24 February 2015

DRAX GROUP PLC (Symbol: DRX)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

Delivering Europe's largest decarbonisation project, on time and on budget, whilst producing 8% of the UK's electricity

Twelve months ended 31 December	**2014**	**2013**
Key financial performance measures		
EBITDA (£ million)[(1)]	229	230
Underlying earnings (£ million)[(2)]	96	142
Underlying earnings per share (pence)[(2)]	23.7	35.3
Total dividends (pence per share)[(3)]	11.9	17.6
Statutory accounting measures		
Profit before tax (£ million)	166	32
Reported basic earnings per share (pence)	32	13

Financial and Operational Highlights

- 2014 EBITDA marginally ahead of expectations
- Good operational performance at Drax Power Station
- Delivering strong retail sales growth at Haven Power
- Biomass investments protecting the business from increasing carbon costs
- Current earnings outlook for 2015 reflects major deterioration in commodity markets, following oil market decline

Biomass Transformation Highlights

- Significant increase in biomass generation – now one third of plant generating capacity
- US pelleting and port facilities to become operational in H1 2015
- Third unit to be high biomass from Q3 2015
- EU State aid clearance process underway for Early CfD for third unit conversion, but awaiting clarity on outcome
- Carbon saved with two units converted – c.8 million tonnes per annum

Dorothy Thompson, Chief Executive of Drax, said:

"External factors have been challenging, with regulatory headwinds in 2014 exacerbated by the recent major deterioration in commodity markets. In these conditions we are placing particular focus on business efficiencies and cost control measures. However, I am pleased that the key activities within our direct control have gone very well indeed. We will deliver our biomass transformation plans, converting three units to sustainable biomass, on time and on budget.

"We are delivering Europe's largest decarbonisation project whilst producing 8% of the UK's electricity. Renewable electricity from sustainable biomass is flexible and available 24/7, providing low carbon electricity, whenever it is needed.

"At the core of the Group is a very high quality power station, hugely important to the security of electricity supply in the UK."

2014 Group Financial Review

- EBITDA for 2014 at a similar level to last year
- Underlying earnings per share decreased 33% to 23.7 pence
  - Higher depreciation and finance costs, reflecting biomass investment and associated financing
- Effective tax rate on underlying profits of 20%
  - Low effective tax rate on underlying profits in 2013 reflects impact of lower corporation tax rates on deferred tax liability and research and development relief
- Capital investment: on track to complete biomass transformation in line with original cost guidance of £650 - £700 million (3 unit conversions, US supply chain investments and IED[4] compliance)
  - 2014 total capital investment of £201 million
  - 2015 total capital investment guidance of c.£150 million
- Continuing to assess options for value enhancing investments, including potential third US Gulf pellet plant
- Final dividend of 7.2 pence per share, or £29 million (2013: 8.9 pence per share, or £36 million), in line with policy to distribute 50% of underlying earnings
- Robust balance sheet with net debt of £99 million

2014 Business Review

Drax Power

- Generation: electricity output (net sales) of 26.7TWh (2013: 26.2TWh)
  - Significant increase in biomass generation to 7.9TWh (2013: 2.9TWh)
  - Second unit fully converted to biomass in October, having operated as a high biomass unit from May
  - Both units performing well
- Fuel: good progress with near-term biomass volumes, with more than 6 million tonnes contracted for 2015/16 ROC year

Haven Power

- Delivered 11.8TWh of sales through Haven (2013: 8.1TWh), in line with strategic plans for this business (12 - 15TWh by 2015)
  - 2014 sales of £1.1 billion (2013: £751 million)

Drax Biomass Inc.

- US Gulf construction projects on schedule and budget
  - Two pellet plants and a port facility, commissioning H1 2015

Notes:

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

(2) 2014 underlying earnings exclude exceptional items of £20m (net settlement of Community Energy Saving Programme obligation), unrealised gains on derivative contracts of £66 million (H1 2013: unrealised losses of £110 million) and the associated tax.

(3) Based on 50% of underlying earnings.

(4) IED is Industrial Emissions Directive.

