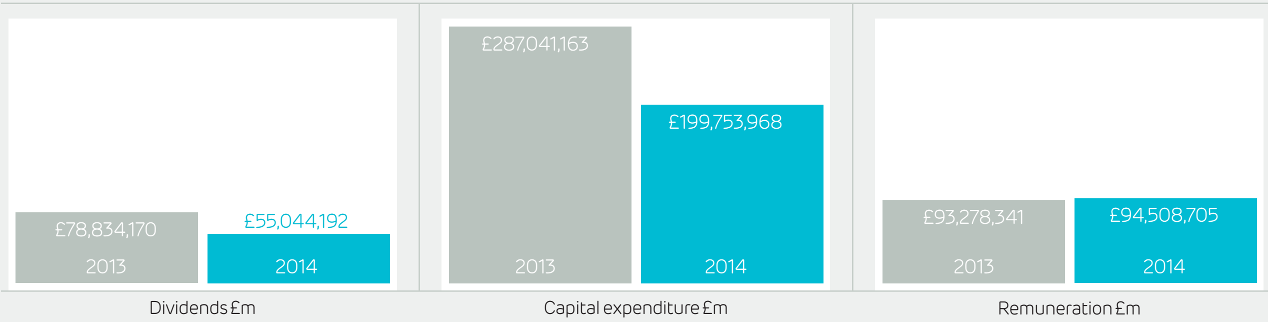
The table below shows how the percentage change in the Chief Executive's salary, benefits and bonus between 2013 and 2014 compares with the percentage change in the average of each of those components of pay for a group of employees. The Committee has selected all Group employees below executive director level based in the UK, as these are the vast majority of Group employees and provide the most appropriate comparator. It excludes employees based in the US, which is a relatively newly established business with only 135 employees at the end of 2014.

	Salary	Taxable benefits	Bonus		
	Percentage increase	Percentage increase	£000		Percentage increase
			2014	2013	
Dorothy Thompson	3.10%	0.16%	**617.9**	710.2	(13.0)%
Average for UK employees[3]	3.51%	2.75%	**7.1**	8.8	(19.14)%

Relative importance of spend on pay

The table below illustrates the relative importance of spend on pay compared to other disbursements from profit, i.e. distributions to shareholders and capital expenditure. These were the most significant outgoings from the Company in the last financial year, other than normal operating costs.

Relative importance of spend on pay £m



Statement of implementation of the Remuneration Policy in 2015

The Remuneration Policy was implemented following its approval by shareholders at the AGM in April 2014 as follows:

Salaries will be reviewed by the Committee in accordance with the Policy and will take account of the increase in base pay of the collective bargaining group and other salary reviews in the Group.

Remuneration Committee report (continued)

Balanced Corporate Scorecard

The Scorecard measures and targets for 2015 have been established for the Group and for each Group business. Details of performance against the measures will be disclosed in the 2015 Annual Report on Remuneration so far as possible whilst maintaining commercial confidentiality. The following table sets out the categories and a description of the measures.

Group	
Safety – Total recordable injury rate and significant safety breaches	The target has been set at the same level as for 2014.
Finance – Group underlying earnings per share, interest cover and Group controllable costs	Targets take account of Business Plan targets, market expectations and the terms of the Group's finance agreements.
Biomass sustainability	Improved understanding and support for biomass as a renewable will be measured using various criteria including media analysis, adoption of standards and mandating of biomass use for electricity generation.
Drax Biomass	
Pellet production	2015 production volume targets have been set based on the commissioning and operating plans of the two Gulf Cluster plants.
Proven pellet plant capacity	Target will be the plant design capacity.
Drax Power	
Regulatory support	The measure relates to the progress and outcome of processes to confirm the nature and quantum of regulatory support for Unit 1.
Unit availability	Measure of coal units forced outage rate and biomass units margin lost due to reduced availability.
Biomass supplies	Volume targets for biomass supplies secured, deliverable and under option over the short and medium term, based on requirements necessary to achieve forecast operating regimes.
Haven Power	
Cumulative sales volume	Retail sales volume measure for contracted sales for the period 2017-2019, with target based on the Business Plan target.
Retail value added	A measure of additional value benefit compared to the equivalent wholesale market sales.

Performance measures for Bonus Matching Plan

The performance measures to be used in 2015 BMP Awards are as described on page 82 in the Remuneration Policy report.

Non-executive directors' fees

No change will be made to non-executive directors' fees, except as previously stated regarding the increase to Phil Cox's fees upon him becoming Chairman.

Committee activity and key decisions in 2014

Matters considered and decisions reached by the Committee in 2014 are shown in the table below:

February	The meeting considered the 2013 Balanced Corporate Scorecard and decided not to exercise its discretion to adjust the score, and adopted the score for the purpose of determining relevant aspects of 2013 remuneration. It also adopted the 2014 Balanced Corporate Scorecard for the purpose of determining relevant aspects of 2014 remuneration. Approved executive director and senior staff personal scores and annual bonus awards for 2013. Approved the vesting of the 2011 Bonus Matching Plan Awards, which was reported in the 2014 Annual Report on Remuneration. Approved the executive directors' 2014 objectives. Considered and approved the 2013 Annual Remuneration report. Approved awards under the Bonus Matching Plan and all-employee SAYE Share Plan.
March	Reviewed senior staff salaries, including executive directors. Reviewed the Chairman's remuneration.
September	Agreed the remuneration package on the appointment of the Head of Construction, a member of senior staff.
November	Reviewed analysis of the nature and level of remuneration in the Group as a whole. Approved the Group Employment Charter. Considered an initial proposal for the operation of share plans in 2015. Reviewed and approved certain remuneration and termination terms for members of senior staff (none of whom were directors). Reviewed and considered the approach to assessment of the 2014 Balanced Corporate Scorecard based on forecast results and relevant events. Reviewed the fees and independence of PwC, the Committee's remuneration advisers. Reviewed the Committee's Terms of Reference.

In 2014, the Remuneration Committee comprised Tony Thorne, Chairman of the Committee; Charles Berry, Chairman of the Company; Tim Cobbold; David Lindsell; and Melanie Gee, all of whom are independent non-executive directors. The Group Company Secretary acted as Secretary to the Committee.

The Chief Executive was invited to attend meetings of the Committee except when her own remuneration was discussed.

The Committee met on seven occasions during the year and its members' attendance record is set out on page 67 along with details of other attendees.

Advisers to the Committee

The adviser to the Committee for the year was PricewaterhouseCoopers LLP ("PwC"). PwC is an independent adviser appointed by the Committee in October 2010, following a competitive tender process, to advise on market practice and remuneration of executive and non-executive directors.

From time to time the Group engages PwC to provide financial, taxation and related advice on specific matters. The Committee will continue to monitor such engagements in order to be satisfied that they do not affect PwC's independence as an adviser to the Committee.

PwC was paid £11,000 during 2014 in respect of advice given to the Committee.

The Committee also considers the views of the Chief Executive regarding the performance and remuneration of the other executive directors and senior staff.

The Committee is also advised by Philip Hudson, the Group Company Secretary and by Richard Neville, the Head of Human Resources.

Remuneration Committee report (continued)

Other matters

Wider employee population

The average pensionable pay of an executive director is 9.45 times the average of pensionable pay for all UK employees within the Group.

External appointments

Remuneration received by executive directors for service as a non-executive director elsewhere is retained.

Dorothy Thompson is a non-executive director of Johnson Matthey plc and also of the Court of the Bank of England and received £63,455 and £6,250 respectively in fees for those appointments during 2014.

Tony Quinlan is a non-executive member of the Port of London Authority board and received £31,725 in fees for that appointment during 2014.

Peter Emery is a non-executive director of NG Bailey Limited and received £39,000 in fees for that appointment during 2014.

This report was reviewed and approved by the Remuneration Committee on 23 February 2015.

Tony Thorne
Chairman of the Remuneration Committee

Independent auditor's report to the members of Drax Group plc

Opinion on financial statements of Drax Group plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2014 and of the group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and parent company balance sheets, the Consolidated cash flow statement, the Consolidated statement of changes in equity, the related Group notes 1 to 36 and the related parent Company only notes 1 to 8. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going concern

As required by the Listing Rules we have reviewed the directors' statement that the Group is a going concern, contained within the operational and financial performance review. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team and are the same risks as identified in the prior year.

Risk	How the scope of our audit responded to the risk
Useful economic life and carrying value of property, plant and equipment The net book value of fixed assets at 31 December 2014 is £1.7 billion (2013: £1.6 billion). The assessment and timing of whether assets meet the capitalisation criteria set out in IAS 16 Property, Plant and Equipment, the estimation of appropriate useful economic lives and the assessment of whether any impairment indicators are present, such as redundant assets, all require judgement. Further explanation is included in the Group's critical accounting judgements, estimates and assumptions in note 3 and the Audit Committee report on page 74.	We tested a sample of fixed asset additions to third party evidence such as purchase invoice and bank statement to assess the validity, valuation and appropriateness of capitalisation of those additions. We considered the circumstances as to whether any additions or prevailing events would give rise to indicators of impairment such as redundant assets. We reviewed management assumptions over the carrying value and useful economic life of key assets by consideration of internal and external available data. We challenged management's assumptions in estimating the useful economic lives of existing and new assets capitalised in the year based on our knowledge of the business.
Valuation of commodity contracts The valuation of commodity contracts is complex and requires judgement in areas such as estimates of future prices, market movements and assumptions of credit risk. The accounting standards governing the availability and application of hedge accounting are complex, and require judgement in their applications. Further detail of the key judgements are disclosed in the Group's critical accounting judgements, estimates and assumptions in note 3 and the Audit Committee report on page 74.	We used financial instruments specialists to test management's key judgements and calculations, including testing a sample of trades undertaken to supporting trade tickets confirming key information such as volumes and market price. We challenged the assumptions involved in determining valuation, hedge effectiveness and credit risk, including analysis of the forward price curves used and hedge effectiveness documentation maintained.

Independent auditor's report to the members of Drax Group plc (continued)

Risk	How the scope of our audit responded to the risk
Valuation of biomass and coal stocks Biomass stocks of £80 million and coal stocks of £148 million (2013: £36m and £141m respectively) are held on the balance sheet at year end. The valuation of biomass and coal stocks is dependent upon the estimation or measurement of the tonnage held, the calorific value, its purchase price and its net realisable value. The weighted average cost calculation is complex for both coal and biomass and this results in increasing risk of management error or bias and therefore an increased risk of material misstatement. Further details of the key accounting policy judgements are included in note 3.	Our audit procedures include testing the underlying weighted average cost calculation for both coal and biomass to source data such as purchase invoice for amounts delivered in the year. This also included sample testing of the calorific value to third party laboratory reports or purchase invoice. We also assessed the results of external surveys completed on the coal pile and attended the survey to assess the controls over the accuracy of the survey. We assessed biomass deliveries and usage associated with the calculation of biomass volumes held at the year end. On a sample basis we also received external stock confirmation for stocks held off site.
Valuation and recoverability of Renewable Obligation Certificates (ROCs) £174 million of ROCs are held on the balance sheet at the year end (2013: £140 million). ROCs are recognised as they are earned through generating electricity from burning biomass and initially recognised at fair value (reducing the cost of biomass in the income statement) and subsequently written down to the net realisable value as appropriate. Judgement is required from management in estimating both the initial fair value and estimated net realisable value, including the value of any recycling fund element. Further detail is explained in the Group's critical accounting judgements, estimates and assumptions in note 3 and the Audit Committee report on page 74.	We have assessed the initial fair value of ROCs by agreement of the buy-out price to available third party supporting information and external sales agreements. We have also challenged the estimation by management of the recycling fund element which impacts the estimated net realisable value of the ROCs held in the balance sheet at year end. This included comparison to other available third party estimates. We gain assurance over the ROCs generated in the year by agreement to Ofgem confirmation certificates and available burn data.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £6.1 million (2013: £10 million), which is approximately 5% (2013: 7%) of adjusted pre-tax profit, and below 1% (2013: 1%) of equity. Pre-tax profit has been adjusted by excluding the effect of volatility from unrealised gains or losses on derivative contracts and the one-off CESP settlement (as described in note 2) from our determination. Adjusted pre-tax profit is an appropriate base for determining materiality as shareholders place significant value on the income statement, adjusted for these items. The percentage applied to adjusted pre-tax profit has been reduced to align more closely with comparable companies.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.1 million (2013: £0.2 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at three locations (2013: the same three locations), being Drax Power, Haven Power and Drax Biomass. All of these were subject to a full audit. These three locations represent the principal business units and account for all of the Group's net assets, revenue and profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the three locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £2.9 million to £5.5 million (2013: £5.0 million to 8.5 million).

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team follow a programme of planned visits that has been designed so that the Senior Statutory Auditor visits the most significant locations where the Group audit scope was focused at least once a year. In years when we do not visit a significant component we will include the component audit partner in our team briefing, discuss their risk assessment and review documentation of the findings from their work.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate governance statement

Under the Listing Rules we are also required to review the part of the Corporate governance statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual report is fair, balanced and understandable and whether the Annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

James Leigh, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

23 February 2015

Consolidated income statement

	Notes	Years ended 31 December 2014 £m	2013 £m
Revenue	4	**2,805.0**	2,062.1
Fuel costs in respect of generation		**(1,224.8)**	(945.8)
Cost of power purchases		**(715.4)**	(352.5)
Grid charges		**(334.6)**	(238.8)
Other retail costs		**(80.4)**	(79.9)
Total cost of sales		**(2,355.2)**	(1,617.0)
Gross profit		**449.8**	445.1
Operating and administrative expenses	5	**(220.4)**	(215.1)
EBITDA[(1)]	4	**229.4**	230.0
CESP settlement	2	**(20.0)**	–
Depreciation and amortisation	11	**(80.7)**	(64.8)
Unrealised gains/(losses) on derivative contracts	20	**65.8**	(110.2)
Operating profit		**194.5**	55.0
Interest payable and similar charges	6	**(29.9)**	(24.8)
Interest receivable	6	**1.3**	1.6
Profit before tax		**165.9**	31.8
Tax:			
– Before effect of changes in rate of corporation tax	7	**(37.2)**	(2.7)
– Effect of changes in rate of corporation tax	7	**–**	22.3
Total tax (charge)/credit		**(37.2)**	19.6
Profit for the year attributable to equity holders		**128.7**	51.4
Underlying profit for the year[(2)]	9	**96.0**	142.3
Earnings per share		**pence**	pence
– Basic and diluted	9	**32**	13

All results relate to continuing operations.

(1) EBITDA is defined as profit before interest, tax, depreciation, amortisation and unrealised gains and losses on derivative contracts and CESP settlement. Non-statutory measures are described fully in note 2.

(2) Underlying profit for the year is profit for the year before the post tax effect of the unrealised gains/(losses) on derivative contracts and the CESP settlement. A full reconciliation of underlying earnings is provided in note 9.

