

**ELECTRICITY SUPPLY PENSION SCHEME
DRAX POWER GROUP REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Contents

	Page
Group Trustees and their Advisers	1
Report of the Group Trustees	2
Group Trustees' Responsibilities	3
Additional Trustees' Responsibilities	4
Membership	5
Investment Report	7
Actuarial Valuation and Statement of Funding Principles	13
Further Information	15
Actuarial Certificate of Schedule of Contributions	16
Actuarial Certificate of Technical Provisions	17
Independent Auditors' Statement about Contributions	18
Summary of Contributions	19
Independent Auditors' Report	20
Fund Account	22
Net Assets Statement	23
Notes to the Financial Statements	24

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Group Trustees and their Advisers

Group Trustees	Philip Hudson #, Chairman Michael Scott Simon Acaster – Member-nominated (to 1 October 2013) Steve Tillyard – Member-nominated (appointed 1 October 2013) John Blagden – Member-nominated John Knowles # – Member-nominated Mick Petford * – Member-nominated
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Denotes Councillors of the Council (see page 4 for further information)

* Denotes retired member in receipt of a pension fund from the Group

Administrative details

Group Actuary	Philip Dennis FIA Aon Hewitt Limited
Administrators	RPMI EPAL
Auditors	PricewaterhouseCoopers LLP
Bankers	HSBC
AVC Providers	Aviva Equitable Life Assurance Society Prudential Assurance Company Limited
Investment Managers	Gottex Fund Management (“Gottex”) Legal & General Assurance (Pensions Management) Limited (“L&G”) Origin Asset Management LLP (“Origin”) Taube Hodson Stonex Partners LLP (“THS”) M&G Investment Management Limited (appointed 1 April 2014)
Solicitors	Field Fisher Waterhouse LLP
Investment Adviser	KPMG LLP
Scheme Custodian	The Bank of New York Mellon
Principal Employer	Drax Power Limited
Contact Address	Drax Power Group Administrator Aon Hewitt Limited 3 The Embankment Sovereign Street Leeds LS1 4BJ

**Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Report of the Group Trustees**

Introduction

This Group Annual Report & Financial Statements is produced by the Group Trustees for the members of the Drax Power Group of the Electricity Supply Pension Scheme (the 'Scheme'). The Scheme is an industry-wide pension scheme in which the Participating Employers are companies formed upon the privatisation of the electricity industry in 1990 or their successors. The Scheme has separate actuarially independent sections (known as 'Groups') in respect of each of the companies participating in the Scheme as Principal Employers. Information relating to the Scheme as a whole can be found in the Scheme Annual Report & Financial Statements.

The Scheme is established under irrevocable trusts and its provisions are set out in the Clauses and Rules contained in the Scheme document. Membership of the Group has been closed to new employees since 1 January 2002 for whom alternative arrangements have been put in place. The Scheme is a registered pension scheme under the Finance Act 2004 and is primarily contracted out of the State Second Pension.

In the case of the Drax Power Group, only Defined Benefits arrangements apply.

The Principal Employer is Drax Power Limited. There are no other participating employers in the Group.

Trustee Structure

The Group is administered by a body of trustees known as Group Trustees. The Group Trustees structure of the Drax Power Group provides for a total of six Group Trustees, two appointed by Drax Power Limited and four elected by members.

There is also a central Scheme Trustee, Electricity Pensions Trustee Limited (EPTL), which is a trust corporation and consists of a Council and a smaller Board of Directors.

The two Appointed Group Trustees are appointed by, and can be removed by, Drax Power Limited.

The four Elected Group Trustees are elected by contributing members and pensioner members of the Group. In addition to changes that take place at an election, an Elected Group Trustee ceases to be a Trustee if he/she resigns, ceases to be a contributing member or pensioner of the Group, or is removed from office by a majority of the other Elected Group Trustees. A casual vacancy for an Elected Group Trustee can be filled by a person nominated by the remaining Elected Group Trustees.

Elected Group Trustees normally serve for a term of four years. The terms of office are staggered according to the dates of election.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Report of the Group Trustees

Meetings of the Group Trustees during the Year

The Group Trustees met formally four times during the year.

In addition to the four regular meetings held, one special meeting was held during the year which was the annual investment day, when the Group Trustees meet with all the investment managers to discuss new strategy ideas.

At their meetings the Group Trustees dealt with matters relating to members' benefits and the investment of the Group assets and the funding position and security of the Group.

In the event of an issue being put to a vote at a meeting, each Appointed Group Trustee has two votes and each Elected Group Trustee has one vote. In the event of an equality of votes the Chairman has the discretion to exercise an additional casting vote to resolve the issue concerned. In the year under review there were no occasions on which the Chairman used this casting vote.

Group Trustees' Responsibilities

The Group Financial Statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, are the responsibility of the Group Trustees. Pension scheme regulations and the Rules of the Scheme require the Group Trustees to make available to scheme members, beneficiaries and certain other parties, audited Financial Statements for each scheme year which:

- show a true and fair view of the financial transactions of the Group during the Scheme year and of the amount and disposition at the end of the Scheme year of the Group's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

The Group Trustees supervised the preparation of the Financial Statements and have agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Group Trustees are also responsible for making available certain other information about the Group in the form of this Annual Report.

