

# ANNUAL REPORT AND ACCOUNTS 2009



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## WHAT WE DO BEST

→09-19

We have a key role to play in the transition towards a low carbon economy. Our focus is on delivering reliable, sustainable and secure supplies of electricity. Our goal is to balance success and responsibility.





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## BUSINESS REVIEW

### THE BASICS

Drax is predominantly a power generation business responsible for meeting some 7% of the UK's electricity demand. Currently owning and operating a single power generation asset, we are planning to develop three 290MW dedicated biomass-fired power stations in partnership with Siemens Project Ventures.

At the other end of the supply chain, through our retail arm, Haven, we serve the electricity needs of over 24,000 small and medium sized business customers.

#### FUEL

**8.2 million**

tonnes of coal burnt in 2009

**478,000**

tonnes of petcoke burnt in 2009

**381,000**

tonnes of biomass burnt in 2009

**116,000**

tonnes of pond fines burnt in 2009



Traditionally, a coal burning business, we now make use of a range of alternative fuels.

#### GENERATION

**3,960MW**

connected capacity of Drax Power Station

**89.1%**

plant availability for 2009

**6.5%**

forced outage rate for 2009

**4.7%**

planned outage rate for 2009



Drax Power Station is the largest power station in the UK, almost double the size of the next largest. With high availability, reliability and flexibility we can respond quickly to system demand.

#### WHOLESALE

**22.6TWh**

net sales of power in 2009

**10.3 million**

tonnes of CO<sub>2</sub> emissions allowances purchased in 2009

**14%**

of Balancing Mechanism trades by volume in 2009

**777,000**

Renewables Obligation Certificates sold for renewable power generated



Through keeping a constant eye on the market we are able to optimise the commercial despatch of our power.

RETAIL

**0.7TWh**

supplied in 2009

**24,000**

small and medium sized business customers on supply at the end of 2009

**50%**

sales growth in 2009

**-40%**

up to 40% saving on electricity bills



An alternative route to market for our power and value adding in its own right.

ENVIRONMENT

**1 million**

tonnes of CO<sub>2</sub> saved in 2009 through co-firing biomass and upgraded turbine modules

**88%**

of sulphur dioxide removed through the Flue Gas Desulphurisation process

**20-30%**

of nitrogen oxides removed through the Boosted Over Fire Air process

**ISO**

14001: 2004 certification retained in 2009



We recognise the impact that Drax Power Station has on the environment and where practicable we work towards reducing this impact with a policy of regarding compliance with legislation as a minimum level of achievement.

RESPONSIBILITY

**FTSE4GOOD**

presence in the Index Series retained in 2009

**RoSPA**

Gold Medal awarded in 2009

**OHSAS**

18001 certification retained in 2009

**£138,930**

donated to charitable and non-charitable community causes during 2009



Corporate responsibility is about achieving a balance between the commercial and regulatory rigours of the competitive sector within which we operate and our commitment to our stakeholders.

## BUSINESS REVIEW

## CHAIRMAN'S INTRODUCTION

Our business has not been immune to the economic recession and actions have been successfully taken through 2009 to help protect shareholder value.



**Principal performance indicators and summary of operational achievements**

**£1,476 million**  
Total revenue

**£52.0 per MWh**  
Average achieved price of electricity

**22.6TWh**  
Net sales

**£506 million**  
Gross profit

**£355 million**  
EBITDA

**0.09**  
Health and safety (lost time injury rate)

**89%**  
Plant availability

**68%**  
Load factor

→20

Our business has not been immune to the economic recession and actions have been successfully taken through 2009 to help protect shareholder value. The steady progress we made during the first six months of the year continued throughout the second half of the year, despite operating in a challenging trading environment.

Through the delivery of strong performance across the business we achieved earnings for 2009 marginally ahead of market expectations. Our earnings are lower than for 2008, reflecting a decrease in the margins captured for power sales as a consequence of commodity market movements. We report earnings (EBITDA) of £355 million for 2009 (2008: £454 million) and an operating profit for 2009 of £173 million (2008: £464 million). The Board proposes a final dividend in respect of 2009 of 9.6 pence per share, equivalent to £35 million. This takes total dividend payments for 2009 to £50 million.

During the year we strengthened our capital structure through a share placing in June, raising £106 million of equity which was used to prepay part of our term debt, and in early August we refinanced the residual term debt and extended the final maturity to December 2012.

We start 2010 with more certainty over the earnings for the year following action taken mid-2009 to accelerate our contracted position. Our term power sales were further augmented in November, when we entered into a new power sales agreement with Centrica for the five year period to September 2015, which importantly signals the willingness of counterparties to contract beyond 2012.

The acquisition in the first quarter of 2009 of Haven Power Limited ("Haven"), an electricity supply company serving business customers, complements our existing trading capabilities and provides an alternative route to market for our power. Haven is already proving its ability to add value to the Drax business through the growth of its customer base.

We continued to work hard on our two major strategic carbon abatement projects - turbine upgrade and biomass co-firing. Both projects remain on schedule, with the capability to deliver savings in carbon dioxide ("CO<sub>2</sub>") emissions of up to 17.5% by 2011, compared to 2006 levels. Also on the carbon reduction theme, we have made good progress on our new dedicated biomass-fired generation plant developments, with key steps taken in the planning consent process.

Although 2009 has been a challenging year we have nevertheless made progress on many fronts, from carefully managing our financial health to very solid progress on carbon abatement and our biomass strategy. None of this would have been possible without the dedication of our staff and my sincere thanks go to them.