Consolidated statement of comprehensive income

	Notes	Years ended 31 December 2014 £m	2013 £m
Profit for the year		**128.7**	51.4
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension scheme	33	**3.4**	(2.8)
Deferred tax on actuarial gains/(losses) on defined benefit pension scheme	7	**(0.7)**	0.6
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(0.2)**	2.0
Fair value gains/(losses) on cash flow hedges	28	**100.4**	(58.7)
Deferred tax on cash flow hedges before corporation tax rate change	7	**(20.1)**	8.6
Impact of corporation tax rate change on deferred tax on cash flow hedges	7	**–**	2.6
Other comprehensive income/(expense)		**82.8**	(47.7)
Total comprehensive income for the year attributable to equity holders		**211.5**	3.7

Consolidated balance sheet

	Notes	As at 31 December 2014 £m	2013 £m
Assets			
Non-current assets			
Goodwill and other intangible assets	10	**10.7**	37.2
Property, plant and equipment	11	**1,697.2**	1,581.4
Derivative financial instruments	20	**111.2**	8.7
		1,819.1	1,627.3
Current assets			
Inventories	13	**242.4**	196.5
ROC and LEC assets	14	**184.5**	139.5
Trade and other receivables	15	**368.7**	246.2
Derivative financial instruments	20	**139.1**	29.6
Short-term investments	16	**40.1**	20.0
Cash and cash equivalents	17	**180.9**	267.3
		1,155.7	899.1
Liabilities			
Current liabilities			
Trade and other payables	18	**468.3**	365.5
Current tax liabilities		**1.4**	9.7
Borrowings	19	**0.6**	0.2
Derivative financial instruments	20	**130.7**	105.2
		601.0	480.6
Net current assets		**554.7**	418.5
Non-current liabilities			
Borrowings	19	**319.0**	215.9
Derivative financial instruments	20	**232.2**	212.1
Provisions	23	**29.8**	32.4
Deferred tax liabilities	24	**185.9**	133.8
Retirement benefit obligations	33	**34.3**	41.7
		801.2	635.9
Net assets		**1,572.6**	1,409.9
Shareholders' equity			
Issued equity	25	**46.8**	46.5
Capital redemption reserve	27	**1.5**	1.5
Share premium	27	**422.8**	422.5
Merger reserve	27	**710.8**	710.8
Hedge reserve	28	**16.4**	(63.9)
Retained profits	29	**374.3**	292.5
Total shareholders' equity		**1,572.6**	1,409.9

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 23 February 2015.

Signed on behalf of the Board of directors:

Dorothy Thompson CBE
Chief Executive

Tony Quinlan
Finance Director

Consolidated statement of changes in equity

	Issued equity £m	Capital redemption reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Retained profits £m	Total £m
At 1 January 2013	46.4	1.5	420.7	710.8	(16.4)	314.3	1,477.3
Profit for the year	–	–	–	–	–	51.4	51.4
Other comprehensive expense	–	–	–	–	(47.5)	(0.2)	(47.7)
Total comprehensive (expense)/income for the year	–	–	–	–	(47.5)	51.2	3.7
Equity dividends paid (note 8)	–	–	–	–	–	(78.8)	(78.8)
Issue of share capital (note 25)	0.1	–	1.8	–	–	–	1.9
Movement in equity associated with share-based payments (note 26)	–	–	–	–	–	5.8	5.8
At 1 January 2014	46.5	1.5	422.5	710.8	(63.9)	292.5	1,409.9
Profit for the year	–	–	–	–	–	128.7	128.7
Other comprehensive income	–	–	–	–	80.3	2.5	82.8
Total comprehensive income for the year	–	–	–	–	80.3	131.2	211.5
Equity dividends paid (note 8)	–	–	–	–	–	(55.0)	(55.0)
Issue of share capital (note 25)	0.3	–	0.3	–	–	–	0.6
Movement in equity associated with share-based payments (note 26)	–	–	–	–	–	5.6	5.6
At 31 December 2014	**46.8**	**1.5**	**422.8**	**710.8**	**16.4**	**374.3**	**1,572.6**

Consolidated cash flow statement

	Notes	Years ended 31 December 2014 £m	2013 £m
Cash generated from operations	30	**127.3**	170.5
Income taxes paid		**(14.2)**	(10.6)
Other (losses)/gains		**(0.4)**	2.2
Interest paid		**(23.2)**	(21.3)
Interest received		**0.2**	1.5
Net cash from operating activities		**89.7**	142.3
Cash flows from investing activities			
Purchases of property, plant and equipment		**(200.1)**	(301.7)
Short-term investments		**(20.1)**	10.0
Net cash used in investing activities		**(220.2)**	(291.7)
Cash flows from financing activities			
Equity dividends paid	8	**(55.0)**	(78.8)
Proceeds from issue of share capital		**0.6**	1.9
Repayment of borrowings		**(0.3)**	(0.7)
New borrowings	19	**100.0**	125.0
Other financing costs paid		**(1.2)**	(2.4)
Net cash generated from financing activities		**44.1**	45.0
Net decrease in cash and cash equivalents		**(86.4)**	(104.4)
Cash and cash equivalents at 1 January		**267.3**	371.7
Cash and cash equivalents at 31 December	17	**180.9**	267.3

Notes to the consolidated financial statements

1 General information

Simplifying the numbers... These notes provide additional detail on the disclosures within our annual report and accounts. Throughout the notes we have included explanations of the information presented. In general, the notes to the financial statements include additional information required by law, International Financial Reporting Standards ("IFRS") or other regulations to facilitate a better, more detailed understanding of the primary financial statements set out on pages 100 to 104.

Our business model... Where relevant to do so, we have set out key elements of our business model and strategy (see pages 6 to 15) and how pursuit of this has impacted our financial results.

Drax Group plc (the "Company") is incorporated in England and Wales under the Companies Act. The Company and its subsidiaries (together the "Group") predominantly operate in the electricity generation and supply industry within the UK. The address of the Company's registered office and principal establishment is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom. The principal operating companies of the Group are disclosed in note 4 to the Company's separate financial statements, which follow these consolidated financial statements. The principal activities of the Group are the sourcing of fuel from both domestic and international sources, the generation and sale of electricity into the wholesale market at Drax Power Station, and the sale of retail electricity to business consumers by Haven Power Limited ("Haven Power").

2 Basis of preparation

This section describes the accounting standards we have followed in preparing these financial statements and the interpretation of accounting standards into accounting policies which are relevant to our Group. Wherever possible, we have explained how our accounting policies work in practice within the relevant note to the consolidated financial statements, and have not sought to repeat that information here.

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

The financial statements have been prepared on a going concern basis, as explained in Operational and financial performance on page 44, and on the historical cost basis, except for certain financial assets and liabilities that have been measured at fair value.

Basis of consolidation

These consolidated financial statements incorporate the financial results of the Company and of all entities controlled by the Company, (its subsidiaries) made up to 31 December each year. The company owns 100% of the equity of all subsidiaries consolidated within these financial statements.

The impact of all intra-group transactions are eliminated on consolidation.

Accounting policies

Those accounting policies that are material to the understanding of our financial statements have been incorporated within the relevant note or are set out below:

Revenue recognition

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

Revenues from the sale of electricity are recorded based upon output delivered at rates specified under contract terms or prevailing market rates as applicable.

Revenues from sales of ROCs and LECs are recorded at the invoiced value, net of VAT. Revenue is recognised when the risks and rewards of ownership have been substantially transferred to a third party, that being when the ROC or LEC is transferred to the account of that third party.

Notes to the consolidated financial statements (continued)

2. Basis of preparation (continued)

Where goods or services are exchanged for goods or services of similar nature and value, the exchange is not treated as giving rise to revenue. Where goods or services are exchanged for goods or services of a dissimilar nature, the exchange is treated as giving rise to revenue. The revenue is measured at the fair value of goods or services received, adjusted by the amount of any cash or cash equivalents received or paid. If the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents received or paid.

Revenue from the sale of electricity directly to customers through our retail business, Haven Power is recorded after deduction of agreed discounts, VAT and Climate Change Levy. Revenue is recognised on the supply of electricity when a contract exists, supply has taken place, a quantifiable price has been established or can be determined and the receivables are expected to be recovered at the point of sale. Energy supplied, but not yet measured or billed, is calculated based on consumption statistics and selling price estimates.

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction and from the translation at the exchange rate ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies. Foreign exchange gains and losses resulting from the settlement of such transactions, are recognised in the income statement within finance costs.

Foreign operations

The assets and liabilities of foreign operations with a functional currency other than sterling are translated to sterling using published exchange rates at the reporting date. The income and expenses of such operations are translated to sterling using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the retranslation of these operations are recognised in reserves.

Community Energy Saving Programme ("CESP")

As described in Operating and financial performance on page 39, during the year the Group reached settlement with Ofgem regarding its non-compliance with CESP.

As settlement has been agreed at the balance sheet date, full provision has been made in the financial statements for the anticipated economic flows. Trade and other payables include an accrual for the £25 million cash settlement due to Ofgem and National Energy Action. Trade and other receivables include an income accrual for the £5 million settlement reached with a third party for related breach of contract.

Recognising the materiality of the settlement to the Group in both quantitative and qualitative terms, the net settlement has been presented separately on the face of the income statement.

The settlement with Ofgem incorporates £3 million of additional remedies that will be delivered by a third party as further consumer redress measures. This represents the settlement of an obligation with services and has no financial impact on the Group. Accordingly no entries have been made in the financial statements in respect of this element of the transaction.

As a transaction that is one-off in nature and does not reflect the ongoing operational performance of the Group, the impact of the CESP settlement has been excluded from our non-statutory financial performance measures, including EBITDA and underlying profit.

Non-statutory measures of financial performance

We present two non-statutory measures on the face of the income statement. Our non-statutory measures exclude certain items, including any transactions considered to be one-off in nature, to provide a measure of the underlying trading and operational performance of the Group.

EBITDA is the primary measure we use to assess our financial performance. EBITDA is defined as profit before interest, tax, depreciation, amortisation and unrealised gains and losses on derivative contracts. In 2014, it excludes the one-off settlement of CESP described above.

Underlying measures, including underlying profit before and after tax and underlying earnings per share (EPS) exclude the impact of unrealised gains and losses on derivative contracts and, in 2014, the one-off settlement of CESP. Underlying profit after tax and EPS exclude the post-tax effect of these items.

Under our current distribution policy, dividends are calculated based upon 50% of underlying profit after tax. A reconciliation from profit for the year attributable to equity holders to underlying profit after tax is provided in note 9.

2. Basis of preparation (continued)

Adoption of new and revised accounting standards

In 2014, a number of new, amended or revised standards and interpretations became effective. The Group adopted the following standards from 1 January 2014:

IAS 32 (amended) – *Offsetting financial assets and liabilities.*
IFRS 10 (amended) – *Consolidated financial statements.*
IFRS 12 (amended) – *Disclosure of interests in other entities.*
IAS 27 (revised) – *Separate financial statements.*
IAS 36 (amended) – *Impairment of Assets.*
IAS 39 (amended) – *Financial Instruments: Recognition & Measurement.*
IFRIC 12 (interpretation) – *Levies.*

The adoption of these standards and interpretations has not had a material impact on the financial statements of the Group.

The disclosures required by IFRS 12 in respect of the Group's interest in Capture Power Limited have been included at note 12.

At the date of authorisation of these financial statements, the following standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and some of which were pending endorsement by the EU):

IFRS 9 – *Financial Instruments* – effective for annual reporting periods beginning on or after 1 January 2018.
IFRS 15 – *Revenue from Contracts with Customers* – effective for accounting periods beginning on or after 1 January 2017.
IAS 19 (amended) – *Defined Benefit Plans: Employee Contributions* – effective for annual reporting periods beginning on or after 1 February 2015.
Annual improvements to 2010-2012 Cycle – all amendments are effective for annual reporting periods beginning on or after 1 February 2015.
Annual improvements to 2011-2013 Cycle – all amendments are effective for annual reporting periods beginning on or after 1 January 2015.
Annual improvements to 2012-2014 Cycle – all amendments are effective for annual reporting periods beginning on or after 1 July 2016.
IFRS 11 (amended) – *Joint Arrangements* – applicable to annual reporting periods beginning on or after 1 January 2016.
IAS 16 (amended) – *Property, Plant and Equipment* and IAS 38 (amended) *Intangible Assets*– applicable to annual reporting periods beginning on or after 1 January 2016.
IAS 27 (amended) – *Separate Financial Statements* – applicable to annual reporting periods beginning on or after 1 January 2016.
IFRS 10 (amended) – *Consolidated Financial Statements* and IAS 28 (amended) *Investments in Associates and Joint Ventures (2011)* – effective for annual reporting periods beginning on or after 1 January 2016.
IAS 1 (amended) – *Presentation of Financial Statements* – effective for annual reporting periods beginning on or after 1 January 2016.

The Group is in the process of assessing the full impact of adopting IFRS 9 . The Group currently intends to adopt the standard in the earliest permitted accounting period, subject to endorsement by the EU.

Adoption of the other standards in future periods is not expected to have a material impact on the financial statements of the Group.

Notes to the consolidated financial statements (continued)

3 Accounting judgements, estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the values of assets and liabilities and the amounts of income and expenditure recorded during the period. These estimates are based on our reasonable knowledge of the amount, event or actions that require judgement, but the actual amount may ultimately differ from the initial or subsequent estimates.

Critical accounting judgements, estimates and assumptions

The most important of these judgements – those that carry the most significant risk of an outcome that differs from the amount recognised in the financial statements – are as follows:

Property, plant and equipment – Estimated useful lives and residual values are reviewed annually, taking into account prices prevailing at each balance sheet date. The carrying values of property, plant and equipment are also reviewed for impairment where there has been a trigger event (that is, an event which may have resulted in impairment) by assessing the present value of estimated future cash flows and net realisable value compared with net book value. The calculation of estimated future cash flows and residual values is based on management's reasonable estimates of future prices, output and costs, and is therefore subjective. Estimated useful lives are based on past experience, future replacement cycles and other available evidence; however an inherent degree of judgement remains.

Derivatives – Derivative financial instruments are stated in the balance sheet at their fair value. Changes in the fair value of derivatives are recorded for each period in earnings unless specific hedge accounting criteria are met. The fair values of derivative instruments for commodities and foreign exchange rates are determined using forward price curves. Forward price curves represent the Group's estimates of the prices at which a buyer or seller could contract today for delivery or settlement of a commodity or foreign exchange payment or receipt, at future dates. The Group generally bases forward price curves upon readily obtainable market price quotations, as the Group's commodity and forward foreign exchange contracts do not generally extend beyond the actively traded portion of these curves. However, the forward price curves used are only an estimate of how future prices will move and are, therefore, subjective. Where derivative financial instruments include options these are valued using an option pricing model. Inputs to the model include market commodity prices, forward price curves, the term of the option, discount rate and assumptions around volatility based on historical movements. The inputs include assumptions around future transactions and market movements, as well as credit risk and are, therefore, subjective.

ROCs and LECs – ROCs and LECs are stated within the balance sheet at fair value on the date of recognition and subsequently written down to net realisable value where appropriate. Inherent in the calculation of this fair value and in the estimate of net realisable value is an assumption regarding future sales prices in the market. Historic experience indicates that the assumptions used in the valuation are reasonable; however actual sales prices may differ.

Other accounting judgements, estimates and assumptions

Pensions – The Group operates an approved defined benefit scheme. The cost of providing benefits is determined using the projected unit credit method and actuarial valuations of the plan assets and liabilities are carried out as at the balance sheet date. Inherent in these valuations are key assumptions, including discount rates, inflation rates, salary and pension increases, and mortality rates. These actuarial assumptions are reviewed annually and modified as appropriate. The Group believes that the assumptions utilised in recording obligations under the scheme are reasonable based on prior experience, market conditions and the advice of scheme actuaries. However, actual results may differ from such assumptions.