The Group Trustees are responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised, a Schedule of Contributions showing the rates of contributions payable towards the Group by or on behalf of the Employer and the active members of the Group and the dates on or before which such contributions are to be paid. The Groups Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the Group and for monitoring whether contributions are made to the Group by the Employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Group Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Report of the Group Trustees

The Group Trustees and the Scheme Trustee, EPTL, also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Group Trustees are also responsible for the maintenance and integrity of the Dataport website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Additional Trustees' Responsibilities

The structure of the Scheme means that certain matters are dealt with by Group Trustees and certain matters are dealt with by the Scheme Trustee. The main additional responsibilities of the Group Trustees are:

- to determine an investment strategy for Group assets;
- to ensure appropriate management of the Group assets;
- to arrange for regular actuarial valuations of the Group to be carried out in accordance with the funding principles agreed with the Employer;
- to prepare and agree with the Employer a Statement of Funding Principles which includes the actuarial assumptions used to assess the Group's liabilities;
- to agree a recovery plan with the Employer for making good any shortfall in assets against liabilities identified in periodic actuarial valuations; and
- to make available to members annual funding updates on the financial position of the Group.

In carrying out their work the Group Trustees must always act impartially and in the best interests of all the members of the Drax Power Group.

To assist them in their work the Group Trustees have appointed a team of professional advisers whose advice is taken into account when necessary. The advisers include lawyers, actuaries, investment consultants and investment managers. Their names are set out on page 1.

Under the Scheme constitution, each Group currently appoints two individuals to be Councillors of the EPTL Council; one Councillor is chosen by the Elected Group Trustees, and one by the Principal Employer.

At 31 March 2014 John Knowles and Philip Hudson were respectively the Elected and Appointed Councillors of the Drax Power Group.

The Council is responsible for the appointment of a smaller board of eight Directors, selected from their number under the following criteria:

- (a) Three Directors must be Councillors chosen by Elected Group Trustees;
- (b) Three Directors must be Councillors chosen by Principal Employers; and
- (c) The remaining two Directors can be Councillors jointly appointed by Elected Group Trustees and Principal Employers.

The Board also has an Independent Chair, Joanna Matthews of Capital Cranfield Trustees Limited.

As at 31 March 2014 there were no Drax Power Group Councillors on the Board.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Report of the Group Trustees

The main responsibilities of EPTL are:

- to ensure the safe custody and administrative control of assets;
- to produce the Scheme Report & Financial Statements on an annual basis;
- to ensure proper investment management of Group assets invested in the Unitised Fund;
- to select and put in place a range of AVC investment funds for Group Trustees to use as appropriate; and
- to ensure proper investment management of the investment funds originally established by EPTL for Defined Contributions members.

Group changes

There were no major changes to the Group during the year.

Membership

	Contributors	Pensioners	Dependants	Deferred Pensioners	Total
As at 1 April 2013	352	181	17	55	605
Adjustments to opening balance	(3)	3	-	1	1
As at 1 April 2013 (revised)	349	184	17	56	606
New dependants	-	-	1	-	1
Retirements	(18)	22	-	(4)	-
Leavers with deferred pensions	(1)	-	-	1	-
Deaths	-	(2)	-	-	(2)
Cessation of child allowances	-	-	(1)	-	(1)
Transfers to other Schemes	-	-	-	(1)	(1)
As at 31 March 2014	330	204	17	52	603

These membership figures do not include movements notified to the Administrator after the completion of the annual renewal.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Report of the Group Trustees

Pensions Increases

The Rules of the Scheme applicable to the Group provide for all pensions in payment, children's allowances and deferred pensions to be increased on an annual basis on 1 April each year in accordance with the rise in the Retail Prices Index (RPI) in the 12 months ended on the preceding 30 September. If the RPI increase is greater than 5% then Drax Power Limited has the discretion to limit the pension increase to a lower figure subject to a minimum of 5%. The pension increase is subject to a minimum of 0%, i.e. pensions in payment are not reduced if the annual RPI change is negative.

The pensions increase applied from 1 April 2014 was 3.2% in line with the RPI increase for the 12 months to 30 September 2013 and was therefore non-discretionary. A proportionate increase was applied to pensions which came into payment between 2 April 2013 and 1 March 2014.

Pension increases over the previous five years were:

1 April 2013	2.6%
1 April 2012	5.0%
1 April 2011	4.6%
1 April 2010	0.0%
1 April 2009	5.0%

Transfers

Members leaving service can normally transfer the value of their benefits under the Group to another scheme that they join or to an insurance contract or personal pension.

The transfer value of a Group member's benefits includes no allowance for any discretionary benefits which might be awarded in the future.

During the year the transfer values paid were equal to the cash equivalent of the members' leaving service rights.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Investment Report

Investment Arrangements

The investment strategy set by the Group Trustees, in consultation with the Sponsor, takes account of the Group's current and anticipated future pension liability profile.

The Group Trustees are responsible for making suitable arrangements for the investment of the assets of the Group and for monitoring the investment performance of those assets.