**Charles Berry**

Chairman

22 February 2010



## BUSINESS REVIEW

# CHIEF EXECUTIVE'S STATEMENT

## Overview

Last year the commodity markets in which we operate yielded weak margins for coal-fired generators. Despite poor market conditions we have delivered earnings marginally above market expectations. Key to this was our ability to take advantage of the flexibility and reliability of Drax Power Station. We capture value by adjusting generation levels in line with the prompt market and by participating in the Balancing Mechanism – one of the tools available to the System Operator, National Grid, to enable it to balance electricity supply and demand close to real-time.

Across the business strong financial management has delivered the cost reduction and cash management targets we set ourselves early in 2009. Much of the savings resulted from the process re-engineering work we launched in 2007, which is delivering significant productivity improvements.

In the middle of the year we strengthened our capital structure through raising equity, reducing term debt and extending the tenor of the remaining debt facilities. Together these actions have delivered a robust capital structure and protected the investment grade debt rating which currently underpins our ability to trade. We are progressing work on market access options for trading without the support of an investment grade rating for our debt.

On the operations side of the business, our leadership position in the UK coal-fired sector, illustrated by our high availability, was retained. Critical to this our safety and project achievements are industry leading, making us well placed to capitalise on any opportunities to increase returns as the generation capacity margin reduces due to the retirement of some of the older power stations on the system.

Our carbon abatement projects remain on schedule and to budget, and we remain well placed to have the capability to deliver a reduction of up to 17.5%, compared to 2006, in our emissions of CO<sub>2</sub> by 2011.

Throughout 2009 we made steady progress on our dedicated biomass-fired generation business. Key to the success of this growth initiative is the development of robust commercial structures supported by sound engineering and the delivery of a mid-teens return on equity we invest in this business. We remain very encouraged by the value potential of developing a dedicated biomass-fired generation business and we expect to be able to prove the long-term investment case for the first dedicated biomass-fired generation plant towards the end of 2010.





Last year the commodity markets in which we operate yielded weak margins for coal-fired generators. Despite poor market conditions we have delivered earnings marginally above expectations.

## Commodity markets

Power prices are driven by a number of factors, but the dominant force in 2009 was low gas prices as a result of the weak global economy. Reducing global demand has led to a gas surplus, and with storage for only a finite volume, the UK with its open market has become a significant consumer of last resort. Plentiful supply into the UK has consequently driven gas prices down and with them power prices. The coal market was comparatively unaffected by the recession as higher demand in China and India counteracted the reduced demand in Europe and the United States.

In addition, good availability of UK generating capacity, as well as around a 3% reduction in electricity demand compared to a year ago, has put further pressure on power prices and as a result we have seen narrowing dark green spreads.

## Trading performance

Despite challenging market conditions in the near-term, our exposure to these narrowing spreads is mitigated by our strong forward contracted position.

In the first half of 2009, forward commodity prices for 2010 and beyond traded on the basis of a strong recovery in dark green spreads in 2010 through to 2012. Amidst concerns that the market fundamentals were not supporting the forward spreads, we accelerated our 2010, 2011 and 2012 forward sales locking in improved spreads at levels above our average spreads for 2009. This provided us with a very robust hedge for 2010 and an improved hedge in 2011 and 2012.

We also executed an additional power sales agreement with Centrica for the five years to September 2015. Under this new agreement we will provide Centrica with 300MW of baseload power. The pricing under the agreement provides us with fixed dark green spreads consistent with our trading strategy.

The acquisition of Haven in March supported our strategy to extend our trading capabilities and options for routes to market. This customer focused supply business has proved to be an excellent fit with our existing trading activities providing a market for the electricity that we generate through securing term contracts with customers.

Haven, with its main customer base of small and medium sized enterprises, supplied 0.7TWh in 2009. We expect over the next few years to increase significantly Haven's supplies to this segment of the electricity supply market. We have also started to explore direct sales through Haven to the industrial and commercial market and commenced sales to a few of the larger business customers in the final quarter of 2009. This segment of the market collectively consumes around 150TWh each year and sales to this sector could lead to rapid growth in our use of Haven as a direct route to market. During 2010, we will take forward our initiative to expand significantly our sales to this market segment.

## BUSINESS REVIEW

### CHIEF EXECUTIVE'S STATEMENT

### Operating performance

Operationally, we have maintained our position at the top of the merit order for UK coal-fired power stations. Our advances in efficiency improvements continue to ensure that our leadership position is retained. Further, the reliability and flexibility of the power station enables the provision of key services to the electricity transmission network. Our operating performance is illustrated by our plant availability, which for the year was 89%. It is noteworthy that during the year our overall operational performance continued to improve whilst downward pressure was placed on costs.

During the Winter quarter ended March 2009, our Winter forced outage rate was higher than targeted due to a one-off incident, which was confined to a single generating unit. Following investigation, we are confident that it was an isolated event and there are no indications that we will experience similar events in the future. During the remainder of the year our forced outage rate was once again in line with our long-term target.

The single major planned outage for 2009 was completed in the second quarter of the year and in record time for the maintenance schedule. Our safety record throughout the outage was excellent with no worse than first aid incidents recorded. This is a considerable achievement in the context of some 500,000 man-hours being worked during the period.

Continuing with the safety theme, we were delighted to be awarded with the Royal Society for the Prevention of Accidents Gold Medal. The Gold Medal Award recognises and celebrates the achievement of an extremely high standard of health and safety at work over at least five consecutive years.