Taxation – 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, taking into account the nature of the losses, and the certainty of the relevant offsetting income streams.

Impairment – The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy detailed in note 10. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates.

Inventories – Fuel inventories are valued on a weighted average cost basis according to invoiced purchase prices, limited to net realisable value where appropriate. The quantum of fuel on-site is calculated using a number of complementary methodologies with the most prudent adoption for financial accounting purposes. Whilst value is largely based on observable costs, an element of judgement remains in determining the requirement, if any, for a provision against stock values based on available data such as market price trends and independent stock surveys and also in determining appropriate values in respect of fuel received but not invoiced at the balance sheet date.

4 Segmental reporting

We view our operational business as two distinct areas – or segments – the generation of electricity at Drax Power Station ("Generation") and the supply of power to business customers ("Retail"). The respective financial performance of these segments is shown here (and described in far greater detail in Operational and financial performance on pages 32 to 37). The costs incurred by our US business, which is still in the development phase, during the current and previous year have been included in the Generation segment.

The Generation business segment spans all three core activities of the Group in that it incorporates sourcing of coal, biomass and other fuels, generation and supply (through its sales to the wholesale electricity market).

The Retail business segment contributes to the supply activities of the Group, through sales direct to the small and medium enterprise and industrial and commercial markets.

Grow our retail business... Haven Power, our retail business, has demonstrated strong sales volume growth in the current and previous year.

Information reported to the Board and for the purposes of assessing performance and making investment decisions is organised into two operating segments. The measure of profit or loss for each reportable segment, presented to the Board on a regular basis, is EBITDA.

Segment revenues and results

The following is an analysis of the Group's results by reporting segment for the year ended 31 December 2014:

	Year ended 31 December 2014			
	Generation £m	Retail £m	Eliminations £m	Consolidated £m
Revenue				
External sales	1,714.6	1,090.4	–	2,805.0
Inter-segment sales	735.2	–	(735.2)	–
Total revenue	2,449.8	1,090.4	(735.2)	2,805.0
Result				
Segment EBITDA	234.9	(5.5)	–	229.4
Central costs				
CESP settlement				(20.0)
Depreciation and amortisation				(80.7)
Unrealised gains on derivative contracts				65.8
Operating profit				194.5
Net finance costs				(28.6)
Profit before tax				165.9

Inter-segment sales represent the sale of power, ROCs and LECs from the Generation business to the Retail business. All inter-segment sales are entered into on arms length terms.

Notes to the consolidated financial statements (continued)

4. Segmental reporting (continued)

The following is an analysis of the Group's results by reporting segment for the year ended 31 December 2013:

	Year ended 31 December 2013			
	Generation £m	Retail £m	Eliminations £m	Consolidated £m
Revenue				
External sales	1,311.5	750.6	–	2,062.1
Inter-segment sales	468.4	–	(468.4)	–
Total revenue	1,779.9	750.6	(468.4)	2,062.1
Result				
Segment EBITDA	235.5	(5.5)	–	230.0
Central costs				
Depreciation and amortisation				(64.8)
Unrealised losses on derivative contracts				(110.2)
Operating profit				55.0
Net finance costs				(23.2)
Profit before tax				31.8

Assets and working capital are monitored on a Group basis, with no separate disclosure of asset by segment made in the management accounts, and accordingly no separate asset disclosure is made here. However, spend on key capital projects is monitored. Total spend on the biomass transformation project during 2014 was £125 million (2013: £228 million), of which £85 million (2013: £117 million) relates to construction of assets within our US business.

The accounting policies of the reportable segments are the same as the Group's accounting policies, which are described in the notes to the consolidated financial statements. The revenue and results of both reporting segments presented are subject to seasonality as detailed in Operational and financial performance, page 44.

Major customers

Total revenue for the year ended 31 December 2014 includes amounts of £320.6million and £288.7 million (2013: £222.3 million) derived from two customers (2013: single customer), each representing 10% or more of the Group's revenue for the year. These revenues arose in the generation segment.

5 Operating expenses

This note sets out the material components of the "Operating and administrative expenses" line on our consolidated income statement, page 100. including a detailed breakdown of the fees we paid to our auditor, Deloitte LLP, in respect of services they have provided to us during the year.

Maximising the value of the Group... We remain focused on achieving strong operational cost performance and will continue to carefully control our underlying cost base.

	Years ended 31 December	
	2014 £m	2013 £m
The following charges have been included in arriving at operating profit:		
Staff costs (note 32)	**94.5**	93.3
Repairs and maintenance expenditure on property, plant and equipment	**47.1**	59.0
Other operating and administrative expenses	**78.8**	62.8
Total other operating and administrative expenses	**220.4**	215.1

5. Operating expenses (continued)

Auditor's remuneration

	Years ended 31 December 2014 £000	2013 £000
Audit fees:		
Fees payable for the audit of the Group's consolidated financial statements	**338**	293
Fees payable for the audit of the Company's subsidiaries pursuant to legislation	**60**	53
	398	346
Other fees:		
Pursuant to legislation – interim review	**62**	62
Other services	**52**	8
Total audit related fees	**512**	416
Taxation services	**7**	5
Total non-audit fees	**7**	5
Total auditor's remuneration	**519**	421

6 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 our provision for reinstatement and net interest charged on the Group's defined benefit pension scheme. 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 2014 £m	2013 £m
Interest payable and similar charges:		
Interest payable on bank borrowings	**(16.8)**	(13.5)
Foreign exchange losses	**(5.5)**	(4.0)
Unwinding of discount on provisions (note 23)	**(1.1)**	(0.9)
Amortisation of deferred finance costs	**(3.0)**	(2.9)
Net finance cost in respect of defined benefit scheme (note 33)	**(1.5)**	(1.7)
Other financing charges	**(2.0)**	(1.8)
Total interest payable and similar charges	**(29.9)**	(24.8)
Interest receivable:		
Interest income on bank deposits	**1.3**	1.6
Total interest receivable	**1.3**	1.6

Notes to the consolidated financial statements (continued)

7 Taxation

The tax charge includes both current and deferred tax. Current tax is the amount payable on this year's taxable profits (which are adjusted for items upon which we are not required to pay tax, or in some cases for items upon which we are required to pay additional tax in respect of tax-disallowed expenditure). 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.

The tax charge/(credit) reflects the estimated effective tax rate on profit before tax for the Group for the year ended 31 December 2014 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the income statement.

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 payable or recoverable on the difference between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is considered more likely than not that taxable profit will be available against which deductible temporary differences can be utilised.

In light of the complex nature of the CESP settlement, there is currently uncertainty as to the likely level of any tax deduction available for the net settlement cost, on this basis no tax relief has been recognised in respect of this matter in these financial statements.

	Years ended 31 December	
	2014 £m	2013 £m
Tax charge/(credit) comprises:		
Current tax	**5.9**	5.5
Deferred tax		
– Before impact of corporation tax rate change	**31.3**	(2.8)
– Impact of corporation tax rate change	**–**	(22.3)
Tax charge/(credit)	**37.2**	(19.6)

	Years ended 31 December	
	2014 £m	2013 £m
Tax on items charged/(credited) to other comprehensive income:		
Deferred tax on actuarial losses on defined benefit pension scheme (note 24)	**0.7**	(0.6)
Deferred tax on cash flow hedges (note 24)	**20.1**	(11.2)
	20.8	(11.8)

UK corporation tax is calculated at 21.5% (2013: 23.25%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The charge/(credit) for the year can be reconciled to the profit per the income statement as follows:

	Years ended 31 December	
	2014 £m	2013 £m
Profit before tax	**165.9**	31.8
Profit before tax multiplied by the rate of corporation tax in the UK of 21.5% (2013: 23.25%)	**35.7**	7.4
Effects of:		
Adjustments in respect of prior periods	**(1.6)**	(7.3)
Expenses not deductible for tax purposes	**5.4**	1.2
Other	**(2.3)**	1.4
Impact of change to corporation tax rate	**–**	(22.3)
Total tax charge/(credit)	**37.2**	(19.6)

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 earnings (see note 9) to our shareholders each year. The remaining 50% is retained for reinvestment in the future growth of the business.

	Years ended 31 December	
	2014 £m	2013 £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 2014 of 4.7 pence per share paid on 10 October 2014 (2013: 8.7 pence per share paid on 11 October 2013)	**19.0**	35.0
Final dividend for the year ended 31 December 2013 of 8.9 pence per share paid on 14 May 2014 (2013: 10.9 pence per share paid on 17 May 2013)	**36.0**	43.8
	55.0	78.8

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 2014 of 7.2 pence per share (equivalent to approximately £29.0 million) payable on or before 15 May 2015. The final dividend has not been included as a liability as at 31 December 2014.

9 Earnings per share

Earnings per share ("EPS") represents the amount of our earnings (post-tax profits) that are attributable to each ordinary share we have in issue. Basic EPS is calculated by dividing our earnings by the weighted average number of ordinary shares that were in issue during the year. Diluted EPS demonstrates the impact if all outstanding share options (such as those to be issued under our employee share schemes – see note 26), 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 8). Underlying EPS removes the post-tax effect of fair value movements on derivative contracts and the CESP settlement, incurred in 2014, from earnings. Multiplying underlying basic EPS by 50% will give the total dividends per share for the period.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	Years ended 31 December	
	2014 £m	2013 £m
Earnings:		
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	**128.7**	51.4
Unrealised gains and losses on derivative contracts	**(65.8)**	110.2
CESP settlement	**20.0**	–
Tax impact of the above	**13.1**	(19.3)
Underlying earnings attributable to equity holders of the Company	**96.0**	142.3

Notes to the consolidated financial statements (continued)

9. Earnings per share (continued)

	Years ended 31 December	
	2014	2013
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**404.4**	402.3
Effect of dilutive potential ordinary shares under share plans	**2.9**	4.6
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	**407.3**	406.9
Earnings per share – basic (pence)	**32**	13
Earnings per share – diluted (pence)	**32**	13
Underlying earnings per share – basic (pence)	**24**	35
Underlying earnings per share – diluted (pence)	**24**	35

10 Goodwill and other intangible assets

Goodwill arises on the acquisition of a business, when the consideration paid exceeds the fair value of the assets acquired. All of our goodwill relates to the acquisition of Haven Power, our retail business, in 2009. Other intangibles include any amounts paid in respect of carbon emission allowances for future years.

	Goodwill £m	Carbon £m	Total £m
Cost and carrying amount:			
At 1 January 2013	10.7	39.0	49.7
Utilisation	–	(39.0)	(39.0)
Additions at cost	–	26.5	26.5
At 1 January 2014	10.7	26.5	37.2
Utilisation	–	(26.5)	(26.5)
Additions at cost	–	–	–
At 31 December 2014	**10.7**	–	**10.7**

Goodwill

Goodwill arising on the Haven Power acquisition has been allocated to the Haven Power cash-generating unit. At 31 December 2014, the fair value of goodwill was significantly in excess of its book value reflecting Haven Power's cash generative profile. Sensitivity analysis performed over the goodwill balance indicates the level of change required is beyond what would be considered reasonably possible. Accordingly this sensitivity analysis has not been disclosed.

The recoverable amount of Haven Power is calculated annually, based on a value in use calculation. The key assumptions in this calculation relate to the discount rate and future cash flows. Management estimates the discount rate using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the business. The first five years of cash flows are based upon the five year Business Plan approved by the Board. Future cash flows have been taken in perpetuity, assuming no growth rate is applied to the final year of the Business Plan. The pre-tax rate used to discount the forecast cash flows from Haven Power is 8% reflecting a reasonable assumption of the applicable cost of capital.

Carbon assets

Carbon assets arise upon the purchase of CO_2 emissions allowances in excess of the amount allocated and required for the current financial year and are recognised at cost, net of any impairment.

The charge to the income statement, within fuel costs, reflects the cost of emissions allowances required to satisfy the obligation for the current year and takes into account generation and market purchases allocated to the current financial year, and to the extent further purchases are required, the market price at the balance sheet date.

All carbon assets brought forward or purchased during 2014 were utilised by the end of the year.

11 Property, plant and equipment

This note shows the cost, depreciation and net book value of the physical assets controlled by us that we use in our business. The cost of an asset is what we paid to purchase or construct the asset. Depreciation is calculated by taking that cost, net of any residual value, to the income statement evenly over the useful economic life of the asset. An asset's net book value is its cost less any depreciation (including impairment, if required) charged to date.

We construct many of our assets under long-term projects. Assets that are in the course of construction are not depreciated until they are ready for us to use in the way intended.

Delivering our biomass strategy... Additions in 2014 include a further £125 million on our biomass transformation project, which remains on schedule and budget. Our two pellet plants, in Mississippi and Louisiana, both entered a commissioning phase and our port facility at Baton Rouge is now pellet ready. At Drax Power Station, two converted biomass units are now running fully on the bespoke receipt, storage and distribution systems that entered service at the end of 2013.

Accounting policy

Property, plant and equipment are initially measured at cost. Cost comprises the purchase price (after deducting trade discounts and rebates), any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the estimate of the present value of the costs of dismantling and removing the item and restoring the site. Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment in value. Freehold land and assets in the course of construction are not depreciated.

Depreciation is provided on a straight-line basis to write down assets to their residual value evenly over the estimated useful lives of the assets from the date of acquisition (where relevant limited to the expected decommissioning date of the power station). The estimated useful lives, beginning in 2004 when they were reset, are currently:

	Years
Main generating plant and freehold buildings	**Up to 35**
Other plant and machinery	**3-25**
Decommissioning asset	**35**
Plant spare parts	**35**

Estimated useful lives and residual values are reviewed annually, taking into account commercial and technological obsolescence as well as normal wear and tear, and any provision for impairment. Residual values are based on prices prevailing at each balance sheet date.

Costs relating to major inspections, overhauls and upgrades to the power station are included in the asset's carrying amount or recognised as a separate asset, as appropriate, if the recognition criteria are met; namely, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

Notes to the consolidated financial statements (continued)

11. Property, plant and equipment (continued)

Impairment

At each balance sheet date the Group reviews its property, plant and equipment to determine whether there is any indication that these assets may have suffered an impairment loss. If such an indication exists, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the asset (value in use) or sales value net of expenses. If an asset is impaired, a provision is made to reduce its carrying amount to the estimated recoverable amount. The discount rate applied to future cash flows for this purpose is a pre-tax rate based upon the Group's weighted average cost of capital and reflects the current market assessment of the time value of money and the risks specific to the business.

	Freehold land and buildings £m	Plant and equipment £m	Plant spare parts £m	Total £m
Cost:				
At 1 January 2013	179.8	1,657.7	51.2	1,888.7
Additions at cost	3.6	267.7	14.3	285.6
Disposals	–	(0.1)	–	(0.1)
Issues/transfers	(0.4)	11.0	(10.6)	–
At 1 January 2014	183.0	1,936.3	54.9	2,174.2
Additions at cost	5.8	181.2	13.6	200.6
Disposals	–	(9.8)	–	(9.8)
Issues/transfers	60.0	(47.9)	(12.7)	(0.6)
At 31 December 2014	**248.8**	**2,059.8**	**55.8**	**2,364.4**
Accumulated depreciation:				
At 1 January 2013	48.1	466.8	13.2	528.1
Charge for the year	3.9	59.9	1.0	64.8
Disposals	–	(0.1)	–	(0.1)
At 1 January 2014	52.0	526.6	14.2	592.8
Charge for the year	5.9	73.5	1.3	80.7
Disposals	–	(5.8)	(0.5)	(6.3)
At 31 December 2014	**57.9**	**594.3**	**15.0**	**667.2**
Net book amount at 31 December 2013	131.0	1,409.7	40.7	1,581.4
Net book amount at 31 December 2014	**190.9**	**1,465.5**	**40.8**	**1,697.2**

Assets in the course of construction amounted to £403.8 million at 31 December 2014 (2013: £448.7 million).