As at 31 March 2014 the investment managers appointed by the Group Trustees, the investment portfolio which they managed, and the amounts under their management were:

Fund Manager	Date of Appointment	Asset Class	£m	%	Target %
Origin	November 2009	Global equities	26.1	14.1	15.0
THS	November 2009	Global equities	23.9	12.9	15.0
Gottex	July 2012	Hedge funds	1.2	0.6	15.0
State Street*	n/a	Cash deposits	16.0	8.7	-
L&G	December 2009	UK equities	21.2	11.5	10.0
L&G	April 2012	Emerging market equities	4.3	2.3	5.0
L&G	September 2012	Long lease property	16.2	8.8	10.0
L&G	December 2006	Index-linked bonds	76.0	41.1	30.0
n/a	n/a	Other investment liabilities	(0.1)	-	-
Total			184.8	100.0	100.0

Note: *The Group's mandate with Gottex was redeemed on 2 January 2014. Gottex distributed c.93% of total redemption proceeds as cash (c.£16.0m) to the ESPS Drax Gottex account at BNYM on 14 February 2014. On 27 March 2014 this cash was transferred to State Street Fund Services (Ireland) Ltd ("State Street"), custodian of the M&G Alpha Opportunities Fund, and it was subsequently invested in this fund on 1 April 2014. The balance will be retained by Gottex until the underlying illiquid investments can be realised.

The Group Trustees specify the investment objectives for each of these portfolios, including performance targets for each manager. Investment reports are received in accordance with the instructions of the Group Trustees, and representatives of each fund manager attend meetings of the Group Trustees as required to discuss the results of the management of the portfolios concerned against targets. The performance objectives set for each of the portfolios are:

- Origin's mandate is to manage global equities on an active basis. Origin's objective is to outperform the MSCI World Index by 3.0% per annum (net of fees) over rolling three year periods;
- THS's mandate is to manage global equities on an active basis. THS's objective is to outperform the MSCI World Index by 3.0% per annum (net of fees) over the long term;
- L&G's mandate is to manage UK equities, Emerging Market equities and index-linked gilts on a passive basis and RPI-linked corporate bonds and long lease property on an active basis. L&G's objective is to match the return on the FTSE All-Share Index in UK equities, to match the FTSE AW-All Emerging Markets Index in emerging markets and to match the respective benchmark returns in index-linked gilts and to outperform by the respective benchmark returns by 0.75% per annum (gross of fees) over three years in RPI-linked active corporate bonds. The L&G long lease property fund aims to achieve a long term real yield in excess of 4% p.a.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Investment Report

- M&G's mandate is to manage a diversified pool of debt and debt-like assets on an active basis. M&G's objective is to maximise total return through prudent investment management, aiming to deliver a return of LIBOR + 3-5% p.a. over a full economic cycle

The Group has allocations to both return seeking assets (equities and remaining hedge fund assets) and risk reducing assets (bonds and long lease property). The Group's target investment strategy is currently 60% return-seeking assets/40% risk-reducing assets. At 31 March 2014 the top-level asset split was 50% return-seeking assets and 50% risk-reducing assets. The Group Trustees are aware that these allocations are outside of the control ranges specified in the Group's Statement of Investment Principles and have consulted with the Group Sponsor on it accordingly. Following the investment strategy review undertaken over 2013/2014, the Group Trustees have agreed in principle to revise the target split between return-seeking and risk-reducing assets to 50/50 and a revised Statement of Investment Principles will be agreed at the conclusion of this review.

Statement of Investment Principles

The Group Trustees have produced a Statement of Investment Principles (SIP) in accordance with Section 35 of the Pensions Act 1995.

The SIP covers the Group Trustees' policy on the following matters:

- (a) ensuring compliance with the current investment requirements;
- (b) the types of investment, and the balance between different types of investment;
- (c) risk;
- (d) expected return of investments;
- (e) realisation of investments;
- (f) voting rights; and
- (g) social, environmental and ethical investment considerations.

A copy of the SIP can be obtained by writing to the Group Administrator, whose address and telephone number appear on page 16.

Group Trustees' Statement on Investments

All decisions about the day-to-day management of the assets have been delegated to the fund managers via written agreements. This delegation includes decisions about:

- Realisation of investments;
- Social, environmental and ethical considerations in the selection, retention and realisation of investments;
- The exercise of rights (including voting rights) attaching to the investments.

The Group Trustees take fund managers' policies in the above respects into account when selecting and monitoring managers. The fund manager is expected to exercise their powers of investment with a view to giving effect to the principles contained within this statement, so far as reasonably practicable.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Investment Report

Investment Performance

The Group Trustees determine the broad investment policy to be adopted by the Drax Power Group. Asset allocation parameters were agreed, as follows:

Asset Class	Allocation (%)	Control Range (%)
Return seeking assets	60.0	55-65
Global equity	30.0	
UK equity	10.0	
Hedge funds	15.0	
Emerging market equities	5.0	
Risk-reducing assets	40.0	35-45
Long lease property	10.0	
Index-linked gilts	23.6	
Index-linked corporate bonds	6.4	
Total	100.0	

During the year the Drax Power Group achieved an overall return on assets of 3.8%.

12 month returns of the Group's managers are shown in the table below.

Asset Class	12 Month Returns to 31 March 2014		Benchmark
	Fund %	Benchmark %	
UK equity	8.9	8.9	FTSE All-Share
Emerging market equity	(11.3)	(11.1)	FTSE AW-All Emerging Markets Index
Global equity – Origin	10.0	9.0	MSCI World
Global equity – THS	17.3	9.0	MSCI World
Hedge funds	2.2 ⁽¹⁾	0.4	1 month LIBOR
Long lease property*	10.6	-	n/a
Bonds* ⁽²⁾	(3.5)	-	n/a

Note: Returns are shown net of fees.

*No consolidated benchmark is in place for the Group's bond assets and no specific benchmark is specified for long lease property assets.