Overall our safety record for the year was excellent, placing us in the upper quartile amongst global comparator coal-fired power stations for total recordable injury rate. We remain fully committed to maintaining and enhancing a positive health and safety culture in which statutory requirements are viewed as a minimum standard and leading performance is our goal.

### Carbon abatement

Both of our strategic carbon abatement projects – turbine upgrade and biomass co-firing – have continued to make solid progress.

During this year's major planned outage we successfully completed the installation of one high pressure and three low pressure turbine modules on one of our units. This takes us to just over halfway through the turbine upgrade project with all the new turbine modules meeting their guaranteed performance levels of 40% thermal efficiency. We are now delivering tangible benefits in terms of efficiency gains and CO<sub>2</sub> emissions reduction, with CO<sub>2</sub> emissions savings of some half a million tonnes a year.

On completion, the biomass co-firing facility will be the largest of its type in the world, which alongside our existing co-firing capability will provide a total of 500MW of renewable electricity capacity, sufficient to supply the needs of over 600,000 households in the UK. At full capacity the biomass co-firing facility will reduce Drax Power Station's emissions of CO<sub>2</sub> by over two and a half million tonnes each year.

Together, the two carbon abatement projects will have the capability to deliver CO<sub>2</sub> emissions savings of over three and a half million tonnes a year, or a 17.5% reduction on 2006 levels.

The development of our dedicated biomass-fired business is progressing in line with our timetable. Planning applications for two power stations, at the Drax Power Station site and the Port of Immingham, were submitted during the year. Consultation with a wide range of stakeholders is a key part of the process and we have been delighted with the show of very strong public support for the developments. Our tender process for building the power stations has been received with keen interest and our engineering design is now well advanced.

### Looking ahead

For 2010 and beyond, we are continuing to see narrow dark green spreads driven principally by low forward gas prices compared to those of coal.

Our view remains that, in time, the electricity market will provide increasing returns to available capacity as the retirement of some of the older power stations on the system reduces the generation capacity margin. Indeed, the poor market spreads may hasten some of the expected retirements, and this should put upward pressure on spreads.

We are faced with the prospect of a review of the electricity market structures and possible reform as the Government seeks to deliver security of supply and reduced carbon emissions from the sector at affordable prices. We will actively engage with the Government on possible reforms as we believe the case for the secure and flexible forms of power generation, such as that provided by Drax, is strong.

We expect to expand our direct supplies through Haven and will progress the business case for selling increasing volumes to the large industrial and commercial market sector.

Our focus on strong financial management will be maintained as we look to make further progress in delivering efficiency improvements to reduce costs.

Biomass has been identified as a key growth area for attaining the UK's target of 15% renewable energy by 2020. We continue to press for the appropriate regulatory regime to incentivise the uptake of this technology. We maintain our view that these developments should be positive for the business.

**Dorothy Thompson**  
Chief Executive

22 February 2010

## WHAT WE DO BEST

WE HAVE A KEY ROLE TO PLAY IN THE TRANSITION TOWARDS A LOW CARBON ECONOMY. OUR FOCUS IS ON DELIVERING RELIABLE, SUSTAINABLE AND SECURE SUPPLIES OF ELECTRICITY. OUR GOAL IS TO BALANCE SUCCESS AND RESPONSIBILITY.



# AD BREAK CUPPA?

OR A RELIABLE POWER SUPPLY THAT HAS  
THE FLEXIBILITY TO MEET THE DEMANDS  
PUT ON THE ELECTRICITY SYSTEM?



"Reliability, availability and flexibility are vital contributors to security of supply and key qualities of Drax Power Station. As a national strategic asset meeting some 7% of the UK's electricity needs we work hard to operate and maintain the plant so that we can meet the demands on the electricity system. Not many people realise that when there are sudden surges in demand, for example, when the adverts are shown on TV, we are often there to provide the power."

**Peter Emery**  
Production Director



In addition to the major outages that each generating unit undergoes every four years, many projects are undertaken throughout the year to ensure that the plant is well maintained and reliable.

RELIABILITY  
AVAILABILITY



Manned 24/7 all year round the control room is the heart of the power station. Operators are able to keep a close eye on each of the generating units and schedule the despatch of power.

FLEXIBILITY

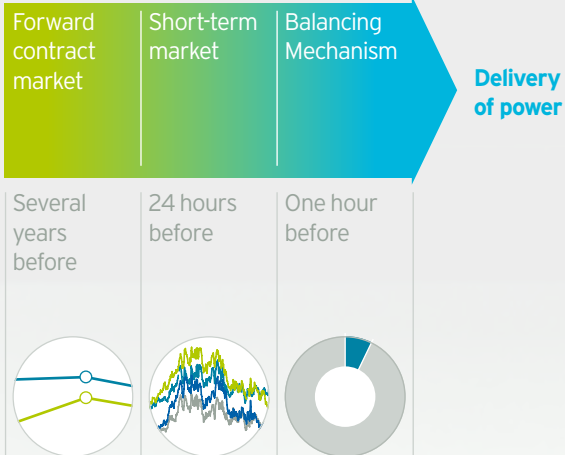


The logistics of handling millions of tonnes of material, whether it's coal, biomass, ash or the many other materials that are part of the electricity generation process, are complex and demand around the clock attention.