Plant and equipment includes assets held under finance lease agreements with a carrying value at 31 December 2014 of £1.3 million (2013: £1.0 million).

Additions during the year include £3.4 million (2013: £1.9 million) of capitalised borrowing costs directly attributable to the construction of specific assets.

12 Investments in joint ventures

Capture Power Limited ("CPL") is the company responsible for the development, implementation and operation of the proposed White Rose Carbon Capture and Storage ("CCS") project. The Group holds a 33% investment in CPL. This note explains how our investment in CPL is accounted for and how the financial position and performance of CPL affects that of the Group. CPL is currently conducting a Front End Engineering and Design study which is expected to conclude around the end of 2015. Drax has committed £4 million in funding to support this process, £3 million of which was incurred and recognised in operating expenditure within 2014.

Committed to sustainability... CPL represents an integral part of our commitment towards a low carbon economy.

Name of Joint Venture	Principal Activity	Place of incorporation and principal place of business	Interest held by the Group as at 31 December	
			2014	2013
Capture Power Limited	Carbon capture and storage development	England & Wales	33%	33%

Our investment in Capture Power Limited of £1 (2013: £1) is accounted for using the equity method in these consolidated financial statements as the Group exerts significant influence by virtue of its ownership interest. Under the equity method, the group's initial investment is recognised at cost and adjusted thereafter to recognise the Group's share of the investee. Where the Group's share of losses exceeds the Group's interest, recognition of losses is discounted with further losses only recognised to the extent that the Group has incurred a legal or constructive obligation or made payments on behalf of the investee.

Based upon relevant management information, prepared in accordance with IFRS, as at 31 December 2014, Capture Power Limited held net liabilities of £7.4 million (2013: £nil) and incurred a loss for the year there-ended of £7.4 million (2013: £nil) reflecting the commencement of operations early in 2014 and the developmental activities undertaken in the year. The Group's share of losses for the year was therefore £2.5 million (2013: £nil). Accordingly, the Group's net investment in Capture Power Limited is fully written down with a carrying value in these financial statements of £nil, and therefore there is no entry in the Balance Sheet. The unrecognised portion of the Group's share of losses, both for the year and cumulatively, is £2.5 million. The Group received no dividends from Capture Power Limited during the year.

13 Inventories

We hold stocks of fuels and other consumables that we use in the process of generating electricity. This note shows the cost of coal, biomass, other fuels and plant consumables that we held at the end of the year, including items at Drax Power Station, and those owned by us but stored in off-site locations.

Our fuel stocks are valued at the lower of the weighted average cost to purchase and net realisable value.

The cost of fuel stocks includes the purchase price, import duties and other taxes (including amounts levied on coal under the UK carbon price support mechanism) and transport/handling costs.

Delivering our biomass strategy... The increasing cost of carbon, including the carbon price support mechanism, added £56 million to our fuel costs in 2014. The relative economics of coal and biomass generation going forward underpins our transformation strategy, as biomass margins are more favourable than coal margins.

	As at 31 December	
	2014 £m	2013 £m
Coal	**144.6**	141.2
Biomass	**81.0**	40.9
Other fuels and consumables	**16.8**	14.4
	242.4	196.5

The cost of inventories recognised as an expense in the year ended 31 December 2014 was £1,224.8 million (2013: £945.8 million).

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14 ROC and LEC assets

We earn ROC and LEC assets, which are accredited by the Office for Gas and Electricity Markets ("Ofgem"), as a result of burning renewable biomass to generate electricity. This note sets out the value of such assets we have earned but not yet sold.

Delivering our biomass strategy and growing our retail business… As we generate more of our electricity by burning renewable biomass, the volume and therefore the total value of ROC and LEC assets we generate will increase. As Haven Power grows, it provides us with a credit-efficient and timely route to market for these ROCs and LECs.

ROCs and LECs are recognised as current assets in the period they are generated and initially measured at fair value based on anticipated sales prices. At each reporting date the Group reviews the fair value of ROC and LEC assets generated but not sold against updated anticipated sales prices. Any impairments required are recognised in the income statement in the period incurred.

	ROCs £m	LECs £m	Total £m
Fair value and carrying amount:			
At 1 January 2013	18.4	0.3	18.7
Generated	131.6	12.3	143.9
Purchased	36.5	1.1	37.6
Utilised/sold	(57.1)	(3.6)	(60.7)
At 1 January 2014	129.4	10.1	139.5
Generated	322.0	32.7	354.7
Purchased	–	5.7	5.7
Utilised/sold	(277.6)	(37.8)	(315.4)
At 31 December 2014	**173.8**	**10.7**	**184.5**

Recognition of revenue from ROC and LECS is described in further detail on page 108.

15 Trade and other receivables

Trade and other receivables represents amounts owed to us by our customers for goods or services we have provided but not yet been paid for. The note includes accrued income, which is income earned in the period but not yet invoiced, largely in respect of power delivered that will be invoiced the following month, and prepayments, which are amounts paid by the Group for which we are yet to receive the relevant goods or service in return (e.g. insurance premiums we have paid for that will be utilised within the year).

Trade and other receivables, given their short tenor, are measured at cost. A provision for impairment of trade receivables is established subsequently where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

	As at 31 December	
	2014 £m	2013 £m
Amounts falling due within one year:		
Trade receivables	**163.4**	118.2
Accrued income	**134.0**	102.3
Prepayments and other receivables	**71.3**	25.7
	368.7	246.2

Trade receivables principally represent sales of electricity to a number of counterparties within both our generation and retail businesses. At 31 December 2014, the Group had amounts receivable from four (2013: five) significant counterparties within the generation business, representing 68% (2013: 69%) of trade receivables, all of which paid within 15 days of receipt of invoice in line with agreed terms.

15. Trade and other receivables (continued)

Of total trade receivables at 31 December 2014, £34 million (2013: £18 million) relates to retail power sales. The risk profile of retail debt is different to that of the generation business with a larger volume of counterparties, and hence lower concentration of credit risk, of varying size with different payment terms. All past-due receivables are assessed against the Group's credit risk policies for indicators of impairment and provisions made where appropriate. The value of retail debts that are past-due and not provided against, in accordance with this assessment are not material.

Accordingly management does not consider there to be any requirement for further provisions in excess of the normal provision for doubtful debts of £6.8 million (2013: £5.6 million). This provision, which relates entirely to retail receivables, has been determined with reference to past default experiences in line with our policies. Credit and counterparty risk are both discussed in further detail in note 22.

The movement in the allowance for doubtful debts is laid out in the following table:

	Years ended 31 December	
	2014 £m	2013 £m
At 1 January	**5.6**	4.7
Receivables written off	**(0.9)**	(1.3)
Provision for receivables impairment	**2.1**	2.2
At 31 December	**6.8**	5.6

16 Short-term investments

Short-term investments represent cash held on deposit with financial institutions with a maturity of greater than three months at inception.

	As at 31 December	
	2014 £m	2013 £m
Short-term investments	**40.1**	20.0

17 Cash and cash equivalents

Cash and cash equivalents include cash held in current and other bank accounts that are accessible on demand. It is our policy to invest available cash on hand in short-term, low risk bank or building society deposits.

	As at 31 December	
	2014 £m	2013 £m
Cash and cash equivalents	**180.9**	267.3

Notes to the consolidated financial statements (continued)

18 Trade and other payables

Trade and other payables represent amounts we owe to our suppliers (for goods and services provided), tax authorities and other creditors that are due to be paid in the ordinary course of business. We make accruals for amounts that will fall due for payment in the future as a result of our activities in the current year (e.g. fuel we have received but for which we have not yet been invoiced).

Trade and other payables, given their short tenor, are measured at cost.

	As at 31 December	
	2014 £m	2013 £m
Amounts falling due within one year:		
Trade payables	**49.1**	17.1
Accruals	**370.1**	255.9
Other payables	**49.1**	92.5
	468.3	365.5

Accruals include amounts in respect of fuel received and not yet invoiced of £124.3 million (2013: £74.4 million). As described in note 2, accruals also reflect £25 million in respect of the Group's obligations under the settlement of CESP agreed with Ofgem in November 2014.

The Group recognises a liability in respect of its unsettled obligations to deliver emissions allowances under the EU ETS. Accruals at 31 December 2014 include £12.2 million (2013: £9.2 million) with respect to the Group's estimated net liability to deliver CO_2 emissions allowances. Allowances are purchased in the market and are recorded at cost.

19 Borrowings

Borrowings are chiefly comprised of bank loans with fixed maturity repayment profiles between 2016 and 2025.

Maximising the value of the Group… In April 2013, we agreed a new £75 million amortising term loan facility with Friends Life, underpinned by a guarantee from HM Treasury under the Infrastructure UK Guarantee Scheme. This replaced £50 million of the £100 million facility with the UK Green Investment Bank agreed in 2012.

In May 2014, we agreed a new private placement for £100 million with various funds managed by M&G investments.

The new loan facilities, which were fully drawn at the year end, enhance the financing structure executed in previous years by providing additional liquidity and a smoother profile of debt maturities.

The Group measures all debt instruments, whether financial assets or financial liabilities, initially at the 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. In this case, the fee is deferred until the draw-down occurs.

19. Borrowings (continued)

Analysis of borrowings

Borrowings at 31 December 2014 and 31 December 2013 consisted principally of amounts drawn down against bank loans.

	As at 31 December 2014		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Term loans	**326.1**	**(7.1)**	**319.0**
Finance lease liabilities	**0.6**	**–**	**0.6**
Total borrowings	**326.7**	**(7.1)**	**319.6**
Less current portion	**(0.6)**	**–**	**(0.6)**
Non-current borrowings	**326.1**	**(7.1)**	**319.0**

	As at 31 December 2013		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Term loans	225.0	(9.2)	215.8
Finance lease liabilities	0.3	–	0.3
Total borrowings	225.3	(9.2)	216.1
Less current portion	(0.2)	–	(0.2)
Non-current borrowings	225.1	(9.2)	215.9

20 Derivative financial instruments

We enter into forward contracts for the purchase and sale of physical commodities (principally power, coal, sustainable biomass and CO_2 emissions allowances) to secure market level dark green and bark spreads on future electricity sales, and also financial contracts (principally currency exchange contracts and financial coal and oil derivatives) to fix sterling cash flows.

We hold these contracts for risk management purposes, to manage key risks facing the business including commodity price risk, and foreign currency risk (see note 22).

The accounting rules for derivative contracts are complex. At the balance sheet date all contracts (subject to certain exemptions described below) must be measured at fair value, which is in essence the difference between the price we have secured in the contract, and the price we could achieve in the market at that point in time. Changes in fair value are recognised either within the income statement or the hedge reserve, dependent upon whether the contract in question qualifies as an effective hedge under IFRS (see note 28).

Managing our principal risks and uncertainties... A successful commercial hedging strategy is critical to our business model. Our policy is to lock down exposures to commodity price movements and changes in foreign exchange rates using derivative contracts such as those described above. This strategy aims to de-risk the business, providing security and certainty over cash flows into the future.

Accounting policy

Where possible, the Group has taken advantage of the own use exemption which allows qualifying contracts to be excluded from fair value mark-to-market accounting. This applies to certain contracts for physical commodities entered into and held for our own purchase, sale or usage requirements, including forward contracts for the purchase of biomass, and coal from domestic sources.

Contracts which do not qualify for the own use exemption – principally power, financial coal, CO_2 emissions allowances and forward foreign currency exchange contracts – are accounted for as derivatives and recorded in the balance sheet at fair value, with changes in fair value reflected through the hedge reserve (note 28) to the extent that the contracts are designated as effective hedges in accordance with IAS 39, or the income statement where the hedge accounting requirements are not met.

Derivative financial instruments with a maturity date within 12 months from the balance sheet date are classified as current assets or liabilities. Instruments with a maturity date beyond 12 months are classified as non-current assets or liabilities.

Notes to the consolidated financial statements (continued)

20. Derivative financial instruments (continued)

Fair value accounting

Forward contracts for the sale of power, purchase of coal from international sources, purchase of CO_2 emissions allowances, financial coal (collectively "Commodity contracts") and foreign currency exchange contracts are marked-to-market and recorded in the balance sheet at fair value as follows:

	As at 31 December 2014		As at 31 December 2013	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Commodity contracts:				
Less than one year	**132.9**	**(97.4)**	27.8	(52.3)
More than one year but not more than two years	**44.8**	**(55.0)**	3.6	(5.8)
More than two years	**8.4**	**(45.0)**	0.1	–
Forward foreign currency exchange contracts:				
Less than one year	**6.2**	**(33.3)**	1.8	(52.9)
More than one year but not more than two years	**28.1**	**(40.2)**	1.5	(73.0)
More than two years	**29.9**	**(92.0)**	3.5	(133.3)
Total	**250.3**	**(362.9)**	38.3	(317.3)
Less: non-current portion				
Commodity contracts	**(53.2)**	**100.0**	(3.7)	5.8
Forward foreign currency exchange contracts	**(58.0)**	**132.2**	(5.0)	206.3
Total non-current portion	**(111.2)**	**232.2**	(8.7)	212.1
Current portion	**139.1**	**(130.7)**	29.6	(105.2)

The total movement in the fair value of these contracts of £166.2 million (2013: £168.9 million loss) is recognised in the income statement or the hedge reserve, dependent upon whether the hedge accounting requirements of IAS 39 are met, as follows:

	Years ended 31 December	
	2014 £m	2013 £m
Unrealised gains/(losses) on derivative contracts recognised in arriving at operating profit	**65.8**	(110.2)
Unrealised gains/(losses) on derivative contracts recognised in the hedge reserve (note 28)	**100.4**	(58.7)
Total unrealised gains/(losses) on derivative contracts	**166.2**	(168.9)

Unrealised gains in the income statement in 2014 are primarily the result of changes in the fair value of our forward currency exchange contracts. We undertook an extensive currency hedging programme in the prior year to secure the sterling cost of fuel purchases made in foreign currencies. The high volume of contracts held (demonstrated in the table on page 126) means low levels of exchange rate volatility can have a significant impact on amounts recognised in our income statement in respect of these contracts. The vast majority of our fuel purchases, and therefore our currency exchange contracts, are denominated in US dollars. The strengthening of the US dollar against sterling during 2014 offset previous losses driven by weakening during previous periods, resulting in significant unrealised gains in the current year.

These were offset by unrealised losses on our financial oil contracts as a result of falling oil prices in the final quarter of 2014. We utilise financial contracts to fix oil indexation in fuel purchase contracts.

Unrealised gains recognised in the hedge reserve principally reflect gains on the portion of our forward currency exchange contracts that are designated in effective hedge relationships in accordance with IAS 39 and forward contracts for the sale of power which have increased in value relative to the market as prices fell in the second half of 2014.