⁽¹⁾Gottex performance shown for the 9 months to 31 December 2013, the date at which the Group terminated the mandate.

⁽²⁾Bond return is for the Group's consolidated bond assets and is calculated using start asset weights and performance of the underlying bond funds over the period.

Since June 2008 the Group Trustees have employed KPMG Investment Advisory as their investment adviser to provide quarterly independent assessments and help them review the Group's investment performance.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Investment Report

A summary of the Group's performance against its benchmarks historically is given in the table below.

Year to 31 March	Group % p.a.	Benchmark % p.a.
2014	3.8	1.7
2013	11.2	11.6
2012	6.6	9.9
2011	6.3	5.9
2010	29.4	33.7
2009	(20.3)	(20.2)
2008	(1.7)	0.2
2007	5.0	4.9
2006	29.2	28.2
5 years to 31 March 2014	11.1	12.3
3 years to 31 March 2014	7.1	8.1

The Retail Price Index (RPI) for the year to 31 March 2014 was 2.5%; the three and five year averages were 3.1% p.a. and 3.8% p.a. respectively.

Pooled investment vehicles

The pooled investment vehicle funds invested in by the Group at the year end were:

Fund Manager	Fund	Asset Class	£m	%
Origin	Global Unconstrained	Global equity	26.1	15.5
THS	International Growth and Value	Global equity	23.9	14.1
Gottex	Market Neutral Plus Fund	Hedge funds	1.2*	0.7
L&G	UK Equity Index	UK equity	21.2	12.6
L&G	World Emerging Markets Equity Index	Emerging market equities	4.3	2.5
L&G	LPI Income Property Fund	Long lease property	16.2	9.6
L&G	Over 15 Years Index-Linked Gilts Index	Index-linked gilts	24.1	14.3
L&G	2035 Index-Linked Gilts Index	Index-linked gilts	29.0	17.2
L&G	2055 Index-Linked Gilts Index	Index-linked gilts	12.0	7.1
L&G	2030 RPI Linked Active Corporate Bonds	Index-linked corporate bonds	9.2	5.4
L&G	2045 RPI Linked Active Corporate Bonds	Index-linked corporate bonds	1.7	1.0
			168.9	100.0

Note: *Valuation for Gottex based on the final redemption value as at 31 December 2013 less c.£16.0m that was held as cash as at 31 March 2014, awaiting commitment to the M&G Alpha Opportunities Fund. L&G assets are quoted at bid values, all other values are based on single prices.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Investment Report

The aggregate underlying investments of the pooled investment vehicles were:

Asset Class	£m	%
UK equities	21.2	12.6
Overseas equities	50.0	29.6
Emerging market equities	4.3	2.5
Hedge funds	1.2	0.7
Long lease property	16.2	9.6
Index-linked gilts	65.1	38.5
Index-linked corporate bonds	10.9	6.5
Total	168.9	100.0

Note: Long lease property, index-linked gilt and index-linked corporate bond assets are quoted at bid values, all other values are based on single prices.

Employer Related Investments

The Investment Regulation limits employer-related investments by occupational pension schemes. These investments include shares, loan stocks, debentures and other securities issued by the employers participating in the Scheme and their associated companies, together with loans made to the employers, and any properties or land owned by the Scheme and occupied by the employers.

The Regulations apply separately to each Group within the Scheme, by reference to the investments of the Group Trustees in the Employers participating in their Group and their associated companies, and provided that such employer-related investments must not exceed 5% of the market value of the Group's assets.

As at 31 March 2014 the Drax Power Group had less than 0.02% of the Group's assets directly invested in Drax Power or its associated companies. This was in accordance with the policy of the Group Trustees.

AVC Investments

During the year 93 members made additional voluntary contributions (AVC investments) into building societies and insurance companies to obtain further benefits, on a money purchase basis, within the overall allowances set by HM Revenue & Customs. The Group Trustees hold these assets invested separately from the main fund in the form of individual building society accounts and insurance policies. Each member receives an annual statement at the year end confirming the amount held in his/her account and the movements in the year.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Investment Report

Custody

The Groups assets are invested in pooled vehicles. For investments in pooled funds, the custody of the holdings is arranged by the fund manager. The Scheme-wide custodian, the Bank of New York Mellon, records the Group's holdings in the pooled funds of the respective fund managers.

All cash is held in bank accounts in the name of the Scheme, or in a fund manager's institutional cash fund, commonly called a cash pool. This type of investment allows cash to be invested across a broad range of institutions thereby reducing risk and exposure.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Actuarial Valuation and Statement of Funding Principles

The latest actuarial valuation was completed as at 31 March 2013. Copies of the actuarial certificates can be found on pages 16 and 17 of this report.

The current statutory funding regime came into force at the end of 2005 and for this purpose each Group of the Electricity Supply Pension Scheme is treated as a pension scheme in its own right. The Group's third Actuarial Valuation under this new regime was carried out by the Group Actuary, Philip Dennis of Aon Hewitt Limited, as at 31 March 2013. As part of this valuation the Group Trustees prepared and agreed with the Employer their current Statement of Funding Principles. The Pensions Regulator has issued a Code of Practice in respect of the current funding regime and reviews valuations against this Code.