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Forward Looking Statements

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

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Results presentation meeting and call-in arrangements

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

Would anyone wishing to attend please confirm by either e-mailing habdee@brunswickgroup.com or calling Holly Abd'ee at Brunswick Group on +44 (0) 20 7404 5959.

The meeting can also be accessed remotely via a conference call or alternatively via a live webcast, as detailed below. After the meeting, a video webcast and recordings of the call will be made available and access details for these recordings are also set out below.

A copy of the presentation will be made available from 7:00am (UK time) today for download at: www.drax.com>>investors>>results_and_reports>>IR presentations>>2015 or use the link http://www.drax.com/investors/results-and-reports/ir-presentations/

Event Title:	Drax Group plc: Preliminary Results
Event Date:	Tuesday 24 February 2015
Event Time	9:00am (UK time)
UK Call-In Number	0203 003 2666
International Call-In Number	+44 (0) 203 003 2666
Webcast Live Event Link	http://cache.merchantcantos.com/webcast/webcaster/4000/7464/16533/44654/Lobby/default.htm
Instant Replay	
UK Call-In Number	0203 350 6902
International Call-In Number	+44 (0) 203 350 6902
Passcode:	8102327
Start Date:	Tuesday 24 February 2015
Delete Date:	Monday 2 March 2015
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Video Webcast	
Start Date:	Tuesday 24 February 2015
Delete Date:	Tuesday 23 February 2016
Archive Link:	http://cache.merchantcantos.com/webcast/webcaster/4000/7464/16533/44654/Lobby/default.htm

For further information please contact Holly Abd'ee at Brunswick Group on +44 (0) 20 7404 5959.

Website:	www.drax.com

Chairman's introduction

In perspective

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

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

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

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

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

Earnings and dividend

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

Board changes

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

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

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

Our people

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

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

Chief Executive's statement

Review of the year

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

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

Earnings

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

Securing sustainable biomass supplies

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

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

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

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

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

Biomass conversion

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

Coal-fired generation performance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Looking ahead

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

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

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

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

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

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

Operational and financial performance

Introduction

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

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

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

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

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

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

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

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

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

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

Commodity markets

The margins of our generation business are driven by commodity market movements and the timing of our fuel purchases and power sales. The key profit drivers are those commodities that make up the dark green and bark spreads, being power, coal, carbon and biomass.

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

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

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

Coal

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

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

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

Carbon

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

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

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

Biomass

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

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

Dark green spread and bark spread

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

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

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

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

Generation

ROC and LEC assets on the balance sheet

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

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

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

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

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

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

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

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

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

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

Fuel burnt (million tonnes)

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

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

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

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

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

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

Cost of sales

Our fuel costs are driven by a combination of market prices at the time of securing the fuel and the mix of different fuels burnt during the period.

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

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

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

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

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

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

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

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

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

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

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

Generation operating performance

Health and safety

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

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

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

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

Plant operational performance

Biomass

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

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

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

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

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

Coal

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

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

Retail

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

Strategic value

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

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

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

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

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

Revenue

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Group summary financial performance

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

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

Group operating and administrative expenses

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

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

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

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

Group EBITDA

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

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

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

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

Community Energy Saving Programme ("CESP")

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

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

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

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

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

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

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

Depreciation

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

Unrealised gains and losses on derivative contracts

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

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

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

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

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

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

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

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

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

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

Interest

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

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

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

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

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

Tax

Tax reconciliation 2014

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

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

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

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

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

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

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

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

Liquidity and capital resources

Analysis of cash flows

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

Cash generated from operations

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

Net cash flows from operating activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

Positions under contract

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

Distributions

Distribution policy

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

Dividends paid

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

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

Dividends proposed

At the forthcoming AGM the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2014 of 7.2 pence per share (£29 million), payable on or before 15 May 2015.

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

Principal risks and uncertainties

A structured approach to risk management

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

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

Commodity market price risk

Context

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

Risk

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

Potential impact

– Low dark green or bark spreads resulting in lower margins and reduced financial performance.

– Volatility in financial results.