COAL  
 ADDED VALUE  
 POWER  
 CARBON  
 HEDGING



We operate across all three sub-sets of the wholesale market spanning several years before delivery to real-time delivery of power. During 2009, we were able to make the most of the flexibility and reliability of our asset through participating in the Balancing Mechanism (real-time) market and improving our profitability during tight market conditions.



Our flexibility, reliability and size make us well placed to offer balancing services to the System Operator, National Grid, to assist in balancing demand and supply. These services include frequency response, which is when we change our output in response to a change in the system frequency. As with participating in the Balancing Mechanism, providing these services enables us to extract value even when market conditions are poor.

**centrica**

During the year we executed an additional power sales agreement with Centrica for the five years to September 2015, importantly demonstrating an appetite for deals beyond 2012.



We only generate when it is economic to do so and a variety of factors are at play in the "make or buy" decision. Drawing all these factors together allows us to compare our marginal cost with the market price for power. When our cost is below the market price we generate, when it is above the market price we buy power from the market to meet our contracted position.

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Our trading team has vast knowledge and experience of the markets within which we operate. We have actively sought to extend our trading capabilities and options for routes to market to ensure that we can manage any exposures to the commodities in which we deal.



"Our trading function is all about adding value. In 2009, we demonstrated our ability to make the most of tough circumstances, delivering strongly despite the challenging economic and commodity market conditions that were outside our control. Whether it's through hedging our power sales positions or supporting our retail business we are able to deliver value to the overall business."

**Paul Taylor**  
Director of Trading

# REAL TIME?

OR ANOTHER WAY TO TRADE OUR POWER  
AND EXTRACT VALUE EVEN WHEN MARKET  
CONDITIONS ARE TIGHT?

We are pleased to have made real progress in growing our customer numbers during 2009 and we are delighted to have attracted some household names amongst those.

HOLLAND & BARRETT  
*we're good for you.*

BLOCKBUSTER

müller

# DIRECT SALES?

OR A NEW SUPPLY CHANNEL THAT PROVIDES A DIRECT ROUTE TO MARKET FOR OUR POWER OUTPUT?





The trading team at Drax works closely with the power purchasing function at Haven. Together we work to ensure that wholesale prices are passed directly through to our supply business allowing competitive pricing for our customers. All of our customers receive good service and a named account manager, which together with market knowledge and energy expertise are the cornerstones of our retail business.



We ended the year with 24,000 customers on supply; an increase of around 50% in the year. With the resources, confidence and backing of a major generation business, we are large enough to offer competitive pricing, but small enough to provide a flexible, responsive service to business customers.

SME  
24,000 CUSTOMERS  
COMPETITIVE PRICES  
0.7TWh

I&C



"Integration into the Drax group of companies following the purchase of Haven in the first quarter of the year went very smoothly. During 2009, we have seen significant growth in customer numbers in the small and medium enterprise ("SME") market. We have also made our first, encouraging steps in supplying larger users in the industrial and commercial ("I&C") market. This has the potential to lead to rapid growth in our use of the supply business as a direct route to market for Drax's power output."

**Peter Bennell**  
Chief Executive of Haven Power Limited



"The single biggest challenge we face is reducing our impact on the environment. We fully understand the threat of climate change and believe that we have an important role to play in managing the transition to a low carbon economy, whilst delivering reliable and secure supplies of electricity. Our two major investments at the power station are supporting our drive to reduce significantly our carbon footprint."

**Ernie Rowe**  
Engineering and Safety Manager



Our carbon abatement projects remain on schedule and to budget, and we remain well placed to have the capability to deliver a reduction of up to 17.5%, compared to 2006, in our emissions of CO<sub>2</sub> by 2011, which is equivalent to taking nearly one million cars off the road.

CLIMATE CHANGE  
REDUCE CARBON FOOTPRINT  
EFFICIENCY  
RENEWABLES

# NEW PART?

OR PART OF OUR ONGOING INVESTMENT PROGRAMME TO FURTHER REDUCE CARBON EMISSIONS AT THE POWER STATION?



The largest steam turbine modernisation project in UK history is now just over halfway complete at Drax Power Station. Through replacing the high pressure and low pressure turbine modules on all six of our generating units we will improve the overall efficiency of the power station, taking it to 40%, and save one million tonnes of CO<sub>2</sub> each year.



The largest biomass co-firing facility in the world is nearing completion at Drax Power Station. By mid-2010, the co-firing capability at Drax Power Station will increase to 500MW or 12.5% of the power station's output, equivalent to the output of over 600 wind turbines. This will give us the capability to reduce CO<sub>2</sub> emissions by over two and a half million tonnes a year.

# CROP ROTATION?

OR MIXED USE OF BIOMASS, TO HELP US PLAY A KEY ROLE IN THE UK'S TRANSITION TO A LOW CARBON ECONOMY?

## BIOMASS

ALTERNATIVE FUELS

## RENEWABLES

### SUSTAINABILITY

In 2009, we launched our "Green Shoots" programme through which farmers, foresters and other landowners nationwide are able to enter into direct contracts with us to supply biomass.



Sustainability is key and we have implemented our own sustainability policy committing us to delivering a 70% reduction in greenhouse gas emissions compared to coal-fired generation. We aim to procure biomass only from supply chains that comply with our principles. Analysis has revealed that we are achieving an 80-92% reduction after taking into account the entire life cycle of the biomass material, including harvesting, processing and transportation, from field to furnace.