The main assumptions underlying the valuation calculation, which has been undertaken using the projected unit method as at 31 March 2013, were:

Pre-retirement discount rate	5.3% p.a.
Post-retirement discount rate	3.6% p.a.
Rate of salary increases	4.3% p.a. (including an allowance for promotional increases)
RPI Price inflation	3.7% p.a.
CPI Price inflation	3.0% p.a.
Rate of pension increases (on pensions in excess of GMPs)	3.3% p.a.
Post retirement mortality	Standard table S1PMA (males) / S1PFA (females), adjusted to allow for individual years of birth, and individual scaling factors set using the Aon Hewitt Longevity Model (and, for the ill health scaling factors, experience of similar schemes). Future improvements are assumed to be in line with the CMI 2012 core projection, with a long term improvement rate of 1.25% p.a. for males and females.

As the 31 March 2013 valuation disclosed a shortfall of £57.3 million between the Group's assets and liabilities the Group Trustees agreed with the Employer a Recovery Plan for making good the shortfall. Details of the agreed contributions are reflected in a Schedule of Contributions. The Recovery Plan aims to remove the deficit by 31 December 2019 (i.e. 6 years and 9 months after the valuation date) through payments of:

- £416,667 per month from 1 April 2013 to 31 December 2013;
- £800,000 per month from 1 January 2014 until 30 June 2014;
- £123,333 per month from 1 July 2014 until 31 December 2014;
- £416,667 per month from 1 January 2015 until 31 December 2015; and
- £695,833 per month from 1 January 2016 until 31 December 2019.

The contributions from 1 January 2015 are shown in 2014 prices and will increase on 1 January 2015 and each 1 January thereafter in line with the increase in RPI.

The Recovery Plan also assumes that the Group will achieve an investment return on its assets of 0.75% p.a. above the discount rate.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Actuarial Valuation and Statement of Funding Principles

The Group Trustees are monitoring the funding position of the Group with the help of the Group Actuary and their investment advisers. Between 31 March 2013 and 31 March 2014 it is estimated that the funding position has improved significantly. This was mainly due to a significant increase in gilt yields together with deficit repair contributions paid by the Company, although this has been partly offset by an increase in future RPI inflation expectations over the period. A formal update of the funding position as at 31 March 2014 will be prepared by the Group Actuary in the Annual Actuarial Report, and the results communicated to members.

The next full valuation is due to take place on 31 March 2016.

**Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Further Information**

Further information about the Group is available, on request, to members and prospective members, their spouses and other beneficiaries together with all recognised trade unions. In particular, the documents constituting the Group, the Rules and a copy of the latest actuarial report and the Group Trustees' Statement of Investment Principles can be inspected.

Individual benefit statements are provided to active members annually. In addition to the information shown on these statements members can request details of the amount of their current transfer value and, if applicable, the current amount of any refund of contributions to which they would be entitled on leaving service. Such requests are available free of charge once a year.

General enquiries about the Drax Power Group should be directed to the Group Administrator, at the address below:

The Group Trustees of the Drax Power Group of the Electricity Supply Pension Scheme care of
Aon Hewitt Limited
3 The Embankment
Sovereign Street
Leeds
LS1 4BJ

Telephone: 0113 291 5058

E-mail: draxgroupadministrator@aonhewitt.com

Members wishing to advise the Group Trustees of changes in family circumstances, enquire about options or seek information on benefits should contact in the first instance:

Karen Gallagher
Human Resources
Drax Power Limited
Selby
North Yorkshire
YO8 8PH

Telephone: 01757 612 522

E-mail: Karen.gallagher@draxpower.com

Signed for and on behalf on the Group Trustees on 15 July 2014

Trustee



Trustee



Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Actuarial Certificate of Schedule of Contributions

Name of scheme: Electricity Supply Pension Scheme: Drax Power Group

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected on 31 March 2013 to be met by the end of the period specified in the recovery plan dated 30 June 2014.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 30 June 2014.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Group's liabilities by the purchase of annuities, if the Group were to be wound up.

Signature: *Philip Dennis*

Date: 30 June 2014

Name: Philip Dennis

Qualification: Fellow of the Institute and
Faculty of Actuaries

Address: 3 The Embankment
Sovereign Street
Leeds
LS1 4BJ

Name of employer: Aon Hewitt Limited

**Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Actuarial Certificate of Technical Provisions**

Actuarial certificate given for the purposes of Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Drax Power Group of the Electricity Supply Pension Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Group's technical provisions as at 31 March 2013 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustees of the Group and set out in the statement of funding principles dated 30 June 2014.

Philip Dennis

30 June 2014

Philip Dennis

Aon Hewitt Limited

Fellow of the Institute and Faculty of Actuaries

3 The Embankment
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LS1 4BJ

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Independent Auditors' Statement about Contributions to the Group Trustees of the
Drax Power Group of the Electricity Supply Pension Scheme

Statement about contributions

Our opinion

In our opinion, the contributions required by the schedule of contributions for the Group year ended 31 March 2014 as reported in the summary of contributions have in all material respects been paid in accordance with the schedule of contributions certified by the Group actuary on 30 June 2011.

This opinion is to be read in the context of what we say in the remainder of this statement.

What we have examined

The summary of contributions for the Group year ended 31 March 2014, which has been prepared by the Drax Power Group of the Electricity Supply Pension Scheme, is set out on the following page.

What an examination of the summary of contributions involves

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Group under the schedule of contributions and the timing of those payments.

Responsibilities for the statement about contributions

Our responsibilities and those of the Group Trustees

As explained more fully in the statement of Trustees' responsibilities, the Group's Trustees are responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Group by the employer in accordance with relevant requirements.

