

Drax Group plc

Annual report and accounts 2013



powering tomorrow

Welcome to our 2013 report...

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Our business model

There are several steps in the Drax value chain, with each one providing incremental value to the business.



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Looking back and to the future

Chief Executive's statement

During 2013, we made important progress in our journey to deliver transformation of the Group.

Dorothy Thompson CBE
Chief Executive



28

Solid performance

Operational and financial performance

We delivered a solid operational performance in 2013. However, EBITDA was lower than last year due to the rising costs of carbon.

Total revenue 2,062 £m (2012: £1,780 million)	Net cash 71 £m (2012: £311 million)	Gross profit 445 £m (2012: £511 million)	Load factor 80 % (2012: 82%)
EBITDA 230 £m (2012: £298 million)	Carbon dioxide emissions 725 t/GWh (2012: 784t/GWh)	Underlying basic earnings per share 35 pence per share (2012: 52 pence per share)	Total recordable injury rate 0.29 (2012: 0.17)

50



Sustainable business review

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

64

Corporate governance

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

Charles Berry
Chairman



Strategic report

Overview

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Sustainable business review

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We live in a world reliant on energy.
It is an essential part of life.

As pioneers of sustainable power,
we are working hard to transform
what we do today, to help ensure we
play our part in powering tomorrow.

Our future lies in leading the way in
providing cost-effective, low carbon
and reliable renewable power.

**This transformation
is underway...**



virtuous cycle

We have made good progress on securing supplies of sustainable biomass for the near-term; we continue negotiations for long-term supplies.

We only source sustainable biomass, predominantly from sustainably managed forests. These are production forests where the rate of growth is at least equal to the rate of harvest, which means there is no depletion in the forest carbon stock.



Read more:
Securing sustainable
biomass supplies
See page 20



Read more:
Biomass sustainability
and procurement
See page 56

first steps

We are well underway with constructing our biomass facilities in the US.

During the year construction began on our two pellet plants, one in Louisiana and one in Mississippi, and our port facility in Louisiana. Commercial operations will start in the first half of 2015.



Read more:
Securing sustainable
biomass supplies
See page 20



joined up

We launched the UK's first purpose-built biomass rail freight wagon and the first 50 are now operational.

The new, bigger and better rail wagons push the boundaries of rail engineering. They are designed to keep the biomass they carry dry, move more of it at a time and speed up the process of delivery.



Read more:
UK biomass logistics
See page 20





innovation works

We converted our first generating unit to burn sustainable biomass in place of coal and commissioned new facilities to support it.

The first converted unit has been running successfully since April 2013. By the end of 2013 the unit was fully supported by new, bespoke biomass receipt, storage and distribution systems.



Read more:
Biomass conversion
See page 20



Read more:
Outage and plant
utilisation levels
See page 36





staying ahead

We remain committed to maintaining operational excellence at Drax Power Station, with leading performances from safety to maintenance.

Two major planned outages were completed during 2013 on time and to budget with no recordable injuries. Generation output remained high for the fourth consecutive year.



Read more:
Coal-fired generation
performance
See page 22



Read more:
Outage and plant
utilisation levels
See page 36



well placed

We are winning significant new contracts with our renewable power offer for our retail business customers.

Our contracts are simple, flexible and designed to meet our customers' specific requirements, and all are backed by an excellent standard of customer service.



Read more:
Retail performance
See page 22



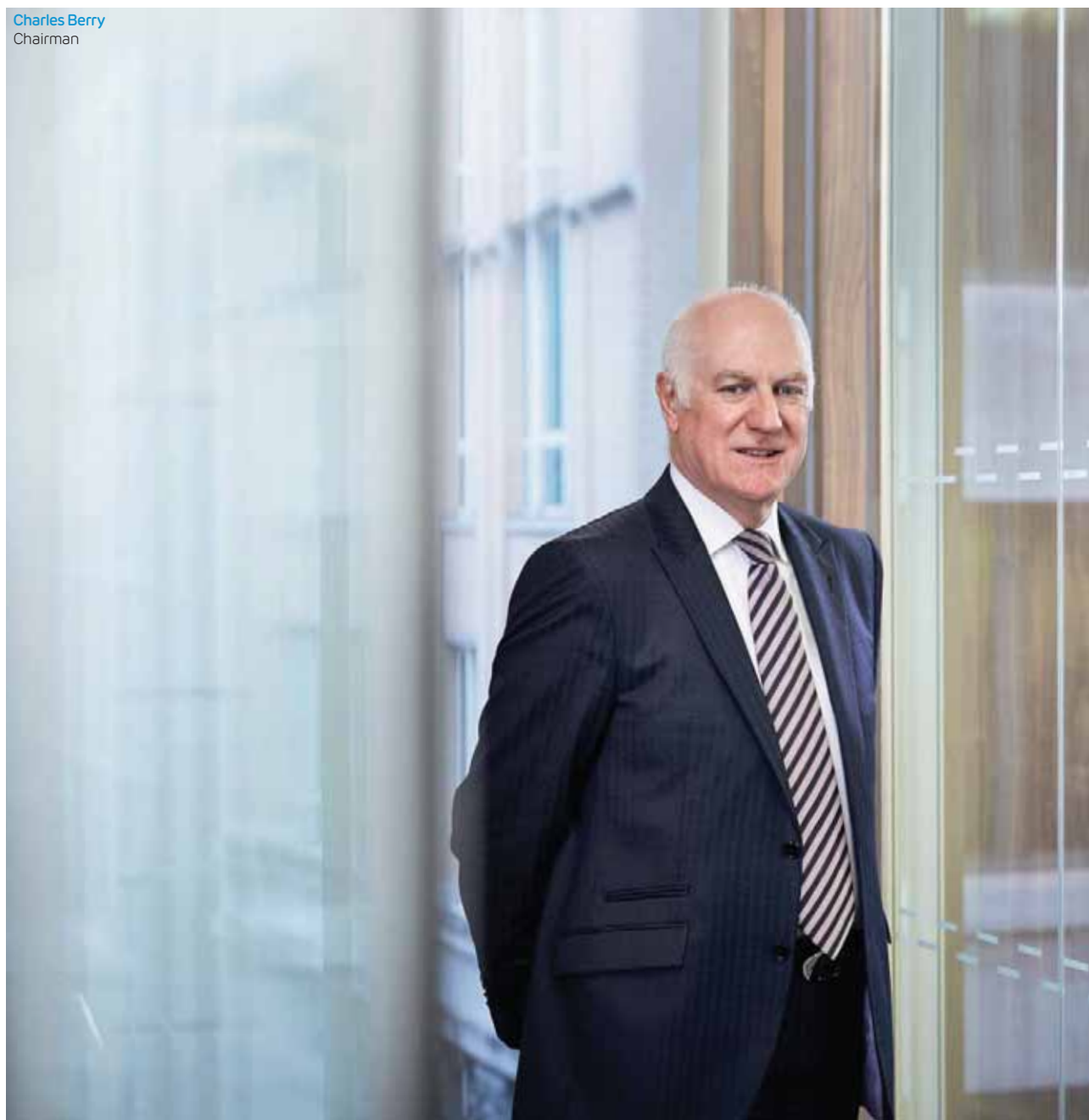
Read more:
Retail growth
See page 37

Chairman's introduction

Significant progress for the Group

Providing electricity from sustainable biomass has great potential and it has an important role as a low carbon, cost-effective and reliable renewable technology in the future energy mix of the UK.

Charles Berry
Chairman



In perspective

Our commitment to becoming a leading provider of sustainable power is stronger than ever. As a Group we made significant progress in this respect during 2013, from starting the construction of wood pellet plant and port facilities in the US, through the conversion of our first generating unit at Drax Power Station to burn sustainable biomass in place of coal, to increasing sales of renewable power to business customers in the UK.

The energy sector faces many challenges. Whether concerns centre on security of supply, affordability or decarbonisation, as a Group we are pleased to say that we are working hard to provide power which is secure and reliable, cost-effective and low carbon. The regulatory framework which shapes the UK energy industry fully recognises the valuable and strategic role that sustainable biomass has to play in the energy mix. Importantly, establishing that framework will unlock the potential of this new and vibrant biomass industry and promote growth through investment and job creation.

Our achievements in 2013 position us well to secure an attractive future for our business and our shareholders.

We are firmly on track to deliver the many benefits that biomass has to offer as an energy source.

Earnings and dividend

Our earnings (EBITDA⁽¹⁾) for the year were slightly ahead of expectations at £230 million.

These are lower than in 2012 (£298 million) reflecting the increasing costs of carbon (£120 million), driven by the introduction of the UK government's carbon price support mechanism from 1 April 2013 and the removal of free allowances under the EU ETS.

In accordance with our dividend policy, the Board proposes a final dividend in respect of 2013 of 8.9 pence per share, equivalent to £36 million. This would give total dividends for the year of £71 million (2012: £97 million).

Corporate reporting

During 2013, a number of changes were introduced to the legislation and regulations governing reporting requirements. The approach we have adopted over recent years satisfies many of the new disclosure requirements. Nevertheless, we have incorporated new features in this Annual report and accounts which enhance some aspects, such as greenhouse gas emissions reporting, which can be found on page 51 and introduce others in our Governance section starting on page 64.

The Board and governance

We have an effective Board with good and complementary skills, knowledge and experience across all directors, both executive and non-executive. The Board takes the lead in setting the tone for good governance throughout the Group. As a Board we ensure that our conduct is focused on improving our business, driving our strategic priorities, and behaving responsibly. Issues such as succession planning, career development and diversity are kept under review as a matter of course.

More information can be found in the Governance section of the report starting on page 64.

Our people

We report on a year that has seen unprecedented change across the Group. Significant achievements have been made by our people and my sincere thanks go to all Group staff for their tireless commitment and hard work.



Charles Berry
Chairman

18 February 2014

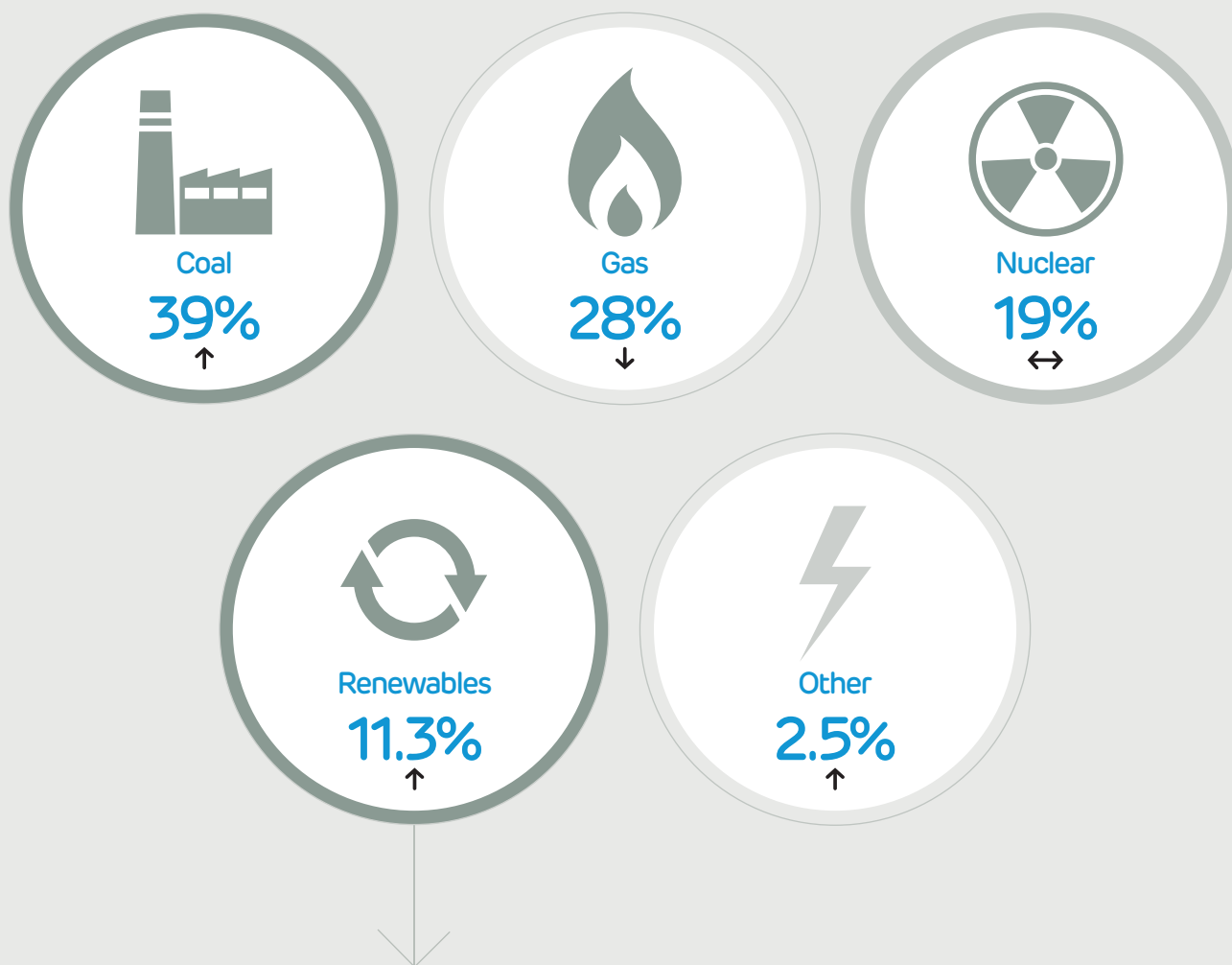
(1) EBITDA is defined as profit before interest, tax, depreciation, amortisation and unrealised gains and losses on derivative contracts.

Our business today

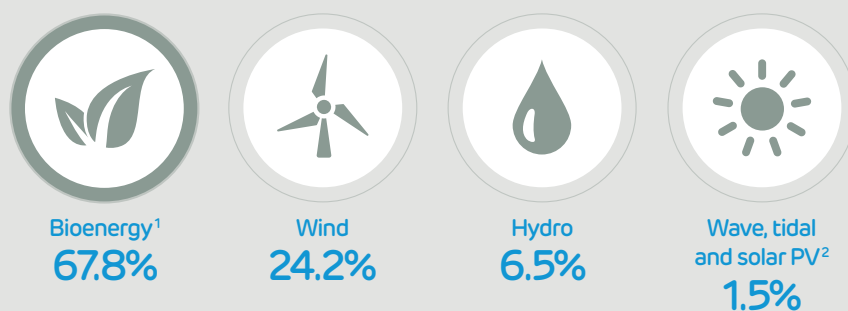
The UK's electricity mix

In 2012 (latest figures available), generation from gas fell mainly due to high gas prices, particularly relative to coal, as well as greater generation from renewables.

Contribution to the UK's electricity mix by fuel type



Renewables breakdown



Notes:

¹ Landfill gas, sewage sludge digestion, energy from waste combustion, animal biomass, plant biomass, anaerobic digestion, co-firing with fossil fuels.
² Photovoltaics.

Our business model

Our overriding 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 and ultimately maximising that value and delivering our gross margin.

source

Fuel

How we maximise value...

- We burn sustainable biomass currently in one converted unit, which earns 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 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
28–45

generate

Generation

How we maximise value...

- Through our turbine upgrade project we secured our position as the most efficient coal-fired power station in the UK, and with it and our increasing use of biomass we are delivering coal and CO₂ savings.
- With leading operational performances across all aspects of the generation business, from safety to maintenance, we are able to deliver high availability and reliability.
- In addition, the flexibility of our despatch allows us to respond quickly to changes in demand.

Environment

How we maximise value...

- Through burning increasing volumes of sustainable biomass and our efficiency improvements we are able to significantly reduce the amount of coal we burn, save on carbon costs and reduce emissions of CO₂.
- We generate additional revenue through sales of our by-products, reducing disposal costs, and creating its own revenue stream. By reducing emissions of SO₂, 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

supply

Trading

How we maximise value...

- As the largest power station in the UK we are able to utilise economies of scale through, for example, procuring fuel at competitive prices.
- We are always looking to increase the trading options available to us, for example, through our retail business.
- We benefit from having a physical asset to trade around and through a seamless interface with the operations side of the business, enabling us to extract value in all market conditions.

Retail

How we maximise value...

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



Read more:
Marketplace
26–27

Influenced by a number of risk factors:

There are many external factors with the potential to have an impact on our business. We aim to be alert to and manage all the identified principal risks and uncertainties.



Read more:
Principal risks and uncertainties
46–49

Our business today

Scale, efficiency
and service

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. As our business transformation takes shape 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.

1.6

million tonnes of biomass burnt

0.8

million tonnes of economically advantageous fuel burnt

8.5

million tonnes of coal burnt

generate

Generation

Drax Power Station is the largest power station in the UK, almost twice the size of the next largest power station. Through strong operational performance we are able to deliver high availability and reliability.

3,960

MW connected capacity
at Drax Power Station

Environment

We work hard towards reducing 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. We sell the by-products of our operations to the construction industry.

2.7

million tonnes of CO₂ saved through burning sustainable biomass in place of coal

0.7

million tonnes of gypsum sold

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.

26.2

TWh net sales of power generated

Retail

Our retail business, 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.

8.1

TWh net power supplied

59

% of sales growth by volume

Achieving our vision

Our business is influenced by a number of factors, which we manage to the very best of our ability. Through focusing on our six key priorities we aim to achieve our vision and maximise shareholder value.



Chief Executive's statement

Looking back at our achievements; looking forward to the challenges and opportunities ahead

Review of the year

Drax is evolving from its beginnings as a power station owner and operator to a Group producing predominantly renewable power with activities that span the supply chain for the provision of biomass generated renewable power that is sustainable, low carbon, cost-effective and reliable. During 2013, we made important progress in our journey to deliver this transformation of the Group.

Our vision for Drax is to be a bold, customer oriented power generation and retail business, driven by biomass innovation. Our key initiatives in 2013 to enable us to achieve our vision were: our biomass fuel supply business in the US, our biomass conversion project at Drax Power Station, and our programme for the expansion of Haven Power Limited ("Haven Power") through growing our electricity sales to businesses. In each of these we made notable progress during the year bringing us closer to both achieving our vision and delivering on our overriding objective of maximising the value of the Drax Group.

Earnings

Our earnings for 2013 reflect good operations and good progress in delivering reliable biomass generation. As expected, at £230 million EBITDA is down on last year (2012: £298 million) as a result of increased carbon costs through both the cessation of the carbon emissions allocation under the EU ETS and the introduction of the UK government's carbon price support mechanism in April 2013.

Securing sustainable biomass supplies

Our developments in the US are an important part of our business model. They help us to optimise the biomass supply chain from North America which is still in its infancy, but is the main source of sustainable biomass fuel. The 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.

Construction of two 450 thousand tonnes per annum wood pellet plants – Amite (Mississippi) and Morehouse (Louisiana) – and a port facility at Baton Rouge (Louisiana) progressed well during the year. All three construction projects are progressing to schedule and budget. We are targeting the first quarter of 2015 for the start of commercial operations at Amite and Baton Rouge and the second quarter for Morehouse, with full capacity reached six months later.

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 4 million tonnes contracted for April 2014 to March 2015. We continue our negotiations for long-term volumes.

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 and habitats and biodiversity protection, as well as due consideration for the important socio-economic factors in the source areas.

A programme of independent audits verifies that all our suppliers comply with our sustainability criteria.

Our calculations show that the range of sustainable biomass materials we have burnt over the last few years has a low carbon footprint. In 2013, the average greenhouse gas emissions were significantly below 79gCO₂/MJ which is the maximum under the UK government's framework for sustainability requirements for biomass that are expected to become mandatory in 2015.

UK biomass logistics

Initial long-term contracts have been secured with UK port operators to provide us with biomass import facilities. Further contracts are under negotiation. The development of these facilities is on schedule.

We have concluded our first long-term freight contracts at fixed prices. We were particularly pleased to be able to secure through these contracts good protection against future increases in oil-related freight costs, typically a major component of total freight costs. The first 50 of the bespoke biomass rail wagons are operational transporting biomass from the ports to the power station.

Biomass conversion

The conversion of our first generating unit to burn sustainable biomass in place of coal is proving successful.

The converted unit was initially fuelled using existing storage and distribution systems originally built to facilitate biomass co-firing. Construction of new bespoke facilities for the receipt, storage and distribution of biomass remained on schedule and within budget throughout the year. From September 2013, we began to commission the new systems.

Our notable achievements for 2013 were...

Industry-leading safety performance amidst high generation output levels, and significant project and construction activity across the Group.

Secured the first private funding to be underpinned by the government's UK Guarantees Scheme.

Dorothy Thompson CBE
Chief Executive



Successfully delivered our first biomass converted generating unit with truly world-class performance.

Initiated construction of our first two wood pellet plants and port facility in the US, with construction well advanced by the end of the year.

First 50 of the new, bespoke biomass rail freight wagons fabricated and in operation – the first new freight wagons to be approved in the UK for over a decade.

Chief Executive's statement

By the end of the year the facilities were fully supporting the first converted unit, overcoming many of the expected reliability issues with fuel delivery we experienced in the first half of the year. This contributed to the improved load factor seen in the second half of the year, giving a load factor for the full year of 75%.

Coal-fired generation performance

As in previous years, our load factor at 80% was high compared to other thermal capacity on the system and we delivered strong generation output for the fourth consecutive year. With good availability and reliability throughout 2013 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.

For the year, our forced outage rate, which measures any reduction in plant availability excluding planned outages, was 6.8%. This is higher than our long-term target of 5%. In the first half of the year we had a forced outage rate of 7.6%. During this period we carried out performance tests on our boilers using a wide range of marginal coal material to establish the most economic fuel diet. This resulted in a higher number of plant integrity issues than we would typically expect. The forced outage rate in the second half of the year was lower and more in line with our long-term target. This has been set through extensive benchmarking with UK and international coal-fired plants to determine the optimum balance between performance and cost.

Health and safety

Two planned unit outages were undertaken during 2013, and both were completed on time and to budget without any recordable injuries. With two outages and considerable biomass project work activity, the number of engineering man-hours worked throughout the year was significant. Our safety statistics for the Group continued to be industry-leading, reflecting the emphasis we place on safety.

However, we have experienced weaker performance in our construction activities, particularly at two of our construction sites in the US which led to an increase in the total recordable injury rate. Working with our contractors we have significantly increased the safety management and supervision at these sites.

Retail performance

Selling our output through 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 2013, Haven Power delivered another year of substantial growth in a highly competitive market with retail sales 59% higher, in volume, than in 2012. Sales growth remains a key priority for the business.

An excellent standard of customer service is central to our proposition for this business. We are a consistent high performer in the Datamonitor Energy Users survey and have a good renewals record.

Legislative framework – contracts for difference and capacity market

In December 2013, the Energy Act became law. At the heart of the Act is electricity market reform, which will see, amongst other things, the introduction of Contracts for Difference ("CfD") providing long-term contracts and a stable revenue stream enabling investment in low carbon generating technologies. Electricity market reform also includes the introduction of a capacity mechanism into the electricity market to mitigate future risks to the security of electricity supplies.

The government plans to award early CfD contracts in Spring 2014. These enable investment in advance of the CfD mechanism coming into force and importantly underpin further work on our second and third unit conversions.

The contracts provide the necessary certainty to underpin the long-term commitments required to secure the supply chain for sustainable biomass fuel for these units. This includes term contracts for UK port facilities, pellet supplies and overseas logistics facilities, as well as further direct investment by Drax in the supply chain in the UK and overseas.

Our applications for early CfDs for the conversion of two of our units were successful with the units provisionally ranked equal first amongst 16 projects. The strike price for these contracts has been confirmed as £105/MWh (in 2012 prices). Currently, the contracts are scheduled to become effective, and so allow the first payments, in April 2015, subject to EU State Aid clearance. Against this timetable we are now targeting the conversion of our second and third units to biomass in April 2015 and, at the earliest, the fourth quarter of 2015. In advance of these conversions we intend to modify one of our coal units at the power station to operate as an enhanced co-firing unit from May of this year. As an enhanced co-firing unit it will attract 0.9ROC/MWh under the Renewables Obligation ("RO"). This unit will then be used for the second unit conversion in April 2015.

During 2014, we will progress the construction works necessary to support these conversions as well as the required development of the supply chain, including further UK port development and the fabrication in the UK of more bespoke railway wagons. Our target is for three converted units to be fully operational and supplied with sustainable biomass through a well secured supply chain in 2016.

Applications for enduring CfDs are to be made in the second half of 2014. Any units not converted under the RO or the early CfDs will be eligible to apply. The government is currently consulting on proposals for the contract allocation process and budget management under the Levy Control Framework which sets the limits on the total amount of subsidy available.

The government continues to work on its proposals to introduce a capacity market for electricity. These have not yet been finalised, but it is our view that the current designs do not make a compelling economic case for the Drax coal units.

New and innovative biomass rail receipt, storage and distribution facilities in operation and supporting the first unit conversion.

All of Haven Power's customers were successfully transferred on to the new billing system.

Through Haven Power, increased our retail sales of power for the year by 59% (by volume) and our forward sales by over 50%.

Legislative framework – sustainability criteria

In January 2014, the government published the draft RO (Amendment) Order 2014 which includes the requirement for the Office for Gas and Electricity Markets ("Ofgem") to produce guidance on sustainability criteria for biomass. We continue to engage with government and Ofgem on the implementation of these criteria.

We firmly believe that robust, mandatory sustainability criteria are vital to maintain and enhance public acceptance, and ensure that sustainable practices are implemented. Together with five other European biomass users we are involved in the work of the Sustainable Biomass Partnership which aims to establish and manage a biomass assurance framework to demonstrate that solid biomass is derived from legal and sustainable sources.

Carbon capture and storage

Together Drax, Alstom UK Limited and BOC (a member of The Linde Group) have formed the project company, Capture Power Limited ("Capture Power"). In December 2013, the government awarded Capture Power a Front End Engineering and Design ("FEED") contract for its planned, state-of-the-art 426MW carbon capture and storage ("CCS") demonstration project – the White Rose CCS Project. The FEED contract also includes the planned development of a carbon dioxide ("CO₂") transportation and storage solution – the Yorkshire Humber CCS pipeline – to be undertaken by National Grid.

The award of the contract marks a major next step in the UK CCS Commercialisation Programme. The FEED study is a two-year programme of detailed engineering, planning, commercial and financial work to finalise and de-risk all aspects of the proposal ahead of taking the final investment decision and proceeding to financial close and the commencement of construction.

The project will be dependent on successful outcomes from external funding processes and electricity market reform mechanisms to incentivise low carbon technologies.

Looking ahead

As noted above, from May this year one of our coal units will operate as an enhanced co-firing unit burning at least 85% biomass. We will use this unit to conduct further research and development into the types of biomass that can be effectively burnt, to develop our optimum nitrogen oxides ("NO_x") abatement solution on converted units, and to build up biomass supplies for the second unit conversion in April 2015.

During the year we will make further investments in improving the performance of our biomass units. Through these investments we are confident that we will now be able to deliver capacity to the grid from a converted unit of 630MW burning standard biomass. This is only 15MW less than when fuelled with coal. At this output our efficiency rates will be just 0.5 percentage points less than coal efficiency rates. This is materially better performance than we originally expected reflecting further technical progress and investment.

Our overall target is to achieve a capacity of 645MW using standard woody biomass. We have already demonstrated that we can achieve this higher output under special conditions when using particularly high calorific sustainable wood pellets.

In March this year, we expect to have two domes, half of our new 300,000 tonne biomass storage facility, fully operational. We expect the full capacity to be operational in the third quarter. We anticipate that the Port of Hull facility will be fully operational in March 2014 and the Port of Immingham by the end of the year. In the second quarter of 2014 we envisage there being 100 biomass rail freight wagons in operation.

At the earliest, we now expect to convert our third unit in the fourth quarter of 2015. The initial load factor for this unit will depend on biomass supply chain development. We are moving forward with the engineering designs, planning and biomass sourcing strategy for the conversion of a fourth unit and would hope to be able to progress the investment decision on this unit as soon as the regulatory position is clear with a view to conversion in 2016.