20. Derivative financial instruments (continued)

Fair value measurement

- **Commodity contracts fair value** – The fair value of commodity contracts qualifying as derivative financial instruments, not excluded through the own use exemption, are calculated by reference to forward market prices at the balance sheet date. As contracts are generally short-term, forward market price curves are available for the duration of the contracts. The quoted market price used for financial assets held by the Group is the current bid price; the quoted price for financial liabilities is the current ask price.
- **Forward foreign currency exchange contracts fair value** – The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the balance sheet date.
- **Other financial contracts fair value** – The fair value of other financial contracts qualifying as derivative financial instruments, not excluded through the own use exemption, is calculated by reference to forward market prices at the balance sheet date. As contracts are generally short-term, forward market price curves are available for the duration of the contracts.

The fair values of all derivative financial instruments are discounted to reflect the credit risk inherent within the instrument.

The Group has reviewed all significant contracts for the presence of embedded derivatives. Where contracts were found to contain embedded derivatives, they were considered to be closely related to the economic characteristics and risks of the host contract, and therefore do not require separate valuation from their host contracts.

Categorisation within the fair value measurement hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset or liability as follows:

Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – fair value measurements are those derived from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of both commodity contracts and forward foreign currency exchange contracts is largely determined by comparison between forward market prices and the contract price; therefore these contracts are categorised as Level 2.

There have been no transfers during the year between Level 1, 2 or 3 category inputs.

21 Other financial instruments

We hold a variety of other non-derivative financial instruments, including cash and cash equivalents, borrowings, payables and receivables arising from our operations.

Fair value

Cash and cash equivalents (note 17), short-term investments (note 16), trade and other receivables (note 15), and trade and other payables (note 18) generally have short times to maturity. For this reason, their carrying values approximate to their fair value. The Group's borrowings (note 19) relate principally to amounts drawn down against term loans, the carrying amounts of which approximate their fair values by virtue of being floating rate instruments.

Notes to the consolidated financial statements (continued)

22 Financial risk disclosures

IFRS require us to provide information that assists you in understanding the nature and extent of risks arising from the financial instruments we hold, described in the two previous notes. Such risks include liquidity, credit and counterparty risk.

We also describe below the wider financial risks that we manage using financial instruments, for example how derivative contracts minimise our exposure to commodity market and foreign currency risk.

Risk

The Group's activities expose it to a variety of financial risks including commodity price risk, interest rate risk, foreign currency risk, liquidity risk, counterparty risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of commodity and financial markets and seeks to manage potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by the risk management committees as detailed in Principal risks and uncertainties (page 46) which identify, evaluate and hedge financial risks in close co-operation with the Group's trading function under policies approved by the Board of directors.

Commodity price risk

The Group is exposed to the effect of fluctuations in commodity prices, particularly the price of electricity, the price of coal, sustainable biomass and other fuels, and the price of CO_2 emissions allowances. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so.

The Group has a policy of securing forward power sales, purchases of fuel and CO_2 emissions allowances when profitable to do so. All commitments to sell power under fixed price contracts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of electricity.

The Group purchases coal, sustainable biomass and other fuels under either fixed or variable priced contracts with different maturities from a variety of domestic and international sources. All international physical coal purchase contracts transacted at a fixed price and financial coal contracts exchanging floating price coal for fixed price amounts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of coal.

The Group purchases CO_2 emissions allowances under fixed price contracts with different maturity dates from a range of domestic and international sources. All commitments to purchase CO_2 emissions allowances under fixed price contracts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of CO_2 emissions allowances.

Commodity price sensitivity

The sensitivity analysis below has been determined based on the exposure to commodity prices for outstanding monetary items at the balance sheet date. The analysis is based on the Group's commodity financial instruments held at each balance sheet date.

If commodity prices had been 5% higher/lower and all other variables were held constant, the Group's:

- profit after tax for the year ended 31 December 2014 would increase/decrease by £9.4 million (2013: increase/decrease by £6.3 million). This is mainly attributable to the Group's exposure to financial coal and oil derivatives; and
- the hedge reserve would decrease/increase by £12.0 million (2013: decrease/increase by £27.0 million) mainly as a result of the changes in the fair value of commitments to sell power.

Interest rate risk

Historically the Group has been exposed to interest rate risk principally in relation to its bank debt, and has sought to mitigate this risk with interest rate hedges on a proportion of its debt facilities. The Group has no interest rate swaps outstanding at the balance sheet date; however this risk management tool remains available to the Group. Information about the Group's instruments that are exposed to interest rate risk and their repayment schedules is included below.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's profit after tax and net assets for the year ended 31 December 2014 would decrease/increase by £1.4 million (2013: decrease/increase by £1.0 million) as a result of the changes in interest payable during the period.

22. Financial risk disclosures (continued)

Foreign currency risk

Foreign currency exchange contracts are entered to hedge fixed price international coal purchases in US dollars, biomass purchases in US dollars, Canadian dollars and euros, and CO_2 emissions allowances purchases in euros. As our biomass transformation plans have progressed, we have entered into an increasing volume of forward foreign exchange contracts. Exchange rate exposures are managed within approved policy parameters utilising a variety of foreign currency exchange contracts.

Foreign currency sensitivity

If sterling exchange rates had been 5% stronger/weaker against other currencies and all other variables were held constant, the Group's:

- profit after tax for the year ended 31 December 2014 would decrease/increase by £261.0 million (2013: decrease/increase by £198.9 million). This is mainly attributable to the Group's exposure to foreign currency exchange contracts entered in relation to fuel purchase contracts; and
- other equity reserves would decrease/increase by £48.7 million (2013: decrease/increase by £49.6 million) as a result of the changes in the fair value of foreign currency exchange contracts.

Liquidity risk

The treasury function is responsible for liquidity, funding and settlement management under policies approved by the Board of directors. Liquidity needs are monitored using regular forecasting of operational cash flows and financing commitments. The Group maintains a mixture of cash and cash equivalents, and committed facilities in order to ensure sufficient funding for business requirements.

The following tables set out details of the expected contractual maturity of non-derivative financial liabilities. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date.

	As at 31 December 2014			
	Within 3 months £m	3 months – 1 year £m	>1 year £m	Total £m
Term loans, gross value	**3.4**	**10.8**	**388.0**	**402.2**
Finance lease liabilities, carrying value	**–**	**0.6**	**–**	**0.6**
Borrowings, contractual maturity	**3.4**	**11.4**	**388.0**	**402.8**
Trade and other payables	**353.4**	**113.3**	**1.6**	**468.3**
	356.8	**124.7**	**389.6**	**871.1**

	As at 31 December 2013			
	Within 3 months £m	3 months – 1 year £m	>1 year £m	Total £m
Term loans, gross value	2.7	8.4	277.9	289.0
Finance lease liabilities, carrying value	–	0.2	0.1	0.3
Borrowings, contractual maturity	2.7	8.6	278.0	289.3
Trade and other payables	279.6	85.4	0.5	365.5
	282.3	94.0	278.5	654.8

Interest payments are calculated based on forward interest rates estimated at the balance sheet date using publicly available information. The weighted average interest rate payable at the balance sheet date on our term loans was 4.21% (2013: 4.65%).

The following tables set out details of the expected contractual maturity of derivative financial instruments which are marked-to-market, based on the undiscounted net cash inflows/(outflows). Where the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to projected commodity prices, or foreign currency exchange rates, as illustrated by the yield or other forward curves existing at the reporting date.

Notes to the consolidated financial statements (continued)

22. Financial risk disclosures (continued)

	As at 31 December 2014			
	Within 1 year £m	**1–2 years £m**	**>2 years £m**	**Total £m**
Commodity contracts, net	**170.7**	**10.2**	**(3.8)**	**177.1**
Forward foreign currency exchange contracts, net	**941.2**	**1,206.0**	**2,157.3**	**4,304.5**
	1,111.9	**1,216.2**	**2,153.5**	**4,481.6**

	As at 31 December 2013			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts, net	549.4	156.1	0.4	705.9
Forward foreign currency exchange contracts, net	816.6	739.9	2,210.3	3,766.8
	1,366.0	896.0	2,210.7	4,472.7

Counterparty risk

As the Group relies on third party suppliers for the delivery of fuel, sustainable biomass and other goods and services, it is exposed to the risk of non-performance by these third party suppliers. If a large supplier falls into financial difficulty and/or fails to deliver against the contracts, there would be additional costs associated with securing fuel from other suppliers.

The Group enters into fixed price and fixed margin contracts for the sale of electricity to a number of counterparties. The failure of one or more of these counterparties to perform their contractual obligations may cause the Group financial distress or increase the risk profile of the Group.

Credit risk

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	As at 31 December	
	2014 £m	2013 £m
Financial assets:		
Cash and cash equivalents	**180.9**	267.3
Short-term investments	**40.1**	20.0
Trade and other receivables	**367.9**	251.8
Derivative financial instruments	**250.3**	38.3
	839.2	577.4

Trade and other receivables are stated gross of the provision for doubtful debts of £6.8 million (2013: £5.6 million).

Credit exposure is controlled by counterparty limits that are reviewed and approved by risk management committees. Where considered appropriate, counterparties are required to provide credit support in the form of a parent company guarantee, letter of credit, deed of charge, or cash collateral. In addition, where deemed appropriate the Group has purchased credit default swaps.

The investment of surplus cash is undertaken to maximise the return within Board approved policies. These policies manage credit risk exposure by setting out minimum rating requirements, maximum investment with any one counterparty and the maturity profile.

22. Financial risk disclosures (continued)

Capital management

The Group manages its capital to ensure it is able to continue as a going concern, and maintain its credit rating while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of shareholders' equity (excluding the hedge reserve), less net cash. Net cash is comprised of borrowings disclosed in note 19, cash and cash equivalents in note 17 and short-term investments in note 16.

	As at 31 December	
	2014 £m	2013 £m
Borrowings	**(319.6)**	(216.1)
Cash and cash equivalents	**180.9**	267.3
Short-term investments	**40.1**	20.0
Net cash	**(98.6)**	71.2
Total shareholders' equity, excluding hedge reserve	**1,556.2**	1,473.8

23 Provisions

We make a provision for reinstatement to cover the estimated costs of decommissioning, demolishing and remediating our generation assets at the end of their useful economic lives. The amount represents the present value (i.e. it is discounted to reflect the time value of money) of the expected costs. Provisions are for liabilities of uncertain timing and/or amount, and as such by their nature are estimated.

Provision is made for the estimated decommissioning costs at the end of the useful economic life of the Group's generating assets, when a legal or constructive obligation arises, on a discounted basis. The amount provided represents the present value of the expected costs. The discount rate used is a risk free pre-tax rate, reflecting the fact that the estimated future cash flows have built in risks specific to the liability. An amount equivalent to the discounted provision is capitalised within property, plant and equipment and is depreciated over the useful lives of the related assets. The unwinding of the discount is included in interest payable and similar charges.

	Reinstatement £m
Carrying amount:	
At 1 January 2013	31.5
Unwinding of discount	0.9
At 1 January 2014	32.4
Impact of triennial revaluation	(3.7)
Unwinding of discount	1.1
At 31 December 2014	**29.8**

The initial provision and subsequent estimation changes are capitalised within property, plant and equipment and are being depreciated over the useful lives of the related assets. The unwinding of the discount is included in finance costs (note 6).

The provision is estimated using the assumption that the reinstatement will take place between 2039 and 2045, and has been estimated using existing technology at current prices based on independent third party advice, updated on a triennial basis. The most recent update took place in 2014.

Notes to the consolidated financial statements (continued)

24 Deferred tax

Deferred tax is principally an accounting adjustment to reflect the tax charges or credits that are expected to arise in the future, as a result of differences between the accounting and tax rules relating to certain transactions that happened before the end of the current year.

The movements in deferred tax assets and liabilities during each year are shown below. Deferred tax assets and liabilities are offset as there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax liabilities/(assets)

	Financial instruments £m	Accelerated capital allowances £m	Non-trade losses £m	Other liabilities £m	Other assets £m	Total £m
At 1 January 2013	(25.3)	217.1	(24.0)	14.5	(11.6)	170.7
(Credited)/charged to the income statement	(19.3)	(22.8)	9.3	8.4	(0.7)	(25.1)
Credited to equity in respect of actuarial losses	–	–	–	–	(0.6)	(0.6)
Credited to equity in respect of cash flow hedges	(11.2)	–	–	–	–	(11.2)
At 1 January 2014	(55.8)	194.3	(14.7)	22.9	(12.9)	133.8
Charged to the income statement	13.2	4.1	7.1	3.7	3.2	31.3
Credited to equity in respect of actuarial losses	–	–	–	–	0.7	0.7
Credited to equity in respect of cash flow hedges	20.1	–	–	–	–	20.1
At 31 December 2014	**(22.5)**	**198.4**	**(7.6)**	**26.6**	**(9.0)**	**185.9**

Deferred tax assets are recognised to the extent that the realisation of the related tax benefit through future associated taxable profits is probable.

The Group has not recognised deferred tax assets with an estimated value of £10 million at 31 December 2014 (2013: £6.1 million) in respect of UK and US losses that are carried forward against future taxable income, where recovery is not currently probable.

25 Issued equity

Our ordinary share capital reflects the total number of shares issued, which are publicly traded on the London Stock Exchange.

Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting all of its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	As at 31 December	
	2014 £m	2013 £m
Authorised:		
865,238,823 ordinary shares of $11^{16}/_{29}$ pence each	**100.0**	100.0
Issued and fully paid:		
2013 – 402,566,332 ordinary shares of $11^{16}/_{29}$ pence each	**–**	46.5
2014 – 404,821,561 ordinary shares of $11^{16}/_{29}$ pence each	**46.8**	–
	46.8	46.5

25. Issued equity (continued)

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Years ended 31 December 2014 (number)	2013 (number)
At 1 January	**402,566,332**	401,587,564
Issued under employee share schemes	**2,255,229**	978,768
At 31 December	**404,821,561**	402,566,332

The Company has only one class of shares, which are ordinary shares of $11\frac{16}{29}$ pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends.

Issued under employee share schemes

On 10 March 2014, a total of 2,126,934 shares were issued in satisfaction of shares vesting in accordance with the rules of the Group's Bonus Matching Plan granted in 2010. From 1 May 2014 a further 113,085 shares were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan, also granted in 2010. During 2014, 7,106 shares and 5,563 shares were issued on early exercise of options under the Group's Savings-Related Share Option Plan by five individuals whose employment had terminated due to retirement (2013: 7,222 shares relating to three individuals whose employment terminated due to retirement) and four whose employment had terminated due to redundancy, respectively. Additionally during 2014 2,541 shares were issues on early exercise of options under the Group's Bonus Matching Plan to one individual whose employment had terminated due to retirement.

26 Share-based payments

We operate two share option schemes for our employees – the Bonus Matching Plan ("BMP") for directors and senior executives, and the Savings-Related Share Option ("SAYE") Plan for all qualifying employees. We incur a cost in respect of these schemes in our income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding.

Share-based payments are measured at fair value at the date of grant and expensed on a straight-line basis over the relevant vesting period, based on an estimate of the shares that will ultimately vest.