It is our responsibility to provide a statement about contributions and to report our opinion to you.

This report, including the opinion, has been prepared for and only for the Group Trustees as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Manchester

Date

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Summary of Contributions

During the year, the contributions payable to the Group by the Employer were as follows:

Contribution Type	Employer £000	Member £000	Total £000
Required by the Schedule of Contributions:			
Normal	4,679	177	4,856
Deficit funding	6,150	-	6,150
Salary sacrifice	785	-	785
PPF levy	131	-	131
Matching AVCs	130	-	130
Total required	11,875	177	12,052
Other contributions:			
Supplementary pensions	100	-	100
Rule 29	87	-	87
AVCs	274	157	431
Other	-	5	5
Total other contributions	461	162	623
Total	12,336	339	12,675

Signed for and on behalf on the Group Trustees on 15 July 2014

Trustee



Trustee



Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Independent Auditors' Report to the Group Trustees of the Drax Power Group
of the Electricity Supply Pension Scheme

Report on the accounts

Our opinion

In our opinion the accounts, defined below:

- show a true and fair view of the financial transactions of the Group during the year ended 31 March 2014, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The accounts, which are prepared by the Drax Power Group of the Electricity Supply Pension Scheme, comprise:

- the net assets statement as at 31 March 2014;
- the fund account for the year then ended; and
- the notes to the accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Group Trustees have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Independent Auditors' Report to the Group Trustees of the Drax Power Group
of the Electricity Supply Pension Scheme

What an audit of accounts involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Trustees; and
- the overall presentation of the accounts.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Responsibilities for the accounts and the audit

Our responsibilities and those of the Group Trustees

As explained more fully in the statement of Trustees' responsibilities, the Group Trustees are responsible for the preparation of the accounts and being satisfied that they show a true and fair view.

Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Trustees as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
Manchester
Date

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Fund Account

	Note	2014 £000	2013 £000
Contributions and benefits			
Additions			
Contributions receivable	3	12,675	11,432
Transfers in	4	30	130
		<u>12,705</u>	<u>11,562</u>
Withdrawals			
Benefits payable	5	(5,220)	(4,295)
Payments to and on account of leavers	6	(364)	(459)
Other payments	7	(92)	-
Administrative expenses	8	(131)	(122)
		<u>(5,807)</u>	<u>(4,876)</u>
Net additions from dealing with members		<u>6,898</u>	<u>6,686</u>
Return on investments			
Investment income	9	6	5
Change in market value of investments	10	7,101	17,081
Investment management expenses	11	(298)	(203)
Net return on investments		<u>6,809</u>	<u>16,883</u>
Net increase in the Group during the year		<u>13,707</u>	<u>23,569</u>
Net assets of the Group at 1 April		174,272	150,703
Net assets of the Group at 31 March		<u>187,979</u>	<u>174,272</u>

The notes on pages 24 to 32 form part of these Financial Statements.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Net assets statement as at 31 March 2014

	Note	2014 £000	2013 £000
Investment assets	10	186,720	173,151
Investment liabilities	10	(111)	(45)
Net investment assets		<u>186,609</u>	<u>173,106</u>
Current assets	12	1,445	1,208
Current liabilities	13	(75)	(42)
Total net assets at 31 March		<u><u>187,979</u></u>	<u><u>174,272</u></u>

The Financial Statements summarise the transactions of the Group and deal with the net assets at the disposal of the Group Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Group year. The actuarial position of the Group, which does take account of such obligations, is dealt with in the Report of the Group Trustees and Actuarial Certificates included within this Annual Report on pages 16 and 17 and these Financial Statements should be read in conjunction with them.

The Financial Statements on pages 22 to 32 were approved by the Group Trustees on.....15 July 2014

Signed on behalf of the Group Trustees:

Trustee



Trustee



1. Basis of preparation

The Financial Statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) regulations 1996, and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (SORP) (revised May 2007).

2. Accounting policies

The following principal accounting policies, which have been applied consistently, have been adopted in preparation of the Financial Statements.

Investments

Pooled investment vehicles are valued at the closing bid price if both bid and offer prices are published, or, if single priced, at the closing single price provided by the fund provider.

Investment management fees are accounted for on an accruals basis. Acquisition costs are included in the purchase cost of investments. Transaction costs are reflected in sale proceeds. Acquisition and transaction costs include costs charged directly to the Group such as fees, commissions, stamp duty and other fees.

Investment income

The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, changes in market value also includes income, net of any withholding tax, which is reinvested in the fund.

Foreign currencies

Assets and liabilities in foreign currencies are expressed in sterling at the relevant rates of exchange ruling at the year end.

Transactions denominated in foreign currencies are translated into sterling at the spot exchange rate prevailing at the date of the transaction.

Gains and losses arising on conversion or translation are shown within the change in market value of investments.

2. Accounting policies (continued)

Pensions contributions

Normal and salary sacrifice contributions, due from the members and Employers, are accounted for on an accruals basis in the month employee contributions are deducted from the payroll.

Supplementary contributions from Employers are accounted for in accordance with the agreement under which they are paid, or in the absence of such agreement, when received.

Employers' deficit funding contributions are accounted for in accordance with the agreement under which they are being paid. In the absence of an agreement, they are accounted for on a receipt basis.

Additional voluntary contributions from members are accounted for, on an accruals basis, in the month deducted from the payroll.