We believe that there is significant value to the Group in increasing our own supplies of wood pellets. We are now moving forward with the development of new sites to establish additional wood pellet plants in the US.

We plan to continue to grow our retail sales through Haven Power, which is on track to achieve 12–15TWh of annual sales over the next few years.

During 2013, we arrived at a lead case technical solution to ensure compliance with the more stringent emissions standards of the Industrial Emissions Directive from 2016. The solution involves low NO_x burners on all six units, selective non-catalytic reduction ("SNCR") technology and more selective coal procurement. We will trial SNCR and low NO_x burners on one coal unit and our enhanced co-firing biomass unit during this year to verify our analysis.

As we move from being a coal-fired generator burning some biomass to become an integrated Group sourcing biomass, generating renewable electricity and selling it to business customers, the commercial structure of the Group will change. As we progress this transformation we will remain committed to developing in parallel the optimal capital structure for the Group.

We are confident that this transformation will deliver an attractive future for the business and our shareholders. It will also deliver a significant amount of cost-effective renewable power to UK consumers and make a meaningful contribution to the UK's 2020 climate change targets.

Dorothy Thompson CBE
Chief Executive

18 February 2014

Developed an optimal solution for compliance with the Industrial Emissions Directive, not based on selective catalytic reduction technology.

Applications to the government for early CfDs for two biomass unit conversions provisionally ranked equal first amongst 16 renewables projects.

Together with our Capture Power partners, won a two-year FEED study award under the UK government's CCS Commercialisation Programme.

Principal performance indicators

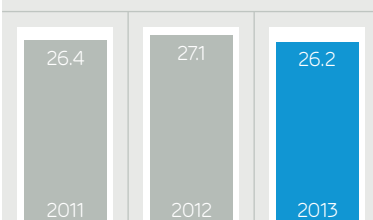
Monitoring our performance

Our principal performance indicators provide a snapshot of how we are performing against our overriding objective to maximise the value of the Drax business, and the progress we are making against our strategic initiatives and key priorities.



Maximise the value of the Drax business

Net sales TWh



The aggregate of net merchant sales and net Balancing Mechanism activity

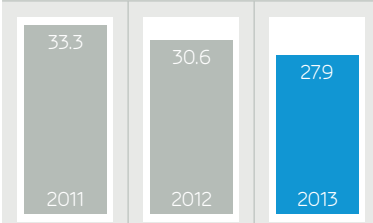
Why we measure

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

Comment

Following a record output in 2012, 2013 net sales were lower reflecting higher outage rates. With a double outage and the conversion of our first unit to run on biomass, we have retained good availability levels, allowing us to take advantage of good margins available.

Average cost of fuel excluding carbon £/MWh



Fuel costs excluding carbon divided by volume of net sales

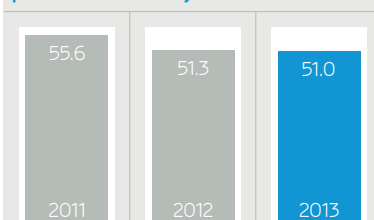
Why we measure

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 spread achieved, and reflects the value captured from effective fuel procurement and diversified fuel sources.

Comment

Falling coal prices have driven our average fuel costs down over the last three years. This has been partially offset by increased use of biomass, as biomass is more expensive than coal.

Average achieved price of electricity £/MWh



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

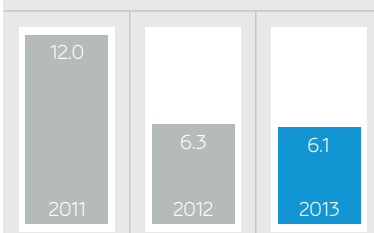
Why we measure

The average achieved price of electricity tracks the power price component of the dark green and bark spread 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. Following a period of volatility in 2011 and early 2012, power prices have remained relatively stable through to the end of 2013.

Average cost of carbon £/tonne



Carbon costs divided by volume of allowances purchased

Why we measure

The average cost of carbon (excluding carbon price support) tracks the carbon cost component of the dark green spread achieved.

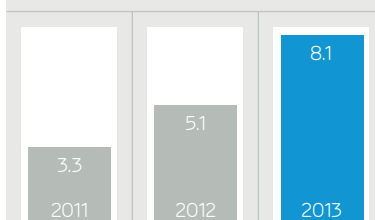
Comment

Market prices for carbon fell dramatically in the second half of 2011 and have remained low since. The fall in prices reflected concerns over the Eurozone economies and the risk of oversupply, which are yet to be mitigated by political intervention as described in Commodity markets.



Grow our retail business

Retail customer volumes TWh



Net sales distributed through our retail supply arm, Haven Power

Why we measure

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

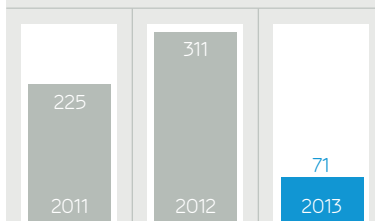
Comment

Our retail business, Haven Power, continued to deliver good growth during 2013, largely as a result of the planned expansion of the customer base.



Maintain an optimal supporting capital structure

Net cash £m



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

Why we measure

Monitoring net cash ensures an efficient capital structure is maintained to support our business, alongside sufficient liquidity to manage our future obligations.

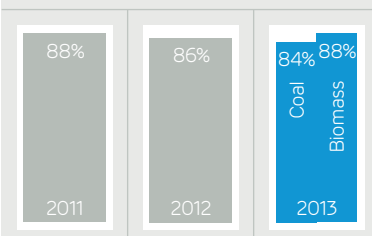
Comment

As we progress our biomass transformation significant capital expenditure has been invested during 2013, funded by the term loans and share placing proceeds. Lower profits and higher volumes of ROC assets held on the balance sheet have combined to reduce net cash.



Maintain operational excellence

Plant availability %



Average percentage of time the units were available for generation

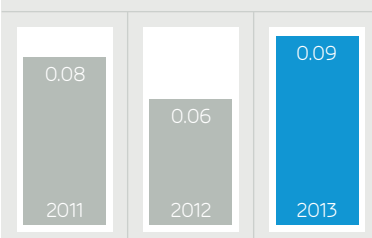
Why we measure

Availability tracks our operating performance, enabling assessment of, and providing guidance for, our operational regime and maintenance investment plans.

Comment

From 2013, we present availability for both our biomass and coal units separately. The operational performance of our coal units continues to be industry-leading and our first biomass unit is performing very well (note: biomass availability is based on 585MW capacity).

Lost time injury rate



The frequency rate is calculated on the following basis: lost time 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.

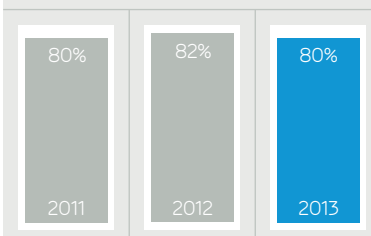
Comment

During 2013 we undertook our first conversion of a unit to be fuelled entirely by biomass, as well as planned outages for two of our coal units and commenced construction work in the US. Alongside this significant activity, our safety record continues to be strong. However, weaker safety performance in the US has increased our injury rates during 2013. We have responded with greater supervision at these sites and will continue our commitment to delivering a positive health and safety culture across our operations.



Read more:
Operational and financial performance
28–45

Load factor %



Net sent out generation as a percentage of total available generation capacity

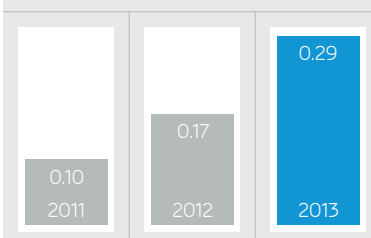
Why we measure

Load factor tracks our operating performance and the competitiveness of Drax Power Station.

Comment

Generation output is driven by market conditions and plant availability. Output in 2013 was 26.2TWh, slightly lower than the record level of 2012.

Total recordable injury rate

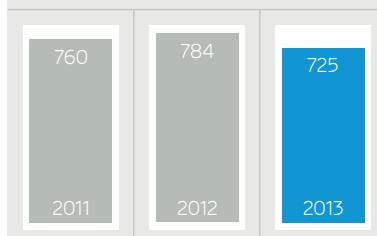


The frequency rate is calculated on the following basis: (lost time injuries + worse than first aid injuries)/hours worked x 100,000



Deliver our biomass strategy

Carbon dioxide emissions t/GWh



CO₂ emissions rate per unit of output

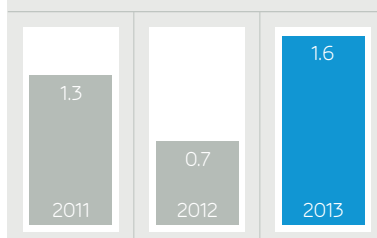
Why we measure

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

Comment

With our progression towards becoming a predominantly biomass-fuelled power station, we are realising significant savings in carbon dioxide emissions. Our biomass unit, converted in April, delivered 2.7 million tonnes of carbon dioxide savings in 2013. However, there is still work to be done to bring this metric down further.

Biomass burnt million tonnes



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.

Marketplace

Where we sell our power

Complex arrangements and mechanisms govern the supply and demand of a product which is not stored, yet is vital to everyday life.

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. Drax is an independent company, with interests in both generation and supply in the market.

Today, the energy mix benefits from a diversity of fuel sources, including gas, coal, nuclear and renewables. This diversity is a key contributor to security of supply.

In 2012 (the latest figures available⁽¹⁾), the generating capacity of the UK's major power producers was 81,742MW. The final consumption of electricity in 2012 was approximately 318TWh.

Drax has a 5% share in the generation capacity market and typically meets 7–8% of the UK's electricity needs. Through our retail company, Haven Power, we serve businesses of all sizes, together accounting for sales of over 8.1TWh of power in 2013.

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

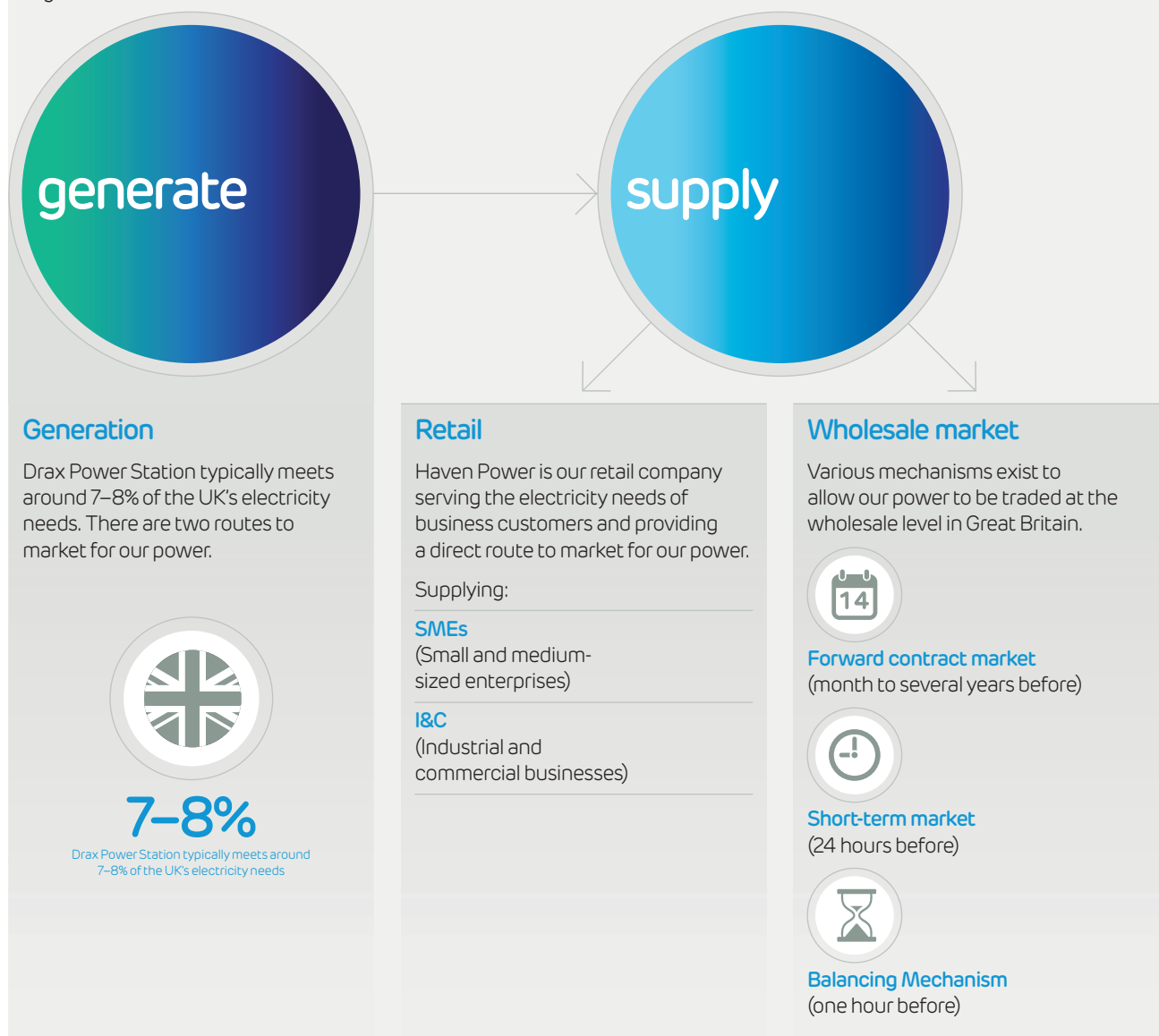
Power prices are driven by a number of factors, such as underlying commodity prices, the availability of generating capacity on the electricity system, and the physical positions taken by individual market participants.

The wholesale market operates on price and the relative prices of gas and coal, 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 then gas-fired generation becomes the marginal plant.

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.

Our role in the electricity supply chain

Our interests in the electricity supply chain cover the generation, wholesale and retail markets.



Operational and financial performance

Strength across our operations

We have continued to deliver strong operational performance during a year of significant project activity. Our EBITDA is lower than last year, reflecting increased carbon costs.

Tony Quinlan
Finance Director



Introduction

Our EBITDA for the year ended 31 December 2013 was £230 million, compared to £298 million in 2012. This reflects the increased carbon costs incurred through the ending of free carbon dioxide ("CO₂") emissions allowances and the introduction of the carbon price support ("CPS") mechanism. Together these measures added £120 million to our fuel costs in 2013.

Our continued strength in operations has allowed us to benefit from attractive dark green spreads during the year, mitigating to some extent the impact of additional carbon costs.

2013 was a year of significant project activity across our operations. We undertook a double outage during the year, our first unit was converted to run fully on biomass in April and construction work continues in the UK and has commenced in the US on our biomass transformation project.

At Haven Power Limited ("Haven Power"), our retail business, we have continued to deliver good sales volume growth, with 8.1TWh of sales in the year ended 31 December 2013, compared to 5.1TWh in 2012.

During 2013, £286 million was invested on capital expenditure projects, of which £228 million related to our biomass transformation plans. At the Drax Power Station site this includes the new biomass receipt, storage and distribution facilities. Commissioning for the facilities required to fuel our first biomass unit was completed at the end of 2013. In the US Gulf, work commenced on the development of two wood pellet plants and a port operation, targeting commercial operations dates in the first half of 2015.

In support of our biomass transformation plans, in April 2013 we announced that we had secured a £75 million amortising 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 amortising loan facility agreed with the UK Green Investment Bank in December 2012. Alongside these facilities we have a £100 million amortising loan facility with M&G UK Companies Financing Fund, secured in 2012, and our £400 million working capital and letter of credit facility.

With £225 million of loans drawn down, net cash at 31 December 2013 was £71 million. Supported by the proceeds of our share placing in 2012 this provides the financial platform from which we are realising our biomass transformation.

At the forthcoming Annual General Meeting, the Board will recommend a final dividend for 2013 of 8.9 pence per share, taking total dividends for the year to £71 million.

This review includes further explanation and commentary in relation to our principal performance indicators and results for the year.

Key developments in the year

EBITDA
£230m
2013

£298m
2012



EBITDA for the Group is our key measure of profit or loss. The reduction in 2013 is driven by additional carbon costs at a gross margin level, see page 34 for more details.

Retail sales
8.1TWh
2013

5.1TWh
2012



This is a principal performance indicator for us, see page 37 for more details.

Underlying EPS
35 pence
per share
2013

52 pence per share
2012



The reduction in EBITDA has driven the fall in this metric, see page 40 for more details.

Capital investment
£286m
2013

£224m
2012



The majority of this spend in the last two years has related to our biomass transformation project, and we will continue to see high levels of capital expenditure through to the completion of this work, see page 42 for more details.

Net cash
£71m
2013

£311m
2012



Throughout our biomass transformation, cash generated alongside the funding platform we have set up will be important in supporting the significant expenditure required. See page 41 for more details.

Share price
at the year end
801 pence
2013

545 pence
2012



Whilst medium-term earnings are under pressure due to the increase in carbon costs, our share price rise reflects the strong outlook for the Group as it transforms itself into a predominantly biomass-fired generator. The delivery of our biomass transformation is a key aspect of this.

Operational and financial performance

Simplifying the numbers

There are two core elements to our gross profit:
the dark green spread and the bark spread.

source

Fuel

Our cost of sales comprises fuel costs in respect of generation, grid charges, other retail costs and cost of power purchases, the largest element being fuel costs.

Fuel costs in respect of generation rose from £929 million in 2012 to £946 million in 2013. This figure includes the cost of coal and sustainable biomass burnt (net of the value of renewable support) and carbon allowances purchased. The power station's output for the year drives the requirement for the volume of fuel, although the fuel mix also influences total fuel costs.

In 2013 we entered Phase III of the EU ETS with no free carbon emissions allowances from the start of the year, compared to the 9.5 million tonnes of free allowances received in 2012. This increased the cost of carbon by £58 million in 2013. In addition, from April 2013 the CPS mechanism came into effect, creating a levy on our coal purchases, and adding £62 million to fuel costs in 2013. In total carbon costs increased by £120 million as a result of these two factors in 2013. This was offset to a limited extent by increased biomass burn which reduced our carbon emissions allowances requirement.

generate

Volume

In 2013 our net sales were 26.2TWh compared to a record 27.1TWh in 2012. Generation volumes are driven by plant availability and commodity market conditions.

Generation increases when availability is high and commodity prices make it profitable for us to generate.

Operational performance remained strong in 2013. However with the planned double outage and the conversion of our first unit to run on biomass, the load factor for the plant as a whole was lower at 80% compared to 82% last year. Dark green and bark spreads remained strong in 2013 as described on page 33.

supply

Income

Our revenue is comprised of power sales, ROC and LEC sales, ancillary services income and other income, the largest element being power sales, followed by ROC and LEC sales.

We sell power into the wholesale market and through our retail arm, Haven Power, to business customers in the Industrial and Commercial and Small and Medium Enterprise markets. The revenue achieved is influenced by market prices, the timing of securing the sales and power station output.

ROC and LEC sales represent an increasing element of our total revenue as we expand our output from biomass generation. This revenue stream is influenced by the number of ROCs we generate, the price we can achieve for ROCs in the market and the timing of the sales.

Haven Power, whilst a low margin business, offers a route to market for the ROC and LEC output of our generation business.

Today

With one unit (out of six) converted so far, our results are primarily still driven by the performance of our coal operations and the dark green spreads we can achieve...

Dark green spread

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

Coal and carbon

The cost of our coal and carbon 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).

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 allows 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.

Bark spread

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

Sustainable 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.

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 the cost of sales when the related biomass is burnt.

Upon sale the value of the ROCs and LECs is recognised in revenue and reversed from cost of sales.

Operational performance

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.

Our availability metrics show the amount of time we are able to generate if required. This is influenced by both planned and forced outage rates. We assess the optimal time to undertake planned outages, based on expected market spreads available. In comparison, forced outage rates are driven by the maintenance needs of the plant, for example, leaks in boiler tubes requiring repair.

We have a long-term target of 5% for our forced outage rate, set based on extensive benchmarking of industry-leading standards. Our operational statistics continue to demonstrate our leadership position in the coal-fired generation sector.

 **Read more:**
Generation operating performance
See page 36

Power

We sell power to the wholesale and retail markets.

The price achieved for power sold into the wholesale market is based on market prices at the time we secure the 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.

Our retail business provides an alternative route to market for our power, which does not usually require us to post collateral. Haven Power sells to business customers, swapping collateral risk for credit risk which can be, and is, managed carefully.

ROC and LEC income

Upon sale to a counterparty, ROC and LEC revenue is recognised, moving the value from cost of sales to revenue.

Sales have historically been made following the end of a compliance period, causing a peak in revenue, ROC and LEC cost of sales, and cash in the third quarter of a year.

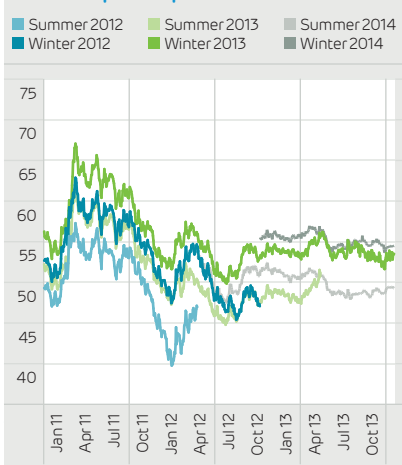
Tomorrow

...as we move towards becoming a predominantly biomass-fired generation business, the cost of sustainable biomass, the value of renewable support and therefore the bark spread will increasingly drive our profitability.

Operational and financial performance

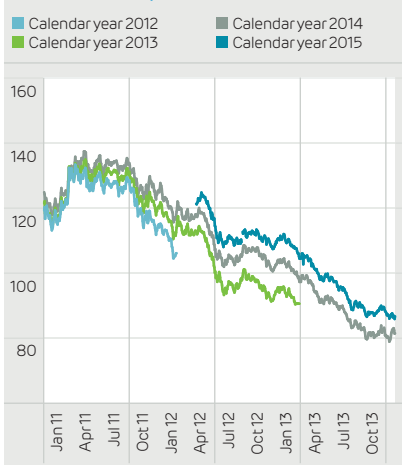
Forward power prices

£/MWh



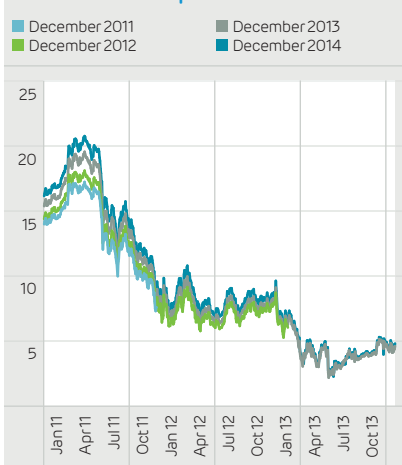
Forward coal prices

\$/tonne



Forward carbon prices

€/tonne



Generation



Commodity markets

The margins of our generation business are driven by commodity market movements and the timing of our fuel purchases and power sales. For our coal generation capacity the margins available are reflected in the dark green spread, the difference between the price of power we sell and the cost of the coal and carbon we purchase. For our newly converted biomass unit, the margins available are reflected in the bark spread, the difference between the price of power we sell plus renewable support and the cost of the biomass we purchase.

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

Power and gas

Following a period of volatility in 2011 and early 2012, power prices have remained relatively stable over the 18 months to 31 December 2013. The gas market continues to drive power prices.

The impact of the Fukushima disaster and limited Japanese nuclear generation continued to provide support to the global liquefied natural gas ("LNG") market throughout 2013. UK gas prices remained strong and stable through 2013 with prices being pulled upwards towards oil indexed European prices (and international LNG prices) in order to attract imports.

European and UK gas prices remain at a premium to US prices, where advances in technology are leading to a large supply of low priced shale gas, adding to already significant reserves. However, shale gas developments outside the US are in their infancy and will in all probability, therefore, have little impact in the short to medium term. Furthermore, demand for gas is rising rapidly so that even with the possibility of increased shale gas production, global markets may well remain strong.

Coal

Market prices for international coal have fallen steadily from a peak in mid-2011.

Whilst global demand has grown through 2013, the low US gas prices described above forced increases in US coal exports. Combined with rising supplies from Indonesia and Australia, this has resulted in a weak global short-term market characterised by low international prices and high stocks in Europe. With high stock levels also being held in China, any increase in Asian demand has been insufficient to absorb the excess supply.

These market dynamics, as well as increasing operating costs, have continued to put pressure on UK domestic coal producers.

Carbon

Following the dramatic fall in market prices for EU ETS carbon allowances in the second half of 2011, amid fears for the Eurozone economies, the downward trend continued through 2012 and 2013.

The combination of slow economic growth and any Phase II surplus bankable into Phase III, drove carbon prices to new lows during 2013 before they recovered slightly towards the end of the year.

With an over-supplied market, the main price driver is political intervention and the "back-loading" debate (postponing the sales of emissions allowances to restrict current supplies). Although the back-loading proposals are not finalised the likelihood of implementation has increased with the EU providing the required authorisation for the European Commission. However, the timing and the profile of the volumes to be removed still remains uncertain.

Biomass

The majority of biomass used for large scale power generation is priced in US dollars or euros. Movements in these exchange rates have driven the changes in biomass costs during the period.

At the start of 2013 we saw a weak US dollar, relative to sterling, driving market biomass prices down. The dollar recovered mid-way through the year, but weakened again towards the end of the year, as can be seen in the chart on page 39. As explained in Unrealised gains and losses on derivative contracts below, the extensive foreign currency hedging programme we are putting in place provides us with some protection from these fluctuations in exchange rates. However, as a result this will inevitably drive some volatility through the unrealised gains and losses line in our income statement (a non-cash item, excluded from underlying earnings).

Dark green spread and bark spread

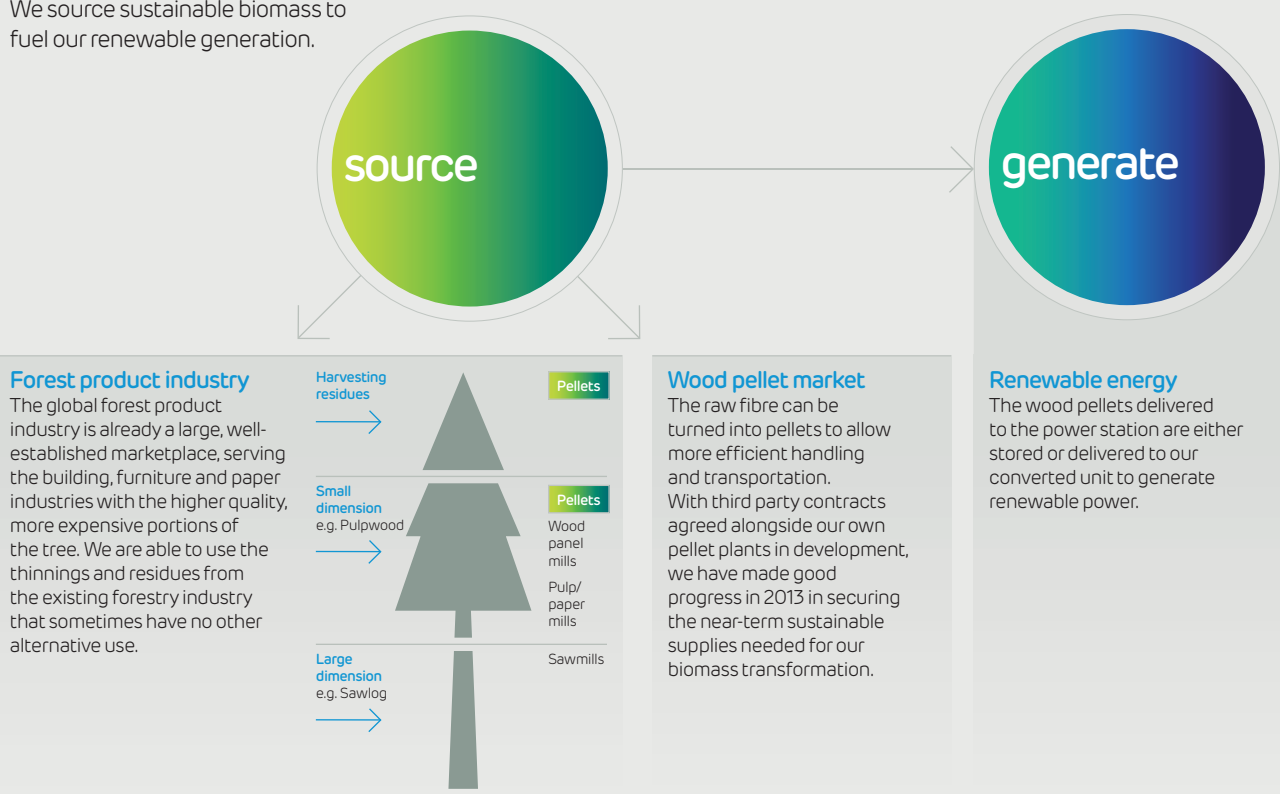
As a result of the relatively stable power prices and low coal and carbon prices, we have seen attractive dark green spreads during 2013. However, the introduction of both full auctioning of EU emissions allowances from the start of the year and the CPS mechanism from April has increased costs for coal-fired generators.