Costs recognised in the income statement in relation to share-based payments during the year are as follows:

	Years ended 31 December 2014 £m	2013 £m
BMP	**5.2**	5.5
SAYE	**0.7**	0.3
	5.9	5.8

Share Incentive Plan ("SIP")

Between 2008 and 2010, qualifying employees could buy up to £1,500 worth of Partnership Shares in any one tax year. Matching Shares were awarded to employees to match any Partnership Shares they bought, in a ratio of one-to-one, with the cost of Matching Shares borne by the Group. There were no awards under the SIP Partnership and Matching Share plan in 2012, or 2013.

Shares in the Company held under trust and under the Company's control as a result of the SIP were as follows:

	Shares held at 1 January 2013 (number)	Shares acquired during year (number)	Shares transferred during year (number)	**Shares held at 31 December 2014 (number)**	**Cost at 31 December 2014 £000**	**Nominal value at 31 December 2014 £000**	**Market value at 31 December 2014 £000**
SIP	262,835	–	44,292	**218,543**	**2,050**	**25**	**1,467**

Notes to the consolidated financial statements (continued)

26. Share-based payments (continued)

Bonus Matching Plan ("BMP")

The BMP was introduced in 2009. Under the scheme, annual awards of performance and service-related shares are made at £nil consideration to executive directors and other senior executives up to a maximum of 150% of their annual bonus. A proportion of the shares vesting is conditional upon whether the Group's TSR matches or outperforms an index (determined in accordance with the scheme rules) over three years. For awards made from 2011, a proportion of the shares vesting is conditional upon performance against the internal Balanced Corporate Scorecard. The fair value of the 2014, 2013 and 2012 BMP awards of £5.4 million, £6.1 million and £5.8 million, respectively, are being charged to the income statement on a straight-line basis over the corresponding three year vesting periods.

Movements in the number of share options outstanding for the BMP awards is as follows:

	2014	2013
	BMP (number)	BMP (number)
At 1 January	**5,187,230**	5,038,026
Granted	**908,346**	1,522,574
Forfeited	**(182,160)**	(86,912)
Exercised	**(1,840,190)**	(316,526)
Expired	**(19,812)**	(969,932)
At 31 December	**4,053,414**	5,187,230

Savings-Related Share Option Plan ("SAYE")

In April 2014, participation in the SAYE Plan was offered again, to all qualifying employees. Options were granted for employees to acquire shares at a price of 530 pence (2013: 493 pence), representing a discount of 20% to the prevailing market price determined in accordance with the scheme rules. The options are exercisable at the end of three or five year savings contracts. The fair value of the options granted in connection with the SAYE Plan of £1.5 million (2013: £0.8 million) is being charged to the income statement over the life of the relevant contracts.

Movements in the number of share options outstanding for the SAYE plans are as follows:

	2014		2013	
	SAYE three-year (number)	SAYE five-year (number)	SAYE three-year (number)	SAYE five-year (number)
At 1 January	**647,431**	**926,140**	850,067	850,596
Granted	**534,832**	**237,809**	423,358	97,804
Forfeited	**(100,078)**	**(45,255)**	(18,604)	(22,260)
Exercised	**(117,181)**	**(6,917)**	(605,052)	–
Expired	**(1,093)**	**(4,357)**	(2,338)	–
At 31 December	**963,911**	**1,107,420**	647,431	926,140

Fair value of share-based payment awards

The fair value of share-based payment awards was determined as follows:

SIP – based on price paid at award dates;

BMP – Monte-Carlo valuation model, which takes into account the estimated probability of different levels of vesting; and

SAYE – Black-Scholes model which compares exercise price to share price at the date of grant.

Additional information in relation to the Group's share-based incentive plans is included in the Remuneration Committee report.

27 Share premium and other reserves

The share premium account reflects amounts received in respect of issued share capital (see note 25) that exceed the nominal value of the shares issued.

Other equity reserves reflect the impact of some of our historical transactions, which are described under the table below.

	Capital redemption reserve		Share premium		Merger reserve	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
At 1 January and 31 December	**1.5**	1.5	**422.8**	422.5	**710.8**	710.8

The capital redemption reserve arose when the Group completed a share buy-back programme in 2007.

The share premium and the merger reserve arose on the financial restructuring of the Group which took place in 2005.

Movements in share premium during 2014 reflect amounts received from the issue of shares under the Group's employee share schemes.

28 Hedge reserve

Changes in the fair value of our derivative commodity, financial and currency contracts are recognised in the hedge reserve, to the extent that they qualify as effective hedges under accounting rules. The cumulative gains and losses unwind and are released as the related contracts mature, and we take delivery of the associated commodity or currency.

Managing our principal risks and uncertainties... As described in note 20, all of our derivative contracts are entered into for the purpose of commercial hedging; however not all of these contracts qualify as effective hedges under IAS 39. The changes in fair value of contracts that do not meet the definition of an IFRS effective hedge are recognised in the income statement. Managing our principal risks and uncertainties is about locking down exposures to moving prices and securing market level dark green and bark spreads for the future.

The Group designates certain hedging instruments used to address commodity price risk and foreign exchange risk as cash flow hedges. At the inception of the hedge, the relationship between the hedging instrument and hedged item is documented, along with its risk management objectives. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. Changes in fair value of contracts designated into such hedging relationships are recognised within the hedge reserve to the extent they are effective.

	Years ended 31 December	
	2014 £m	2013 £m
At 1 January	**(63.9)**	(16.4)
Gains/(losses) recognised:		
– Commodity contracts	**48.1**	(6.2)
– Forward foreign currency exchange contracts	**37.1**	(69.6)
Released from equity:		
– Commodity contracts	**8.1**	15.9
– Forward foreign currency exchange contracts	**7.1**	1.2
Related deferred tax, net (note 24)	**(20.1)**	11.2
At 31 December	**16.4**	(63.9)

The Group's cash flow hedges relate to commodity contracts (principally commitments to sell power) and forward foreign currency exchange contracts. Amounts are recognised in the hedge reserve as the designated contracts are marked-to-market at each period end for the effective portion of the hedge, which is generally 100% of the relevant contract. Amounts held within the hedge reserve are then released as the related contract matures and the hedged transaction impacts profit or loss. For power sales contracts, this is when the underlying power is delivered. For FX contracts, this is when the associated foreign currency transaction is recognised. Further information in relation to the Group's accounting for financial instruments is included in note 20.

Notes to the consolidated financial statements (continued)

28. Hedge reserve (continued)

The expected release profile from equity of post-tax hedging gains and losses is as follows:

	As at 31 December 2014			
	Within 1 year £m	**1–2 years £m**	**>2 years £m**	**Total £m**
Commodity contracts	39.3	(0.2)	(2.1)	37.0
Forward foreign currency exchange contracts	(3.3)	1.8	(19.1)	(20.6)
	36.0	**1.6**	**(21.2)**	**16.4**

	As at 31 December 2013			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	(6.5)	(1.5)	0.1	(7.9)
Forward foreign currency exchange contracts	(6.2)	(2.8)	(47.0)	(56.0)
	(12.7)	(4.3)	(46.9)	(63.9)

29 Retained profits

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

	Years ended 31 December	
	2014 £m	2013 £m
At 1 January	**292.5**	314.3
Profit for the year	**128.7**	51.4
Actuarial losses on defined benefit pension scheme (note 33)	**3.4**	(2.8)
Deferred tax on actuarial losses on defined benefit pension scheme (note 24)	**(0.7)**	0.6
Exchange differences on translation of foreign operations	**(0.2)**	2.0
Equity dividends paid (note 8)	**(55.0)**	(78.8)
Net movements in equity associated with share-based payments	**5.6**	5.8
At 31 December	**374.3**	292.5

30 Cash generated from operations

Cash generated from operations is the starting point of our cash flow statement on page 104. This table makes adjustments for any non-cash accounting items to reconcile our profit for the year to the amount of physical cash we have generated from our operations (i.e. sourcing, generating and selling electricity).

	Years ended 31 December	
	2014 £m	2013 £m
Profit for the year	**128.7**	51.4
Adjustments for:		
Interest payable and similar charges	**29.9**	24.8
Interest receivable	**(1.3)**	(1.6)
CESP settlement	**20.0**	–
Tax charge/(credit)	**37.2**	(19.6)
Depreciation and amortisation	**80.7**	64.8
Unrealised (gains)/losses on derivative contracts	**(65.8)**	110.2
Defined benefit pension scheme current service cost	**6.2**	5.8
Non-cash charge for share-based payments	**5.9**	5.8
Operating cash flows before movement in working capital	**241.5**	241.6
Changes in working capital:		
Increase in inventories	**(45.9)**	(38.9)
Increase in receivables	**(116.3)**	(21.4)
Increase in payables	**78.3**	108.3
Total (increase)/decrease in working capital	**(83.9)**	48.0
Decrease in carbon assets	**26.5**	12.5
Increase in ROC assets	**(45.0)**	(120.8)
Defined benefit pension scheme contributions	**(11.8)**	(10.8)
Cash generated from operations	**127.3**	170.5

31 Reconciliation of net (debt)/cash

This note reconciles our net (debt)/cash position in terms of changes in our cash on hand (note 17), short-term investments (note 16) and borrowings (note 19).

	Years ended 31 December	
	2014 £m	2013 £m
Net cash at 1 January	**71.2**	311.0
Decrease in cash and cash equivalents	**(86.4)**	(104.4)
Increase/(decrease) in short-term investments	**20.1**	(10.0)
Increase in borrowings	**(103.5)**	(125.4)
Net (debt)/cash at 31 December	**(98.6)**	71.2

Notes to the consolidated financial statements (continued)

32 Employees and directors

This note provides a more detailed breakdown of the cost of our employees, including executive directors. The average number of employees in Operations (staff in our Generation segment), Retail services (employees in our Retail segment) and Business services (those working in central functions) is also provided.

Delivering excellent people leadership... Biomass conversion secures jobs both at Drax and in the supply chain. The average number of people employed by the Group increased 11% in 2014.

Staff costs (including executive directors)

	Years ended 31 December	
	2014 £m	2013 £m
Included in other operating and administrative expenses (note 5):		
Wages and salaries	**69.1**	70.3
Social security costs	**8.4**	7.4
Other pension costs (note 33)	**11.1**	9.8
Share-based payments (note 26)	**5.9**	5.8
	94.5	93.3

Average monthly number of people employed (including executive directors)

	Years ended 31 December	
	2014 (number)	2013 (number)
Operations	**725**	639
Retail services	**346**	343
Business services	**253**	219
	1,324	1,201

33 Retirement benefit obligations

We operate a defined benefit and defined contribution pension schemes. The Drax Power Group section of the Electricity Supply Pension Scheme is a defined benefit scheme; a pension arrangement under which participating members receive a pension benefit at retirement determined by the scheme rules. Members are typically entitled to annual pensions on retirement of 1/80th of final pensionable salary for each year of service plus a tax-free lump sum of three times pension.

The Drax Power Limited Pension Plan, a defined contribution scheme, by contrast provides a retirement benefit that is dependent upon actual contributions made by the Group and members of the scheme.

The income statement charge for the defined benefit scheme is twofold – the current/past service cost is the increase in the overall liability to pay benefits earned by current employees of the Group in the current/previous periods, the net interest cost reflects the unwinding of the pension deficit over time, offset by income earned by the scheme's assets.

The income statement charge for the defined contribution scheme represents the contributions due to be paid by the Group in respect of the current period.

Defined contribution scheme

The Group operates two defined contribution schemes, The Drax Power Limited Pension Plan and Haven Power Personal Pension Plan, for all qualifying employees. Pension costs for the defined contribution scheme are as follows:

	Years ended 31 December	
	2014 £m	2013 £m
Total included in staff costs (note 32)	**4.9**	3.9

As at 31 December 2014, contributions of £0.4 million (2013: £0.7 million) due in respect of the current reporting period had not been paid over to the scheme. The Group has no further payment obligations once the contributions have been paid.

Defined benefit scheme

The Group operates an approved defined benefit scheme on behalf of the Drax Power Group ("DPG") section of the Electricity Supply Pension Scheme ("ESPS"). This scheme was closed to new members as from 1 January 2002 unless they qualify through being existing members of another part of the ESPS. Members who joined before this date continue to build up pension benefits as part of the scheme.

The DPG ESPS exposes the Group to actuarial and other risks, the most significant of which are considered to be:

Investment risk	The scheme liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The scheme holds a significant proportion of growth assets (equities, property and direct lending) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the scheme's long-term objectives.
Interest rate risk	A decrease in corporate bond yields will increase the value placed upon the scheme's liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.
Longevity risk	The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities of the scheme.
Inflation risk	The majority of the scheme's benefit obligations to pay benefits are linked to inflation, and as such higher inflation will lead to higher liabilities. The majority of the assets held by the scheme are either unaffected by or only loosely correlated with inflation, meaning an increase in inflation will also increase the deficit. In most cases, caps on inflationary increases are in place, to protect against extreme inflation.

Other risks include operational risks (such as paying out the wrong benefits), legislative risks (such as the government increasing the burden on pension schemes through new legislation) and other demographic risks (such as a higher proportion of members with dependants eligible to receive pensions from the Group). The Trustees insure certain benefits payable on death before retirement.

A contingent liability exists in relation to the equalisation of Guaranteed Minimum Pension. See note 35 for details.

Notes to the consolidated financial statements (continued)

33. Retirement benefit obligations (continued)

The last funding valuation of the DPG ESPS was carried out by Aon Hewitt, as a qualified independent actuary, as at 31 March 2013. Future valuations are required by law at intervals of no more than three years, therefore the next valuation will take place on or before 31 March 2016.

The results of the latest funding valuation at 31 March 2013 have been adjusted to 31 December 2014, taking into account experience over the period since 31 March 2013, changes in market conditions and differences in financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service cost were measured using the projected unit credit method. The principal assumptions used, which reflect the nature and term of the scheme liabilities, are as follows:

	As at 31 December	
	2014 % p.a.	2013 % p.a.
Discount rate	**3.7**	4.5
Inflation (RPI)	**3.0**	3.4
Rate of increase in pensions in payment and deferred pensions	**2.8**	3.2
Rate of increase in pensionable salaries	**3.6**	4.4

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retired in 2014 at age 60 will live on average for a further 27 years (2013: 27 years) after retirement if they are male and for a further 29 years (2013: 29 years) after retirement if they are female. Similarly life expectancy at age 60 for male and female non-pensioners (currently aged 45) is assumed to be 28 years and 31 years respectively (2013: 28 years and 31 years respectively).