Benefits

Members can take their benefits in accordance with the Rules of the Group. This is generally in the form of a pension and lump sum benefit and is accounted for on an accruals basis, which is generally on the later of the date of retirement or when the member determines their pension options (i.e. commutation, lump sum, future pension, etc.).

Transfers to and from the Group

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers, or payable to the pension scheme of new employers for members who have left the Group. They are accounted for on a cash basis or where the Group Trustees have agreed to accept liability in advance of receipt of funds on an accruals basis from the date of the agreement where the transfer can be determined with reasonable certainty.

Other expenses

Administrative expenses and investment management expenses are accounted for on an accruals basis.

The PPF levy is shown as an expense in the Fund Account.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Notes to the financial statements

3. Contributions

	2014	<i>2013</i>
	£000	<i>£000</i>
Employers:		
- Normal	4,679	4,759
- Deficit repair*	6,150	5,000
- Early retirement	-	15
- Supplementary pensions funding	100	-
- Rule 29	87	65
- PPF Levy	131	122
- Salary sacrifice**	785	792
- AVC	404	342
Members:		
- Normal	177	191
- Other	5	10
- AVC	157	136
	<u>12,675</u>	<u><i>11,432</i></u>

* Deficit funding contributions of £416,667 per month from 1 April 2013 to 31 December 2013, £800,000 per month from 1 January 2014 until 30 June 2014, £123,333 per month from 1 July 2014 until 31 December 2014, £416,667 per month (in 2014 prices) from 1 January 2015 to 31 December 2015, and £695,833 per month (in 2014 prices) from 1 January 2016 to 31 December 2019 are being paid as a result of the funding deficit declared in the Actuarial Valuation of the Group as at 31 March 2013, and under the terms of the agreement between the Employer and the Group Trustees, in accordance with the Schedule of Contributions certified by the Group Actuary on 30 June 2014.

** Under the salary sacrifice arrangement, £784,829 (2013: £792,515) of contributions were met by the employer rather than the employees

4. Transfers in

	2014	<i>2013</i>
	£000	<i>£000</i>
Transfer values received from other pension arrangements:		
- Individual transfers	30	-
- Individual transfers – AVCs	-	12
Intra-scheme transfers:		
- Individual transfers	-	118
	<u>30</u>	<u><i>130</i></u>

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Notes to the financial statements

5. Benefits payable

	2014	2013
	£000	£000
Pensions	2,898	2,449
Lump sum retirement benefits and commutations	2,190	1,693
Purchase of annuities (AVCs)	132	97
Lump sum death benefits (in retirement)	-	56
	<u>5,220</u>	<u>4,295</u>

6. Payments to and on account of leavers

	2014	2013
	£000	£000
Purchase of annuities to match preserved benefits	9	-
Transfer values paid to other pension arrangements:		
- Individual transfers	-	459
Intra-scheme transfers:		
- Individual transfers	355	-
	<u>364</u>	<u>459</u>

7. Other payments

	2014	2013
	£000	£000
Other	92	-
	<u>92</u>	<u>-</u>

A member incurred a monetary obligation to Drax Power Limited as a result of criminal offences committed and £91,666 was forfeited from the member's benefits and paid to the Company from the assets of the Group.

8. Administrative expenses

	2014	2013
	£000	£000
PPF levy	131	122
	<u>131</u>	<u>122</u>

Except as noted above, administrative expenses of the Group are borne by the Employer.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Notes to the financial statements

9. Investment income

	2014 £000	2013 £000
Income from cash deposits	6	5
	<u>6</u>	<u>5</u>

10. Investment assets and liabilities

	2014 £000	2013 £000
Investment assets		
Pooled investment vehicles	168,926	171,680
AVC investments	1,782	1,352
Cash deposits and other investment assets	16,012	119
Investment liabilities		
Other investment liabilities	(111)	(45)
	<u>186,609</u>	<u>173,106</u>

Investment movements

	Value at 01.04.13 £000	Purchases at cost and derivative payments £000	Sale proceeds and derivative receipts £000	Change in market value £000	Value at 31.03.14 £000
Pooled investment vehicles	171,680	9,892	(19,737)	7,091	168,926
AVC investments	1,352	561	(141)	10	1,782
	<u>173,032</u>	<u>10,453</u>	<u>(19,878)</u>	<u>7,093</u>	<u>170,708</u>
Cash deposits and other investment assets	119				16,012
Other investment liabilities	(45)				(111)
	<u>173,106</u>				<u>186,609</u>

Change in market value

	2014 £000	2013 £000
Change in market value per fund account	<u>7,101</u>	<u>17,081</u>

Indirect transaction costs are incurred through the bid-offer spread on investments within pooled investment vehicles. These indirect costs are not provided to the Group.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Notes to the financial statements

10. Investment assets and liabilities (continued)

Pooled investment vehicles

	2014	<i>2013</i>
	£000	<i>£000</i>
Managed funds - other	168,926	<i>171,680</i>
	168,926	<i>171,680</i>

Within the pooled investment vehicles balance above is £1.2m in relation to a new Gottex fund, set up after redemption of the previous Gottex fund, which is holding the more illiquid assets until they can be realised as cash distributions.

Additional voluntary contributions (AVCs)

Members can choose to top up their retirement benefits by paying Additional Voluntary Contributions (AVCs) to the AVC providers approved by the Group Trustees. Contributing members may enquire about the Group's AVC arrangements and the various fund options available by contacting their Group Administrator.