Associated key priorities

Maximise the value of the Drax business

Examples of mitigating activities

– Well understood progressive hedging strategy with forward power and ROC sales combined with corresponding purchases of fuel and CO_2 emissions allowances when profitable and appropriate to do so.

– Applications for conversions under the CfD regime which, if approved, remove potential income volatility associated with those units.

Counterparty risk

Context

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

Risk

– We rely on third party suppliers for the delivery of fuel and other goods and services. We purchase a significant quantity of our fuel under contracts with a number of large UK and international suppliers, so are exposed to the risk of non-performance by these suppliers.

– We enter into fixed price and fixed margin contracts for the sale of electricity to a number of counterparties, including non-domestic consumers via our retail business, so are exposed to the risk of failure of one or more of these counterparties.

Potential impact

– Additional costs associated with securing fuel and other goods and services from other suppliers.

– Failure to secure fuel from other suppliers resulting in limitation of operations.

– Adverse effect on cash flow and earnings arising from the failure of one or more of the counterparties to whom we sell power.

Associated key priorities

Maximise the value of the Group

Examples of mitigating activities

– Diversified fuel supply in terms of source and counterparties.

– Diversified logistics routes.

– Target to optimise holding of fuel stocks.

– Close monitoring and reporting of concentration risk in suppliers and power counterparties.

– Full suite of power counterparties with strong credit ratings.

– Power trading contracts generally include provisions that force counterparties to post collateral where their credit rating drops, subject to certain restrictions.

– Close monitoring and reporting of potential credit and collateral risk.

Regulatory and political risk

Context

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

Risk

– Changes to the current renewable support regime could adversely impact our biomass strategy.

– Renewable support regime expires in 2027.

– Further financial disincentives such as the CPS mechanism, could further erode the competitiveness of coal-fired plant.

– The EU, UK and local environmental and health and safety laws and regulations affect our operations including limits on emissions to air and water, noise, soil/groundwater contamination, waste, and health and safety standards.

Potential impact

– Less funding available for plant retrofit/investment costs to meet increasingly stringent environmental requirements.

– Lower load factors/generation levels.

– Adverse effect on financial results and cash flows.

Associated key priorities

Deliver our biomass strategy

Drive Group operational excellence

Examples of mitigating activities

– Briefing, representation and engagement at EU and UK level.

– Development of abatement and alternative generation options.

– Apply for conversions under the CfD regime and grandfathered ROC regime to provide increased certainty over future revenue streams.

– Continue to promote and lobby the benefits of biomass, seek to secure support beyond current regime window.

– Pricing of biomass contracts to allow for adverse commodity market movements.

– Regular third party assurance over system effectiveness.

– Strong safety culture and related training.

Biomass market risk

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

Risk

– We could fail to secure sustainable biomass supplies and/or logistics arrangements which meet our hurdle return rates and operational requirements.

– Most of the sustainable biomass that we can procure is priced in foreign currency which increases our exposure to fluctuations against sterling and poses a risk to profitability.

Potential impact

– Inability to progress the biomass growth strategy.

– Adverse effect on financial results and cash flows.

Associated key priorities
Deliver our biomass strategy

Examples of mitigating activities

– Contract with suppliers where a robust operational plant and logistics infrastructure is already in place; work with new suppliers to help develop such infrastructure.

– Invest in the supply chain whilst in its infancy to ensure security and timing of supplies.

– Hedge currency exposures or secure contracts in sterling to the extent that it is appropriate.

Plant operating risk

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

Risk

– Plant failure may be caused by the underperformance or outright failure of plant, transmission assets or other equipment and components including the IT systems used to operate the plant or conduct trading activities. The duration of the resultant forced outages is influenced by the lead time to manufacture and procure replacement components and to carry out repairs.

– As we progress our plans to convert to a predominantly biomass-fuelled generator, we are exposed to a broader range, and increased level, of technical risk. Whilst successful first conversion of a unit to biomass has been achieved, further units are planned.

– Good progress has been made on our US investments however, project execution risk remains.

Potential impact

– Personnel injury.

– Lower revenues.