Having fallen during the year, market bark spreads rose at the year end to levels similar to those at the start of the year. The movements have principally been driven by currency effects described above.

Looking forward, the UK government's CPS mechanism, whilst strengthening the case for biomass generation, is likely to erode the competitive position of coal-fired plant. Our biomass transformation project means the bark spread will become an increasingly important element of our gross margin.

The biomass supply chain

We source sustainable biomass to fuel our renewable generation.



Operational and financial performance

£120mAdditional carbon costs in 2013
as a result of CPS mechanism
and phase III of EU ETS.

Generation gross profit

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Generation gross profit		
Revenue		
Power sales	1,668.9	1,527.4
ROC and LEC sales	62.8	62.6
Ancillary services income	12.1	14.5
Other income ⁽¹⁾	36.1	25.5
	1,779.9	1,630.0
Cost of sales		
Fuel costs in respect of generation	(945.8)	(929.2)
Cost of power purchases	(334.1)	(138.4)
Grid charges	(70.4)	(66.3)
	(1,350.3)	(1,133.9)
Gross profit	429.6	496.1

⁽¹⁾ Includes £28 million (2012: £17 million) for fuel sales.

The generation gross profit for the year ended 31 December 2013 was £430 million, compared to £496 million in 2012. Whilst the dark green spreads, which currently account for the majority of our gross profit, remained strong the impact of additional carbon costs meant that profits for 2013 were lower.

The introduction of the UK CPS mechanism from April 2013 adds a levy to our coal purchases and increases the cost of the coal we burn. In addition, from 2013 we entered Phase III of the EU ETS with the removal of free CO₂ emissions allowances, compared to the 9.5 million tonnes of free CO₂ allowances received in 2012 under Phase II. The combined cost of these measures added £120 million to our fuel costs in 2013.

The rising cost of carbon will continue to erode the profit margins of coal generating plant. This very much supports 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 2013 was £1,780 million, compared to £1,630 million in 2012.

Excluding £334 million of power purchased in the market (2012: £138 million), our generation revenue of £1,335 million was lower than the equivalent comparative for 2012 (£1,389 million). This decrease reflects the reduction in net power sold (electrical output), at an average achieved electricity price (£51.0 per MWh) broadly in line with last year (£51.3 per MWh). The output in 2012 represented a record level for the plant as a result of the combination of high availability and good margins available in the market.

Generation revenue also includes sales of Renewables Obligation Certificates ("ROCs") and Levy Exempt Certificates ("LECs"), totalling £63 million in both 2013 and 2012.

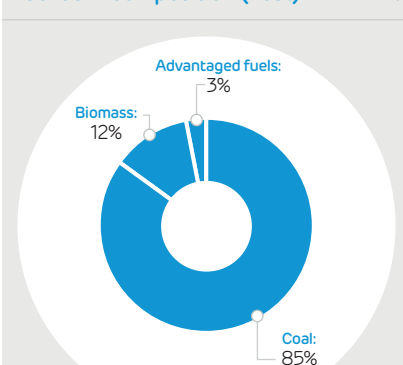
We recognise the value of the ROCs and LECs earned as generated, reducing fuel costs in respect of generation. The recognition of a sale is matched by a corresponding cost of sale. The ROCs and LECs, earned through generating electricity from burning biomass, are held on our balance sheet until sold.

The timing of ROC sales is largely driven by a combination of Renewables Obligation ("RO") deadlines and commercial considerations. Consequently, the majority of the ROCs generated in 2013 will be sold in 2014.

ROC and LEC assets
on the balance sheet

	2013 £m	2012 £m
As at 1 January	18.7	32.1
ROCs and LECs generated	143.9	32.0
ROCs and LECs purchased	37.6	11.4
ROCs and LECs sold/utilised	(60.7)	(56.8)
As at 31 December	139.5	18.7

Fuel burn composition (heat) %



	2013	2012	Change
Coal	85%	90%	-5%
Biomass	12%	2%	+10%
Biomass (R&D)	0%	3%	-3%
Advantaged fuels	3%	5%	-2%

Fuel burnt (million tonnes)

	Year ended 31 December 2013	Year ended 31 December 2012
Coal	8.5	9.6
Biomass	1.6	0.2
Biomass - R&D	-	0.5
Advantaged fuels	0.8	0.8

20.3m

20.3 million tonnes of CO₂ emissions allowances purchased in 2013 (2012: 13.1 million tonnes, before 9.5 million tonnes of free allowances).

In April 2013, we converted our first unit to run fully on biomass under the ROC regime. As a result of the increased biomass burn and as demonstrated by the table at the foot of the opposite page, we have generated considerably more ROCs and LECs during the year ended 31 December 2013, than during 2012.

Total generation revenue includes sales fulfilled by purchasing power in the market. We purchase power when the cost of power in the market is below our marginal cost of production in respect of power previously contracted for generation and delivery by us, and to cover any shortfall in generation during outages. The cost of these purchases is included in cost of sales.

Whilst net power sold at 26.2TWh in 2013 reflects a reduction from 27.1TWh in 2012, this gross up for power purchased in the market resulted in the overall increase in total generation revenue.

Cost of sales

As explained on pages 30 to 31, 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. In addition, as noted above UK and EU legislation (CPS mechanism and Phase III of the EU ETS) to incentivise renewable energy has increased the cost of burning coal.

Our average cost of fuel (excluding CO₂ emissions allowances) for the year ended 31 December 2013 was £27.9 per MWh, compared to £30.6 per MWh in 2012. As the largest component of our fuel burnt, coal prices still drive the average fuel cost, with a falling international market price contributing to the decrease in the year.

Biomass accounted for 12% of our total fuel burnt by heat content in 2013 (2012: 5%), the increase reflecting the conversion of our first unit fuelled by biomass from April 2013. As we progress our transformation, biomass costs will account for a greater proportion of the fuel costs in respect of generation.

Within costs 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. The value of the renewable support therefore reduces the net biomass cost.

As described in Revenue above, upon sale of the ROCs and LECs the income is recognised in revenue and the value of the ROC or LEC (previously held in the balance sheet) is recorded separately in cost of sales.

Also included within fuel costs in respect of generation is the cost of CO₂ emissions allowances purchased. For Phase III of the EU ETS (2013 – 2020) we have no free carbon allowances (2012: 9.5 million tonnes) and are therefore required to meet the full cost of CO₂ tonnes emitted from coal generation through purchases of allowances in the market. This resulted in the increase in our purchased allowances requirement from 13.1 million tonnes (at an average price of £6.3 per tonne) in 2012 to 20.3 million tonnes in 2013 (at an average price of £6.1 per tonne), although this is offset by the increase in biomass burn, reducing our total CO₂ emissions allowances requirement.

Generation cost of sales also includes grid charges, which continue to rise as more intermittent generation impacts on system balancing costs, and power purchases – the cost of power purchased in the market as outlined above.

Operational and financial performance

Outage and plant utilisation levels

	2013		2012
	Biomass	Coal	
Planned outage rate (%)	5.4	10.0	9.6
Forced outage rate (%)	6.8	6.8	4.8
Availability (%)	88	84	86
Electrical output (net sales) (TWh)	2.9	23.3	27.1

Generation operating performance

Health and safety

A significant amount of project work has been undertaken during 2013, with a double planned outage and the conversion of our first unit to run on biomass, in place of coal. In addition we completed the build of our biomass receipt, storage and distribution systems to support this first converted unit, whilst in the US work continues apace on the construction of two pellet plants and a port facility.

Against this backdrop we have continued to deliver good safety statistics with a lost time injury rate and total recordable injury rate of 0.09 and 0.29, respectively, for the year ended 31 December 2013 compared to 0.06 and 0.17 in 2012. Our safety performance in the UK continues to be industry-leading. However, performance at our US construction sites is not yet meeting Drax standards. As described in the Chief Executive's statement we have taken action to bring US performance up to our UK standards.

Outage and plant utilisation levels

Biomass

Our first unit was converted to biomass in April using, on a temporary basis, the storage and distribution systems originally built for biomass co-firing. Through the final quarter we began commissioning our new on-site biomass receipt, storage and distribution systems, with those systems required to support our first converted unit being completed towards the end of the year.

Planned outages, mainly in the first half of the year, for scheduled inspections and to allow for planned upgrades to the rail loop, resulted in a planned outage rate of 5.4% for our biomass unit. The forced outage rate for the period of 6.8% largely reflects expected issues for a newly converted unit, and we have seen a steady improvement through the period as we gained more experience. Availability for the biomass plant for the period was therefore 88%.

The load factor for our biomass unit was initially constrained by the use of temporary systems, which resulted in expected reliability issues with fuel delivery. Many of these issues were overcome through the introduction of the new facilities towards the end of the year. As a result the load factor for the period was 75%.

Coal

We have continued to deliver good operating performance from our coal units. The planned outage rate for our coal plant for the year ended 31 December 2013 was 10%, compared to 9.6% in 2012, reflecting the two unit outages undertaken in both years. 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. One unit will undergo a major outage in 2014.

The forced outage rate for our coal plant of 6.8% for the year ended 31 December 2013 (2012: 4.8%) was higher than our long-term target of 5%. We have continued to test a wide variety of advantaged fuels, for example coals with lower cost than the standard bituminous coal that we burn. In the first half of the year, some of these fuels have resulted in a higher number of plant integrity issues than we typically experience. However, the testing work is an important component of our drive to optimise value from our fuel mix, as well as the work to define our solution for compliance with the Industrial Emissions Directive (see Chief Executive's statement).

Coal plant availability for the year ended 31 December 2013 was therefore 84%. Although slightly lower than availability of 86% for 2012, this continues to demonstrate a leadership position amongst coal-fired plant. With strong plant despatch economics, the resulting load factor of 80% compares favourably with the average for other UK coal and gas plants.

The load factor of 80% for the plant as a whole for the year ended 31 December 2013 was down by 2% on 2012, reflecting a decrease in electrical output (net sales) to 26.2TWh in 2013, compared with the record output of 27.1TWh in 2012.

2.9TWh

generated from our first
converted biomass unit

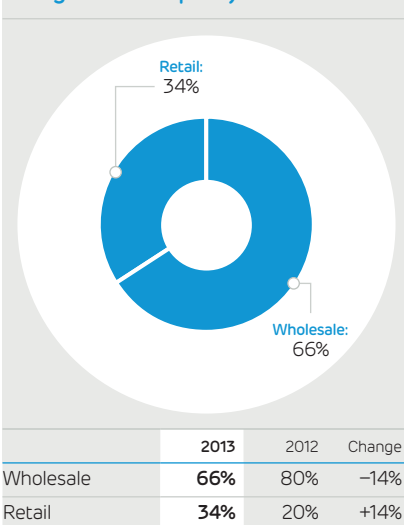
80%

Load factor for the coal plant
(2012: 82%)

8.1TWh

Retail sales in 2013 (2012: 5.1TWh)

Net generation split by customer %



"During 2013, we delivered another year of substantial growth in a highly competitive market."

Peter Bennell
Chief Executive, Haven Power



Retail



	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Retail gross profit		
Revenue	750.6	451.4
Cost of sales		
Cost of power purchases	(455.1)	(278.9)
Grid charges	(168.4)	(101.5)
Other retail costs	(111.6)	(56.2)
	(735.1)	(436.6)
Gross profit	15.5	14.8

Growth

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

Whilst margins in the I&C market are very tight, the volumes available are much greater with c. 50% of the total electricity supplied in the UK in 2013 being delivered to the I&C market, compared to c.15% delivered to the SME market. In total, the business electricity market is c.190TWh per annum, and differs from the wholesale market in that collateral support is not usually required for forward power sales. In selling power into the retail market, rather than wholesale, the Group swaps collateral risk for credit risk, which is managed by assessing the financial strength of our customers.

In addition, Haven Power provides access through this market for the Group's renewable power. The ROCs and LECs, earned through burning biomass in the generation business, can be utilised by the retail business.

We are on track to deliver retail sales of 12–15TWh by 2015 at Haven across the I&C and SME markets. Haven Power has well established credit management policies, with both strong initial acceptance criteria and robust credit management processes, coupled with regular monitoring and independent review. This is evident from our low bad debt experience to date. During the year we completed the migration of customers onto our new billing system, which together with our strong account management model, provides the foundation to grow our customer base.

Renewable power and climate change levy exempt power together currently account for c.50% of Haven Power sales. With our growth targets for the business, Haven Power should utilise all the ROCs generated from our current converted unit and a substantial proportion of the LECs from the planned unit conversions.

Gross margin

As Haven Power continues to deliver good volume growth, movements in the financial metrics are largely driven by volumes. In the year ended 31 December 2013, sales volumes rose 59% from 5.1TWh in 2012, to 8.1TWh. This drove an increase in revenue from £451 million in 2012, to £751 million in 2013.

The majority of the growth at Haven Power has come from the more competitive I&C market which has a lower gross margin than the SME market. In addition, rising grid charges and other retail costs of sales including Feed-in Tariff costs, driven up by increasing amounts of intermittent renewable generation, combined to drive a gross profit of £16 million, up marginally on £15 million in 2012.

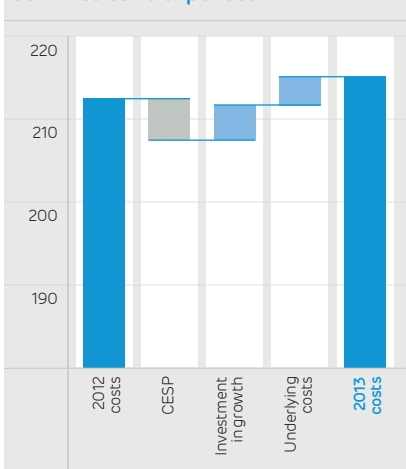
Operational and financial performance

Group summary financial performance

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Group results		
Generation gross profit	429.6	496.1
Retail gross profit	15.5	14.8
Total gross profit	445.1	510.9
Operating and administrative expenses	215.1	(212.5)
EBITDA	230.0	298.4
Depreciation	(64.8)	(58.5)
Unrealised losses on derivative contracts	(110.2)	(36.1)
Operating profit	55.0	203.8
Finance costs	(23.2)	(13.6)
Profit before tax	31.8	190.2
Tax credit/(charge)	19.6	(26.4)
Profit after tax	51.4	163.8

	Pence per share	Pence per share
Basic earnings per share	13	44
Underlying earnings per share	35	52

Group operating and administrative expenses



Group operating and administrative expenses

Group operating and administrative expenses before depreciation were £215 million for the year ended 31 December 2013 compared to £213 million in 2012, reflecting an inflationary increase in our cost base and investment in the growth of both our retail business and the operations in the US.

2012 operating costs included £5 million in relation to compliance measures under the Community Energy Savings Programme ("CESP") which completed last year (see page 43 for more details).

We remain focused on achieving strong operational cost performance and we will continue to carefully control our underlying cost base.

Group EBITDA

The Group EBITDA is primarily driven by the factors influencing the gross margin. The fall in EBITDA for the year ended 31 December 2013 to £230 million, from £298 million in 2012, is therefore a result of the increasing costs of carbon following the removal of free carbon allowances under Phase III of the EU ETS and the introduction of the CPS mechanism during 2013.

Whilst these additional costs and the government's trajectory for increasing CPS over time, erode the profitability of our coal-fired generation plant, they strengthen the case for biomass generation. We are making a significant investment in our biomass transformation; however our financial performance must be viewed in this context until our biomass operations reach an appropriate scale.

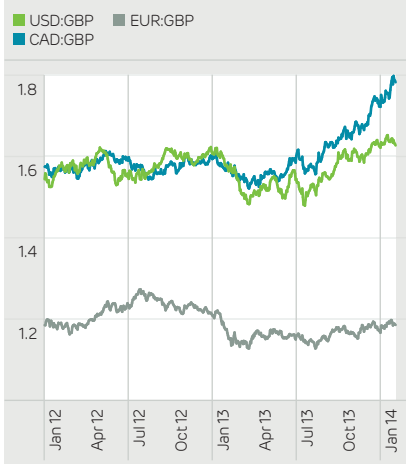
Depreciation

Depreciation was £65 million for the year ended 31 December 2013, compared to £59 million in 2013. As we continue to invest in our biomass transformation, our depreciation charge will increase as new investment comes on stream over the coming years.

£230m

Group EBITDA (2012: £298 million)

Currency spot rates



Unrealised gains and losses on derivative contracts

The Group enters into forward contracts for the sale of power and the purchase of coal, biomass and carbon emissions allowances which are the elements which make up the gross profit of the business as described on pages 30 to 31. In addition, where contracts for the purchase of fuel or carbon allowances are denominated in a foreign currency, the Group enters into forward foreign currency contracts.

These contracts aim to de-risk the business, providing secure cash flows into the future. The accounting for these contracts at rising volumes increases volatility in the unrealised gains and losses line in the income statement.

Where possible, we take the own use exemption for contracts entered into and held for our own purchase, sale or usage requirements, including forward domestic coal and biomass contracts and therefore we do not reflect their value in our accounts until the contracts close out (unlike derivatives which we mark-to-market).

Forward contracts which meet the definition of derivatives under IFRS and do not qualify for the own use exemption, are included in our accounts at their fair value at the balance sheet date, derived largely by reference to market prices at that date. Unrealised gains and losses arise on the movements in the fair value of these contracts between balance sheet dates.

Where the derivative contracts meet the definition of an effective hedge under IFRS, the movement in their fair value is recognised through the hedge reserve, a component of shareholders' equity in the balance sheet. This is largely the case for our forward power and carbon contracts, as well as some of our forward foreign exchange contracts.

Where they do not meet the definition of an effective hedge (from an accounting perspective, even though they represent an economic hedge), the movement in their fair value is reflected in the income statement as an unrealised gain or loss on derivative contracts. This encompasses some of our forward foreign exchange and financial coal contracts.

Unrealised losses on derivative contracts recognised through the income statement were £110 million in the year ended 31 December 2013 compared to £36 million in 2012. In both years the figure was largely driven by movements in the fair value of our forward foreign exchange contracts.

These contracts reflect an extensive hedging programme to support our biomass procurement activities. The programme covers all contracted and a substantial proportion of as yet un-contracted but forecast purchases and provides a significant degree of protection from adverse currency movements.

A weakening US dollar at both year ends resulted in unrealised losses on these contracts, as market rates were preferential in comparison to contracted rates. The volumes of these contracts have increased significantly during the year as we look to de-risk the business by securing our cash flows in sterling.

In considering mark-to-market movements, it is important to recognise that profitability is driven by our strategy to deliver market level dark green or bark spreads, not by the absolute price of any single commodity at any given date. We therefore look to underlying profit (excluding unrealised gains and losses on derivative contracts) as our performance indicator.

For more information on our derivative contracts see note 19 to the consolidated financial statements.

Interest

Net finance costs for the year ended 31 December 2013 were £23 million compared to £14 million in 2012, the increase predominantly arising from the interest paid on borrowings, as we drew down £100 million in December 2012 and a further £125 million in April 2013.

Operational and financial performance



Tax

Tax reconciliation 2013

	Statutory		Underlying	
	£m	%	£m	%
Profit before tax	31.8		142.0	
Tax at 23.25%	7.4	23	33.0	23
Reconciling items:				
Impact of rate change	(22.3)	(70)	(28.6)	(20)
Prior year adjustments	(7.3)	(23)	(7.3)	(5)
Other	2.6	9	2.6	2
Total tax (credit)/charge	(19.6)	(61)	0.3	0

The 2013 tax credit of £20 million, compares to a £26 million tax charge in 2012. The reduction is driven by the £22 million impact of a 3% reduction in corporation tax rates (2012: £15 million from a 2% reduction). In addition, the 2013 tax charge includes the impact of research and development claims, now agreed with HMRC, resulting in a credit of £7 million in respect of prior years. 2012 includes the impact of a revision to previous years' capital allowances claims agreed with HMRC, resulting in a tax credit of £8 million recognised in the comparative period.

The underlying effective rate of tax (excluding the after tax impact of unrealised gains and losses on derivative contracts) is 0% in 2013, compared to 15% in 2012, the difference arising predominantly from the impact of the corporation tax rate changes as described above.

In 2014 we expect underlying rates to more closely align with UK corporation tax rates.

The tax paid during the year was £18 million (2012: £54 million), principally reflecting lower profitability and tax rates in 2013 as described in Liquidity and capital resources. These payments were offset by tax refunds in respect of prior year credits noted above, bringing net taxes paid for 2013 to £11 million (2012: £51 million).

Profit after tax and earnings per share

Profit after tax for the year ended 31 December 2013 was £51 million, compared to £164 million in 2012, driving basic earnings per share of 13 pence in 2013, compared to 44 pence in 2012.

We measure underlying earnings per share (excluding the after tax impact of unrealised gains and losses) as this strips out the volatility on our derivative contracts (non-cash items) which do not meet hedge effectiveness criteria under IFRS as described above. With underlying profit after tax of £142 million in 2013 (2012: £193 million), underlying earnings per share for the year ended 31 December 2013 was 35 pence per share, compared to 52 pence in 2012.

The reduction in underlying earnings per share in 2013 principally reflects the impact of additional costs of carbon on our profitability as outlined above.

Liquidity and capital resources

Analysis of cash flows

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
EBITDA	230.0	298.4
(Increase)/decrease in ROC assets	(120.8)	13.4
Decrease/(increase) in carbon assets	12.5	(39.0)
Increase/(decrease) in working capital	48.0	(9.3)
Other	0.8	(0.3)
Cash generated from operations	170.5	263.2
Income taxes paid	(10.6)	(50.6)
Other gains/(losses)	2.2	(0.8)
Net interest paid	(19.8)	(8.7)
Net cash from operating activities	142.3	203.1
Cash flows from investing activities		
Purchases of property, plant and equipment	(301.7)	(206.0)
Short-term investments	10.0	–
Net cash used in investing activities	(291.7)	(206.0)
Cash flows from financing activities		
Equity dividends paid	(78.8)	(95.7)
Proceeds from issue of share capital	1.9	187.7
Repayment of borrowings	(0.7)	(10.5)
New borrowings	125.0	100.0
Other financing costs paid	(2.4)	(9.7)
Net cash from financing activities	45.0	171.8
Net (decrease)/increase in cash and cash equivalents	(104.4)	168.9
Cash at 1 January	371.7	202.8
Cash at 31 December	267.3	371.7
Short-term investments at 31 December	20.0	30.0
Borrowings at 31 December	(216.1)	(90.7)
Net cash at 31 December	71.2	311.0

"We have built a strong financial platform from which we are realising our biomass transformation."

Michael Scott
Head of Corporate Finance



Cash generated from operations

Cash generated from operations of £171 million in 2013, compared to £263 million in 2012, incorporates a fall in EBITDA caused by the rising cost of carbon. This is compounded by the increase in ROC and LEC assets of £121 million, following the conversion of our biomass unit. 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 mitigated by the inflows from reductions in carbon assets and working capital.

Net cash flows from operating activities

Falling profits, lower corporation tax rates and higher capital allowances arising from our capital investment have resulted in lower net income taxes paid at £11 million in the year. 2013 taxes paid relate to settlement of the 2012 liability and 2013 payments on account, and are shown net of £7 million of refunds in relation to previous years, arising from the research and development claims agreed with HMRC during the period.

Net cash used in investing activities

Purchases of property, plant and equipment of £302 million in 2013 (2012: £206 million) are reflective of the significant amount of investment across the business as we continue to invest in our biomass transformation, see more detail on page 42.

Net cash flows from financing activities

In order to support our biomass transformation we completed a refinancing, which included a share placing and the drawing down of £100 million against our loan facilities towards the end of 2012, subsequently enhanced in 2013 with the drawing down of an additional £125 million against our loan facilities, as described in Financing and cash flow management.

Net cash

From £402 million at 31 December 2012 the decrease in cash and cash equivalents of £104 million during the year leaves cash and short-term investments of £287 million at 31 December 2013. Increased borrowings have been used to support cash generated from operations in funding the capital investment programme. As such net cash (after deducting borrowings) is lower at 31 December 2013 at £71 million compared to £311 million in 2012.

Operational and financial performance

Financing and cash flow management

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 amortising term loan facility agreed with the Green Investment Bank, signed in December 2012.

The new loan facility enhances the existing financing structure executed last year by providing additional liquidity to the Group and ensuring a smoother profile of debt maturities. Furthermore, the all-in cost of the new facility is very competitive.

The financing structure also incorporates the remaining £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 four to eight years, whilst the working capital and letter of credit facility is due to mature in April 2016.

In addition, a commodity trading facility also executed in December 2012, allows us to transact prescribed volumes of commodity trades (dark green spreads) at attractive prices without the requirement to post collateral. This facility has been operating well, offering trading counterparties access to the security package available to our senior lenders. Combined with other steps taken over the past three years to limit our requirements to post collateral, this is allowing the Group to operate comfortably with a sub-investment grade business model.

Finally, towards the end of 2013 we completed our first ROC monetisation facility. As described above, cash for ROC sales can often flow back to renewable generators some time after the associated power was produced. This can result in significant working capital absorption, with ROC income often received more than 12 months after we have paid for the related biomass. We have agreed an £80 million facility with Lloyds Bank Commercial Finance Limited, which allows Drax to sell ROC receivables.

Capital expenditure

Fixed asset additions were £286 million in the year ended 31 December 2013, compared to £224 million in 2012. This includes £228 million on our biomass transformation project (2012: £180 million).

At the Drax Power Station site we completed the commissioning of the new receipt, storage and distribution systems for our first converted unit by the end of 2013, and we expect to have largely completed the on-site investment required to support three converted units by the end of 2014. These systems will provide us with the ability to unload rail wagons efficiently, store up to around 300 thousand tonnes of biomass on-site and deliver it direct to the combustion system.

Our investment in upstream supply chain infrastructure continues, with the construction of our two pellet plants in Mississippi and Louisiana and our port development at Baton Rouge (also Louisiana) having started in the Summer. All three projects remain on schedule and on budget. We are targeting the first half of 2015 for commercial operations to begin reaching full capacity within six months.

We expect to spend £650–£700 million in total on progressively converting three generating units to biomass together with the supporting infrastructure and systems required, completing the two US pellet plants and port facility and ensuring compliance with the requirements of the Industrial Emissions Directive ("IED").

Extensive research has been undertaken over the past few years to determine the optimal solution for IED compliance. As described in the Chief Executive's statement, a lead solution has been identified and initial trials towards this will commence in 2014. The estimated capital cost is £75 million to £100 million over four years.