The net liability recognised in the balance sheet is the excess of the present value of the defined benefit obligation over the fair value of the plan assets, determined as follows:

	As at 31 December	
	2014 £m	2013 £m
Defined benefit obligation	**242.1**	220.9
Fair value of plan assets	**(207.8)**	(179.2)
Net liability recognised in the balance sheet	**34.3**	41.7

The amounts recognised in the income statement, within other operating and administrative expenses and finance costs, are as follows:

	Years ended 31 December	
	2014 £m	2013 £m
Included in staff costs (note 32):		
Current service cost	**6.2**	5.8
Past service cost	**–**	0.1
Total included in other operating and administrative expenses	**6.2**	5.9
Included in finance costs (note 6):		
Interest on net defined benefit liability	**1.5**	1.7
Total included in finance costs	**1.5**	1.7
Total amounts recognised in the income statement	**7.7**	7.6

33. Retirement benefit obligations (continued)

Actuarial gains and losses are recognised in the statement of comprehensive income in full, as follows:

	Years ended 31 December	
	2014 £m	2013 £m
Cumulative actuarial losses on defined benefit pension scheme at 1 January	**(75.4)**	(72.6)
Actuarial gains/(losses) on defined benefit pension scheme recognised in the year	**3.4**	(2.8)
Cumulative losses recognised in the statement of comprehensive income at 31 December	**(72.0)**	(75.4)

Changes in the present value of the defined benefit obligation are as follows:

	Years ended 31 December	
	2014 £m	2013 £m
Defined benefit obligation at 1 January	**220.9**	199.0
Current and past service cost	**6.2**	5.9
Employee contributions	**0.2**	0.2
Interest cost	**9.8**	9.1
Actuarial losses	**10.2**	12.2
Benefits paid	**(5.2)**	(5.5)
Defined benefit obligation at 31 December	**242.1**	220.9

The actuarial losses of £10.2 million reflect £12.3 million arising from changes in financial assumptions (2013: £17.1 million), offset by actuarial gains arising from changes in demographic assumptions and scheme experience of £0.5 million and £1.6 million respectively (2013: losses of £4.6 million and gains of £8.5 million respectively).

Changes in the fair value of plan assets are as follows:

	Years ended 31 December	
	2014 £m	2013 £m
Fair value of plan assets at 1 January	**179.2**	156.9
Interest income on plan assets	**8.3**	7.4
Remeasurement gains	**13.6**	9.4
Employer contributions	**11.7**	10.8
Employee contributions	**0.2**	0.2
Benefits paid	**(5.2)**	(5.5)
Fair value of plan assets at 31 December	**207.8**	179.2

Employer contributions included payment of £5.8 million (2013: £5.0 million) to reduce the actuarial deficit.

The actual return on plan assets in the period was £21.9 million (2013: £16.8 million).

Notes to the consolidated financial statements (continued)

33. Retirement benefit obligations (continued)

The fair values of the major categories of plan assets were as follows:

	As at 31 December	
	2014 £m	2013 £m
Equities(1)	**77.8**	74.8
Fixed interest bonds(2)	**100.5**	71.2
Property	**25.9**	15.9
Hedge funds	**0.4**	17.2
Cash and other assets(3)	**3.2**	0.1
Fair value of total plan assets	**207.8**	179.2

(1) Under the Group's long-term asset strategy, 60% of assets are invested in 'return generating' asset classes – of which 5% is invested in emerging market equity. The remaining 40% of assets are invested in 'liability-matching' asset classes.

(2) Fixed interest bonds include a mixture of corporate, government and absolute return bonds. Less than 1% has a sub-investment grade credit rating (i.e. BB+ or lower).

(3) Other assets include £2.9 million of investments in direct lending, a type of private equity vehicle, which is not quoted in an active market.

The pension plan assets do not include any ordinary shares issued by Drax Group plc or any property occupied by the Group.

The Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme.

The assumptions for discount rate, inflation rate, rate of increase in pensions paid and expected return on plan assets all have a potentially significant effect on the measurement of the scheme deficit. The following table provides an indication of the sensitivity of the pension deficit at 31 December 2014 to changes in these assumptions:

		%	(Decrease)/Increase in net liability £m
Discount rate	– Increase	0.25	(11.1)
	– Decrease	0.25	12.0
Inflation rate(1)	– Increase	0.25	10.0
	– Decrease	0.25	(9.6)
Life expectancy	– Increase	1	6.7
	– Decrease	1	(6.8)

(1) The sensitivity of the scheme liabilities to salary and pension increases is closely correlated with inflation. The impact of corresponding decreases in these variables is included here.

The Group is exposed to investment and other experience risks, as described above, and may need to make additional contributions where it is estimated that the benefits will not be met from regular contributions and expected investment income.

The history of experience adjustments is as follows:

	As at 31 December				
	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Defined benefit obligation	**(242.1)**	(220.9)	(199.0)	(182.4)	(167.2)
Fair value of plan assets	**207.8**	179.2	156.9	145.4	129.9
Deficit	**(34.3)**	(41.7)	(42.1)	(37.0)	(37.3)
Experience adjustments on plan liabilities	**1.6**	8.7	(1.7)	(4.3)	(9.6)
Experience adjustments on plan assets	**13.6**	9.4	(3.0)	0.6	3.4

33. Retirement benefit obligations (continued)

The defined benefit obligation includes benefits for current employees of the Group (70%), former employees of the Group who are yet to retire (5%) and retired pensioners (25%). The weighted-average period over which benefit payments are expected to be made, or the duration of the liabilities, is currently 22 years.

The Group expects to contribute £11.2 million to its pension plans during the 12 months ended 31 December 2015.

The Group intends to fund the deficit, agreed at the last triennial valuation, over the period to 31 December 2019.

34 Capital and other financial commitments

We have a number of financial commitments (i.e. a certain, contractual requirement to make a cash payment in the future) that are not recorded within our balance sheet as the contract is not yet due for delivery. Such commitments include contracts for the future purchase of coal and biomass, operating leases for land and buildings, contracts for the construction of assets and contracts for the provision of services.

Delivering our biomass strategy... We have made good progress towards securing near-term volumes of sustainable wood pellets and continue with negotiations for long-term supplies and to support our third unit conversion, which is reflected in the level of future commitments to purchase fuel, set out below.

	As at 31 December	
	2014 £m	2013 £m
Contracts placed for future capital expenditure not provided in the financial statements	**66.7**	158.8
Future support contracts not provided in the financial statements	**12.4**	23.0
Future commitments to purchase fuel under fixed and variable priced contracts	**4,512.0**	4,048.3

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2014 £m	2013 £m
Within one year	**1.7**	1.2
Within two to five years	**7.9**	5.5
After five years	**7.4**	7.4
	17.0	14.1

35 Contingent liabilities

Contingent liabilities are potential future outflows of cash that are dependent on a future event that is outside of our control; timing of the payment is uncertain, cannot be measured reliably, or is considered to be unlikely.

Guaranteed Minimum Pension ("GMP")

The UK government intends to implement legislation to equalise the GMP, resulting in an increase in the value of GMP for males. This would correspondingly increase the defined benefit pension obligation of the Group (note 33). At present, the methodology for implementing the equalisation is uncertain and thus the impact cannot be reliably measured. As a result, no allowance has been made for GMP equalisation in the calculation of the defined benefit obligation within these consolidated financial statements.

Notes to the consolidated financial statements (continued)

36 Related party transactions

A related party is either an individual with control or significant influence over the Group, or a company that is linked to us by investment or a related individual. Our primary related parties are our key management personnel and Capture Power Limited, a company in which the Group holds a 33% interest.

Remuneration of key management personnel

The remuneration of the directors, who are considered to be the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 "Related party disclosures". Further information about the remuneration of individual directors, together with the directors' interests in the share capital of Drax Group plc, is provided in the audited part of the Remuneration Committee report.

	Years ended 31 December	
	2014 £000	2013 £000
Salaries and short-term benefits	**7,895**	5,485
Aggregate amounts receivable under share-based incentive schemes	**2,326**	2,118
Company contributions to money purchase pension schemes	**47**	136
	10,268	7,739

Amounts included in the table above reflect the remuneration of seven (2013: seven) directors, being the members of the Executive Committee as described on page 62.

Amounts receivable under incentive schemes represents the expenses arising from share-based payments included in the income statement, determined based on the fair value of the related awards at the date of grant (note 26), as adjusted for non-market related vesting conditions.

There were no other transactions with directors for the periods covered by these consolidated financial statements.

Transactions with other related parties

As described in note 12, during the year the Group provided funding to Capture Power Limited, a joint venture in which the Group is a venturer, with a total value of £3 million recognised primarily in operating expenditure in the period. An unsecured amount of £0.5 million owing to the Group remained outstanding at the balance sheet date.

The Group has committed to provide a further £1 million of funds over the remaining period of the feasibility study, with an investment decision expected in 2016.

Company balance sheet

	Notes	As at 31 December 2014 £000	2013 £000
Fixed assets			
Investment in subsidiaries	4	**692,272**	593,666
Current assets			
Amounts due from other group companies		**1,254**	550
Short-term investments		**–**	–
Cash at bank and in hand		**4,405**	93,515
		5,659	94,065
Current liabilities			
Amounts due to other group companies		**(11,782)**	(5,495)
Net current (liabilities)/assets		**(6,123)**	88,570
Net assets		**686,149**	682,236
Capital and reserves			
Called-up share capital	5	**46,764**	46,503
Capital redemption reserve	6	**1,502**	1,502
Share premium account	6	**422,882**	422,488
Profit and loss account	6	**215,001**	211,743
Total equity shareholders' funds	6	**686,149**	682,236

These financial statements were approved by the Board of directors on 23 February 2015.

Signed on behalf of the Board of directors:

Dorothy Thompson CBE
Chief Executive

Tony Quinlan
Finance Director

Notes to the Company balance sheet

1. Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below, and have been consistently applied to both years presented.

Implementation of Financial Reporting Standard 100 ("FRS 100")

The Company will be required to apply the requirements of FRS 100, the new financial reporting standard applicable in the United Kingdom, with effect from 1 January 2015. The first financial statements prepared by the Company in accordance with the new standard will be for the year ending 31 December 2015.

It is currently the intention of the Company, as a Qualifying entity in accordance with that standard and as permitted by paragraph 4b of FRS 100, to prepare its financial statements in accordance with the requirements of FRS 101. This will result in the application of the accounting recognition and measurement criteria of EU-adopted International Financial Reporting Standards (IFRS), consistent with those policies adopted in the consolidated Group financial statements which are set out within the relevant notes on pages 105 to 140 of this Annual report.

FRS 101 permits certain disclosure exemptions from full EU-adopted IFRS principally, in relation to share-based payments, business combinations, assets held for sale, financial instruments, fair value, impairment and related parties. The full list of available exemptions can be viewed at www.frc.org.uk. Full disclosure of the Group's activities will continue to be made in the consolidated financial statements which are not affected by this change and will remain prepared in accordance with full EU-adopted IFRS.

At this stage, the adoption and implementation of FRS 100/101 is not expected to have any noticeable impact on the presentation of the financial statements of the Company, which are set out on pages 141 to 145 of this document.

Any objections to the adoption and implementation of FRS 100/101 should be made in writing to the Company Secretary at the Company's registered address as set out on page 150.

Cash flow statement

The cash flows of the Group are included in the Consolidated cash flow statement of Drax Group plc, which is set out on page 104 of this document. Accordingly, the Company has taken advantage of the exemption under FRS 1 "Cash flow statements" not to publish a cash flow statement.

Related party transactions

The Company has taken advantage of the exemption granted by paragraph 3(b) of FRS 8 "Related party disclosures" not to disclose transactions with other group companies.

2. Summary of significant accounting policies

(A) Fixed asset investments

Fixed asset investments in subsidiaries are stated at cost less, where appropriate, provision for impairment.

(B) Financial instruments

Issued equity – Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting all of its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. The share premium account records the difference between the nominal value of shares issued and the fair value of the consideration received, unless merger relief criteria within the Companies Act (2006) are met, in which case the difference is recorded in retained earnings.

Cash and cash equivalents – Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Short-term investments – Short-term investments includes cash held on deposits with financial institutions with a maturity of greater than three months at inception.

3. Profit and loss account

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company's profit and loss account was approved by the Board on 23 February 2014. Drax Group plc reported a profit for the year ended 31 December 2014 of £52.7 million (2013: £77.7 million).

The Company has no employees other than the directors, whose remuneration was paid by a subsidiary undertaking and a proportion was re-charged to the Company.

The auditor's remuneration for audit services provided to the Company for the year ended 31 December 2014 was £20,000 (2013: £20,000).

4. Fixed asset investments

	Years ended 31 December	
	2014 £000	2013 £000
Carrying amount:		
At 1 January	**593,666**	479,104
Capital contribution	**98,606**	114,562
At 31 December	**692,272**	593,666

Fixed asset investments relate entirely to subsidiary undertakings of the Company.

The capital contribution consists of two elements: a £92,725,000 (2013: £108,806,000) capital injection into a subsidiary, and £5,881,000 (2013: £5,756,000) in relation to the share-based payment charge associated with the Savings-Related Share Option Plan and Bonus Matching Plan schemes, which arises because the beneficiaries of the scheme are employed by subsidiary companies. For more information see note 26 to the consolidated financial statements.

Principal subsidiary undertakings

Name and nature of business	Country of incorporation and registration	Type of share	Group effective shareholding
Drax Finance Limited (holding company)	England and Wales	Ordinary	100%
Drax Power Limited (trading company, power generation)(1)	England and Wales	Ordinary	100%
Drax Fuel Supply Limited (trading company, fuel supply)(1)	England and Wales	Ordinary	100%
Haven Power Limited (trading company, power retail)(1)	England and Wales	Ordinary	100%
Haven Power Nominees Limited (non-trading company)	England and Wales	Ordinary	100%
Drax (International) Limited (holding company)	England and Wales	Ordinary	100%
Drax Biomass Inc. (holding company)(1)	USA	Common	100%
Morehouse BioEnergy LLC (trading company, fuel supply)(1)(2)	USA	Common	100%
Amite BioEnergy LLC (trading company, fuel supply)(1)(2)	USA	Common	100%
Baton Rouge Transit LLC (trading company, fuel supply)(1)(2)	USA	Common	100%

All subsidiary undertakings operate in their country of incorporation and have 31 December year ends.

The Company has taken advantage of the exemption provided in Section 410 of the Companies Act 2006 to disclose only its principal subsidiaries. A full list of subsidiary undertakings will be annexed to the Company's next annual return.

Notes:

(1) Held by an intermediate subsidiary undertaking.
(2) Limited liability company registered in Delaware, USA.

Notes to the Company balance sheet (continued)

5. Called-up share capital

	As at 31 December	
	2014 £000	2013 £000
Authorised:		
865,238,823 ordinary shares of 11 16/29 pence each	**99,950**	99,950
Issued and fully paid:		
2013 – 402,566,332 ordinary shares of 11 16/29 pence each	**–**	46,503
2014 – 404,821,561 ordinary shares of 11 16/29 pence each	**46,764**	–
	46,764	46,503

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Years ended 31 December	
	2014 (number)	2013 (number)
At 1 January	**402,566,332**	401,587,564
Issued under employee share schemes	**2,255,229**	978,768
At 31 December	**404,821,561**	402,566,332

The Company has only one class of shares, which are ordinary shares of 11 16/29 pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends.

Issued under employee share schemes

On 10 March 2014, a total of 2,126,934 shares were issued in satisfaction of shares vesting in accordance with the rules of the Group's Bonus Matching Plan granted in 2010. From 1 May 2014 a further 113,085 shares were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan, also granted in 2010. During 2014, 7,106 shares and 5,563 shares were issued on early exercise of options under the Group's Savings-Related Share Option Plan by five individuals whose employment had terminated due to retirement (2013: 7,222 shares relating to three individuals whose employment terminated due to retirement) and four whose employment had terminated due to redundancy, respectively. Additionally during 2014 2,541 shares were issues on early exercise of options under the Group's Bonus Matching Plan to one individual whose employment had terminated due to retirement.