**Drax**  
Power Limited  
leadership in sustainable energy



Straw is an attractive biomass material. It is a by-product of food production rather than a competitor for land use, and it meets our sustainability criteria. During the year we started commissioning our pilot straw pellet plant, which will provide us with 100,000 tonnes of straw pellets a year.

36.—(1) Subject to subsections (2) and (4) below, no power station shall not be constructed, extended or operated except with the consent granted by the Secretary of State.

Throughout 2009, we made steady progress on our dedicated biomass-fired generation business. We have applied for planning consent for two of the proposed power stations and have received unanimous support from the local councils. We expect to be able to prove the long-term investment case for the first dedicated biomass-fired plant towards the end of 2010.



“We believe that biomass can make a valuable contribution towards the UK’s commitment to renewable energy and deliver considerable savings in CO<sub>2</sub> emissions. We have identified significant volumes of sustainable biomass, including residues from agricultural and forestry products, and purpose grown energy crops in the UK.”

**Sean Ebnet**  
Director of New Business

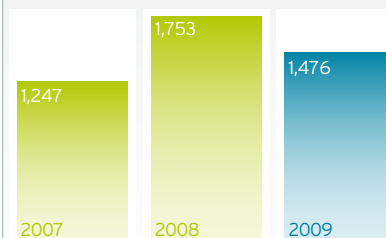
## BUSINESS REVIEW

## HOW WE'RE PERFORMING

Despite a challenging year, as a consequence of commodity market movements, strong performance across the business has delivered earnings marginally ahead of market expectations. Our principal performance indicators and operational achievements for the last three years provide a snapshot of how we're performing.

### Total revenue £1,476 million

(2008: £1,753 million)



#### About this measure

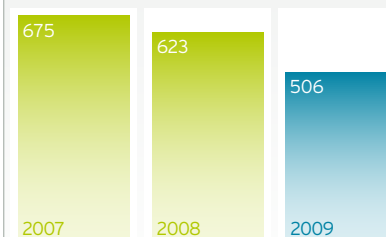
Power sales, retail sales and income from ancillary services, sale of by-products and the sale of ROCs and LECs.

#### Comment

Reflects an 11% reduction in our average achieved electricity price and an 11% decrease in net power sold.

### Gross profit £506 million

(2008: £623 million)



#### About this measure

Revenue less fuel costs, cost of power purchases and grid charges.

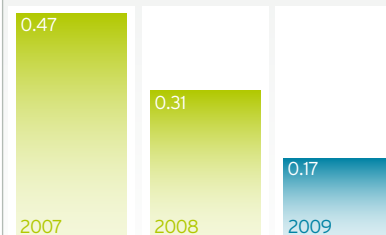
#### Comment

Despite poor market conditions we delivered gross profit marginally ahead of expectations.

### Health and safety (total recordable injury rate)

0.17

(2008: 0.31)

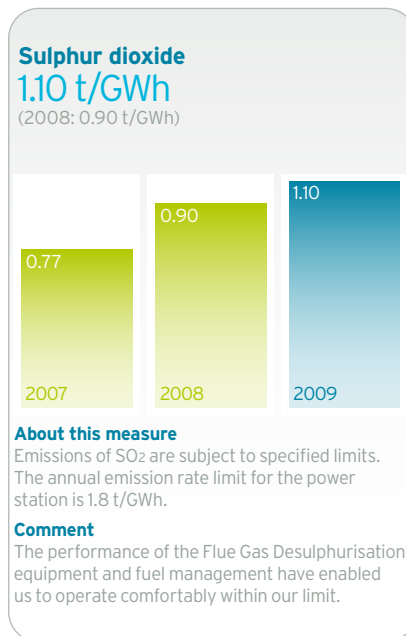
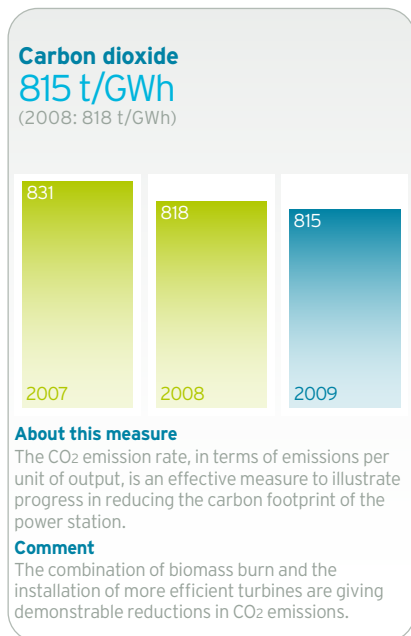
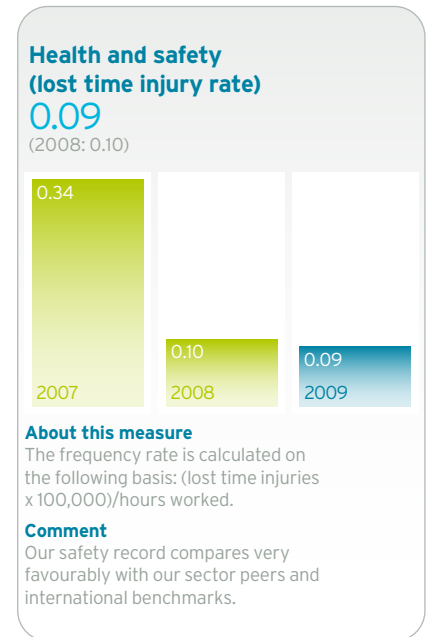
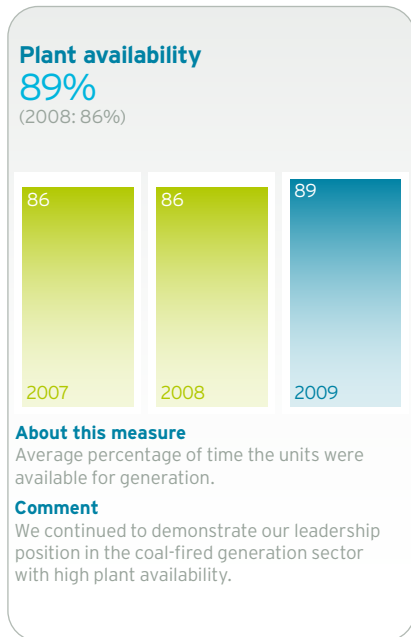
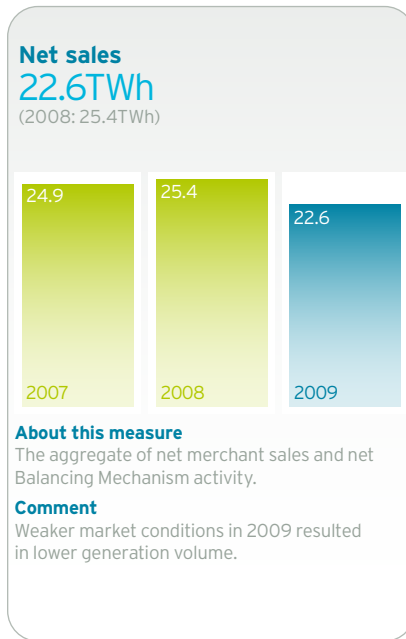
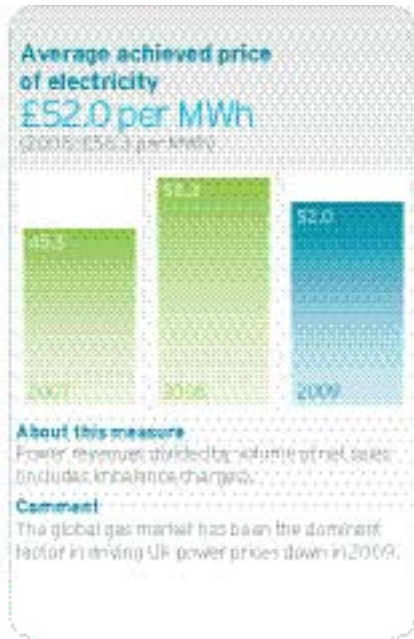