In addition, as described in the Chief Executive's statement, we have now developed technical solutions to deliver output of 630MW in a biomass unit, with efficiency only 0.5% lower than that of a coal unit. We estimate that capital investment of approximately £90 million (over three years) is required to secure these performance improvements. Beyond this, we are evaluating further investments in the supply chain, (including options for additional pelleting facilities in the US) and the conversion of a fourth unit to biomass.



£286m

Capital expenditure
(2012: £224 million)



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 19 to 21 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 new 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, taking account of our capital investment plans and reasonably possible changes in trading performance, demonstrates that we expect to be able to operate within the level of our current banking facilities.

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
See page 128

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).

Contingent liability

We were obliged under CESP to deliver energy saving measures to domestic consumers in specific low income areas of Great Britain during the period 1 October 2009 to 31 December 2012. We entered into an agreement with a third party, pursuant to which the third party was obliged to deliver our CESP obligation for a total cost of £17 million. The third party failed to comply fully with its obligation under the agreement, leaving a significant shortfall against our CESP obligation. Having notified the counterparty of our contractual claim for breach of contract we continue to consider legal options available to us. We entered into further agreements with additional third parties in order to rectify this shortfall so far as practicable.

At this stage it is not possible to predict whether any enforcement action may be imposed. No additional provisions have been recognised in respect of this matter as we are not able to reliably measure what the financial impact, if any, might be. See note 34 to the consolidated financial statements for further details.

Operational and financial performance

Future developments

Regulatory developments

As set out in the Chief Executive's statement, in December we received confirmation from the government that two Drax units are provisionally ranked equal first among the applications for Investment Contracts under the Final Investment Decision Enabling Contracts for Difference ("CfD").

Looking forward, if awarded, this would result in our units operating under three different regimes; coal, biomass under the RO and biomass under the CfD. We are participating in the CfD process as it develops through to finalised Investment Contracts, which are expected to take effect from April 2015.

As outlined in the Chief Executive's statement, we will modify one of our coal units during 2014 to operate as an enhanced co-firing unit, enabling us to support a full conversion in April 2015. However, in the interim, the operation of one of our units as enhanced co-firing, receiving 0.9ROC/MWh, rather than 1ROC/MWh applicable to a converted unit, will have a corresponding impact on the profits achievable in the near-term.

Also in December 2013 Capture Power Limited, the consortium of Drax, Alstom UK Limited and BOC (a member of The Linde Group) was awarded the Front End Engineering and Design contract, for its planned 426MW oxy-combustion demonstration project located on the Drax Power Station site.

A two-year process now commences with the negotiation of an engineering, procurement and construction contract and a CfD contract, all dependent on successful funding applications and adequate incentives for low carbon technologies from the electricity market reform. Drax has committed to invest £4 million in the project during this initial phase.

Positions under contract

As at 10 February 2014, the positions under contract for the sale of power for 2014 and 2015:	2014	2015
Power sales (TWh) comprising:	22.1	7.2
– Fixed price power sales (TWh) at an average achieved price (per MWh)	19.7 at £52.9	5.3 at £55.5
– Fixed margin and structured power sales (TWh)	2.4	1.9

"We are transforming our business to become a predominantly biomass-fuelled power provider with interests throughout the supply chain from biomass processing to retail sales to business customers."

Mark Stafford
Investor Relations Manager



£71mTotal dividends were £71 million
(2012: £96 million)**8.9p**Final dividend was 8.9 pence per share
(2012: 10.9 pence per share)

Distributions

Distribution policy

The Board has previously 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) in each year. Underlying earnings for the year ended 31 December 2013 were £142 million.

As detailed in the Chief Executive's statement, we are transforming our business to become a predominantly biomass-fuelled power generator, vertically integrated through the biomass supply chain to retail sales to business customers. As our business model changes we will develop, in parallel, an optimal capital structure and distribution policy, aligned to the future of the business.

Dividends paid

On 18 February 2013 the Board resolved, subject to approval by shareholders at the Annual General Meeting ("AGM") on 24 April 2013, to pay a final dividend for the year ended 31 December 2012 of 10.9 pence per share (£44 million). The final dividend was paid on 17 May 2013.

On 29 July 2013, the Board resolved to pay an interim dividend for the six months ending 30 June 2013 of 8.7 pence per share (£35 million), representing 50% of underlying earnings for the period. The interim dividend was paid on 11 October 2013.

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 2013 of 8.9 pence per share (£36 million), payable on or before 16 May 2014.

Shares will be marked ex-dividend on 23 April 2014.

This Operational and financial performance review forms part of the Strategic report, along with our 2013 achievements, the Chairman's introduction, an outline of Our business today, the Chief Executive's statement, Marketplace description, Principal risks and uncertainties and Sustainable business review (pages 1 to 57). The Strategic report was approved by the Board on 18 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.

Philip Hudson

Director of Corporate Affairs
and Company Secretary



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 2013 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

During the year the Group enhanced its risk management system with the establishment of a Group Risk Management Committee. It is chaired by the Director of Corporate Affairs and its members are the chairs of each of the business risk management committees.

The Group Risk Management Committee is responsible for monitoring the risk management process on a Group wide basis. It also oversees the process in relation to cross-Group risks and 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.

There are six business risk management committees:

- 1 Treasury and commodity risk management committee
- 2 Safety, health, environmental and production integrity committee
- 3 New developments risk management committee

- 4 Corporate services risk management committee
- 5 Haven Power risk management committee
- 6 Drax Biomass International 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
Director of Corporate Affairs
and Company Secretary

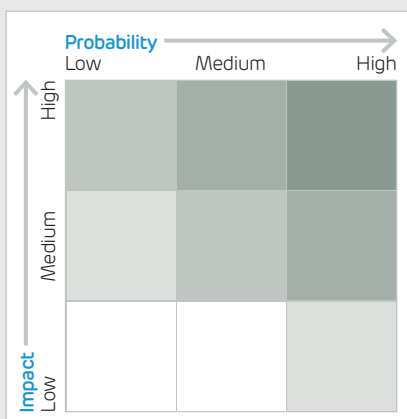
Risk management process

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, towards the end of each year, of operating and capital expenditure budgets for the year ahead. 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

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 CO₂ emissions allowances and the market price of ROCs.

Potential impact

- Volatility in financial results.

Associated objective and 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 CO₂ emissions allowances when profitable and appropriate to do so.
- Apply for conversions under the CfD regime, removing some income volatility from key commodity exposures.

Counterparty risk

Change 

Context

The recent recession and uncertain economic growth potentially impact on counterparty risk

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, 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 objective and key priorities



Maximise the value of the Drax business

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.

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 objective and key priorities



Grow our retail business



Maximise the value of the Drax business



Maximise profitability from our coal generation capacity



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.
- Apply for conversions under the CfD regime, reducing our reliance on the liquidity of the ROC market.

Biomass market risk

Change 

Context

The biomass market is still in its relative infancy 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 objective and 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

Equipment failure and the impact on personnel and operations

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 objective and key priorities



Maintain 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.

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 regulatory regime surrounding renewables, CPS mechanism and other legislation could adversely affect our biomass strategy.
- The EU, UK and local environmental and health and safety laws and regulations cover many aspects of 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 objective and key priorities



Deliver our biomass strategy



Maintain 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.
- Pricing of biomass contracts to allow for adverse commodity market movements.
- Regular third party assurance over system effectiveness.
- Strong safety culture and related training.

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 the competitive sector 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.

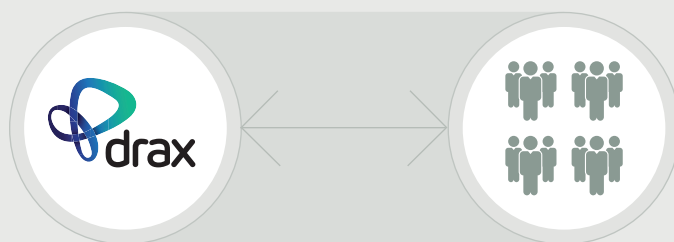
As in previous years we have continued to invest, not only to comply with environmental and health and safety requirements, but, where practicable, to go further. In 2013, we retained our presence in the FTSE4Good Index Series, which is designed to measure the performance of companies that meet globally 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 Forum	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

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 2013, significant progress was made on executing our plan to transform the business into a predominantly biomass-fuelled generator. We converted our first generating unit to burn sustainable biomass in place of coal at the beginning of April. Through increasing the amount of sustainable biomass burnt in place of coal we will significantly reduce our carbon footprint from 2012 levels.

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 so 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 a 426MW oxy-combustion carbon capture and storage ("CCS") demonstration plant at the Drax Power Station site. The viability of the project is dependent on external funding and the introduction of a market mechanism to support low carbon technology uptake. To that end we are participating in UK and EU funded programmes.

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.

We completed a trial with the Environment Agency in 2013 as part of the Environmental Permitting Compliance Assurance Scheme. The scheme is intended to reduce regulatory burden on the best performing sites, whilst maintaining an adequate level of oversight through combining assessment of specific legal compliance with certification to ISO 14001. The effectiveness of the scheme is being assessed by the Environment Agency and we await their proposals.

There were no major breaches of our environmental consents during 2013.

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 of biologically sequestered carbon, which includes emissions released through burning biomass to generate electricity.

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

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

Sustainable business review

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	2013 kt	2013 t/GWh	2012 kt	2012 t/GWh
Scope 1				
Fossil fuel combustion	20,162	720	22,513	777
Operations	157	6	180	7
Total Scope 1	20,320⁽²⁾	725	22,693⁽¹⁾	784
Scope 2				
Purchased electricity	293	10	341	10
Total Scope 1 and 2	20,612	736	23,038	794
Biologically-sequestered carbon (biomass combustion)	2,799⁽²⁾		1,214⁽¹⁾	
Gross generation TWh	28		29	

Notes:

(1) Externally verified by Lloyd's Register Quality Assurance.

(2) During 2014 will be subject to the same audit as 2012 figures.

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 2013 were within the limits set by the Environment Agency.

Looking ahead, work continues to develop a solution to comply with the emission limits which will be in place beyond 2016 under the Industrial Emissions Directive.

Total emissions (kt)	2013	2012	2011
Sulphur dioxide	31.7	35.1	32.1
Nitrogen oxides	39.2	39.2	38.9
Dust	0.8	0.8	0.6

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)	2013	2012	2011
River Ouse water	56.9	56.7	57.7
Mains water	0.3	0.2	0.2
Borehole water	1.9	1.8	2.1

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 2013, ash was sold in conformity with European construction product standards and in compliance with the Waste Recycling Action Programme quality protocol.

This has helped us to sell over 80% of the 1.3 million tonnes of ash produced in 2013 as replacement for virgin aggregates and as a cement replacement product.

In 2013, construction was completed on the lightweight aggregate production facility on-site, which is owned and operated by Lytag Ltd, a company based in Escrick, North Yorkshire. The facility manufactures lightweight aggregate from pulverised fuel ash.

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 farm land 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 2013, we contributed £73,000 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 2013, we met our target to divert 90% of non-ash waste from landfill.

Our people

Health and safety

Health and safety is at the heart of our business. Protecting our employees, contractors and all visitors from injury is fundamental to our philosophy.

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

	2013	2012	2011
Fatality	0	0	0
Time losing injuries	6	3	3
Restricted work injuries	4	2	1
Medical treatment injuries	10	3	0
First aid injuries	297	220	207
RIDDOR ⁽¹⁾ reportable	11	4	5

Note:

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

The increase in the injury statistics above arose from weaker performance at two of our US construction sites. Working with our contractors we have significantly enhanced safety management and supervision at these sites.

Attaining leading performance

The lost time injury rate and total recordable injury rate for 2013 at 0.09 and 0.29 respectively remain industry-leading. This performance was achieved in the context of significant construction work that took place during the year. Over one-third of the 6.9 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. Amongst global comparator coal-fired power stations we are ahead of the European and World Pacesetter group for total recordable injury rate.

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, we were once again awarded the The Royal Society for the Prevention of Accidents Gold Medal Award having achieved Gold Award standards for nine consecutive years.

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 ("HESAC"), 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, GENSIIP, 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 published occupational health policies 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.

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.

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

Matthew Houlden
Trainee Health & Safety Advisor



Sustainable business review

Employees

Employment

The Group employed 1,280 people at the year end, an increase of 10%. The pie charts 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 for 2013 was only 5%, most of which was due to retirements. Haven Power's annual staff turnover rate was indicative of the business and demographic profile of the workforce, although following a number of initiatives to improve staff retention it fell from 36% in 2012 to 24% in 2013. Five employees left our US operations in 2013, resulting in an annualised turnover rate of 21%.

Gender split both across the Group and the senior management team is illustrated in the pie charts. Our biggest challenge continues to be attracting female applicants, whether apprentices, graduates or more senior roles, to production and engineering positions. The Board's policy on diversity is given in the Nominations Committee report on page 77.

Employee engagement

Some 51% 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. An annual employee engagement survey is conducted at Haven Power, and at Drax Power an employee survey and a stress survey, as designed by the Health and Safety Executive, is conducted in alternate years. The surveys allow for analysis, feedback and action plans.

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

Employee policies and relations

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

Learning and development

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

Each year, Drax Power Limited recruits for the four-year apprentice training programme covering power station operations and engineering maintenance. In 2013, we took on eight apprentices across the three disciplines of mechanical, electrical, and control and instrumentation.

This year, 12 participants in our supervisor development programme were each awarded a Certificate in Professional Development from Coventry University. We also commenced a structured two-year UK graduate development programme for 15 recent graduates who have joined various departments across the Group.

During the year, Drax and the trade union, Unite, signed a learning agreement committing to working in partnership to promote and support lifelong learning and ensuring equal access to learning opportunities. The agreement's aims include establishing a learning culture within the workplace, and supporting employees to gain skills and qualifications to support their future employability and the business' needs.

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.

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.

"Each year Drax Power Limited recruits for the four-year apprentice training programme covering power station operations and engineering maintenance."

Oliver Fish, Apprentice
Richard Jaehrig, Apprentice

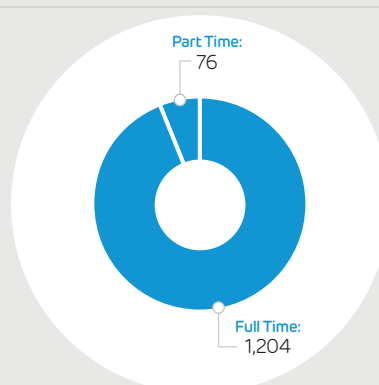


Drax Group total workforce

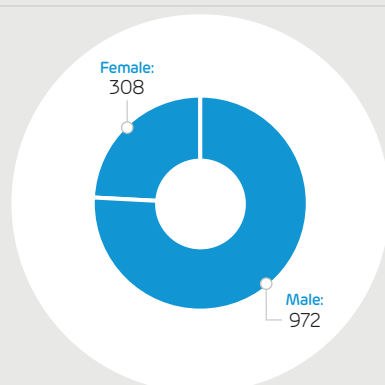
1,280

as at 31 December 2013

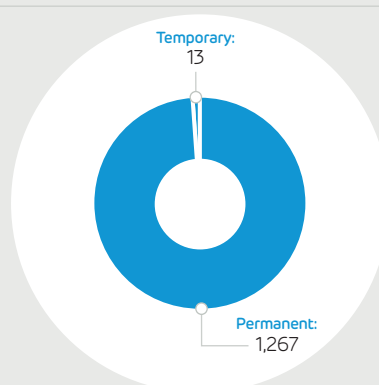
Employment contracts



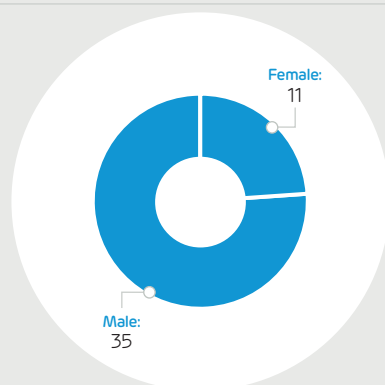
Employment gender



Employment status



Senior management group gender diversity



Senior management group composition by department



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 under 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

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.

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. We purchase around 40% of our coal 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, health and safety arrangements and business ethics. In order to support our focus on responsible procurement, we have joined the Bettercoal initiative, 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; and
- 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. 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.

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 have a growing reputation for providing good service and this supports a good level of renewal at the end of customers' supply contracts.

During 2013, Ofgem introduced new requirements under its retail market review, including a requirement to treat customers fairly. Despite being already compliant with many of the changes we took the opportunity to improve our customer service and, in particular, our assurance of fair treatment.

There is currently unprecedented change that touches virtually all elements of the retail market value chain and during the year we ran a number of events for customers, prospective customers and their consultants to inform them about selected developments.

For our larger customers, we introduced an online portal providing 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. 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, again 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 2013 (2012: 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.

"During 2013, we played host to some 10,000 visitors."

Pauline Butler
Lead Station Guide



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 2013, the Group gave financial support of £200,000 (2012: £182,000) in total across a range of charitable and non-charitable community causes. Of that total, charitable donations amounted to £142,000 (2012: £127,000).

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 2013, we played host to some 10,000 visitors. The appeal of discovering more about how power is produced and the sheer scale of the site and its associated activities attracts schools and colleges as well as business organisations, and local and professional associations.

The Board of directors

Membership and process

Role of the Board

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

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.

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



Number of meetings held in 2013

7

The Board has seven scheduled meetings each year, and arranges additional meetings if the need arises.

3

There are also three scheduled business updates for the Board by telephone conference call, which are constituted as Board meetings held by telephone if required to address matters for formal decisions.

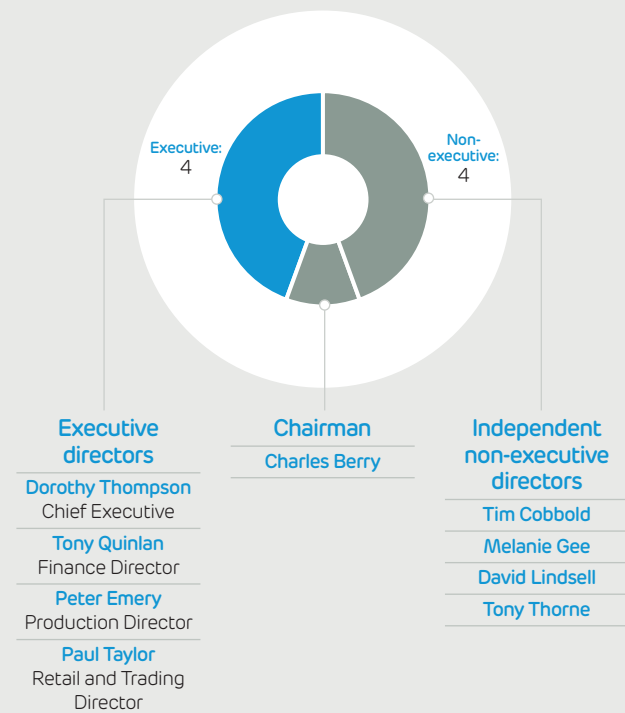
1

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

The schedule of matters reserved are reviewed annually by the Board and are available on the Group's website at www.drax.com

Composition

All of the directors listed below served throughout the year and continued to be directors as at 18 February 2014. Their biographical details appear on pages 59 to 61. Tim Barker (formerly Senior Independent Director) served until his retirement on 24 April 2013.

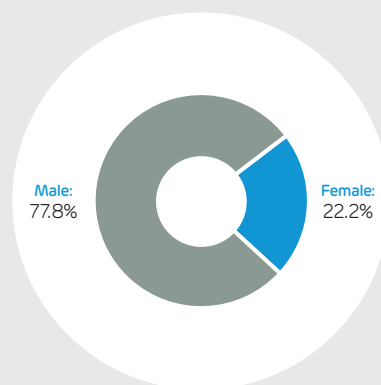


Attending by invitation

Philip Hudson
Company Secretary

Board diversity

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



Directors' biographies



Charles Berry

Chairman

As Chairman, Charles is responsible for the leadership of an effective Board ensuring cohesion between the executive and non-executive directors. He liaises closely with the Chief Executive in order to fully understand the business challenges facing the executive directors and the senior management team and in turn he ensures that matters laid before the non-executive directors are challenged and tested in a robust manner.

Appointment to the Board:

15 December 2005 and was appointed Chairman on 17 April 2008.

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, with responsibility for over 6,200MW of generating capacity as well as the trading business, energy retailing and strategic transactions, such as renewables development. 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.



Dorothy Thompson CBE

Chief Executive

As Chief Executive, Dorothy is responsible for all aspects of the stewardship of the Group and its 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.

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 has the Investor Relations, Risk Management, IT, Facilities, and Procurement functions reporting to him.

Appointment to the Board:

1 September 2008.

Committee membership:

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

External appointments:

A non-executive director of the Port of London Authority, where he 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

**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. Peter also has responsibility for leading the Company's carbon capture and storage activity.

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 and an executive director of De La Rue Plc.

Previous experience:

Tim was previously 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 well placed to contribute significantly 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 Lindsay

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 and 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 of Premier Oil plc and HellermannTyton Group PLC.

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 importance as Drax undertakes expansion into global markets.

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

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.

Chairman

Dorothy Thompson CBE



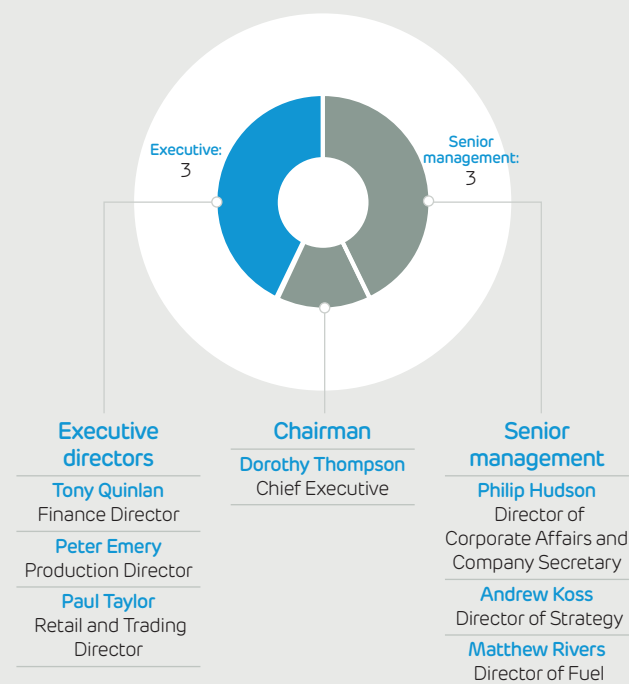
Number of meetings held in 2013

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 59 and 60 (executive directors) and page 63 (senior management)



Attending by invitation

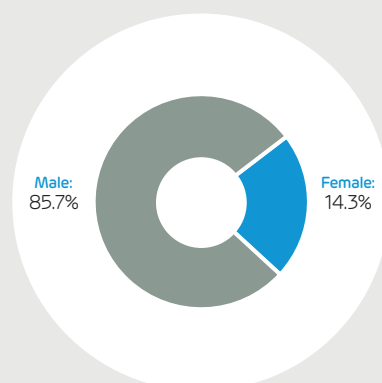
Phil White

Deputy Company Secretary (Secretary to the Committee)

Other senior managers as appropriate to present specific subject matter.

Committee diversity

The following chart illustrates the proportion of female and male Committee members.



Executive Committee members' biographies



Philip Hudson

Director of Corporate Affairs and Company Secretary

As Director of Corporate Affairs and Company Secretary, Philip is responsible for the Group's legal and corporate compliance and for the application of good standards of corporate governance. He has the Company Secretariat, External Communications, Human Resources and Legal functions reporting to him. 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.



Andrew Koss

Director of Strategy

Andrew has responsibility for regulatory issues, environmental strategy and business development. Andrew 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, Andrew 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 Tihill, 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 2013 on behalf of our Board. This report is intended to provide you with a clear and meaningful explanation of what governance means to us and how it guides our decision making. Good governance at all levels is a cornerstone of management within the Group and it is the Board that sets the tone and takes the lead.

As Chairman, it is my role to ensure that Drax is led by an effective Board. The Board believes that good practice should flow throughout the Group, which in turn should guide the decisions taken on a daily basis. If we achieve this, then we can be sure that we are taking the right actions for the benefit of all our stakeholders.

During 2013, we continued to strengthen our internal control and risk management processes to ensure that they remain effective and are embedded in operations as the Group's business evolves in scope and dimension.

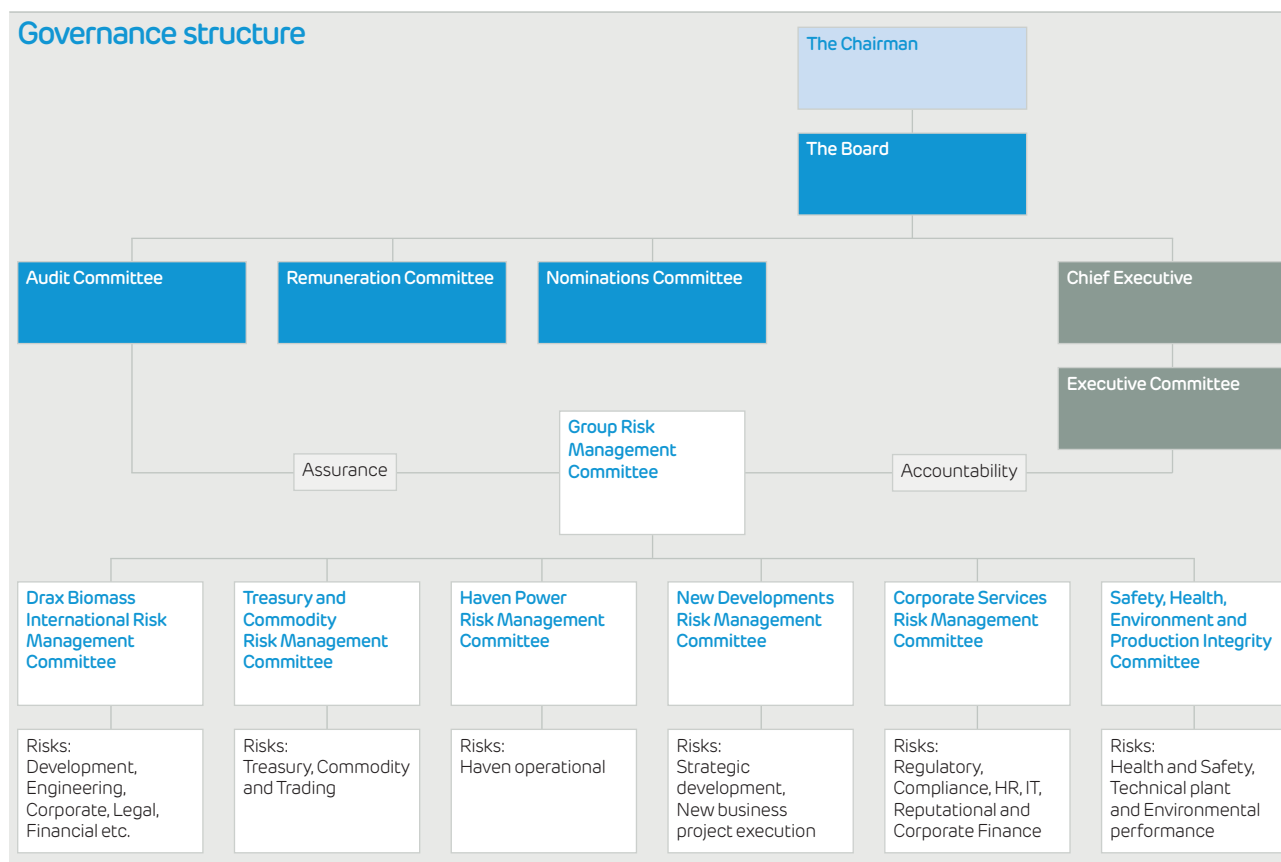
An important part of my role is to ensure that the Board contains the right balance of skills, expertise and experience. We have an established policy which ensures that diversity (including gender diversity) is one of the factors taken into account when considering appointments to the Board and other senior roles.