The accumulated value of the AVCs, which is determined by investment returns achieved from funds receiving contributions and benefits, can currently be accessed in line with the overall allowances set by HM Revenue & Customs. It is not currently clear whether the additional flexibilities for DC funds proposed to be introduced in April 2015 will apply to AVCs.

Members participating in AVC arrangements each receive an annual statement confirming the amounts held in their AVC account. Members paying AVCs also receive an annual Statutory Money Purchase Illustration which gives each member a projection of what their additional benefits might be, arising from their AVCs based on actuarial assumptions and investment returns laid down by legislative requirements.

The Group Trustees may either nominate their own AVC providers or choose from providers recommended by the Scheme Trustee. Each year the Scheme Trustee conducts a review of its current and previously recommended AVC providers and fund options in conjunction with its investment adviser and notifies the Group Trustees of the conclusions of this review, including any change to the recommended fund options.

The number of AVC accounts (including "frozen" accounts) as at 31 March 2014 was 94 (*2013: 83*). In some cases members have two or more accounts.

The aggregate amounts of AVC investments are as follows:

	2014	<i>2013</i>
	£000	<i>£000</i>
Aviva	66	<i>43</i>
Equitable Life Assurance Society	41	<i>41</i>
Prudential Assurance Society	1,675	<i>1,268</i>
	1,782	<i>1,352</i>

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Notes to the financial statements

10. Investment assets and liabilities (continued)

Cash deposits and other investment assets

	2014	<i>2013</i>
	£000	<i>£000</i>
Cash deposits	16,008	<i>36</i>
Accrued interest and dividends	4	<i>-</i>
Other debtors	-	<i>2</i>
Amounts receivable from sale of investments	-	<i>81</i>
	<u>16,012</u>	<i><u>119</u></i>

The Group's mandate with Gottex was redeemed on 2 January 2014. Gottex distributed c.93% of total redemption proceeds as cash (c.£16.0m) to the ESPS Drax Gottex account at BNYM on 14 February 2014. On 27 March 2014 this cash was transferred to State Street Fund Services (Ireland) Ltd ("State Street"), custodian of the M&G Alpha Opportunities Fund, and it was subsequently invested in this fund on 1 April 2014.

Other investment liabilities

	2014	<i>2013</i>
	£000	<i>£000</i>
Other creditors	<u>(111)</u>	<i><u>(45)</u></i>
	<u>(111)</u>	<i><u>(45)</u></i>

Concentration of investments

Investments exceeding 5% of the value of the Group's net assets as at 31 March 2014 or 31 March 2013 are detailed below:

	Value at		<i>Value at</i>	
	31.03.14		<i>31.03.13</i>	
	£000	%	<i>£000</i>	<i>%</i>
L&G 2035 Index-Linked Gilts Index	29,018	15	30,477	17
Origin Global Unconstrained Equity Fund	26,073	14	23,669	14
THS International Growth & Value Fund	23,949	13	20,418	12
L&G Over 15 Year Index-Linked Gilts Index	22,421	12	16,415	9
L&G UK Equity Index	21,260	11	21,403	12
L&G LPI Income Property Fund	16,188	9	14,595	8
State Street Fund Services (Ireland) Ltd	15,975	8	-	-
L&G 2055 Index-Linked Gilts Index	12,012	6	12,028	7
L&G Active Corporate Bond All Stock RPI 2030 Index	9,219	5	9,521	5
Gottex Market Neutral Plus	1,162	1	16,704	10

Employer-related investments

As at 31 March 2014 the Drax Power Group had less than 0.02% of the Group's assets directly invested in Drax Power or its associated companies. This was in accordance with the policy of the Group Trustees.

Drax Power Group of the Electricity Supply Pension Scheme
Annual Report and Financial Statements for the year ended 31 March 2014
Notes to the financial statements

11. Investment management expenses

Investment management fees for Group-specific funds, performance measurement services and investment-related fees of Group advisers, are the responsibility of the Group Trustees. The Scheme Trustee negotiates the custody fees which apply to all portfolios. Investment management and custody fees for Group-specific funds are shown below.

	2014	<i>2013</i>
	£000	<i>£000</i>
Administration and management fees	360	267
Custody fees	6	4
Investment management fee rebates	(68)	(68)
	<u>298</u>	<u>203</u>

12. Current assets

	2014	<i>2013</i>
	£000	<i>£000</i>
Contributions due from Employer in respect of:		
- Employers	1,254	876
- Members	15	16
Other debtors	3	2
Cash balances	173	314
	<u>1,445</u>	<u>1,208</u>

All contributions due to the Group at 31 March 2014 and 31 March 2013 relate to March 2014 and March 2013 respectively and were subsequently paid in full to the Group in accordance with the Schedule of Contributions.

13. Current liabilities

	2014	<i>2013</i>
	£000	<i>£000</i>
Benefits payable	(40)	(12)
Administrative expenses payable	(35)	(30)
	<u>(75)</u>	<u>(42)</u>

14. Related party transactions

Other than those items disclosed elsewhere in these Financial Statements, there were no other related party transactions. The Group Trustees who receive pensions from the Scheme are identified in the list of Group Trustees shown on page 1. Other services have been provided by Principal Employer free of charge during the year.

15. Contingent liabilities and contractual commitments

In the opinion of the Group Trustees the Group had no contingent liabilities entered into which are not provided for in these Financial Statements.

16. Subsequent events

There were no subsequent events requiring disclosure in the Financial Statements.