– Increased costs and contractual penalties.

– Adverse effect on financial results and cash flows.

Associated key priorities
Drive Group operational excellence
Deliver excellent people leadership across our operations

Examples of mitigating activities

– Comprehensive risk-based plant investment and maintenance programme.

– Maintaining a trained and competent workforce.

– Strong health and safety culture.

– Target to optimise holding of spare components for use in the event of plant failure, particularly long lead time items.

– Business continuity plan for IT systems.
– Ensure adequate insurance in place to cover losses from plant failure where possible.
– Significant amounts of research and development work have been undertaken in terms of handling and burning biomass.

Power and renewables market liquidity risk

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

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

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

Associated key priorities
Grow our retail business

Maximise the value of the Group

Deliver our biomass strategy

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

Responsibility statement of the directors on the annual report

The responsibility statement below has been prepared in connection with the Company's full annual report for the year ended 31 December 2014. Certain parts thereof are not included within this announcement.

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.

The responsibility statement was approved by the Board of directors on 23 February 2015 and is signed on its behalf by:

Dorothy Thompson CBE
Chief Executive

Tony Quinlan
Finance Director

Consolidated income statement

	Notes	Years ended 31 December 2014 £m	2013 £m
Revenue		**2,805.0**	2,062.1
Fuel costs in respect of generation		**(1,224.8)**	(945.8)
Cost of power purchases		**(715.4)**	(352.5)
Grid charges		**(334.6)**	(238.8)
Other retail costs		**(80.4)**	(79.9)
Total cost of sales		**(2,355.2)**	(1,617.0)
Gross profit		**449.8**	445.1
Operating and administrative expenses		**(220.4)**	(215.1)
EBITDA[(1)]		**229.4**	230.0
CESP settlement		**(20.0)**	–
Depreciation and amortisation		**(80.7)**	(64.8)
Unrealised gains/(losses) on derivative contracts		**65.8**	(110.2)
Operating profit		**194.5**	55.0
Interest payable and similar charges		**(29.9)**	(24.8)
Interest receivable		**1.3**	1.6
Profit before tax		**165.9**	31.8
Tax:			
– Before effect of changes in rate of corporation tax	4	**(37.2)**	(2.7)
– Effect of changes in rate of corporation tax	4	**–**	22.3
Total tax (charge)/credit		**(37.2)**	19.6
Profit for the year attributable to equity holders		**128.7**	51.4
Underlying profit for the year[(2)]	6	**96.0**	142.3
Earnings per share[(3)]		**pence**	pence
– Basic and diluted	6	**32**	13

All results relate to continuing operations.

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

(2) Underlying profit for the year is profit for the year before the post tax effect of the unrealised gains/(losses) on derivative contracts and the CESP settlement as reconciled in note 6.

(3) Underlying earnings and underlying earnings per share are set out in note 6.

Consolidated statement of comprehensive income

	Notes	Years ended 31 December 2014 £m	2013 £m
Profit for the year		**128.7**	51.4
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension scheme		**3.4**	(2.8)
Deferred tax on actuarial gains/(losses) on defined benefit pension scheme	4	**(0.7)**	0.6
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(0.2)**	2.0
Fair value gains/(losses) on cash flow hedges		**100.4**	(58.7)
Deferred tax on cash flow hedges before corporation tax rate change	4	**(20.1)**	8.6
Impact of corporation tax rate change on deferred tax on cash flow hedges	4	**–**	2.6
Other comprehensive income/(expense)		**82.8**	(47.7)
Total comprehensive income for the year attributable to equity holders		**211.5**	3.7