The Board has reviewed the requirements of the UK Corporate Governance Code and we comply with it except currently in relation to provisions on tendering the audit process. A more detailed report on our corporate governance arrangements is set out on the following pages.

A handwritten signature of Charles Berry in blue ink, written in a cursive style.

Charles Berry
Chairman

Our governance framework



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 2013, 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 as Director of Corporate Affairs, he is also responsible for advising the Board on legal matters and has responsibility for the Company Secretarial, External Communications, 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 Annual General Meeting ("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 the current directors will retire at the forthcoming AGM and, being eligible, offer themselves for re-election.

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

The 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 94.

Corporate governance

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. The Board conducted a review of its effectiveness and that of its committees with the assistance of external facilitation during the period 2007 to 2011. In 2012, the performance review was undertaken internally, led by the Chairman and facilitated by the Company Secretary. In 2013, we have reverted to using an external facilitator in Armstrong Bonham Carter. The review concluded that each of, the Board, its individual directors and its committees continued to be effective. No significant areas of concern were identified. The review did, however, give rise to some suggestions to improve the overall effectiveness of the Board. In the light of these comments, the Board will continue to develop its processes in the areas of strategy development, people leadership and the monitoring of risk.

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	Executive ⁽¹⁾	Group Risk ⁽²⁾
Tim Barker⁽³⁾	Member	Member	Chairman	–	–
Charles Berry	Invited to attend	Chairman	Member	–	–
Tim Cobbold	Member	Member	Member	–	–
Peter Emery	–	–	–	Member	Member
Melanie Gee	Member	Member	Member	–	–
Philip Hudson⁽⁴⁾	Secretary	Secretary	Secretary	Member	Chairman
David Lindsell	Chairman	Member	Member	–	–
Tony Quinlan	Invited to attend	–	–	Member	Member
Paul Taylor	–	–	–	Member	Member
Dorothy Thompson	Invited to attend	–	Invited to attend	Chairman	Invited to attend
Tony Thorne⁽⁵⁾	Member	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, Andrew 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 Gallagher (SVP Legal, US) and Rachel Kemsley (Finance Director, Haven Power) each of whom chairs a risk committee which reports to this Committee, are members.
- (3) Up until his retirement as a director of the Company at the conclusion of the Annual General Meeting on 23 April 2013, Tim Barker had been Chairman of the Remuneration Committee and a member of each of the Audit and Nominations Committees.
- (4) Philip Hudson is the Director of Corporate Affairs and Company Secretary.
- (5) Tony Thorne was appointed Chairman of the Remuneration Committee effective from Tim Barker's retirement. Up until that time, he had been a member of that committee.

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

In April 2013 a Group Risk Management Committee ("GRMC") was established to coordinate the activities of the six established operational risk committees. As the Group's business has become more complex, the GRMC now provides greater oversight of the risk management process in the Group, group risk optimisation and cross group risk issues. Two meetings of the GRMC have been held this year.

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.

→ 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 or employees 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 has 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 2013. 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	Remuneration Committee
Tim Barker	7/2	8/6	3(3)	2(2)	2(2)	3(3)
Charles Berry	8/0	8/0	7(7)	–	4(4)	7(7)
Tim Cobbold	3/3	3/3	7(7)	4(4)	4(4)	7(7)
Peter Emery	8/2	9/6	7(7)	–	–	–
Melanie Gee	1/0	1/0	7(7)	4(4)	4(4)	7(7)
David Lindsay	5/1	5/1	7(7)	4(4)	4(4)	7(7)
Tony Quinlan	5/4	5/4	7(7)	–	–	–
Paul Taylor	2/4	9/6	7(7)	–	–	–
Dorothy Thompson	8/2	8/3	7(7)	–	–	–
Tony Thorne	3/6	3/6	7(7)	4(4)	4(4)	7(7)

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 2013.

(2) In addition to the Board meetings identified above, there have also been three meetings held by telephone to discuss various matters, one of which was held to specifically approve the US pellet plants investments and one meeting was held devoted to strategy. There was full attendance at each of these meetings.

Corporate governance

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.

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 98.

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.

Compliance with the UK Corporate Governance Code

It is the Board's view that throughout the period commencing on 1 January 2013, there has been full compliance with the principles of the UK Corporate Governance Code (the "Code") issued in September 2012 and applicable for this financial year, 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 in order that he 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 2013. Makinson Cowell Limited, an independent capital markets consultancy firm and part of the KPMG Group, is engaged by the Group to advise and assist in relation to communications with shareholders.

The Company's private registered shareholders hold, in aggregate, approximately 0.6% 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 an oral 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 11¹⁶/₂₉ pence each. There are no restrictions on the voting rights of the ordinary shares.

Shares in issue

At 1 January 2013	As at 31 December 2013	As at 18 February 2014
401,587,564	402,566,332	402,568,006

Issue of shares

Subject to the provisions of the Companies Act 2006 (the "Companies Act") relating to authority and pre-emption rights and to any resolution of the Company in a General Meeting, all unissued shares of the Company shall be at the disposal of the directors and they may allot (with or without conferring a right of renunciation), grant options over or otherwise dispose of them to such persons, at such times and on such terms as they think proper.

During the period, 978,768 ordinary shares in the Company were issued as follows:

- 600,248 shares under the rules of the Group's Savings-Related Share Option Plan ("SAYE Plan") to 305 participants who held options under the 3-year 2010 Grant which matured on 1 May 2012 and four individuals who had retired from the Group; and
- 378,520 shares under the rules of the Group's Bonus Matching Plan ("BMP") to 66 participants in the BMP. The shares issued represented 0.07% of the Company's issued ordinary share capital prior to those shares being issued.

No other ordinary shares were issued during the year and the Company held no treasury shares during 2013.

In January 2014, a total of 1,674 shares were issued under the rules of the SAYE Plan to two participants who had retired from the Group.

Authority to purchase own shares

At the AGM held on 24 April 2013, 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 2013.

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, in 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.

Corporate governance

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.

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 18 February 2014, 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	31.01.2014	–	108,558,665	–	108,558,665	26.96%
Artemis Investment Management LLP	10.02.2014	19,257,920	1,959,839	–	21,217,759	5.27%
Schroders plc	07.11.2013	–	19,063,586	–	19,063,586	4.74%
AXA S.A.	17.12.2009	1,704,050	14,952,477	–	16,656,527	4.57%
Legal & General Group Plc	20.07.2010	14,478,741	–	–	14,478,741	3.96%

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 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 2013. 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 19 to the consolidated financial statements.



By order of the Board.

Philip Hudson

Company Secretary

18 February 2014

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
18 February 2014



Tony Quinlan
Chief Financial Officer
18 February 2014

Audit Committee report

Membership and process

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

Following the review in July 2013, the terms of reference were updated to reflect the Committee's responsibilities in respect of the Annual report and accounts, as set out in the revised UK Corporate Governance Code.

Committee Chairman

David Lindsell

Senior independent
non-executive director



Committee members

Tim Cobbold, Melanie Gee and Tony Thorne all of whom are independent non-executive directors. Tim Barker (formerly Senior Independent Director) had been a member of the Committee until his retirement on 23 April 2013.

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

Attending by invitation

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

Number of meetings held in 2013

4

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 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.

At meetings in February and July 2013, 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 the Independence of the external audit section of the report.

Audit Committee report

Reviewing the 2013 Annual report and accounts

At the meeting in February 2014, the Committee reviewed the content of the 2013 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 13 to the consolidated financial statements).

→ **Derivatives** – As explained in more detail in note 19 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 and treasury activities during the year had raised no significant issues.

→ **Property, plant and equipment** – The net book value of the Group's property, plant and equipment was £1.6 billion at 31 December 2013 (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 full 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.

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 2013 meetings, and again at the February 2014 meeting in relation to our financial reports:

- these included the accounting judgements, estimates and assumptions in relation to obligations under the Community Energy Savings Programme, retirement benefit obligations (pension), taxation and impairment. Further detail on these areas can be found in note 3 to the consolidated financial statements.
- in addition, other accounting issues, namely in relation to application of accounting policies or accounting treatment (carbon, coal and biomass stock) and new items in the financial statements (oil and freight trading and port contracting) 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 (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 risk management processes Auditor independence policy review Whistle-blowing reporting policy review Ethics and Business Conduct Steering Committee review Review of the requirements of the UK Corporate Governance code in respect of audit tenders without internal and external auditors present Review of the external auditor's management letter
July	Treasury controls review Audit Committee terms of reference – annual review
November	Effectiveness of internal controls, consideration of fraud, review of risk register and biomass sustainability report Review of finance team Biomass pricing controls review Review and approval of the external auditor terms of engagement

At the meeting in February 2014, 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.

External auditor effectiveness

At the February 2014 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 quality of the audit team and 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 (see below), the Committee has invited the Board to recommend the reappointment of Deloitte LLP as auditor at the forthcoming 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 113. The external auditor is required to rotate the audit partner responsible for the Group audit every five years and the current audit partner, Carl Hughes, has been in place for five years. His successor, James Leigh, will take responsibility in respect of the 2014 audit.

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

Audit tendering

As set out in the Corporate governance section, 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.

Deloitte LLP has been the auditor of the Drax group of companies since 1999, and was appointed as auditor of Drax Group plc on its incorporation in 2005. During this period the audit has not been put out to tender. In order to comply with the new Code provision effective for this financial period, we would need to put the audit out to tender for the 2014 year end. The rationale for non-compliance reflects the importance we place on the period of transformational change the business is undergoing to become a predominantly biomass-fired power station. 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.

In coming to a recommendation the Committee considered how, notwithstanding its recommendation to defer putting the external audit contract out to tender, the Group would adhere to the principle of the Code to maintain an appropriate relationship with the auditor. The independence and the effectiveness of the external 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 judgements and assumptions in relation to financial reporting has been noted. In addition, there is a well-established policy regarding the provision of non-audit services by the auditor, and fees paid to the external auditor for audit and non-audit services are reviewed at each Committee meeting, with restricted delegated authority to approve non-audit services without the Committee's approval.

In the light of these policies and procedures, the Committee is satisfied that an appropriate relationship has been maintained with the auditor.

The Committee has undertaken to review this decision on an annual basis, including consideration of legislative developments, with the current intention of going through a full audit tender process for the 2016 year end, in line with the completion of the substantial part of the biomass transformation project.

Audit Committee report

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 2013 included: stock management (coal and biomass); by-product revenue; purchasing and expenditure processes from budgeting through to payment of invoices; compliance with the Bribery Act; key financial controls over business planning and capital budgeting; IT key controls and portfolio management; review of the US operations key controls; controls over capital project management; review of demand forecasting and credit risk management at Haven Power Limited ("Haven Power") as well as key financial controls over revenue and indirect taxes at Haven Power.

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

Fair, balanced and understandable view

At the February 2014 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.

This report was reviewed and approved by the Audit Committee on 18 February 2014.



David Lindsell
Chairman of the Audit Committee

Nominations Committee report

Membership and process

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), to consider succession planning for the directors and other senior managers, to identify and nominate candidates to fill vacancies among the directors and to 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. Tim Barker (formerly Senior Independent Director) had been a member of the Committee until his retirement on 23 April 2013. The Company Secretary acts as Secretary to the Committee.

Attending by invitation

Chief Executive, Head of Human Resources.

Number of meetings held in 2013

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.

At its meeting in November, the Committee reviewed the succession plan in relation to senior management roles. The succession plan was considered to be appropriate taking into account the size and management structure of the Group.

The Committee also reviewed the composition of the Board and concluded that following the appointment of an additional non-executive director at the start of the year and the retirement of Tim Barker in April, the composition of the Board was appropriate for the business at this time.

During the course of the year, the Committee undertook a senior management evaluation and development exercise with the assistance of Russell Reynolds Associates. The objective was to identify the particular attributes and development needs of potential successors to board and Executive Committee roles. Various targeted development programmes have been identified and implemented for particular individuals to enhance the quality of potential internal successors.

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 Corporate and social responsibility section of the Annual report and accounts.

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 adopted the provisions of the UK Corporate Governance Code on the annual re-election of all directors at the beginning of 2011.

At the conclusion of the Annual General Meeting ("AGM") held on 24 April 2013, Tim Barker retired as a director of the Company and from the committees on which he served.

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 Board met on 11 February 2014, following the completion of the Board evaluation process, and determined that all of the directors who are the subject of annual re-election will retire at the forthcoming 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 perform effectively.

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 18 February 2014.

Charles Berry
Chairman of the Nominations Committee

Remuneration Committee report

Membership and process

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. Tim Barker (formerly Senior Independent Director) had been a member of the Committee until his retirement on 24 April 2013.

The 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 2013

7

Annual statement to shareholders from the Chairman of the Remuneration Committee

This is my first year as Chairman of the Remuneration Committee and I would first like to thank my predecessor, Tim Barker, for his contribution as Chairman and his assistance during the handover period.

In last year's report we adopted a number of the improved reporting measures which are now legislative requirements under the Large and Medium sized Companies (Accounts and Reports) (Amendments) Regulations 2013. This year we have made further changes to reflect both the final Regulations and published investor guidance. The remuneration report is in two parts: the Directors' Remuneration Policy sets out the proposed policy for three years between the 2014 Annual General Meeting and the 2017 Annual General Meeting; the annual report on remuneration sets out payments and awards made to the directors and details the link between company performance and remuneration for the financial year ending on 31 December 2013.

Tim Barker noted in last year's report that we would be reviewing executive remuneration to ensure that it properly reflects changes to the business and directors' roles. The Committee has undertaken this review during 2013. We are grateful for the support and assistance from shareholders received during our consultation on the proposed changes to directors' remuneration and on the proposed remuneration policy.

The context for this year's review of executive remuneration is the progress in the implementation of Drax's biomass strategy, which is transforming the business from a position of having a limited life, to one with a sustainable long-term future with opportunities to develop. Since 2008 the executive team has led the way in the UK in the fuelling of coal plants with sustainable biomass.

The Committee reviewed with careful consideration the extent to which the scope and dimensions of the executive director roles have increased, namely:

1) Biomass strategy

Consistent with positioning itself as a major player in renewables generation, Drax is well advanced with its programme to invest around £700 million to transform Drax into a predominantly renewable generator through biomass. One of Drax's six generating units has been converted to biomass, and the significant construction and engineering project at Drax will provide the infrastructure to enable the plant to receive, process and handle biomass to fuel its converted units.

Providing cost effective biomass fuel to these units will be an essential element of Drax's long-term success. To this end, management is leading the establishment of an international supply chain involving long-term biomass supply contracts, rail and port facilities, shipping arrangements and the development of biomass processing facilities. This development already includes a US subsidiary business which is constructing biomass pelleting plants and port facilities, and international expansion can be expected to continue.

Sustainability of biomass sources is crucial. Drax has taken a leading position in pressing for the implementation of robust sustainability standards.

2) Trading strategy

As a result of implementing the biomass strategy the business has the potential for much enhanced returns as compared to coal but it has introduced a greater dimension into its trading. Drax has moved from a position of hedging the three legs of the dark green spread (the difference between the revenue from electricity generation and the costs of buying coal and carbon allowances) on a short to medium-term basis, to a position where, because of the need for long-term contracting to develop the biomass market, most of it in jurisdictions outside the UK, a more complex trading strategy is being operated. This involves treasury and commodity trading activities to manage risks associated with long-term contracting of biomass, foreign exchange, freight, and oil, together with the management of collateral risk to ensure that the business remains robust to a sub-investment grade debt rating. In addition, Drax is managing the increasing compliance obligations associated with financial regulation.

3) Haven Power

Haven Power joined the Group in 2009, and has developed from a relatively small supplier to small and medium sized businesses, into a business with a significant industrial and commercial customer base playing an increasingly important and integrated role in the Group's trading strategy.

4) Market regulation

Renewable plant is currently made economically viable through the Renewables Obligation (RO). Drax management has, for many years, been actively engaged with government in promoting reforms which will achieve increased certainty to support investment in renewables, particularly biomass. To date, this has been achieved through the setting of RO bands and grandfathering of the RO. The UK government's Electricity Market Reform package includes other measures, particularly in relation to contracts for differences and capacity payments, which will be critical to Drax's strategy and commercial choices. Active engagement in the development and implementation of these measures, and the commercial decisions arising from them, will continue to be central to Drax's strategy and future success.

Change to executive directors' terms

The review led the Committee to conclude a need to reflect these changes in the executives' remuneration. The strategic complexity of the business is high at this point in our development, and the decisions made by our executive directors in the coming years will be critical for the long-term future of the Company.

Following consultation with our ten largest shareholders, the Committee decided to make a number of changes to the structure of the executive directors' remuneration.

Annual bonus potential will be increased from 2014 so that the Chief Executive's target annual bonus will increase from 65% to 75% of salary, and the target annual bonus of the other executive directors will increase from 60% to 70% of salary. Maximum bonus will continue to be capped at twice the target bonus, i.e. 150% and 140% respectively.

The proportion of the annual bonus to be deferred into shares for three years will be increased from 25% to 35%.

We have also decided to increase directors' shareholding requirements. The Company's guidelines currently require executive directors to build up a shareholding to the value of their annual salary. The Committee has decided to increase this to 175% of salary for the Chief Executive and 125% of salary for the other executive directors.

The Committee is confident that we have a strong executive team, and the new remuneration arrangements are designed to retain the team to deliver the opportunities that have been created for shareholders and to reward the executives for that delivery.

During the year the Committee also reviewed the terms of executive directors' service agreements, following which the Company entered into new service agreements with all four of the executive directors. The main changes to the contracts were to amend notice provisions so that all directors' contracts are terminable on 12 months' notice from either party, to enable the Company to make phased payments in lieu of notice and to ensure that there are appropriate restrictions on the directors' ability to work for competitors or solicit staff after leaving the Company.

Wider employee population

In respect of the wider employee population in the Group, a two year pay agreement was implemented for employees in the collective bargaining unit, resulting in annual basic pay increases of RPI plus 0.4% for 2013 and 2014, plus any annual incremental progression for employees not yet at the top of their pay scale.

Executive director basic pay increased by 3.50% during 2013, whilst the average annual change in basic pay for all other Group employees employed continuously from 1 January 2013 to 31 December 2013 was 5.02%.

Last year's report noted that the Committee had agreed that additional steps should be taken to make employees aware of the likely level of their retirement benefits and to encourage them to review their contributions. It also noted that additional contributions by the Group may be needed dependent upon the terms applicable to the relevant schemes. I am pleased to report that the awareness sessions have been very effective.

We have now successfully implemented pension auto-enrolment for our UK employees. 93.50% of all Group employees in the UK are now members of a Drax occupational pension scheme.

Remuneration Committee report

Assessment of remuneration relating to 2013 and 2014 targets

At its meeting in February 2014 the Committee considered a number of matters on remuneration either paid in or relating to 2014.

The Annual report on remuneration includes details of the Committee's assessment of 2013 performance. As expected, 2013 profits were lower than in 2012 due to the additional cost of carbon. Nevertheless it was a significant year of achievement for the Company. In particular, the conversion of the first generating unit to burn sustainable biomass, the associated supply chain developments, the regulatory developments towards contracts to determine the earnings of further biomass units, and the volume growth of the retail business are all major steps towards securing the Company's long-term future. The Committee's assessment of the Scorecard was at 1.52, which means that the cap of 1.5 applies. We also assessed the executive directors' performance against their performance objectives as being towards the upper end of the range between target and maximum. As a result of the combination of the corporate and personal scores, annual bonuses for 2013 to be paid in March 2014 will be capped at the maximum level. The details of the scoring are set out on page 90 of the Annual report on remuneration.

The Committee also considered targets for 2014. These have been established to be at least as challenging as those for 2013. A description of the 2014 corporate targets is set out in the Annual report section of this report, with such detail as can be provided whilst safeguarding commercial confidentiality.

The Committee also considered the vesting of the Bonus Matching Plan awards made in 2011, which were conditional upon performance over the three years from the start of 2011 to the end of 2013. As described in the Policy section of this report, 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 107%, which was in the upper quartile of the comparator group, and the Committee therefore confirmed vesting of the whole of the TSR element of the award. The average scorecard score over the same period was 1.48. As a result, the Committee determined that 97.16% of the Scorecard Award element would vest.

The Committee also agreed to the grant of 2014 Bonus Matching Plan awards to the executive directors to the value of 150% of their 2013 annual bonus, and subject to the same performance conditions as described in the policy section of this report.

Directors' remuneration policy

This remuneration policy, subject to shareholder approval at the 2014 Annual General Meeting ("AGM"), will be 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.

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:

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

Remuneration Committee report

Remuneration component	How this component relates to Group strategy	How this component operates in practice	Performance measures and maximum potential value										
ii) Annual bonus	The award of annual bonuses is directly linked to personal performance and to the achievement of the annual Business Plan targets. The multiplicative formula is designed to ensure that bonus payments for high personal performance are moderated where business performance is below target, or vice versa.	Strategic and Business plan targets are set by the Board as part of the Business Plan approval process.	Maximum bonus potential (%age of base salary) <table><tr><th>Role</th><th></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>	Role		Chief Executive	150%	Finance Director	140%	Production Director	140%	Retail and Trading Director	140%
		Role											
		Chief Executive	150%										
		Finance Director	140%										
		Production Director	140%										
		Retail and Trading Director	140%										
		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													
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.	100% of the shares will vest subject to continued employment up to the date of vesting.										
		If the executive leaves the Group before the normal vesting day, the shares will vest (pro-rated to the date of leaving) only if the termination is for a specified reason including redundancy, retirement or death in service, or, if for any other reason, at the discretion of the Committee. In any other circumstances the award is forfeited.											

Remuneration component	How this component relates to Group strategy	How this component operates in practice	Performance measures and maximum potential value
iv) Bonus Matching Plan ("BMP")	This is the long-term incentive plan for executives. It links long-term share based incentives to Total Shareholder Return ("TSR") and to the achievement of Business Plan strategic targets.	The Bonus Matching Plan ("BMP") is a long-term performance share plan. Under the BMP, executive directors receive an annual grant of conditional shares to a value of up to 1.5 times the amount of the executive's annual bonus for the prior year. It is the Committee's policy to grant BMP awards to executive directors at 1.5 times the amount of the annual bonus unless the performance of the director or of the business makes an award at that level inappropriate. No payment is made for the shares. Vesting is conditional upon service and performance conditions, and shares vest on the third anniversary of the grant subject to the achievement of performance conditions determined by the Committee. To the extent that vesting is determined by reference to Company Scorecard performance, at the end of the three year performance period, the Committee will review each of the annual results going into an average Scorecard calculation and has the discretion to adjust the final outcome based on events over the period to ensure that the result is consistent with the underlying performance progression of the business. In exercising its discretion the Committee will have particular regard to progress against the strategic objectives incorporated in the Scorecard. If the executive leaves the Group before the normal vesting day, the shares will vest (pro-rated to the date of leaving and phased over the normal cycle of the performance periods) only if the termination is for a specified reason including redundancy, retirement or death in service, or, if for any other reason, at the discretion of the Committee. In any other circumstances the award is forfeited. Performance condition override The Committee will include an override provision in each grant under the BMP. This will give the Committee discretion to determine that no vesting shall occur or vesting shall be reduced if there are circumstances (relating to the Company's overall performance or otherwise) which make vesting as calculated by reference to the performance conditions alone inappropriate. Clawback If a repayment of bonus is required (see "annual bonus" above) the Committee shall also make an appropriate reduction in the number of shares that may vest under the BMP (in respect of an award made pursuant to the annual bonus payment subject to the clawback). The Committee may also reduce the number of shares under a BMP award in circumstances of financial misstatement, or if assessment of a performance condition is found to have been based on an error, inaccuracy or misleading information, or in other circumstances that the Committee considers to justify the operation of the clawback provision..	Maximum number of shares granted equals shares to the value of 1.5 x 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 FTSE51-150 as follows: Below median = 0% vesting At median = 15% vesting (threshold) Upper quartile = 100% vesting. ii) Up to 50% of shares vest subject to Company Scorecard performance averaged over the three year performance period, as follows: Score <1 = 0% vesting Score 1 = 15% vesting (threshold score) Score 1.5 = 100% vesting The three year average company performance score is capped at 1.5. Example: Year 1 Score 1.8 Year 2 Score 1.4 Year 3 Score 1.4 Three year BMP performance score = 1.5 For both the TSR and Scorecard conditions vesting between 15% and 100% is on a straight-line interpolation. In accordance with the rules of the BMP, Dividend Shares are awarded at the time and in the event that shares vest. They are calculated based on the dividends paid following the initial award until the award vests.
v) Pension	Pension provision is one of the components to attract, reward and retain the right calibre of executive in order to ensure delivery of the leadership and management needed to execute the Group's vision and business plan.	Executive directors are entitled to non-contributory membership of the Group's defined contribution pension plan. The employer's contribution for executive directors is 20% of base salary. Alternatively, at their option, executive directors may either have contributions of the same amounts made to their personal pension schemes or cash in lieu of pension at the stated rate and subject to normal statutory deductions; or a combination of pension contributions up to the HMRC Annual Allowance with the remainder as cash in lieu of pension.	Maximum is 20% of base salary.

Remuneration Committee report

Remuneration component	How this component relates to Group strategy	How this component operates in practice	Performance measures and maximum potential value
vi) Other benefits	In general, other benefits aim to align directors' total remuneration broadly with the market. In particular, all-employee share plans incentivise sustained long-term performance and strengthen teamwork by enabling all employees to share in the success of the business. The plans are vehicles for aligning staff remuneration with TSR performance.	Executive directors receive a car allowance, life assurance (x4 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.

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 84 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).
- 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.

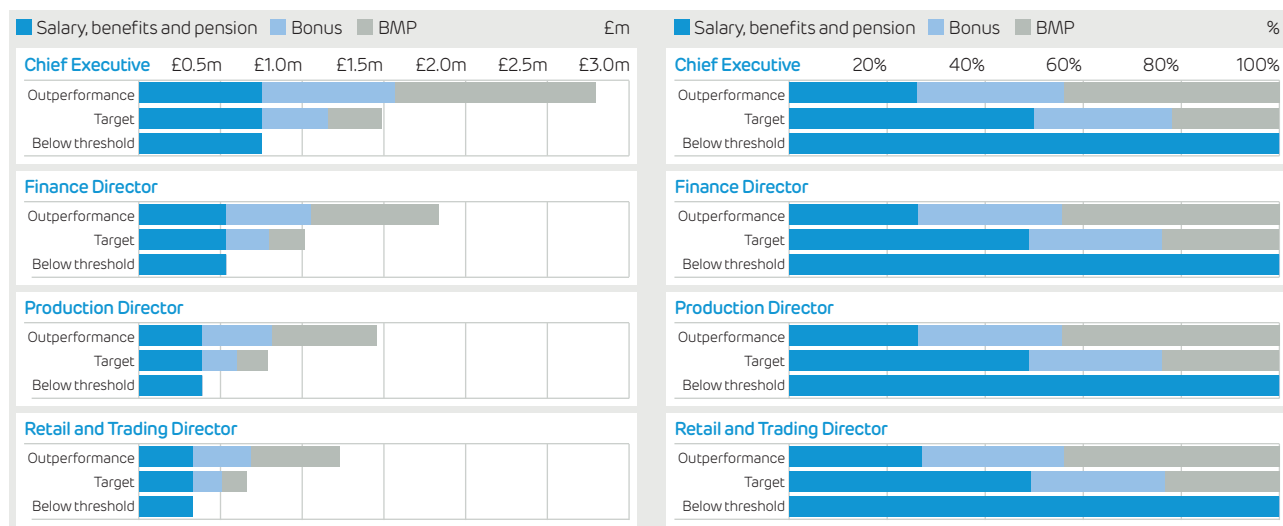
Under each of the executive directors' service agreements the Company has the right to make a payment in lieu of notice of termination, the amount of that payment being the salary and benefits that would have accrued to the executive director during the contractual notice period.