#### About this measure

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

#### Comment

Our safety record compares very favourably with our sector peers and international benchmarks.



BUSINESS REVIEW

# MARKETPLACE

From a nationalised, centrally planned system the UK electricity sector has been transformed over the last 20 years. Privatisation, liberalisation and energy policy have shaped the market and driven increasing consolidation and market reform.

Mindful of the need to deliver security of supply and to address environmental concerns, but at affordable prices, complex arrangements and mechanisms have evolved to match the supply and demand of a product which is not stored, yet is vital to everyday life.

## The UK electricity market

The UK electricity market is characterised by six large vertically integrated companies and a number of smaller "independent" companies. Drax is an example of an independent company, which until 2009 was solely interested in the generation of electricity.

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

There is a total of just over 76,000MW of generating capacity in the UK market which are responsible for supplying approximately 350TWh of power in a year.

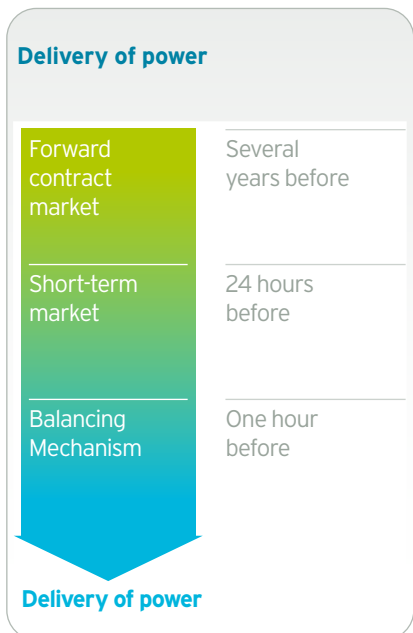
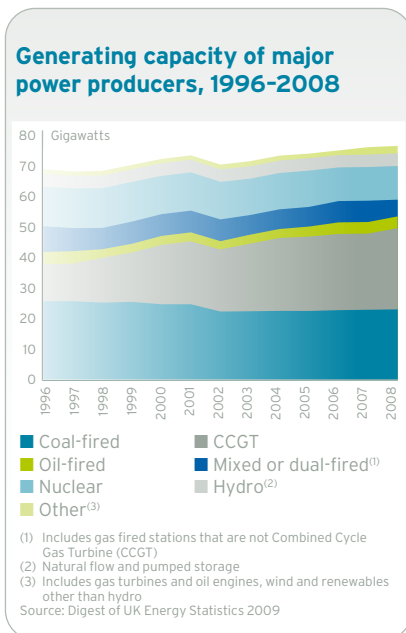
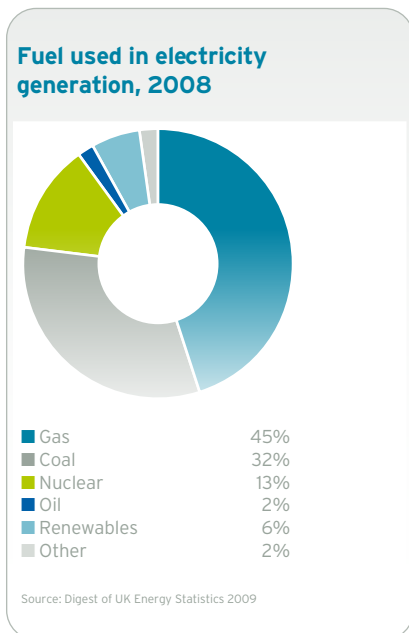
The six large vertically integrated players have control, either through ownership or long-term contracts, of some 70% of the total generation capacity and have a combined interest of 95% in the supply market. Since much of their output is taken by their own supply businesses, the wholesale electricity market is largely supported by independent electricity generators, of which Drax is the largest.