Consolidated balance sheet

	Notes	As at 31 December 2014 £m	2013 £m
Assets			
Non-current assets			
Goodwill and other intangible assets		**10.7**	37.2
Property, plant and equipment		**1,697.2**	1,581.4
Derivative financial instruments		**111.2**	8.7
		1,819.1	1,627.3
Current assets			
Inventories		**242.4**	196.5
ROC and LEC assets		**184.5**	139.5
Trade and other receivables		**368.7**	246.2
Derivative financial instruments		**139.1**	29.6
Short-term investments		**40.1**	20.0
Cash and cash equivalents		**180.9**	267.3
		1,155.7	899.1
Liabilities			
Current liabilities			
Trade and other payables		**468.3**	365.5
Current tax liabilities		**1.4**	9.7
Borrowings	7	**0.6**	0.2
Derivative financial instruments		**130.7**	105.2
		601.0	480.6
Net current assets		**554.7**	418.5
Non-current liabilities			
Borrowings	7	**319.0**	215.9
Derivative financial instruments		**232.2**	212.1
Provisions		**29.8**	32.4
Deferred tax liabilities		**185.9**	133.8
Retirement benefit obligations		**34.3**	41.7
		801.2	635.9
Net assets		**1,572.6**	1,409.9
Shareholders' equity			
Issued equity		**46.8**	46.5
Capital redemption reserve		**1.5**	1.5
Share premium		**422.8**	422.5
Merger reserve		**710.8**	710.8
Hedge reserve		**16.4**	(63.9)
Retained profits		**374.3**	292.5
Total shareholders' equity		**1,572.6**	1,409.9

Consolidated statement of changes in equity

	Issued equity £m	Capital redemption reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Retained profits £m	Total £m
At 1 January 2013	46.4	1.5	420.7	710.8	(16.4)	314.3	1,477.3
Profit for the year	–	–	–	–	–	51.4	51.4
Other comprehensive expense	–	–	–	–	(47.5)	(0.2)	(47.7)
Total comprehensive (expense)/income for the year	–	–	–	–	(47.5)	51.2	3.7
Equity dividends paid (note 5)	–	–	–	–	–	(78.8)	(78.8)
Issue of share capital	0.1	–	1.8	–	–	–	1.9
Movement in equity associated with share-based payments	–	–	–	–	–	5.8	5.8
At 1 January 2014	46.5	1.5	422.5	710.8	(63.9)	292.5	1,409.9
Profit for the year	–	–	–	–	–	128.6	128.6
Other comprehensive income	–	–	–	–	80.3	2.6	82.9
Total comprehensive income for the year	–	–	–	–	80.3	131.2	211.5
Equity dividends paid (note 5)	–	–	–	–	–	(55.0)	(55.0)
Issue of share capital	0.3	–	0.3	–	–	–	0.6
Movement in equity associated with share-based payments	–	–	–	–	–	5.6	5.6
At 31 December 2014	**46.8**	**1.5**	**422.8**	**710.8**	**16.4**	**374.3**	**1,572.6**

Consolidated cash flow statement

	Notes	Years ended 31 December 2014 £m	2013 £m
Cash generated from operations	8	**127.3**	170.5
Income taxes paid		**(14.2)**	(10.6)
Other (losses)/gains		**(0.4)**	2.2
Interest paid		**(23.2)**	(21.3)
Interest received		**0.2**	1.5
Net cash from operating activities		**89.7**	142.3
Cash flows from investing activities			
Purchases of property, plant and equipment		**(200.1)**	(301.7)
Short-term investments		**(20.1)**	10.0
Net cash used in investing activities		**(220.2)**	(291.7)
Cash flows from financing activities			
Equity dividends paid	5	**(55.0)**	(78.8)
Proceeds from issue of share capital		**0.6**	1.9
Repayment of borrowings		**(0.3)**	(0.7)
New borrowings	7	**100.0**	125.0
Purchase of shares – SAYE scheme		**(0.3)**	–
Other financing costs paid		**(0.9)**	(2.4)
Net cash generated from financing activities		**44.1**	45.0
Net decrease in cash and cash equivalents		**(86.4)**	(104.4)
Cash and cash equivalents at 1 January		**267.3**	371.7
Cash and cash equivalents at 31 December		**180.9**	267.3

Notes to the consolidated financial statements

1. General information

The consolidated financial information for Drax Group plc (the "Company") and its subsidiaries (together "the Group") set out in this preliminary announcement has been derived from the audited consolidated financial statements of the Group for the year ended 31 December 2014 (the "financial statements").