Remuneration Committee report

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

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

If the termination is for any other reason a bonus payment will be at the discretion of the Committee. It is the Committee's policy to ensure that any such bonus payment properly reflects the departing director's performance and behaviour towards the Company. Therefore the amount of any such payment will be determined as described in the table on page 82, taking into account (i) the director's personal performance and behaviour towards the Company and (ii) the Group performance. If a bonus payment is made, it will normally be paid as soon as is reasonably practicable after the Group performance element has been determined for the relevant period. There may be circumstances in which the Committee considers it appropriate for the bonus payment to be made earlier, for example, on termination due to ill-health, in which case, "on-target" Group performance score shall be assumed.

No element of any such bonus payment shall be deferred.

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

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

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

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

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

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

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

Section 6

Context

Wider employee population

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

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

Views taken from the employee population

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

Remuneration Committee report

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 83.

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 differences between the remuneration policy for 2013 and the policy on which shareholders will vote at the 2014 AGM are set out below:

Remuneration component	How this component relates to Group strategy	How this component operates in practice	Performance measure and maximum potential value
Base salary	No difference.	No difference	N/A
Annual bonus	No difference.	The target bonus levels in 2013 were 65% and 60% of salary respectively for the Chief Executive and other directors. No clawback provisions for 2013 bonus.	Details of the metrics for the 2013 and 2014 annual bonus are provided later in this report. The maximum potential values in 2013 were 130% and 120% of salary respectively for the Chief Executive and other directors.
Deferred annual bonus	No difference.	The amount of the annual bonus deferred was 25% in 2013. No clawback provisions for 2013 deferred bonus.	
Bonus matching plan	No difference.	No clawback provisions for 2013 awards.	No difference.
Pension	No difference.	No difference.	No difference.
Other benefits	No difference.	No difference.	No difference.
Share ownership	No difference.	No difference.	In 2013 the share ownership guidelines required directors to retain shares to the value of their base salary.

Base salaries

The base salaries of the executive directors as at 31 December 2013 and 31 December 2012 are shown in the following table:

	Base salary (£000) 31 December 2013	Base salary (£000) 31 December 2012	Percentage increase
Peter Emery	306	296	3.5%
Tony Quinlan	372	359	3.5%
Paul Taylor	257	248	3.5%
Dorothy Thompson	546	528	3.5%

Annual fees

The Chairman's fees were last reviewed in March 2011. Non-executive directors' fees were increased with effect from 1 August 2013. Fee rates as at 31 December 2013 and 31 December 2012 are shown in the following table:

	Fees (£000) 31 December 2013	Fees (£000) 31 December 2012	Percentage increase
Chairman	220	220	0%
NED base fee	54	52.5	2.9%
Senior Independent Director ⁽¹⁾	10	10	0%
Audit Committee Chair	10	10	0%
Remuneration Committee Chair	10	7.5	33%
Nominations Committee Chair ⁽²⁾	7.5	7.5	0%

Notes:

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

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 2013, together with comparative figures for 2012:

Name	Salary/Fees (£000)		Pension (£000)		Bonus ⁽¹⁾ (£000)		BMP ⁽²⁾ (£000)		Other benefits (£000)		Total (£000)	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Peter Emery	303	293	62	59	367	355	997	–	18	18	1,747	725
Tony Quinlan	368	356	74	71	446	431	1,211	–	20	86	2,119	944
Paul Taylor	255	246	51	49	309	298	609	–	17	17	1,241	610
Dorothy Thompson	542	523	108	105	710	686	1,929	–	71	92	3,360	1,406

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 2014, 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 2013.

The table below sets out the single figure of remuneration and breakdown for each non-executive director for 2013 together with comparative figures for 2012:

	Board fee (£000)		Other fees (£000)		Total (£000)	
	2013	2012	2013	2012	2013	2012
Charles Berry						
Chairman of Board	220	220	–	–	220	220
Chairman of Nominations Committee						
Tim Barker ⁽¹⁾	17	53			20	63
Senior Independent Director						
Chairman of Remuneration Committee			3	10		
Tim Cobbold	53	53	–	–	53	53
Melanie Gee ⁽⁴⁾	53	–	–	–	53	–
David Lindsell	53	53			70	63
Senior Independent Director ⁽²⁾			7	–		
Chairman of Audit Committee			10	10		
Tony Thorne	53	53			60	53
Chairman of Remuneration Committee ⁽³⁾			7	–		

Notes:

- (1) Tim Barker retired from the Board on 24 April 2013.
 (2) David Lindsell was appointed as Senior Independent Director on 24 April 2013.
 (3) Tony Thorne was appointed as Chairman of the Remuneration Committee on 24 April 2013.
 (4) Melanie Gee was appointed 1 January 2014.

Remuneration Committee report

Details of performance against metrics for variable pay awards

Annual bonus plan outcome

A summary of the Committee's assessment in respect of the 2013 Scorecard is set out in the following table:

	Target weighting	Performance assessment	Score
Financial			
Underlying earnings per share ⁽¹⁾	20%	Earnings per share was above the stretch target. Targets remain confidential.	
Interest cover ratio and controllable costs	10%	Interest cover ratio of 4 times was above the target but below the stretch target of 5 times. Controllable costs were marginally greater than the target of £195 million.	
Total financial	30%		1.73
Safety and production			
Safety	7.5%	Total recordable injury rate was 0.3, below the target and ahead of the low target. The number of RIDDOR occurrences was 11 below the low target.	
Plant and operations	12.5%	Targets relate to availability and outage rates with a specific target related to the first converted biomass unit availability. The coal forced outage rate is determined as appropriate to plant and operations characteristics in the year, and based on a long-term target of 5%. Specific biomass targets remain confidential. Overall outage rates and availability were slightly below target.	
Total safety and production	20%		0.95
Retail			
Sales volume	10%	The target was for a specified volume of contracted sales for 2014. This remains confidential. Stretch target was achieved.	2.00
Strategic			
Regulatory objectives	10%	Targets related to progress towards achieving support for biomass generation under the Contract for Differences ("CfDs") structure on appropriate terms and on progress towards sustainability requirements that are appropriately robust and manageable. At the end of the year two Drax generating units had been ranked first equal in the application process for investment CfDs, and government's position on sustainability standards reflected many of the Company's recommendations. Accordingly the Committee assessed the score as between target and stretch.	1.75
Conversion facilities	10%	Targets were against the budget and schedule for the capital works associated with the biomass conversion and biomass burnt during the year. Specific targets remain confidential. The Committee assessed performance as between target and stretch based on actual performance.	1.20
Biomass supply	10%	The target related to the overall volume of biomass contracted for supply with a view to securing volume for three converted units. The specific targets remain confidential. The Committee assessed performance as having achieved the stretch target.	2.00
US asset investment	10%	Targets related to the schedule and budget for construction of assets in the US and for O&M mobilisation. The targets remain confidential. The Committee assessed performance between target and stretch.	1.13
Total strategic	40%		
Total weighting	100%		1.52

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).

Following this process, and based on the relative weightings and scores as set out in the table, the Committee assessed the corporate score for 2013 at 1.52. The Committee did not exercise its discretion to adjust the overall score. For the purpose of calculating annual bonus, the corporate score was capped at 1.50 in accordance with plan rules.

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. The specific details remain confidential.

Director	Objective
Peter Emery	→ Safety, environmental and plant performance; → Strengthening and broadening the scope of safety management process to incorporate US business; → The Industrial Emissions Directive compliance proposal; → Technical development of biomass conversion project; and → Development of the carbon capture and storage project consistent with agreed objectives.
Tony Quinlan	→ Strategic developments; → Effective investor communications; → Efficient cash flow and balance sheet management; → Maintenance of core financial controls and system improvements; and → US governance, reporting and execution support.
Paul Taylor	→ Commodity trading performance; → Retail sales operations and strategy; → Logistics and optimisation; and → Commercial contribution to regulatory development.
Dorothy Thompson	→ Development of strategy and clear strategic objectives; → Optimisation of Group performance leadership on vision, values and employee engagement; → Regulatory and external communications; → Leadership for biomass transformation; and → Financial performance.

The Committee assessed the performance of each of the executive directors against the general 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. All of them exceeded the specific personal targets. Accordingly, each was assessed with a personal score of 1.40.

For 2013 bonus awards, the target bonus for the Chief Executive and the other executive directors was 65% and 60% of base salary respectively. Their maximum bonus was 130% and 120% respectively. 75% of any bonus award is paid in cash and 25% 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 shares vest.

Actual bonus awards for 2013

Executive director		Value of bonus £'000	2013 bonus payment (as a % of base salary)
Peter Emery	Production Director	367	120%
Tony Quinlan	Finance Director	446	120%
Paul Taylor	Retail and Trading Director	309	120%
Dorothy Thompson	Chief Executive	710	130%

Note:

(1) The value of bonus shown in the table above is made up of 75% paid in cash and 25% deferred into shares.

Details of deferred bonus share awards (Audited information)

The following deferred bonus shares awarded in respect of the 2010 annual bonus vested in 2013.

Executive director		Value of vesting £'000	Number of shares
Peter Emery	Production Director	105	16,983
Tony Quinlan	Finance Director	128	20,538
Paul Taylor	Retail and Trading Director	78	12,496
Dorothy Thompson	Chief Executive	216	34,719

Detail of BMP incentive outcomes (Audited information)

No awards under the BMP which were subject to performance conditions vested in 2013.

Remuneration Committee report

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 2013	Awards made during the year	Awards vesting during the year	Awards lapsing during the year	As at 31 December 2013	Face value of awards ⁽⁴⁾
Peter Emery						
2010 Matching Award	85,171	–	–	85,171	–	–
2010 Deferred Award	14,195	–	14,195	–	–	–
Dividend shares awarded	–	2,698	2,698	–	–	–
2011 Matching Award	125,660	–	–	–	125,660	1,005,908
2011 Deferred Award	20,943	–	–	–	20,943	167,649
2012 Matching Award	99,937	–	–	–	99,937	799,996
2012 Deferred Award	16,656	–	–	–	16,656	133,331
2013 Matching Award	–	83,817	–	–	83,817	670,955
2013 Deferred Award	–	13,970	–	–	13,970	111,830
Total	362,562	100,485	16,893	85,171	360,983	2,889,669
Tony Quinlan						
2010 Matching Award	103,541	–	–	103,541	–	–
2010 Deferred Award	17,257	–	17,257	–	–	–
Dividend shares awarded	–	3,281	3,281	–	–	–
2011 Matching Award	152,588	–	–	–	152,588	1,221,467
2011 Deferred Award	25,431	–	–	–	25,431	203,575
2012 Matching Award	121,353	–	–	–	121,353	971,431
2012 Deferred Award	20,225	–	–	–	20,225	161,901
2013 Matching Award	–	101,778	–	–	101,778	814,733
2013 Deferred Award	–	16,963	–	–	16,963	135,789
Total	440,395	122,022	20,538	103,541	438,338	3,508,896
Paul Taylor						
2010 Matching Award	63,003	–	–	63,003	–	–
2010 Deferred Award	10,500	–	10,500	–	–	–
Dividend shares awarded	–	1,996	1,996	–	–	–
2011 Matching Award	76,667	–	–	–	76,667	613,719
2011 Deferred Award	12,777	–	–	–	12,777	102,280
2012 Matching Award	83,981	–	–	–	83,981	672,268
2012 Deferred Award	13,996	–	–	–	13,996	112,038
2013 Matching Award	–	70,434	–	–	70,434	563,824
2013 Deferred Award	–	11,739	–	–	11,739	93,971
Total	260,924	84,169	12,496	63,003	269,594	2,158,100
Dorothy Thompson						
2010 Matching Award	175,039	–	–	175,039	–	–
2010 Deferred Award	29,173	–	29,173	–	–	–
Dividend shares awarded	–	5,546	5,546	–	–	–
2011 Matching Award	243,093	–	–	–	243,093	1,945,959
2011 Deferred Award	40,515	–	–	–	40,515	324,323
2012 Matching Award	193,332	–	–	–	193,332	1,547,623
2012 Deferred Award	32,222	–	–	–	32,222	257,937
2013 Matching Award	–	162,146	–	–	162,146	1,297,979
2013 Deferred Award	–	27,024	–	–	27,024	216,327
Total	713,374	194,716	34,719	175,039	698,332	5,590,148

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 83.
- (4) The face value of the awards is calculated based on the share price on 31 December 2013.

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 executive directors left the business during the year and therefore no payments for loss of office were made to directors during the financial year. Tim Barker, a non-executive director, retired from the Board on 24 April 2013. No payment for loss of office was made.

Shareholder voting

The table below shows the voting outcome for the Remuneration report at the Annual General Meeting held on 24 April 2013.

	For	(%)	Against	(%)	Abstain	(%)	Total
Approval of Remuneration report	280,377,944	85.63%	13,262,002	4.05%	33,782,677	10.32%	327,422,623

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 their annual salary. From 2014 the requirement has been increased so that the value to be built up is 175% and 125% of salary respectively for the Chief Executive and other executive directors. Only shares that have actually vested count towards the threshold. The following table shows the executive directors' shareholdings and share interests at 31 December 2013.

Name	Y/E 31 December 2013	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	45,679	2,616	51,569	–	309,414	409,278
	Value at year end ⁽¹⁾	£365,663	£20,941	£412,810	–	£2,476,859	£3,276,270
Tony Quinlan	Number	18,112	803	62,619	1,821	375,719	459,074
	Value at year end ⁽¹⁾	£144,987	£6,428	£501,265	£14,577	£3,007,631	£3,674,887
Paul Taylor	Number	13,793	2,694	38,512	–	231,082	286,081
	Value at year end ⁽¹⁾	£110,413	£21,565	£308,289	–	£1,848,811	£2,290,078
Dorothy Thompson	Number	97,093	2,616	99,761	1,821	598,571	799,862
	Value at year end ⁽¹⁾	£777,229	£20,941	£798,587	£14,577	£4,791,561	£6,402,895

Notes:

(1) Share price at 31 December 2013 was 800.50 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 2013.

Name	Number of shares	Value (£)
Charles Berry	1,730	13,849
Tim Cobbold	1,000	8,005
Melanie Gee	7,900	63,240
David Lindsell	7,500	60,038
Tony Thorne	7,500	60,038

Remuneration Committee report

Provision of shares for share plans – dilution

In accordance with the guidelines of the Association of British Insurers, the Company can satisfy awards under all its share plans with new issue shares or shares issued from treasury up to a maximum of 10% of its issued share capital in a rolling 10-year period to employees under all its share plans. Within the 10% limit, the Company can only issue (as newly issued shares or from treasury) 5% of its issued share capital to satisfy awards under the discretionary or executive plans.

The current estimated dilution from subsisting awards, including executive and all employee share awards, is less than 0.5% of the shares in issue at the date of this report.

Service agreements

The following table shows for each person who was a director of the Company at 18 February 2014 or who served as a director of the Company at any time during the year ended 31 December 2013, the commencement date and term of the service agreement or contract for services, and details of the notice periods.

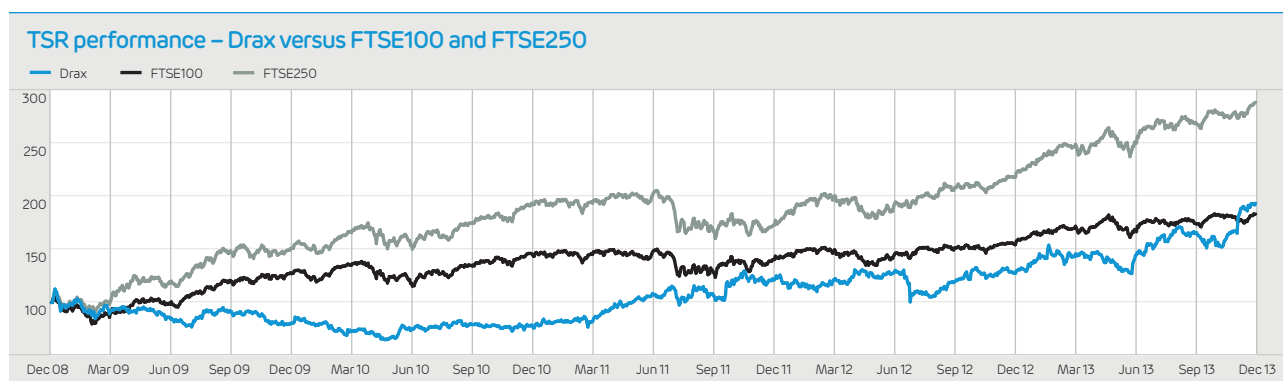
Director	Contract start date	Contract term (years)	Unexpired term at the date of publication (months)	Notice period by the Company (months)	Notice period by the director (months)
Tim Barker	14 February 2012	3 years	Retired on 24 April 2013	1	1
Charles Berry ⁽¹⁾	17 April 2011	3 years	2 months	6	6
Tim Cobbold	27 September 2013	3 years	2 years and 7 months	1	1
Melanie Gee	1 January 2013		1 year and 10 months	1	1
Peter Emery	3 September 2013	Indefinite term	Not applicable	12	12
David Lindsell	14 February 2012	3 years	1 year	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	2 years and 4 months	1	1

Notes:

(1) A new Letter of Appointment was executed in February 2014 which has an effective start date of 17 April 2014 with a contract term of three years.

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 2013.



Chief Executive's pay in last five financial years

Year	2009	2010	2011	2012	2013
Dorothy Thompson's total single figure (£000)	903	1,155	1,196	1,406	3,360
Bonus % of maximum awarded %	77.38%	100%	100%	100%	100%
BMP Matching Award % of maximum vesting	–	–	–	–	98.58%

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 2012 and 2013 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 newly established business with only 33 employees at the end of 2013.

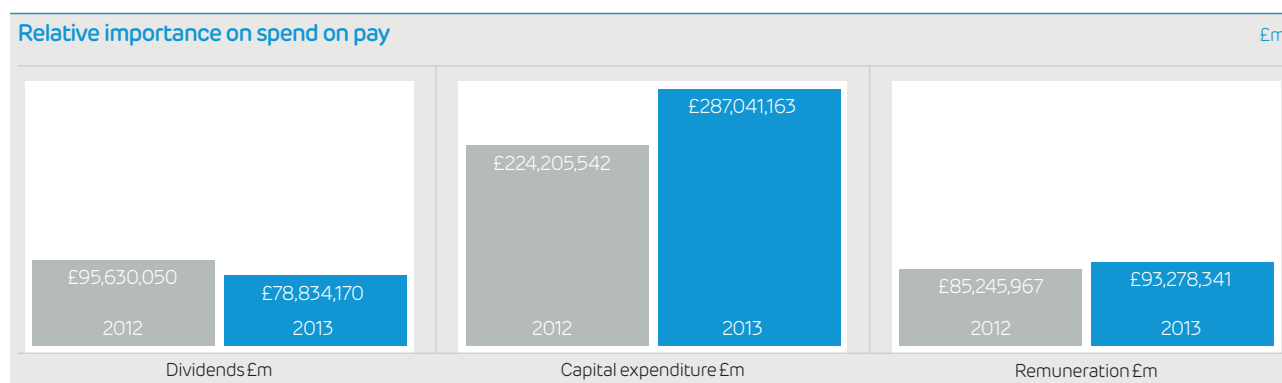
	Salary			Taxable benefits ⁽¹⁾			Bonus ⁽²⁾		
	£000		Percentage increase	£000		Percentage increase	£000		Percentage increase
	2013	2012		2013	2012		2013	2012	
Dorothy Thompson	541.7	523.4	3.5%	63.3	47.4	33.5%	710.2	686.2	3.50%
Average for UK employees ⁽³⁾	42.3	40.4	4.7%	5.8	6.2	–6.4%	8.8	7.6	15.79%

Notes:

- (1) CEO taxable benefits include car allowance, second base allowance and private health care. Other UK employee taxable benefits include private health care, overtime payments, work pattern (e.g. shift) allowances and other taxable allowances (e.g. abnormal conditions payments, fire and first aid payments).
- (2) Bonus includes 25% of total bonus which was deferred for three years and paid in shares subject to continued service. It excludes the value of deferred shares awarded in respect of the 2010 bonus which vested in 2013 and the comparative of 2009 awards which vested in 2012.
- (3) The number of UK employees on which the average is calculated is 914. The data includes all UK employees below executive director who were continuously employed between 1 Jan 2012 and 31 December 2013. It excludes executive directors and anyone employed for part-year periods.

Relative importance on 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.



Remuneration Committee report

Statement of implementation of the Remuneration Policy in the following financial year

The Remuneration Policy will be implemented following the AGM in 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.

Balanced Corporate Scorecard

The Scorecard measures, targets and weightings will be as set out below:

Specific targets that are considered commercially sensitive have not been disclosed. These will be disclosed in the 2014 Annual Remuneration Report so far as possible whilst maintaining commercial confidentiality.

KPI	Low	Target	Stretch
Financial			
Group underlying EPS	Confidential	Confidential	Confidential
Interest cover ratio and controllable costs	Confidential	Confidential	Confidential
Total Finance	30.0%		
Biomass Supply			
Generation constrained due to biomass supply and logistics (excluding planned constraints)	Confidential	Confidential	Confidential
Total Biomass Supply	5.0%		
Production			
Safety – TRIR	0.60	0.35	0.20
Safety – RIDDOR occurrences	12	8	2
Coal FOR (%)	Confidential	Confidential	Confidential
Converted units FOR (%)	Confidential	Confidential	Confidential
Total Production	10.0%		
Retail			
Cumulative 2015 volume (NBP)	5.0%	Confidential	Confidential
Total retail	5.0%		
<i>Corporate</i>			
Development of capital structure and dividend policy	Confidential	Confidential	Confidential
<i>Biomass supply – Drax US</i>	Behind schedule and budget	On schedule and budget	Ahead of schedule and under budget
Gulf Cluster Completion	Confidential	Confidential	Confidential
New developments	Confidential	Confidential	Confidential
Biomass supplies secured and deliverable 2015	Confidential	Confidential	Confidential
Sustainability: UK mandatory compliance readiness	Audit findings acceptable	Audit findings good	Audit findings excellent
<i>Production – Unit Conversion</i>			
Units performance	Confidential	Confidential	Confidential
<i>Retail</i>			
Forecast value added 2015 onwards	Confidential	Confidential	Confidential
Total Strategic	50.0%		
Total weighting	100.0%		

Performance measures for Bonus Matching Plan

The performance measures to be used in 2014 BMP Awards are as described on page 83 in the Remuneration policy report.

Non-executive directors' fees

No change will be made to non-executive directors' fees.

Committee activity and key decisions in 2013

Matters considered and decisions reached by the Committee in 2013 are shown in the table below:

January	The meeting had been convened as an additional meeting of the Committee to enable a discussion as to whether the existing remuneration arrangements were meeting the policy requirements in the light of changes to the business. The Committee considered all aspects of the executive directors' remuneration in detail and as a whole, and concluded that a review was necessary. The meeting also considered the 2012 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 2012 remuneration. It also adopted the 2013 Balance Corporate Scorecard for the purpose of determining relevant aspects of 2013 remuneration.
February	Approved executive director and senior staff personal scores and annual bonus awards. Considered and approved the 2012 Annual Remuneration report. Considered an executive director remuneration benchmarking review by PwC. Approved awards under the Bonus Matching Plan and all employee SAYE Share Plan.
March	Considered possible adjustments to executive director remuneration with the assistance of a review and advice from PwC. An initial proposal was presented to the meeting and it was agreed that it required further development. Reviewed senior staff salaries. Agreed to offer a cash alternative at no additional cost to the Company in lieu of pension contributions for employees affected by changes in the pension lifetime allowance. Reviewed advisers' fees and independence. Reviewed and decided to make no change to the Chairman's remuneration.
June	Agreed 3.5% increases in base salary for the executive directors. Considered and agreed in principle revised proposals for adjustments to executive director remuneration. Considered the draft remuneration policy. Agreed the basis and principles upon which shareholder consultation material should be prepared in respect of proposed remuneration adjustments and the remuneration policy.
July	Considered and agreed upon: (i) proposed adjustments to executive directors' remuneration; and (ii) the draft remuneration policy And agreed that the Chairman of the Committee should lead a consultation with shareholders on both matters.
September	Agreed remuneration packages for Andrew Koss and Matthew Rivers on appointment to the Executive Committee.
November	Received a report upon the consultation with shareholders and agreed upon the changes to the structure of executive directors' remuneration and the remuneration policy. Agreed to changes to the rules of share plans to comply with legislation. Agreed to the specific inclusion of clawback and malus provisions in executive incentive schemes.

In 2013, the Remuneration Committee comprised Tim Barker, Chairman of the Committee (until his retirement on 24 April 2013); Tony Thorne, who was appointed as Chairman of the Committee on 24 April 2013; Charles Berry, Chairman of the Company; Tim Cobbold; David Lindsell; and Melanie Gee, all of whom are independent non-executive directors. The 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.

Remuneration Committee report

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 £105,000 during 2013 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 Company Secretary and by Richard Neville, the Head of Human Resources.

Other matters

Wider employee population

The average pensionable pay of an executive director is 8.48 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 received £55,000 in fees for that appointment during 2013.

Tony Quinlan is a non-executive member of the Port of London Authority board and received £27,750 in fees for that appointment during 2013.

Peter Emery is a non-executive director of NG Bailey Limited and received £38,750 in fees for that appointment during 2013.

This report was reviewed and approved by the Board on 18 February 2014.



Tony Thorne
Chairman of the Remuneration Committee

Independent auditor's report

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 2013 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 35 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 contained within Operational and financial performance that the group is a going concern. 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 material uncertainties related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern which we believe would need to be disclosed in accordance with IFRSs as adopted by the European Union.

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:

Audit risks and key judgements	How the scope of our work responded to that risk
The useful economic life and carrying value of fixed assets	We focused on testing the validity and valuation of a sample of additions by agreeing back to third party evidence. We reviewed management assumptions over the carrying value and useful economic life of the key plant by consideration of external market data and other benchmarking. We also considered whether any additions or redundant assets would result in impairment.
The valuation of commodity contracts	Our work focused on testing management's judgements and calculations including testing a sample of trades undertaken and the assumptions involved in determining valuation and hedge effectiveness.
The valuation of Renewable Obligation Certificates (ROCs).	We verified the number of ROCs generated in the period either to third party evidence or tested internal calculations where applicable. We reviewed and compared management's valuation of ROCs to external market data.
Valuation of coal and biomass stocks	We tested the underlying weighted average cost calculation to source data and benchmarked this against industry pricing. We also attended and considered the results of external surveys completed on the coal stockpile held at the Drax site and obtained, on a sample basis, external confirmation for stock held by third parties.

The Audit Committee's consideration of these risks is set out on page 74. 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.

Independent auditor's report

Our application of materiality

We determined planning materiality for the group to be £10 million, which is approximately 7% of normalised pre-tax profit and below 1% of equity. We use normalised pre-tax profit to exclude the effect of volatility from unrealised gains or losses on derivative contracts, as determined/described in note 9. We determined that normalised pre-tax profit is an appropriate base for determining materiality as shareholders place significant value on the income statement. We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.2 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit scope focused primarily on the audit work at three locations. All of these were subject to a full audit. These three locations represent the principal business units within the group's two reportable segments 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. The group audit team continued to follow a programme of planned visits that has been designed so that a senior member of the audit team visits each of the two most significant locations where the group audit scope was focused every year.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration Committee 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 Remuneration Committee Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters or our review.

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 nine 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 the 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 (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, strategically focused second partner reviews 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.