Drax has a 5% share in the generation capacity market and typically meets 7% of the UK's electricity needs. Through our supply arm, Haven, we serve some 24,000 small and medium sized business customers, together accounting for annualised sales of 1.1TWh of power.

## The wholesale electricity market

Various mechanisms exist to allow power to be traded at the wholesale level in Great Britain. Trading can take place via forward and futures markets, power exchanges, brokers and bilaterally. Power can be traded close to real-time and up to several years ahead of delivery. It can also be traded for specific periods, for example, specific half hours or specific seasons. The UK wholesale electricity market trades across three sub-markets:

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





**The electricity supply chain**



**Wholesale market**

Generators, suppliers, traders, large customers and National Grid buy and sell electricity



**Transmission**

National Grid operates the pylons and wires for transmitting electricity at high voltages



**Electricity distribution businesses**

Companies who operate the low voltage regional electricity distribution networks



**Suppliers**

Companies who sell to and bill customers



**Customers**

Large and small business customers and domestic customers

**Wholesale prices**

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

The price of oil is a key driver of wholesale price. In mainland Europe, gas prices are linked under contract to oil prices, and given that the UK imports a significant amount of gas and that gas is used to generate around 45% of the UK electricity, any changes in wholesale gas prices will impact wholesale electricity prices.

Low gas prices were a feature of the market during 2009, which in turn led to low wholesale power prices. The wholesale market operates on price and with gas-fired generation becoming cheaper, coal-fired generation became the marginal plant. With excellent reliability and availability, Drax Power Station occupies the top of the merit order for UK coal-fired plant and so even when coal-fired plant is at the margin we will be the first of the coal-fired plants to be called on to generate.

**Adding value**

Our profitability is determined by the difference between the price at which we sell our power and the cost of coal and carbon; this difference is referred to as the dark green spread. Starting at the dark green spread there are several steps in the Drax value chain with each one adding incremental value to the business and ultimately delivering our gross margin:

- already the most efficient of the UK's coal-fired fleet, our turbine upgrade is improving our overall efficiency bringing with it coal and carbon cost savings;
- by diversifying our fuel sources we are able to capture value from commodity market cycles;
- as the largest coal-fired power station, by almost a factor of two, we are able to exploit economies of scale, for example, through procuring coal at competitive prices;
- our flexibility and reliability make us well placed to take advantage of buying back power when the market price falls below our marginal cost of production, increasing our activity in the real-time, Balancing Mechanism or offering ancillary services, such as frequency response;
- we benefit from having a physical asset to trade around and from our trading strategy to target market dark green spreads and to hedge our power sales with coal and carbon purchases which enables us to lock in value in the near-short- and long-term. Always looking to increase the trading options available to us, the acquisition of the supply business, Haven, provides us with a direct route to market as well as an asset that can add value in its own right; and
- we are able to generate additional streams of revenue through the sale of by-products of both the combustion and Flue Gas Desulphurisation processes, that is, ash and gypsum, and by offering ancillary services, such as stability services.

**How we add value**

**Market baseload dark green spread (36% efficiency)**



**Efficiency advantage**

- Efficiency improvement to 40% on full turbine upgrade
- Coal and carbon savings



**Fuel diversity**

- Biomass
- Petcoke
- Pond fines



**Economies of scale**

- Coal procurement at competitive prices



**Flexibility and reliability**

- Balancing Mechanism activity
- Power buy-backs
- Ancillary services, such as frequency response



**Trading added value**

- Physical asset to trade around
- Timing of hedging
- Routes to market, including Haven



**Additional revenues**

- Sale of by-products (ash and gypsum)
- Ancillary services, such as stability services

**Realised gross margin**

**BUSINESS REVIEW**  
MARKETPLACE

As a power generator operating in commodity markets we are exposed to the prices of power, coal and carbon.

**Commodity markets**

In the final quarter of 2008 we saw dark green spreads narrow and experienced significant falls in power, coal and CO<sub>2</sub> emissions allowances prices. During 2009, we have continued to experience challenging market conditions for coal-fired generators, with further falls in power prices driving a further contraction in spreads. These trends in forward power, coal and CO<sub>2</sub> emissions allowances prices are described further in the following paragraphs and are illustrated in the accompanying charts.

**Power**

Increasing power prices through the early part of 2008 followed strengthening oil and gas prices. High power prices were sustained in the third quarter with fears that outages, Large Combustion Plant Directive ("LCPD") constraints and delays in Flue Gas Desulphurisation ("FGD") installations at other UK plant might result in a capacity shortfall. Power price falls towards the end of 2008 followed weaker oil and gas prices. In addition, other plants returned to service, which allayed fears of a capacity shortfall, and demand began to fall in response to the economic climate.