6. Analysis of movements in equity shareholders' funds

	Share capital £000	Capital redemption reserve £000	Share premium £000	Profit and loss account £000	Total £000
At 1 January 2013	46,390	1,502	420,700	207,171	675,763
Share capital issued (note 5)	113	–	1,788	–	1,901
Retained profit for the year	–	–	–	77,650	77,650
Credited to equity for share-based payments	–	–	–	5,756	5,756
Equity dividends paid (note 7)	–	–	–	(78,834)	(78,834)
At 1 January 2014	46,503	1,502	422,488	211,743	682,236
Share capital issued (note 5)	261	–	394	–	655
Retained profit for the year	–	–	–	52,666	52,666
Credited to equity for share-based payments	–	–	–	5,636	5,636
Equity dividends paid (note 7)	–	–	–	(55,044)	(55,044)
At 31 December 2014	**46,764**	**1,502**	**422,882**	**215,001**	**686,149**

7. Dividends

	Years ended 31 December	
	2014 £000	2013 £000
Amounts recognised as distributions to shareholders in the year (based on the number of shares in issue at the record date):		
Interim dividend for the year ended 31 December 2014 of 4.7 pence per share paid on 10 October 2014 (2013: 8.7 pence per share paid on 12 October 2013)	**19,026**	35,020
Final dividend for the year ended 31 December 2013 of 8.9 pence per share paid on 14 May 2014 (2013: 10.9 pence per share paid on 11 May 2013)	**36,018**	43,814
	55,044	78,834

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 2014 of 7.2 pence per share (equivalent to approximately £29.0 million) payable on or before 15 May 2015. The final dividend has not been included as a liability as at 31 December 2014.

8. Contingent liabilities

The Company has provided unsecured guarantees to third parties in respect of contracts held by a subsidiary company. The guarantees have been issued for £nil consideration and the Company has not charged the subsidiary for the guarantees.

The Company has granted a charge over the assets of certain of its subsidiaries, in respect of the Group's debt (detailed in note 19 to the consolidated financial statements), which is guaranteed and secured directly by each of the subsidiary undertakings of the Company that are party to the security arrangement. The Company itself is not a guarantor of the Group's debt.

Shareholder information

Key dates for 2015

At the date of publication of this document, the following are the proposed key dates in the 2015 financial calendar:

Annual General Meeting	22 April
Ordinary shares marked ex-dividend	23 April
Record Date for entitlement to the final dividend	24 April
Interim Management Statement	12 May
Payment of final dividend	15 May
Financial half year end	30 June
Announcement of half year results	28 July
Interim Management Statement	10 November
Financial year end	31 December

Other significant dates, or amendments to the proposed dates above, will be posted on the Company's website as and when they become available.

Results announcements

Results announcements are issued to the London Stock Exchange and are available on its news service. Shortly afterwards, they are available under "Regulatory news" within the Investor section on the Company's website.

Share price

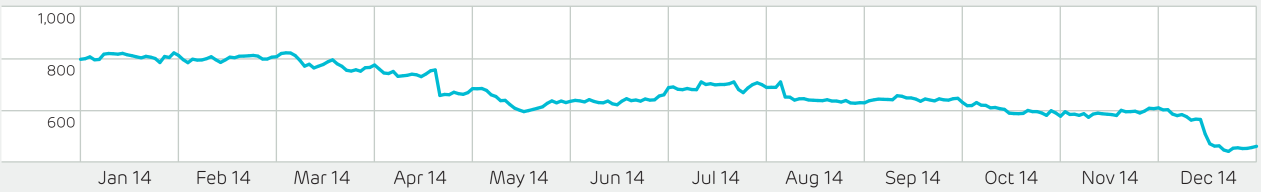
Shareholders can access the current share price of Drax Group plc ordinary shares on our website at www.draxgroup.com. During Stock Exchange trading hours the price shown on the website is subject to a delay of approximately 15 minutes and outside trading hours it is the last available price.

The table below provides an indication of the fluctuations in the Drax Group plc share price during the course of 2014, and the graph provides an indication of the trend of the share price throughout the year.

Closing price on 31 December 2013	Low during the year (19 December 2014)	High during the year (30 January 2014 and 5 March 2014)	**Closing price on 31 December 2014**
800.5 pence	441.0 pence	822.5 pence	**460.6 pence**

Share price graph[1]
1 January to 31 December 2014

Share price (p)



Note:
(1) The share prices given are the middle market closing prices as derived from the London Stock Exchange Daily Official List.

Market capitalisation

The market capitalisation, based on the number of shares in issue and the closing middle market price at 31 December 2014, was approximately £1.86 billion (2013: £3.2 billion).

Financial reports

Copies of all financial reports we publish are available from the date of publication and can be downloaded from our website. Printed copies of reports can be requested by writing to the Company Secretary at the registered office, by clicking on "Contact Us" on our website, or direct by e-mail to enquiries@drax.com.

Drax shareholder queries

Drax's share register is maintained by Equiniti Limited ("Equiniti"), who is primarily responsible for updating the share register and for dividend payments.

Shareholders should contact Equiniti directly if they have a query relating to their Drax shareholding. In particular queries regarding:

- Transfer of shares;
- Change of name or address;
- Lost share certificates;
- Lost or out-of-date dividend cheques;
- Payment of dividends direct to a bank or building society account; and
- Death of a registered shareholder.

Equiniti can be contacted as follows:

- Call Equiniti on 0871 384 2030 from within the UK (calls to this number cost 8 pence per minute plus network charges. Lines are open from 8.30am to 5.30pm, Monday to Friday – excluding Bank Holidays); or +44 121 415 7047 from outside the UK.
- Write to Equiniti at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

When contacting Equiniti by telephone or in writing it is advisable to have your shareholder reference to hand and quote Drax Group plc, as well as the name and address in which the shares are held.

Online communications

Registering for online communications allows you to have more control over the administration of your shareholding. The registration process is easy via Equiniti's secure website www.shareview.com.

Once registered with Shareview you are able to:

- elect how Drax communicates with you;
- amend some of your personal details;
- amend the way you receive dividends; and
- buy or sell shares online.

Registering for electronic communications does not mean that you can no longer receive paper copies of documents. We are able to offer a range of services and tailor the communications to meet your needs.

A range of frequently asked shareholder questions can also be found on the Drax website at www.drax.com/investor/shareholder_info/shareholderfaq.

Shareholder information (continued)

Beneficial owners and "information rights"

If your shares are registered in the name of a third party (i.e. an ISA provider or other nominee company) you may, if you wish, receive information rights under Section 146 of the Companies Act 2006. In order for this to happen, you must contact the third party registered holder, who will then nominate you. All communications by beneficial owners of shares where the shares are held by third party registered holders must be directed to that registered holder and not to Drax or Equiniti.

ShareGift

ShareGift (registered charity No. 1052686) is an independent charity which provides a free service for shareholders wishing to dispose charitably of small parcels of shares, which would most likely cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is possible to obtain income tax relief. Further information can be obtained directly from the charity at www.sharegift.org.

Share frauds ("Boiler room scams")

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence offering to purchase their shares at apparently inflated prices. It is often the case that the caller, or message in the correspondence claims that they represent a majority shareholder who is looking to take over the Company. At the time of this report, the Company was not the subject of a take-over attempt, hostile or otherwise, and approaches such as those outlined are usually made by unauthorised companies and individuals. Shareholders should be very wary of any unsolicited advice, offers to buy shares at a premium or offers of free reports into the Company. Below is the advice from the Financial Conduct Authority (the "FCA").

Beware of share fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register from www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams.
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.

Remember, if it sounds too good to be true, it probably is!

Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Shareholder profile

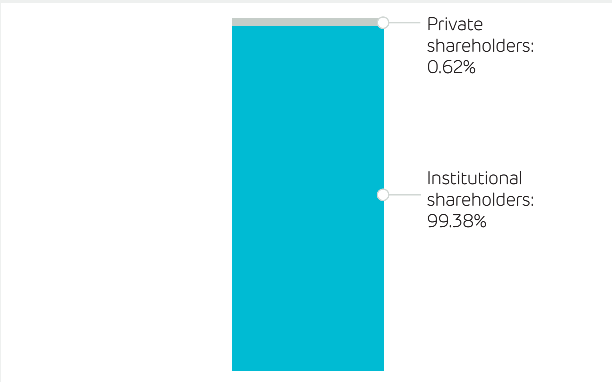
The categories of ordinary shareholders and the ranges and size of shareholdings as at 31 December 2014 are set out below:

	As at 31 December 2014			
Analysis of shareholders	Number of shareholders	%	Number of shares[1]	%
Private shareholders	1,361	51.55	2,506,709	0.62
Institutional and corporate holders	1,279	48.45	402,314,852	99.38
Total	2,640	100.00	404,821,561	100.00

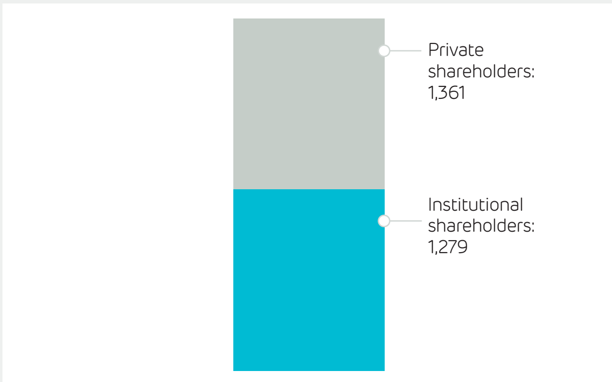
	As at 31 December 2014			
Range	Number of shareholders	%	Number of shares[1]	%
1–100	111	4.20	5,684	0.00
101–200	153	5.80	25,244	0.01
201–500	446	16.89	163,334	0.04
501–1,000	559	21.17	453,361	0.11
1,001–5,000	837	31.70	1,826,633	0.45
5,001–10,000	136	5.15	966,252	0.24
10,001–100,000	233	8.83	8,653,872	5.61
100,001–500,000	88	3.33	22,694,090	24.88
500,001 and above	78	2.92	370,033,091	66.53
Total	2,640	100.00	404,821,561	100.00

Note:
(1) Ordinary shares of 11 16/29 pence each.

Shareholders by percentage ownership
as at 31 December 2014



Shareholders by number
as at 31 December 2014



Shareholder information (continued)

Company information, professional advisers and service providers

Drax Group plc

Registered office and trading address
Drax Power Station
Selby
North Yorkshire YO8 8PH
Telephone +44 (0)1757 618381
Fax +44 (0)1757 612192
www.drax.com

Registration details
Registered in England and Wales
Company Number: 5562053

Company Secretary
Philip Hudson

Enquiry e-mail address
enquiries@drax.com

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Deloitte LLP
2 New Street Square, London EC4A 3BZ

Bankers
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1 Churchill Place, Canary Wharf, London E14 5HP

Brokers
Deutsche Bank AG
Winchester House, 1 Great Winchester Street, London EC2N 2DB

Financial PR
Brunswick Group LLP
16 Lincoln's Inn Fields, London WC2A 3ED

Registrars
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Glossary

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

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

Availability
Average percentage of time the units were available for generation.

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

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

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

Carbon price support mechanism (or carbon price floor or carbon tax)
A tax upon fossil fuels (including coal) used to generate electricity. It is charged as a levy on coal delivered to the power station.

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

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

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

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

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

Forced outage
Any reduction in plant availability, excluding planned outages.

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

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

IFRSs
International Financial Reporting Standards.

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

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

Load factor
Net sent out generation as a percentage of maximum sales.

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

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

Net cash/(debt)
Comprises cash and cash equivalents, short-term investments less overdrafts and borrowings net of deferred finance costs.

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

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

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

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

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

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

Summer
The calendar months April to September.

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

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

UK NAP
UK National Allocation Plan.

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

Winter
The calendar months October to March.

Notes

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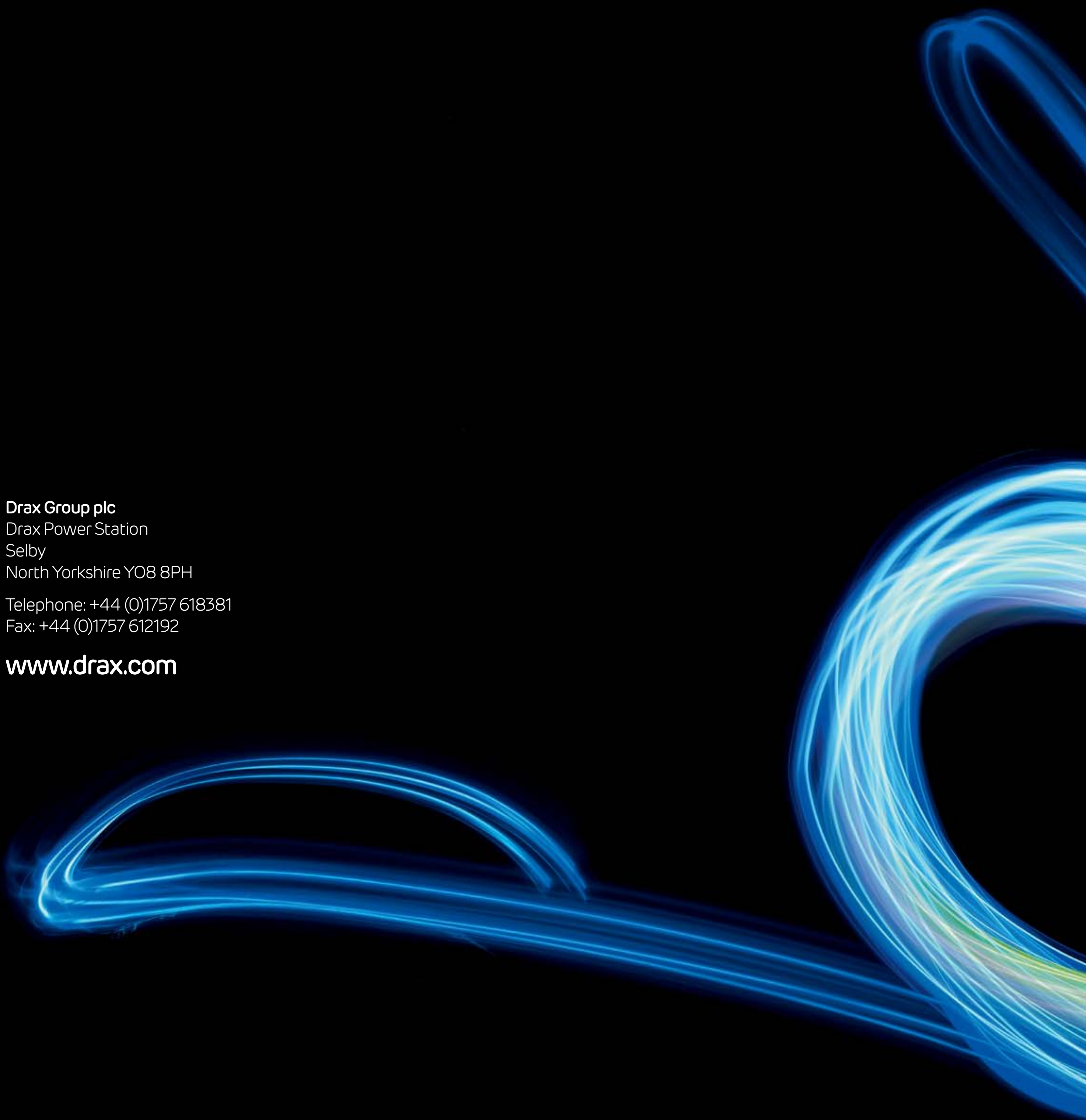

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