Carl D Hughes MA FCA (Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

18 February 2014

Consolidated income statement

	Notes	Years ended 31 December	
		2013 £m	2012 £m
Revenue	4	2,062.1	1,779.8
Fuel costs in respect of generation		(945.8)	(929.2)
Cost of power purchases		(352.5)	(141.7)
Grid charges		(238.8)	(167.8)
Other retail costs		(79.9)	(30.2)
Total cost of sales		(1,617.0)	(1,268.9)
Gross profit		445.1	510.9
Operating and administrative expenses	5	(215.1)	(212.5)
EBITDA⁽¹⁾	4	230.0	298.4
Depreciation and amortisation	11	(64.8)	(58.5)
Unrealised losses on derivative contracts	19	(110.2)	(36.1)
Operating profit		55.0	203.8
Interest payable and similar charges	6	(24.8)	(15.3)
Interest receivable	6	1.6	1.7
Profit before tax		31.8	190.2
Tax:			
– Before effect of changes in rate of corporation tax	7	(2.7)	(41.5)
– Effect of changes in rate of corporation tax	7	22.3	15.1
Total tax credit/(charge)		19.6	(26.4)
Profit for the year attributable to equity holders		51.4	163.8
Underlying profit for the year⁽²⁾	9	142.3	192.8
Earnings per share			
		pence	pence
– Basic and diluted	9	13	44

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. Non-statutory measures are described fully in note 2.

(2) Underlying earnings and underlying earnings per share are set out in note 9.

Consolidated statement of comprehensive income

	Notes	Years ended 31 December	
		2013 £m	2012 £m
Profit for the year		51.4	163.8
Actuarial losses on defined benefit pension scheme	32	(2.8)	(9.0)
Deferred tax on actuarial losses on defined benefit pension scheme	7	0.6	2.1
Exchange differences on translation of foreign operations		2.0	–
Fair value losses on cash flow hedges	27	(58.7)	(105.7)
Deferred tax on cash flow hedges before corporation tax rate change	7	8.6	26.0
Impact of corporation tax rate change on deferred tax on cash flow hedges	7	2.6	–
Other comprehensive expense		(47.7)	(86.6)
Total comprehensive income for the year attributable to equity holders		3.7	77.2

Consolidated balance sheet

		As at 31 December	
	Notes	2013 £m	2012 £m
Assets			
Non-current assets			
Goodwill and other intangible assets	10	37.2	49.7
Property, plant and equipment	11	1,581.4	1,360.6
Derivative financial instruments	19	8.7	7.7
		1,627.3	1,418.0
Current assets			
Inventories	12	196.5	157.6
ROC and LEC assets	13	139.5	18.7
Trade and other receivables	14	246.2	224.8
Derivative financial instruments	19	29.6	37.6
Short-term investments	15	20.0	30.0
Cash and cash equivalents	16	267.3	371.7
		899.1	840.4
Liabilities			
Current liabilities			
Trade and other payables	17	365.5	275.9
Current tax liabilities		9.7	14.6
Borrowings	18	0.2	0.3
Derivative financial instruments	19	105.2	100.4
		480.6	391.2
Net current assets		418.5	449.2
Non-current liabilities			
Borrowings	18	215.9	90.4
Derivative financial instruments	19	212.1	55.2
Provisions	22	32.4	31.5
Deferred tax liabilities	23	133.8	170.7
Retirement benefit obligations	32	41.7	42.1
		635.9	389.9
Net assets		1,409.9	1,477.3
Shareholders' equity			
Issued equity	24	46.5	46.4
Capital redemption reserve	26	1.5	1.5
Share premium	26	422.5	420.7
Merger reserve	26	710.8	710.8
Hedge reserve	27	(63.9)	(16.4)
Retained profits	28	292.5	314.3
Total shareholders' equity		1,409.9	1,477.3

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 18 February 2014.

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 2012	42.1	1.5	420.7	710.8	63.3	65.0	1,303.4
Profit for the year	–	–	–	–	–	163.8	163.8
Other comprehensive expense	–	–	–	–	(79.7)	(6.9)	(86.6)
Total comprehensive (expense)/income for the year	–	–	–	–	(79.7)	156.9	77.2
Equity dividends paid (note 8)	–	–	–	–	–	(95.7)	(95.7)
Issue of share capital (note 24)	4.3	–	–	–	–	183.4	187.7
Movement in equity associated with share-based payments (note 25)	–	–	–	–	–	4.7	4.7
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 24)	0.1	–	1.8	–	–	–	1.9
Movement in equity associated with share-based payments (note 25)	–	–	–	–	–	5.8	5.8
At 31 December 2013	46.5	1.5	422.5	710.8	(63.9)	292.5	1,409.9

Consolidated cash flow statement

	Notes	Years ended 31 December	
		2013 £m	2012 £m
Cash generated from operations	29	170.5	263.2
Income taxes paid		(10.6)	(50.6)
Other gains/(losses)		2.2	(0.8)
Interest paid		(21.3)	(10.6)
Interest received		1.5	1.9
Net cash from operating activities		142.3	203.1
Cash flows from investing activities			
Purchases of property, plant and equipment		(301.7)	(206.0)
Short-term investments		10.0	–
Net cash used in investing activities		(291.7)	(206.0)
Cash flows from financing activities			
Equity dividends paid	8	(78.8)	(95.7)
Proceeds from issue of share capital	24	1.9	187.7
Repayment of borrowings		(0.7)	(10.5)
New borrowings	18	125.0	100.0
Other financing costs paid		(2.4)	(9.7)
Net cash generated from financing activities		45.0	171.8
Net (decrease)/increase in cash and cash equivalents		(104.4)	168.9
Cash and cash equivalents at 1 January		371.7	202.8
Cash and cash equivalents at 31 December	16	267.3	371.7

Notes to the consolidated financial statements

1 General information

Simplifying the numbers... Throughout this document these boxes will explain in plain English what the disclosures mean, and why they are important to understanding our financial position and performance. 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 102 to 106.

Delivering our biomass strategy... Where relevant to do so, we have set out key elements of our business model and strategy (see pages 17 to 19) 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") 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 in the US and at Drax Power Station, the generation and sale of electricity at Drax Power Station, and the sale of electricity to business customers 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. We have also made some changes in the way we present our income statement this year, which are described in detail below. We have not changed any of our accounting policies this year, nor have any new accounting standards had a material effect on our financial statements.

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 43, 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, made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The impact of all intra-group transactions is 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.

Revenue from the sale of electricity direct 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.

Notes to the consolidated financial statements

2. Basis of preparation (continued)

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the exchange rate ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

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.

Presentation of financial statements

During 2013 the Group conducted a review of its financial statements and concluded that an alternative presentation of the income statement would result in more relevant information for users in accordance with IAS 1.

As a result of this review, the Group now presents EBITDA as a separate line item on the face of the income statement. EBITDA is defined as profit before interest, tax, depreciation, amortisation and unrealised gains or losses on derivative contracts. As a result of this change, it has also been necessary to split depreciation and amortisation out from operating and administrative expenses.

EBITDA is the primary financial performance measure reviewed by the Board, as described in note 4. Presentation on the face of the income statement joins up the financial statements with the commentary in Operational and financial performance, and also the segmental disclosure provided in note 4. The revised presentation will be maintained in future periods.

In addition, underlying profit after tax for the year has been presented on the face of the income statement for the first time. Underlying profit after tax excludes the post-tax impact of unrealised gains and losses on derivative contracts, and is used under our current distribution policy to calculate proposed dividends for the period. A reconciliation from profit for the year attributable to equity holders to underlying profit after tax is provided in note 9.

The reconciliation of operating and administrative expenses disclosed in the prior year to the current presentation is as follows:

	2012	2012 – Revised
Operating and administrative expenses	(£271.0m)	(£212.5m)
Depreciation and amortisation	–	(£58.5m)
Total	(£271.0m)	(£271.0m)

Applying the previous presentation to the current year results would result in operating and administrative costs for 2013 of £279.9 million.

Adoption of new and revised accounting standards

In 2013, a number of new, amended or revised standards and interpretations became effective. The Group adopted the following standards from 1 January 2013:

IFRS 1 (amended) – *Government loans*.

IFRS 7 (amended) – *Disclosures: Offsetting financial assets and financial liabilities*.

IFRS 10 – *Consolidated financial statements*.

IFRS 11 – *Joint arrangements*.

IFRS 12 – *Disclosure of interests in other entities*.

IFRS 13 – *Fair value measurement*.

IAS 1 (amended) – *Presentation of financial statements – other comprehensive income*.

IAS 19 (revised) – *Employee benefits*.

IAS 27 (revised) – *Separate financial statements*.

IAS 28 (revised) – *Investments in associates and joint ventures*.

Annual improvements to IFRS 2009-2011 cycle.

The adoption of these standards and interpretations has not had a material impact on the financial statements of the Group.

The additional disclosures required by IAS 19 (revised) have been included in note 32 to these financial statements.

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* – the latest amendment issued by the International Accounting Standards Board ("IASB") removed the mandatory effective date for IFRS 9, to be set once the draft standard is fully completed in 2014.

IAS 32 (amended) – *Offsetting financial assets and liabilities* – effective for accounting periods beginning on or after 1 January 2014.

IAS 36 (amended) – *Recoverable amount disclosures for non-financial assets* – effective for accounting periods beginning on or after 1 January 2014.

IAS 39 (amended) – *Novation of derivatives and continuation of hedge accounting* – effective for accounting periods beginning on or after 1 January 2014.

IFRIC 21 – *Levies* – effective for accounting periods beginning on or after 1 January 2014.

Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27) – effective for accounting periods beginning on or after 1 January 2014.

The Group is in the process of assessing the full impact of adopting IFRS 9. Following the removal of the mandatory effective date for this standard by the IASB the Group will continue to monitor developments, but 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

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.

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

CESP – The Group has a contingent liability in respect of the Community Energy Saving Programme ("CESP"). The assessment of whether to make a provision for such a liability requires judgement. See note 34 for further details.

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.

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 starting on page 28). 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, 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... The information below clearly demonstrates the good sales volume growth achieved by Haven Power, our retail business, in the 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 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

Notes to the consolidated financial statements

4. Segmental reporting (continued)

The following is an analysis of the Group's results by reporting segment for the year ended 31 December 2012:

	Year ended 31 December 2012			
	Generation £m	Retail £m	Eliminations £m	Consolidated £m
Revenue				
External sales	1,328.4	451.4	–	1,779.8
Inter-segment sales	301.6	–	(301.6)	–
Total revenue	1,630.0	451.4	(301.6)	1,779.8
Result				
Segment EBITDA	303.0	(4.6)	–	298.4
Central costs				
Depreciation and amortisation				(58.5)
Unrealised losses on derivative contracts				(36.1)
Operating profit				203.8
Net finance costs				(13.6)
Profit before tax				190.2

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 2013 was £228 million (2012: £180 million), of which £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 43.

Major customers

Total revenue for the year ended 31 December 2013 includes an amount of £222.3 million (2012: £355.7 million and £221.8 million) derived from a single customer (2012: two customers), 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 102, 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.

	Years ended 31 December	
	2013 £m	2012 £m
The following charges have been included in arriving at operating profit:		
Staff costs (note 31)	93.3	84.3
Repairs and maintenance expenditure on property, plant and equipment	59.0	53.4
Other operating and administrative expenses	62.8	74.8
Total other operating and administrative expenses	215.1	212.5

Auditor's remuneration

	Years ended 31 December	
	2013 £000	2012 £000
Audit fees:		
Fees payable for the audit of the Group's consolidated financial statements	293	273
Fees payable for the audit of the Company's subsidiaries pursuant to legislation	53	52
	346	325
Other fees:		
Pursuant to legislation – interim review	62	61
Other services	8	37
Total audit related fees	416	423
Taxation services	5	44
Total non-audit fees	5	44
Total auditor's remuneration	421	467

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 and the unwinding of discounting on our provision for reinstatement and defined benefit pension. 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	
	2013 £m	2012 £m
Interest payable and similar charges:		
Interest payable on bank borrowings	(13.5)	(6.1)
Foreign exchange losses	(4.0)	(0.6)
Unwinding of discount on provisions (note 22)	(0.9)	(1.0)
Amortisation of deferred finance costs	(2.9)	(3.2)
Net finance cost in respect of defined benefit scheme (note 32)	(1.7)	(1.1)
Other financing charges	(1.8)	(3.3)
Total interest payable and similar charges	(24.8)	(15.3)
Interest receivable:		
Interest income on bank deposits	1.6	1.7
Total interest receivable	1.6	1.7

Following the refinancing of our previous revolving credit facilities in December 2012 (see note 18), the amortisation of associated deferred finance costs was accelerated, resulting in an additional interest charge of £1.6 million in the 2012 figure above.

Notes to the consolidated financial statements

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 (credit)/charge reflects the estimated effective tax rate on profit before tax for the Group for the year ended 31 December 2013 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.

Changes in the rate of corporation tax

Following the announcement of the 2013 Budget, the Finance Act 2013 (the "Act") was enacted by Parliament in July 2013. The Act confirmed reductions in the rate of corporation tax from 23% to 21% from 1 April 2014, and a further reduction in corporation tax to 20% from 1 April 2015, both of which were substantively enacted during the year, and therefore have been reflected in the deferred tax balances below.

	Years ended 31 December	
	2013 £m	2012 £m
Tax (credit)/charge comprises:		
Current tax	5.5	31.4
Deferred tax		
– Before impact of corporation tax rate change	(2.8)	10.1
– Impact of corporation tax rate change	(22.3)	(15.1)
Tax (credit)/charge	(19.6)	26.4

	Years ended 31 December	
	2013 £m	2012 £m
Tax on items credited to other comprehensive income:		
Deferred tax on actuarial losses on defined benefit pension scheme (note 23)	(0.6)	(2.1)
Deferred tax on cash flow hedges (note 23)	(8.6)	(26.0)
Impact of corporation tax rate change on deferred tax on cash flow hedges (note 23)	(2.6)	–
	(11.8)	(28.1)

UK corporation tax is calculated at 23.25% (2012: 24.5%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The (credit)/charge for the year can be reconciled to the profit per the income statement as follows:

	Years ended 31 December	
	2013 £m	2012 £m
Profit before tax	31.8	190.2
Profit before tax multiplied by the rate of corporation tax in the UK of 23.25% (2012: 24.5%)	7.4	46.6
Effects of:		
Adjustments in respect of prior periods	(7.3)	(7.6)
Expenses not deductible for tax purposes	1.2	1.3
Other	1.4	1.2
Impact of change to corporation tax rate	(22.3)	(15.1)
Total tax (credit)/charge	(19.6)	26.4

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	
	2013 £m	2012 £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 2013 of 8.7 pence per share paid on 11 October 2013 (2012: 14.4 pence per share paid on 12 October 2012)	35.0	52.6
Final dividend for the year ended 31 December 2012 of 10.9 pence per share paid on 17 May 2013 (2012: 11.8 pence per share paid on 11 May 2012)	43.8	43.1
	78.8	95.7

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 2013 of 8.9 pence per share (equivalent to approximately £36 million) payable on or before 17 May 2014. The final dividend has not been included as a liability as at 31 December 2013.

Notes to the consolidated financial statements

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 25), 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 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	
	2013 £m	2012 £m
Earnings:		
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	51.4	163.8
After tax impact of unrealised gains and losses on derivative contracts	90.9	29.0
Underlying earnings attributable to equity holders of the Company	142.3	192.8

	Years ended 31 December	
	2013	2012
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	402.3	371.7
Effect of dilutive potential ordinary shares under share plans	4.6	3.5
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	406.9	375.2
Earnings per share – basic (pence)	13	44
Earnings per share – diluted (pence)	13	44
Underlying earnings per share – basic (pence)	35	52
Underlying earnings per share – diluted (pence)	35	51

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 amounts paid in respect of carbon emission allowances for future years.

	Goodwill £m	Carbon £m	Total £m
Cost and carrying amount:			
At 1 January 2012	10.7	–	10.7
Additions at cost	–	39.0	39.0
At 1 January 2013	10.7	39.0	49.7
Utilisation	–	(39.0)	(39.0)
Additions at cost	–	26.5	26.5
At 31 December 2013	10.7	26.5	37.2

Goodwill

Goodwill arising on the Haven Power acquisition has been allocated to the Haven Power cash-generating unit. At 31 December 2013, the fair value of goodwill was significantly in excess of its book value reflecting its cash generative profile; accordingly a 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 CO₂ 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 the market price at the balance sheet date.

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 simply 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 this year include a further £228 million on our biomass transformation project, which remains on schedule and budget. Key developments in 2013 included the commissioning of the new receipt, storage and distribution systems at Drax Power Station required to support our first converted unit, and the commencement of construction of two wood pellet plants in Mississippi and Louisiana and a port facility at Baton Rouge in the US.

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:

Notes to the consolidated financial statements

11. Property, plant and equipment (continued)

	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.

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 2012	171.2	1,445.3	49.3	1,665.8
Additions at cost	8.6	201.8	13.2	223.6
Disposals	–	(0.7)	–	(0.7)
Issues/transfers	–	11.3	(11.3)	–
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 31 December 2013	183.0	1,936.3	54.9	2,174.2
Accumulated depreciation:				
At 1 January 2012	43.8	414.2	12.1	470.1
Charge for the year	4.3	53.1	1.1	58.5
Disposals	–	(0.5)	–	(0.5)
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 31 December 2013	52.0	526.6	14.2	592.8
Net book amount at 31 December 2012	131.7	1,190.9	38.0	1,360.6
Net book amount at 31 December 2013	131.0	1,409.7	40.7	1,581.4

Assets in the course of construction amounted to £448.7 million at 31 December 2013 (2012: £246.7 million).

Plant and equipment includes assets held under finance lease agreements with a carrying value at 31 December 2013 of £1.0 million (2012: £1.0 million).

Additions during the year include £1.9 million (2012: £nil) of capitalised borrowing costs directly attributable to the construction of specific assets.

12 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 £120 million to our fuel costs in 2013. The relative economics of coal and biomass generation going forward underpins our transformation strategy.

	As at 31 December	
	2013 £m	2012 £m
Coal	141.2	92.5
Biomass	40.9	48.1
Other fuels and consumables	14.4	17.0
	196.5	157.6

The cost of inventories recognised as an expense in the year ended 31 December 2013 was £945.8 million (2012: £823.8 million).

13 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 (reducing the cost of biomass in the income statement) 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 2012	30.8	1.3	32.1
Generated	26.8	5.2	32.0
Purchased	11.4	–	11.4
Utilised/sold	(50.6)	(6.2)	(56.8)
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 31 December 2013	129.4	10.1	139.5

Notes to the consolidated financial statements

14 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 prepayments, which are amounts paid by us for which we are yet to receive the goods or service in return (e.g. carbon emissions allowances we have paid for that will be utilised in future years).

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	
	2013 £m	2012 £m
Amounts falling due within one year:		
Trade receivables	118.2	153.8
Accrued income	102.3	61.2
Prepayments and other receivables	25.7	9.8
	246.2	224.8

Trade receivables principally represent sales of electricity to a number of counterparties. At 31 December 2013, the Group had amounts receivable from five (2012: five) significant counterparties within the generation business, representing 69% (2012: 78%) of trade receivables, all of which paid within 15 days of receipt of invoice in line with agreed terms. The ageing profile, beyond a month, of the Group's receivables continues to be immaterial. Counterparty risk is discussed in note 21.

Management does not consider there to be a significant concentration of credit risk and as a result, does not believe that a further credit risk provision is required in excess of the normal provision for doubtful debts of £5.6 million (2012: £4.7 million). This allowance has been determined by reference to past default experience, and includes £5.6 million in relation to Haven Power (2012: £4.6 million).

The movement in the allowance for doubtful debts is laid out in the following table:

	Years ended 31 December	
	2013 £m	2012 £m
At 1 January	4.7	3.0
Receivables written off	(1.3)	(0.5)
Provision for receivables impairment	2.2	2.2
At 31 December	5.6	4.7

15 Short-term investments

Short-term investments represent cash held on deposits with financial institutions that have a maturity of greater than three months at inception.

	As at 31 December	
	2013 £m	2012 £m
Short-term investments	20.0	30.0

16 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.

Maintaining an optimal capital structure... Additional borrowings drawn down this year (note 18) have been used to support cash generated from operations (note 29) in funding our capital expenditure programme (note 11) to deliver our biomass strategy.

	As at 31 December	
	2013 £m	2012 £m
Cash and cash equivalents	267.3	371.7

17 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	
	2013 £m	2012 £m
Amounts falling due within one year:		
Trade payables	17.1	20.3
Accruals	255.9	214.8
Other payables	92.5	40.8
	365.5	275.9

The Group recognises a liability in respect of its unsettled obligations to deliver emissions allowances under the EU ETS. Accruals at 31 December 2013 include £9.2 million (2012: £59.0 million) with respect to the Group's estimated net liability to deliver CO₂ emissions allowances. Allowances are purchased in the market and are recorded at cost.

18 Borrowings

Borrowings are chiefly comprised of bank loans with fixed maturity repayment profiles between 2016 and 2020.

Maintaining an optimal capital structure... In 2012 we executed a refinancing of our existing facilities, replacing them with a £400 million revolving credit facility which matures in April 2016, two new term loans of £100 million each with Prudential M&G and the UK Green Investment Bank, and a commodities trading line that allows trading counterparties to benefit from the security package offered to our senior lenders instead of us posting collateral for certain volumes of trades.

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, above.

The new loan facilities, which were fully drawn at the year end, enhance the financing structure executed in 2012 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 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, in effect, amortised through the income statement over the life of the instrument.

Notes to the consolidated financial statements

18. Borrowings (continued)

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.

	As at 31 December	
	2013 £m	2012 £m
Current:		
Finance lease liabilities	0.2	0.3
	0.2	0.3

	As at 31 December	
	2013 £m	2012 £m
Non-current:		
Term loans	215.8	90.3
Finance lease liabilities	0.1	0.1
	215.9	90.4

Analysis of borrowings

Borrowings at 31 December 2013 and 31 December 2012 consisted principally of amounts drawn down against bank loans.

	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

	As at 31 December 2012		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Term loans	100.0	(9.7)	90.3
Finance lease liabilities	0.4	–	0.4
Total borrowings	100.4	(9.7)	90.7
Less current portion	(0.3)	–	(0.3)
Non-current borrowings	100.1	(9.7)	90.4

19 Derivative financial instruments

We enter into forward contracts for the sale of electricity, as well as the purchase of coal, sustainable biomass and CO₂ emissions allowances. We use financial coal contracts to swap floating for fixed prices (or vice versa) on fixed volumes of coal, and enter into forward foreign currency exchange contracts to manage our exposure to transactions denominated in currencies other than sterling.

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 21).

The accounting rules for derivative contracts are complex – we must account for them at fair value, which is in essence the difference between the price we have secured in the contract, and that we could achieve in the market now, at the balance sheet date. The tables and narrative below provide additional detail around these values, how they are calculated and the changes in underlying market conditions that drive their movements.

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, CO₂ 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 27) 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.

Fair value accounting

Forward contracts for the sale of power, purchase of coal from international sources, purchase of CO₂ 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 2013		As at 31 December 2012	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Commodity contracts:				
Less than one year	27.8	(52.3)	33.0	(70.6)
More than one year but not more than two years	3.6	(5.8)	2.4	(14.2)
More than two years	0.1	–	–	–
Forward foreign currency exchange contracts:				
Less than one year	1.8	(52.9)	4.6	(29.8)
More than one year but not more than two years	1.5	(73.0)	0.6	(10.8)
More than two years	3.5	(133.3)	4.7	(30.2)
Total	38.3	(317.3)	45.3	(155.6)
Less: non-current portion				
Commodity contracts	(3.7)	5.8	(2.4)	14.2
Forward foreign currency exchange contracts	(5.0)	206.3	(5.3)	41.0
Total non-current portion	(8.7)	212.1	(7.7)	55.2
Current portion	29.6	(105.2)	37.6	(100.4)

The total movement in the fair value of these contracts of £168.9 million (2012: £141.8 million) is recognised in the income statement or the hedge reserve, dependent upon whether the hedge accounting requirements of IAS 39 are met, as follows:

Notes to the consolidated financial statements

19. Derivative financial instruments (continued)

	Years ended 31 December	
	2013 £m	2012 £m
Unrealised losses on derivative contracts recognised in arriving at operating profit	(110.2)	(36.1)
Unrealised losses on derivative contracts recognised in the hedge reserve (note 27)	(58.7)	(105.7)
Total unrealised losses on derivative contracts	(168.9)	(141.8)

Unrealised losses recognised in the income statement are primarily the result of changes in the fair value of our forward foreign exchange contracts in both the current and prior year. Currency markets were volatile in 2013, which can be seen on the graph on page 39, with the US dollar (in which many of our fuel purchases are denominated) closing 2013 weaker than in 2012. This, combined with the significant increase in the volume of currency contracts as we look to secure our sterling cash flows, drives the income statement movement.

Unrealised losses recognised in the hedge reserve reflect principally the fair value changes on our forward foreign exchange contracts that are designated in effective hedging relationships in accordance with IAS 39. These are predominantly forward contracts for the purchase of US and Canadian dollars for highly probable future fuel purchases.

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, is calculated by reference to forward market prices at the balance sheet date. As contracts are generally short-term, forward market price curves are available for the duration of the contracts. The quoted market price used for financial assets held by the Group is the current bid price; the quoted price for financial liabilities is the current ask price.

→ **Forward foreign currency exchange contracts fair value** – The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the balance sheet date.

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.

20 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 16), short-term investments (note 15), trade and other receivables (note 14), and trade and other payables (note 17) generally have short times to maturity. For this reason, their carrying values approximate to their fair value. The Group's borrowings (note 18) 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.

21 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 CO₂ 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 with corresponding purchases of fuel and CO₂ 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 CO₂ emissions allowances under fixed price contracts with different maturity dates from a range of domestic and international sources. All commitments to purchase CO₂ 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 CO₂ 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 2013 would increase/decrease by £6.3 million (2012: increase/decrease by £5.4 million). This is mainly attributable to the Group's exposure to financial coal derivatives; and
- other equity reserves would decrease/increase by £27.0 million (2012: decrease/increase by £32.0 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 2013 would decrease/increase by £1.0 million (2012: decrease/increase by £0.2 million) as a result of the changes in interest payable during the period.

Notes to the consolidated financial statements

21. Financial risk disclosures (continued)

Foreign currency risk

Foreign currency exchange contracts are entered into to hedge fixed price international coal purchases in US dollars, biomass purchases in US dollars, Canadian dollars and euros, and CO₂ emissions allowances purchases in euros. As we progress our biomass transformation plans, we are entering 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 2013 would decrease/increase by £198.9 million (2012: decrease/increase by £86.5 million). This is mainly attributable to the Group's exposure to foreign currency exchange contracts entered into in relation to fuel purchase contracts; and
- other equity reserves would decrease/increase by £49.6 million (2012: decrease/increase by £1.1 million) as a result of the changes in the fair value of hedged 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 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

	As at 31 December 2012			
	Within 3 months £m	3 months – 1 year £m	>1 year £m	Total £m
Term loans, gross value	1.3	4.1	132.9	138.3
Finance lease liabilities, carrying value	0.1	0.2	0.1	0.4
Borrowings, contractual maturity	1.4	4.3	133.0	138.7
Trade and other payables	240.1	35.3	0.5	275.9
	241.5	39.6	133.5	414.6

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 4.65% (2012: 5.02%).

The following tables set out details of the expected contractual maturity of derivative financial instruments which are marked-to-market based on the undiscounted net cash inflows/(outflows). Where the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to projected commodity prices, or foreign currency exchange rates, as illustrated by the yield or other forward curves existing at the reporting date.

	As at 31 December 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

	As at 31 December 2012			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts, net	571.3	171.2	–	742.5
Forward foreign currency exchange contracts, net	944.6	485.6	1,004.6	2,434.8
	1,515.9	656.8	1,004.6	3,177.3

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	
	2013 £m	2012 £m
Financial assets:		
Cash and cash equivalents	267.3	371.7
Short-term investments	20.0	30.0
Trade and other receivables	251.8	229.5
Derivative financial instruments	38.3	45.3
	577.4	676.5

Trade and other receivables are stated gross of the provision for doubtful debts of £5.6 million (2012: £4.7 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.