This preliminary announcement does not constitute the full financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"). The financial statements were approved by the Board of directors on 23 February 2015. Statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 will be delivered in due course.

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

2. Basis of preparation

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

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

3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set in the 2014 Annual report and accounts. These policies have been consistently applied to both years presented.

4. Taxation

The tax charge/(credit) reflects the estimated effective tax rate on profit before tax for the Group for the year ended 31 December 2014 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the income statement.

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax payable or recoverable on the difference between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is considered more likely than not that taxable profit will be available against which deductible temporary differences can be utilised.

In light of the complex nature of the CESP settlement, there is currently uncertainty as to the likely level of any tax deduction available for the net settlement cost, on this basis no tax relief has been recognised in respect of this matter in these financial statements.

	Years ended 31 December	
	2014 £m	2013 £m
Tax charge/(credit) comprises:		
Current tax	**5.9**	5.5
Deferred tax		
– Before impact of corporation tax rate change	**31.3**	(2.8)
– Impact of corporation tax rate change	**–**	(22.3)
Tax charge/(credit)	**37.2**	(19.6)

	Years ended 31 December	
	2014 £m	2013 £m
Tax on items charged/(credited) to other comprehensive income:		
Deferred tax on actuarial losses on defined benefit pension scheme	**0.7**	(0.6)
Deferred tax on cash flow hedges	**20.1**	(11.2)
	20.8	(11.8)

UK corporation tax is calculated at 21.5% (2013: 23.25%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The charge/(credit) for the year can be reconciled to the profit per the income statement as follows:

	Years ended 31 December	
	2014 £m	2013 £m
Profit before tax	**165.9**	31.8
Profit before tax multiplied by the rate of corporation tax in the UK of 21.5% (2013: 23.25%)	**35.7**	7.4
Effects of:		
Adjustments in respect of prior periods	**(1.6)**	(7.3)
Expenses not deductible for tax purposes	**5.4**	1.2
Other	**(2.3)**	1.4
Impact of change to corporation tax rate	**–**	(22.3)
Total tax charge/(credit)	**37.2**	(19.6)

5. Dividends

	Years ended 31 December	
	2014 £m	2013 £m
Amounts recognised as distributions to equity holders in the year (based on the number of shares in issue at the record date):		
Interim dividend for the year ended 31 December 2014 of 4.7 pence per share paid on 10 October 2014 (2013: 8.7 pence per share paid on 11 October 2013)	**19.0**	35.0
Final dividend for the year ended 31 December 2013 of 8.9 pence per share paid on 14 May 2014 (2013: 10.9 pence per share paid on 17 May 2013)	**36.0**	43.8
	55.0	78.8

At the forthcoming Annual General Meeting the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2014 of 7.2 pence per share (equivalent to approximately £29.0 million) payable on or before 15 May 2015. The final dividend has not been included as a liability as at 31 December 2014.

6. Earnings per share

Earnings per share ("EPS") represents the amount of our earnings (post-tax profits) that are attributable to each ordinary share we have in issue. Basic EPS is calculated by dividing our earnings by the weighted average number of ordinary shares that were in issue during the year. Diluted EPS demonstrates the impact if all outstanding share options (such as those to be issued under our employee share schemes, that are 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 5). Underlying EPS removes the post-tax effect of fair value movements on derivative contracts and the CESP settlement, incurred in 2014 only, from earnings. Multiplying underlying basic EPS by 50% will give the total dividends per share for the period.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	Years ended 31 December	
	2014 £m	2013 £m
Earnings:		
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	**128.7**	51.4
Unrealised gains and losses on derivative contracts	**(65.8)**	110.2
CESP settlement	**20.0**	–
Tax impact of the above	**13.1**	(19.3)
Underlying earnings attributable to equity holders of the Company	**96.0**	142.3

	Years ended 31 December	
	2014	2013
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**404.4**	402.3
Effect of dilutive potential ordinary shares under share plans	**2.9**	4.6
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	**407.3**	406.9
Earnings per share – basic (pence)	**32**	13
Earnings per share – diluted (pence)	**32**	13
Underlying earnings per share – basic (pence)	**24**	35
Underlying earnings per share – diluted (pence)	**24**	35

7. Borrowings

Borrowings are chiefly comprised of bank loans with fixed maturity repayment profiles between 2016 and 2025.

Maximising the value of the group… In April 2013, we agreed a new £75 million amortising term loan facility with Friends Life, underpinned by a guarantee from HM Treasury under the Infrastructure UK Guarantee Scheme. This replaced £50 million of the £100 million facility with the UK Green Investment Bank.

In May 2014, we agreed a new private placement for £100 million with various funds managed by M&G investments.

The new loan facilities, which were fully drawn at the year end, enhance the financing structure executed in previous years by providing additional liquidity and a smoother profile of debt maturities.

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

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

Analysis of borrowings

Borrowings at 31 December 2014 and 31 December 2013 consisted principally of amounts drawn down against bank loans.

	As at 31 December 2014		
	Borrowings before deferred finance costs £m	**Deferred finance costs £m**	**Net borrowings £m**
Term loans	**326.1**	**(7.1)**	**319.0**
Finance lease liabilities	**0.6**	**–**	**0.6**
Total borrowings	**326.7**	**(7.1)**	**319.6**
Less current portion	**(0.6)**	**–**	**(0.6)**
Non-current borrowings	**326.1**	**(7.1)**	**319.0**

	As at 31 December 2013		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Term loans	225.0	(9.2)	215.8
Finance lease liabilities	0.3	–	0.3
Total borrowings	225.3	(9.2)	216.1
Less current portion	(0.2)	–	(0.2)
Non-current borrowings	225.1	(9.2)	215.9

8. Cash generated from operations

	Years ended 31 December	
	2014 £m	2013 £m
Profit for the year	**128.7**	51.4
Adjustments for:		
Interest payable and similar charges	**29.9**	24.8
Interest receivable	**(1.3)**	(1.6)
CESP settlement	**20.0**	–
Tax charge/(credit)	**37.2**	(19.6)
Depreciation and amortisation	**80.7**	64.8
Unrealised (gains)/losses on derivative contracts	**(65.8)**	110.2
Defined benefit pension scheme current service cost	**6.2**	5.8
Non-cash charge for share-based payments	**5.9**	5.8
Operating cash flows before movement in working capital	**241.5**	241.6
Changes in working capital:		
Increase in inventories	**(45.9)**	(38.9)
Increase in receivables	**(116.3)**	(21.4)
Increase in payables	**78.3**	108.3
Total (increase)/decrease in working capital	**(83.9)**	48.0
Decrease in carbon assets	**26.5**	12.5
Increase in ROC assets	**(45.0)**	(120.8)
Defined benefit pension scheme contributions	**(11.8)**	(10.8)
Cash generated from operations	**127.3**	170.5

9. Reconciliation of net (debt)/cash

	Years ended 31 December	
	2014 £m	2013 £m
Net cash at 1 January	**71.2**	311.0
Decrease in cash and cash equivalents	**(86.4)**	(104.4)
Increase/(decrease) in short-term investments	**20.1**	(10.0)
Increase in borrowings	**(103.5)**	(125.4)
Net (debt)/cash at 31 December	**(98.6)**	71.2

Glossary

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

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

Availability
Average percentage of time the units were available for generation.

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

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

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

Carbon price support mechanism (or carbon price floor or carbon tax)
A tax upon fossil fuels (including coal) used to generate electricity. It is charged as a levy on coal delivered to the power station.

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

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

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

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

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

Forced outage
Any reduction in plant availability, excluding planned outages.

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

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

IFRSs
International Financial Reporting Standards.

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

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

Load factor
Net sent out generation as a percentage of maximum sales.

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

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

Net cash/(debt)
Comprises cash and cash equivalents, short-term investments less overdrafts and borrowings net of deferred finance costs.

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

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

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

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

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

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

Summer
The calendar months April to September.

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

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

UK NAP
UK National Allocation Plan.

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

Winter
The calendar months October to March.