Notes to the consolidated financial statements

21. 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 comprises borrowings disclosed in note 18, cash and cash equivalents in note 16 and short-term investments in note 15. Equity attributable to the shareholders of the Company comprises issued capital, capital reserves, and retained profits, excluding the hedge reserve (see Consolidated statement of changes in equity). Maintaining an optimal supporting capital structure is one of the Group's key priorities, and as such, our performance is detailed within Operational and financial performance. The capital structure of the Group is as follows:

	As at 31 December	
	2013 £m	2012 £m
Borrowings	(216.1)	(90.7)
Cash and cash equivalents	267.3	371.7
Short-term investments	20.0	30.0
Net cash	71.2	311.0
Total shareholders' equity, excluding hedge reserve	1,473.8	1,493.7

22 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 2012	30.5
Unwinding of discount	1.0
At 1 January 2013	31.5
Unwinding of discount	0.9
At 31 December 2013	32.4

The initial provision and subsequent estimation increases 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.

23 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 2012	8.2	235.1	(31.6)	3.1	(11.0)	203.8
(Credited)/charged to the income statement	(7.5)	(18.0)	7.6	11.4	1.5	(5.0)
Credited to equity in respect of actuarial losses	–	–	–	–	(2.1)	(2.1)
Credited to equity in respect of cash flow hedges	(26.0)	–	–	–	–	(26.0)
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 31 December 2013	(55.8)	194.3	(14.7)	22.9	(12.9)	133.8

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 £6.1 million at 31 December 2013 (2012: £4.0 million) in respect of UK and US losses that are carried forward against future taxable income.

24 Issued equity

Our ordinary share capital reflects the total number of shares issued, which are publicly traded on the London Stock Exchange.

Maintaining an optimal capital structure... In October 2012 we placed 36.5 million shares (9.9% of our issued capital at that time) raising net proceeds, after transaction costs, of £187.7 million to help fund the capital investment required for our biomass transformation. During 2013 this cash has driven investment in our US-based supply chain infrastructure, as described in Operational and financial performance.

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 (note 26) records the difference between the nominal value of shares issued and the fair value of the consideration received, unless merger relief criteria within Companies Act (2006) are met, in which case the difference is recorded in retained earnings.

	As at 31 December	
	2013 £m	2012 £m
Authorised:		
865,238,823 ordinary shares of 11 ¹⁶ / ₂₉ pence each	100.0	100.0
Issued and fully paid:		
2012 – 401,587,564 ordinary shares of 11 ¹⁶ / ₂₉ pence each	–	46.4
2013 – 402,566,332 ordinary shares of 11 ¹⁶ / ₂₉ pence each	46.5	–
	46.5	46.4

Notes to the consolidated financial statements

24. 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	
	2013 (number)	2012 (number)
At 1 January	401,587,564	364,862,718
Issued under employee share schemes	978,768	250,219
Issue of share capital	–	36,474,627
At 31 December	402,566,332	401,587,564

The Company has only one class of shares, which are ordinary shares of 11¹⁶/₂₉ pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends.

Issued under employee share schemes

On 8 March 2013, a total of 367,438 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 2013 a further 593,026 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. Additionally, on 31 January, 28 March and 11 April a total of 2,669 shares, 2,805 shares and 1,748 shares, respectively, were issued on early exercise of options under the Group's Savings-Related Share Option Plan by three separate individuals whose employment with the Group had terminated due to retirement.

25 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	
	2013 £m	2012 £m
BMP	5.5	4.5
SAYE	0.3	0.2
	5.8	4.7

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 2013 (number)	Cost at 31 December 2013 £000	Nominal value at 31 December 2013 £000	Market value at 31 December 2013 £000
SIP	330,513	–	(67,678)	262,835	2,465	30	2,104

Bonus Matching Plan

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 2013, 2012 and 2011 BMP awards of £6.1 million, £5.8 million and £5.5 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 are as follows:

	2013	2012
	BMP (number)	BMP (number)
At 1 January	5,038,026	4,265,511
Granted	1,522,574	1,849,450
Forfeited	(86,912)	(98,049)
Exercised	(316,526)	(246,017)
Expired	(969,932)	(732,869)
At 31 December	5,187,230	5,038,026

Savings-Related Share Option Plan

In April 2013 participation in the SAYE Plan was offered to all qualifying employees. Options were granted for employees to acquire shares at a price of 493 pence (2012: 410 pence), representing a discount of 20% to the prevailing market price determined in accordance with the scheme rules. The options are exercisable at the end of three or five year savings contracts. The fair value of the options granted in connection with the SAYE Plan of £0.8 million (2012: £0.2 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:

	2013		2012	
	SAYE 3 Year (number)	SAYE 5 Year (number)	SAYE 3 Year (number)	SAYE 5 Year (number)
At 1 January	850,067	850,596	755,547	788,889
Granted	423,358	97,804	132,050	79,074
Forfeited	(18,604)	(22,260)	(33,328)	(17,367)
Exercised	(605,052)	–	(4,202)	–
Expired	(2,338)	–	–	–
At 31 December	647,431	926,140	850,067	850,596

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.

Notes to the consolidated financial statements

26 Share premium and other reserves

The share premium account reflects amounts received in respect of issued share capital (see note 24) 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	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
At 1 January and 31 December	1.5	1.5	422.5	420.7	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 2013 reflect amounts received from the issue of shares under the Group's employee share schemes.

27 Hedge reserve

The hedge reserve is a component of our equity reserves. Changes in the fair value of our derivative contracts for purchases and sales of commodities and foreign currencies are recognised here, 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 19, 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	
	2013 £m	2012 £m
At 1 January	(16.4)	63.3
(Losses)/gains recognised:		
– Commodity contracts	(6.2)	(24.1)
– Forward foreign currency exchange contracts	(69.6)	(0.8)
Released from equity:		
– Commodity contracts	15.9	(80.4)
– Forward foreign currency exchange contracts	1.2	(0.4)
Related deferred tax, net (note 23)	11.2	26.0
At 31 December	(63.9)	(16.4)

The Group's cash flow hedges relate to commodity contracts (principally commitments to sell power) and forward foreign currency exchange contracts. Amounts are recognised in the hedge reserve as the designated contracts are marked-to-market at each period end for the effective portion of the hedge, which is generally 100% of the relevant contract. Amounts held within the hedge reserve are then released as the related contract matures and the hedged transaction impacts profit or loss. For power sales contracts, this is when the underlying power is delivered. For FX contracts, this is when the associated foreign currency transaction is recognised. Further information in relation to the Group's accounting for financial instruments is included in note 19.

The expected release profile from equity of post-tax hedging gains and losses is as follows:

	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)

	As at 31 December 2012			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	(11.6)	(3.7)	–	(15.3)
Forward foreign currency exchange contracts	(0.9)	(0.2)	–	(1.1)
	(12.5)	(3.9)	–	(16.4)

28 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	
	2013 £m	2012 £m
At 1 January	314.3	65.0
Profit for the year	51.4	163.8
Actuarial losses on defined benefit pension scheme (note 32)	(2.8)	(9.0)
Deferred tax on actuarial losses on defined benefit pension scheme (note 23)	0.6	2.1
Exchange differences on translation of foreign operations	2.0	–
Issue of share capital (note 24)	–	183.4
Equity dividends paid (note 8)	(78.8)	(95.7)
Net movements in equity associated with share-based payments	5.8	4.7
At 31 December	292.5	314.3

Notes to the consolidated financial statements

29 Cash generated from operations

Cash generated from operations is the starting point of our cash flow statement on page 106. 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	
	2013 £m	2012 £m
Profit for the year	51.4	163.8
Adjustments for:		
Interest payable and similar charges	24.8	15.3
Interest receivable	(1.6)	(1.7)
Tax (credit)/charge	(19.6)	26.4
Depreciation and amortisation	64.8	58.5
Unrealised losses on derivative contracts	110.2	36.1
Defined benefit pension scheme current service cost	5.8	5.7
Non-cash charge for share-based payments	5.8	4.7
Operating cash flows before movement in working capital	241.6	308.8
Changes in working capital:		
Increase in inventories	(38.9)	(19.9)
(Increase)/decrease in receivables	(21.4)	44.5
Increase/(decrease) in payables	108.3	(33.9)
Total decrease/(increase) in working capital	48.0	(9.3)
Decrease/(increase) in carbon assets	12.5	(39.0)
(Increase)/decrease in ROC assets	(120.8)	13.4
Defined benefit pension scheme contributions	(10.8)	(10.7)
Cash generated from operations	170.5	263.2

30 Reconciliation of net cash

This note reconciles our net cash position in terms of changes in our cash on hand (note 16), short-term investments (note 15) and borrowings (note 18).

	Years ended 31 December	
	2013 £m	2012 £m
Net cash at 1 January	311.0	225.2
(Decrease)/increase in cash and cash equivalents	(104.4)	168.9
Decrease in short-term investments	(10.0)	–
Increase in borrowings	(125.4)	(83.1)
Net cash at 31 December	71.2	311.0

31 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.

Staff costs (including executive directors)

	Years ended 31 December	
	2013 £m	2012 £m
Included in other operating and administrative expenses (note 5):		
Wages and salaries	70.3	63.7
Social security costs	7.4	7.0
Other pension costs (note 32)	9.8	8.9
Share-based payments (note 25)	5.8	4.7
	93.3	84.3

Average monthly number of people employed (including executive directors)

	Years ended 31 December	
	2013 (number)	2012 (number)
Operations	639	602
Retail services	343	354
Business services	219	194
	1,201	1,150

Notes to the consolidated financial statements

32 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	
	2013 £m	2012 £m
Total included in staff costs (note 31)	3.9	3.2

As at 31 December 2013, contributions of £0.7 million (2012: £nil) 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.

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 Group holds a significant proportion of growth assets (equities, hedge funds and property) 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 Group's long term objectives.
Interest rate risk	A decrease in corporate bond yields will increase the value placed upon the Group's liabilities, although this will be partially offset by an increase in the value of the Group's bond holdings.
Longevity risk	The majority of the Group'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 Group's obligations to pay benefits are linked to inflation, and as such higher inflation will lead to higher liabilities. The majority of the assets held by the scheme are either unaffected 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 and other demographic risks. 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 34 for details.

The last funding valuation of the DPG ESPS was carried out by Aon Hewitt, as a qualified independent actuary, as at 31 March 2010. A valuation with an effective date of 31 March 2013 is currently ongoing. 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 initial results of the latest funding valuation at 31 March 2013 have been adjusted to 31 December 2013, taking into account experience over the period since 31 March 2013, changes in market conditions and differences in financial and demographic assumptions. The principal assumptions used are as follows:

	As at 31 December	
	2013 % p.a.	2012 % p.a.
Discount rate	4.5	4.6
Inflation (RPI)	3.4	3.0
Rate of increase in pensions in payment and deferred pensions	3.2	2.9
Rate of increase in pensionable salaries	4.4	4.0

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retired in 2013 at age 60 will live on average for a further 27 years (2012: 26 years) after retirement if they are male and for a further 29 years (2012: 28 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 (2012: 27 years and 30 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	
	2013 £m	2012 £m
Defined benefit obligation	220.9	199.0
Fair value of plan assets	(179.2)	(156.9)
Net liability recognised in the balance sheet	41.7	42.1

The amounts recognised in the income statement, within other operating and administrative expenses and finance costs, are as follows:

	Years ended 31 December	
	2013 £m	2012 £m
Included in staff costs (note 31):		
Current service cost	5.8	5.7
Past service cost	0.1	–
Total included in other operating and administrative expenses	5.9	5.7
Included in finance costs (note 6):		
Interest on net defined benefit liability	1.7	1.1
Total included in finance costs	1.7	1.1
Total amounts recognised in the income statement	7.6	6.8

Actuarial gains and losses are recognised in the statement of comprehensive income in full, as follows:

	Years ended 31 December	
	2013 £m	2012 £m
Cumulative actuarial losses on defined benefit pension scheme at 1 January	(72.6)	(63.6)
Actuarial losses on defined benefit pension scheme recognised in the year	(2.8)	(9.0)
Cumulative losses recognised in the statement of comprehensive income at 31 December	(75.4)	(72.6)

Notes to the consolidated financial statements

32. Retirement benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

	Years ended 31 December	
	2013 £m	2012 £m
Defined benefit obligation at 1 January	199.0	182.4
Current and past service cost	5.9	5.7
Employee contributions	0.2	0.2
Interest cost	9.1	8.8
Actuarial losses	12.2	6.0
Benefits paid	(5.5)	(4.1)
Defined benefit obligation at 31 December	220.9	199.0

Actuarial losses arising from changes in demographic assumptions, changes in financial assumptions and gains arising from experience were £4.6 million (2012: £nil), £17.1 million (2012: £4.3 million) and £9.5 million (2012: £1.7 million loss) respectively.

Employee contributions reduced from 1 April 2012 following the introduction of a salary sacrifice arrangement, whereby employees sacrifice pay equal to the contributions that they would otherwise have paid to the DPG ESPS, and in return the Group pays an equal amount to the DPG ESPS.

Changes in the fair value of plan assets are as follows:

	Years ended 31 December	
	2013 £m	2012 £m
Fair value of plan assets at 1 January	156.9	145.4
Interest income on plan assets	7.4	7.7
Remeasurement gains/(losses)	9.4	(3.0)
Employer contributions	10.8	10.7
Employee contributions	0.2	0.2
Benefits paid	(5.5)	(4.1)
Fair value of plan assets at 31 December	179.2	156.9

Employer contributions included payment of £5.0 million (2012: £5.0 million) to reduce the actuarial deficit.

The actual return on plan assets in the period was £16.8 million (2012: £4.7 million).

The fair values of the major categories of plan assets were as follows:

	As at 31 December	
	2013 £m	2012 £m
Equities ⁽¹⁾	74.8	62.3
Fixed interest bonds ⁽²⁾	71.2	61.1
Property	15.9	14.4
Hedge funds	17.2	16.9
Cash and other assets	0.1	2.2
Fair value of total plan assets	179.2	156.9

(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 and government bonds. Less than 1% has a sub-investment grade credit rating (i.e. BB+ or lower).

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 2013 to changes in these assumptions:

	(Decrease)/Increase in net liability £m
0.25 percentage point increase/decrease to:	
Discount rate	(9.8)/10.2
Inflation rate (RPI) ⁽¹⁾	8.6/(8.5)
1 year increase/decrease to:	
Life expectancy for men and women	5.8/(5.9)

(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				
	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Defined benefit obligation	(220.9)	(199.0)	(182.4)	(167.2)	(146.5)
Fair value of plan assets	179.2	156.9	145.4	129.9	113.4
Deficit	(41.7)	(42.1)	(37.0)	(37.3)	(33.1)
Experience adjustments on plan liabilities	8.7	(1.7)	(4.3)	(9.6)	(23.1)
Experience adjustments on plan assets	9.4	(3.0)	0.6	3.4	8.0

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 £17.3 million to its pension plans during the 12 months ended 31 December 2014.

The Company intends to fund the deficit, agreed at the last triennial valuation, over the period to 31 December 2018.

Notes to the consolidated financial statements

33 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, which is reflected in the level of future commitments to purchase fuel, set out below.

	As at 31 December	
	2013 £m	2012 £m
Contracts placed for future capital expenditure not provided in the financial statements	158.8	137.0
Future support contracts not provided in the financial statements	23.0	27.1
Future commitments to purchase fuel under fixed and variable priced contracts	4,048.3	1,448.9

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2013 £m	2012 £m
Within one year	1.2	1.2
Within two to five years	5.5	4.4
After five years	7.4	7.4
	14.1	13.0

34 Contingent liabilities

Contingent liabilities are potential future outflows of cash that are dependent on a future event that is outside of our control; the payment either cannot be measured reliably, or is considered to be unlikely.

Community Energy Saving Programme

Drax Power Limited ("Drax Power") was obliged under the Electricity and Gas (Community Energy Saving Programme) Order 2009 ("CESP") to deliver energy saving measures to domestic consumers in specific low income areas of Great Britain during the period 1 October 2009 to 31 December 2012 (the "Obligation Period"). Drax Power's obligation was to deliver 895,138 lifetime tonnes of CO₂ savings. It entered into an agreement with a third party, pursuant to which the third party was obliged to deliver its CESP obligation, for a total cost of £17 million. The third party has failed to comply fully with its obligation under the agreement, leaving a significant shortfall against Drax Power's CESP obligation. Drax Power is considering legal proceedings for breach of contract against the third party.

Drax Power entered into further agreements with additional third parties in order to rectify this shortfall so far as practicable. Having taken account of the additional measures under those arrangements, the Office for Gas and Electricity Markets ("Ofgem") announced in May 2013 that Drax Power had achieved 37.1% of its CESP target at the end of the obligation period. At the same time Ofgem also announced that it was launching an investigation into those companies that had failed to achieve their targets, including Drax Power.

The Gas and Electricity Markets Authority ("the Authority") is the enforcement authority in relation to CESP. Subject to the findings of Ofgem's investigation, it will produce a statement of case or decide that there is no case to answer. In the case of the former, a recommendation to an enforcement committee of the Authority will be made on enforcement action. The Authority has wide powers of enforcement, including issuing a penalty or other means of enforcement. Ofgem has also indicated that a settlement committee of the Authority will be established to consider proposals made by obligated parties to settle investigations.

Representatives of Drax Power had an initial meeting with the Ofgem enforcement team in June 2013, following which it received a formal information request. Drax Power is co-operating fully with the investigation and has provided a full response to the information request. In January 2014, Drax Power submitted responses to further information requests. Ofgem informed Drax Power that it now needed to consider these, and expected to communicate the next steps in the investigation in Autumn 2014, or earlier if possible. Those next steps will be to issue a statement of case, close the investigation, or update the timeframe for doing so. As a result, it is not possible to predict accurately what, if any, enforcement action may be taken at this stage.

In the absence of any communication on enforcement subject to the findings of the investigation, it is not practicable to measure reliably the financial impact, if any. Accordingly no provision has been recognised within the consolidated financial statements in relation to this matter.

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 32). 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.

35 Related party transactions

A related party is either an individual with control or significant influence over the Group, or a company that is linked to us by investment or a related individual. Our primary related parties are our key management personnel.

Remuneration of key management personnel

The remuneration of the 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	
	2013 £000	2012 £000
Salaries and short-term benefits	5,485	3,411
Aggregate amounts receivable under share-based incentive schemes	2,118	1,775
Company contributions to money purchase pension schemes	136	284
	7,739	5,470

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 25), as adjusted for non-market related vesting conditions.

There were no other transactions with directors for the periods covered by these consolidated financial statements.

Company balance sheet

	Notes	As at 31 December	
		2013 £000	2012 £000
Fixed assets			
Investment in subsidiaries	4	593,666	479,104
Current assets			
Amounts due from other group companies		550	13,418
Short-term investments		–	10,000
Cash at bank and in hand		93,515	178,177
		94,065	201,595
Current liabilities			
Amounts due to other group companies		(5,495)	(4,936)
Net current assets		88,570	196,659
Net assets		682,236	675,763
Capital and reserves			
Called-up share capital	5	46,503	46,390
Capital redemption reserve	6	1,502	1,502
Share premium account	6	422,488	420,700
Profit and loss account	6	211,743	207,171
Total equity shareholders' funds	6	682,236	675,763

These financial statements were approved by the Board of directors on 18 February 2014.

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.

Cash flow statement

The cash flows of the Group are included in the Consolidated cash flow statement of Drax Group plc, whose accounts are publicly available. 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 18 February 2014. Drax Group plc reported a profit for the year ended 31 December 2013 of £77.7 million (2012: £99.6 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 2013 was £20,000 (2012: £20,000).

4. Fixed asset investments

	Years ended 31 December	
	2013 £000	2012 £000
Carrying amount:		
At 1 January 2013	479,104	469,766
Capital contribution	114,562	9,338
At 31 December 2013	593,666	479,104

Fixed asset investments relate entirely to subsidiary undertakings of the Company.

The capital contribution consists of two elements: a £108,806,000 (2012: £4,578,000) capital injection into a subsidiary, and £5,756,000 (2012: £4,760,000) 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 25 to the consolidated financial statements.

Notes to the Company balance sheet

4. Fixed asset investments (continued)

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 International 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%
Capture Power Limited (non-trading company) ⁽¹⁾	England and Wales	Ordinary	33%

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.

5. Called-up share capital

	As at 31 December	
	2013 £000	2012 £000
Authorised:		
865,238,823 ordinary shares of 11 ¹⁶ / ₂₉ pence each	99,950	99,950
Issued and fully paid:		
2012 – 401,587,564 ordinary shares of 11 ¹⁶ / ₂₉ pence each	–	46,390
2013 – 402,566,332 ordinary shares of 11 ¹⁶ / ₂₉ pence each	46,503	–
	46,503	46,390

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Years ended 31 December	
	2013 (number)	2012 (number)
At 1 January	401,587,564	364,862,718
Issued under employee share schemes	978,768	250,219
Issue of share capital	–	36,474,627
At 31 December	402,566,332	401,587,564

The Company has only one class of shares, which are ordinary shares of 11¹⁶/₂₉ pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends.

Issued under employee share schemes

On 8 March 2013, a total of 367,438 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 2013 a further 593,026 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. Additionally, on 31 January, 28 March and 11 April a total of 2,669 shares, 2,805 shares and 1,748 shares, respectively, were issued on early exercise of options under the Group's Savings-Related Share Option Plan by three separate individuals whose employment with the Group 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 2012	42,148	1,502	420,688	15,057	479,395
Share capital issued (note 5)	4,242	–	12	183,424	187,678
Retained profit for the year	–	–	–	99,560	99,560
Credited to equity for share-based payments	–	–	–	4,760	4,760
Equity dividends paid (note 7)	–	–	–	(95,630)	(95,630)
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 31 December 2013	46,503	1,502	422,488	211,743	682,236

7. Dividends

	Years ended 31 December	
	2013 £000	2012 £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 2013 of 8.7 pence per share paid on 11 October 2013 (2012: 14.4 pence per share paid on 12 October 2012)	35,020	52,576
Final dividend for the year ended 31 December 2012 of 10.9 pence per share paid on 17 May 2013 (2012: 11.8 pence per share paid on 11 May 2012)	43,814	43,054
	78,834	95,630

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 2013 of 8.9 pence per share (equivalent to approximately £36 million) payable on or before 17 May 2014. The final dividend has not been included as a liability as at 31 December 2013.

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 18 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 2014

At the date of publication of this document, the following are the proposed key dates in the 2014 financial calendar:

Annual General Meeting	23 April
Ordinary shares marked ex-dividend	23 April
Record Date for entitlement to the final dividend	25 April
Payment of final dividend	16 May
Interim Management Statement	mid May
Financial half year end	30 June
Announcement of half year results	29 July
Interim Management Statement	mid 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

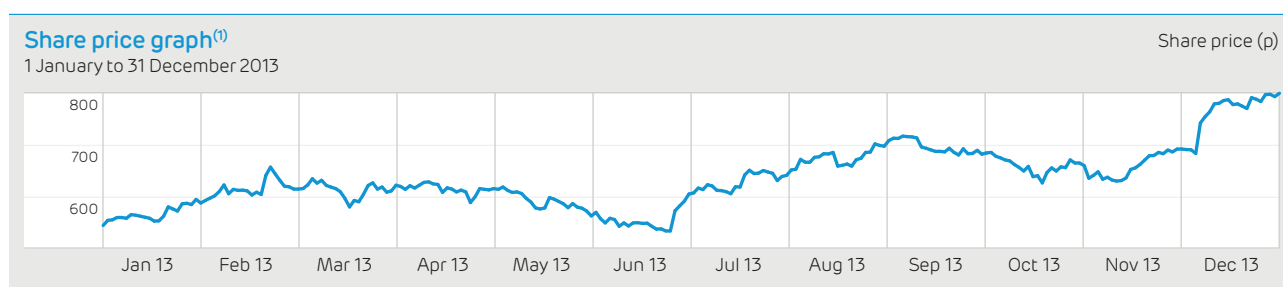
Results announcements are issued to the London Stock Exchange and are available on its news service. Shortly afterwards, they are available under "Regulatory news" within the Investor section on the Company's website.

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 fluctuations in the Drax Group plc share price during the course of 2013, and the graph provides an indication of the trend of the share price throughout the year.

Closing price on 31 December 2012	Low during the year (25 June 2013)	High during the year (31 December 2013)	Closing price on 31 December 2013
544.5 pence	534.0 pence	800.5 pence	800.5 pence



Notes:

(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 2013, was approximately £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;
- 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

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 2013 are set out below:

Analysis of shareholders	As at 31 December 2013			
	Number of shareholders	%	Number of shares ⁽¹⁾	%
Private shareholders	1,489	53.14	2,284,401	0.57
Institutional and corporate holders	1,313	46.86	400,281,931	99.43
Total	2,802	100.00	402,566,332	100.00

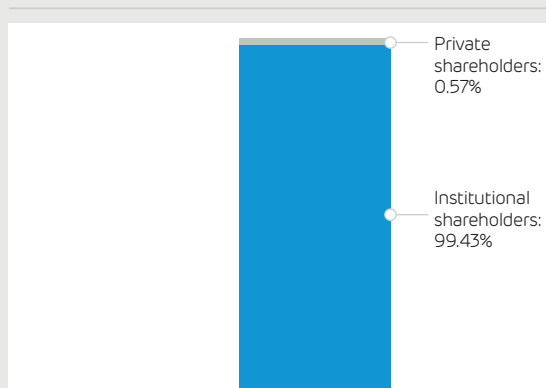
Range	As at 31 December 2013			
	Number of shareholders	%	Number of shares ⁽¹⁾	%
1–100	115	4.10	6,364	0.00
101–200	156	5.57	25,756	0.01
201–500	465	16.60	171,149	0.04
501–1,000	623	22.23	511,338	0.13
1,001–5,000	862	30.76	1,882,655	0.47
5,001–10,000	124	4.43	892,031	0.22
10,001–100,000	246	8.78	8,685,536	2.16
100,001–500,000	119	4.25	29,900,090	7.43
500,001 and above	92	3.28	360,491,413	89.55
Total	2,802	100.00	402,566,332	100.00

Note:

(1) Ordinary shares of 11¹⁶/₂₉ pence each.

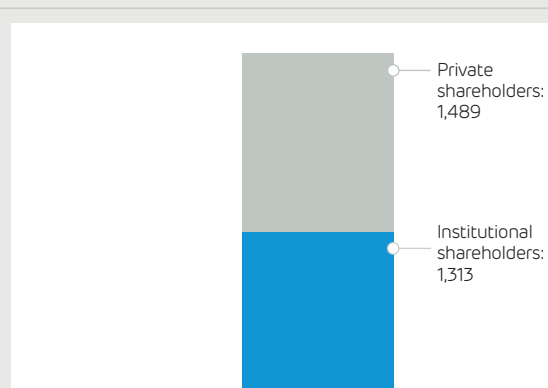
Shareholders by percentage ownership

as at 31 December 2013



Shareholders by number

as at 31 December 2013



Shareholder information

Company information, professional advisers and service providers

Drax Group plc

Registered office and trading address

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Selby
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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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Brokers

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Remuneration advisers

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Solicitors

Slaughter and May LLP
One Bunhill Row, London EC1Y 8YY

Glossary

Advantaged fuels

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

Ancillary services

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

Availability

Average percentage of time the units were available for generation.

Average achieved price

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

Balancing Mechanism

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

Bark spread

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

Bilateral contracts

Contracts with counterparties and power exchange trades.

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.

Company

Drax Group plc.

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 or losses on derivative contracts.

EU ETS

The EU Emissions Trading Scheme is a mechanism introduced across the EU to reduce emissions of CO₂; 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 electricity 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").

Group

Drax Group plc and its subsidiaries.

IFRS

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

The frequency rate is calculated on the following basis: lost time injuries/hours worked times 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 notional balancing point (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 + worst than first aid)/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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