These trends have continued in 2009. The global gas market has been the dominant factor in driving UK power prices down further. Reducing demand has led to a global gas surplus, and, with storage for only a finite volume, the UK with its open market has become the consumer of last resort. Plentiful supply has consequently driven gas prices down and power prices on the back of those. In addition, high availability of UK generating capacity as well as a reduction of more than 3% in electricity demand compared to a year ago, caused by the economic downturn, have put further pressure on power prices.

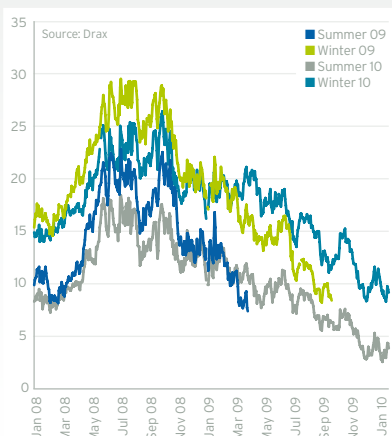
**Accelerating our forward sales**

"Our market analysis identified the ripple effects of the recession on our commodity markets early. By accelerating our forward sales to lock into the improved margins available for 2010 and 2011 we were able to protect the business from the weak markets that followed."

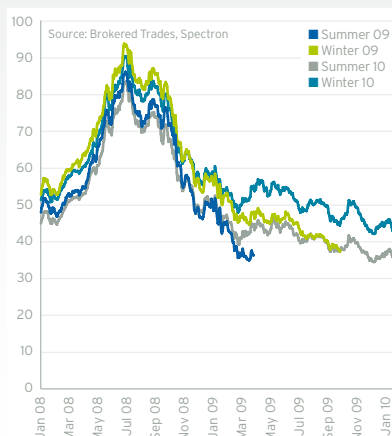
**Damien Speight**  
Head Trader



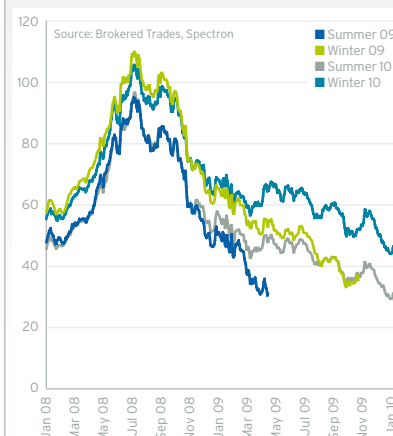
**Dark green spread**  
£/MWh



**Power price**  
£/MWh



**Gas price**  
ppt\*



\*pence per therm

**Coal**

Spot prices for internationally traded coal delivered into North-West Europe (as reflected by the API 2 index) rose to record levels over the first half of 2008, reaching US\$218 per tonne by 30 June 2008. Price increases were driven by tight markets for both coal and freight, caused by strong demand from China, India and Japan, combined with some production and logistical issues also in China, as well as South Africa and Australia. However, spot coal prices fell significantly over the final quarter, down to US\$81 per tonne by 31 December 2008, as supply constraints eased in both the coal and freight markets. The fall in coal prices was partially offset by the depreciation of sterling against the US dollar through the second half of 2008.

Prices have remained fairly stable during 2009. There is downward pressure in the near-term, with spot prices returning to US\$81 per tonne at 31 December 2009, resulting from recession induced weaker demand causing over supply and higher stock levels, particularly in Europe. Upward pressure in the medium- to long-term reflects continued demand growth in China and anticipation of global economic recovery.

**Carbon allowances**

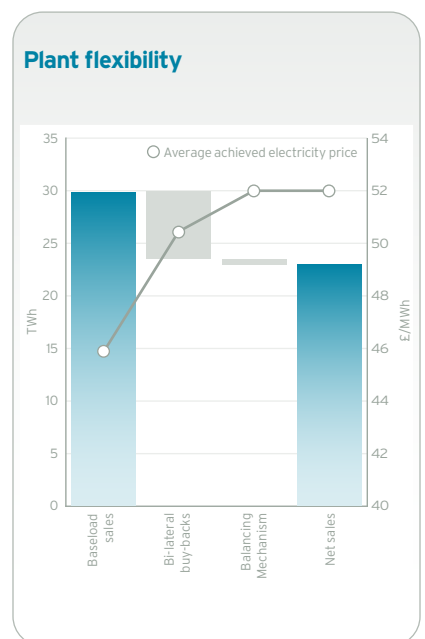
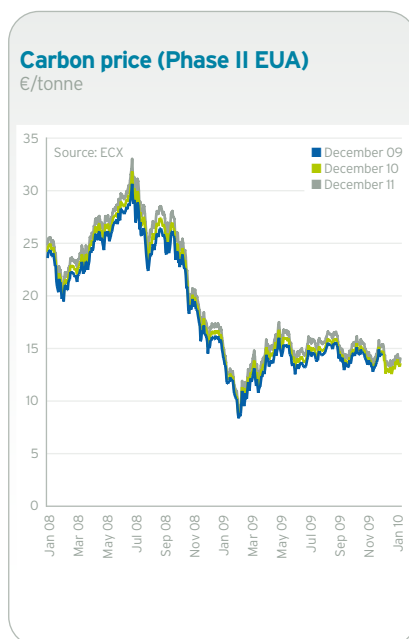
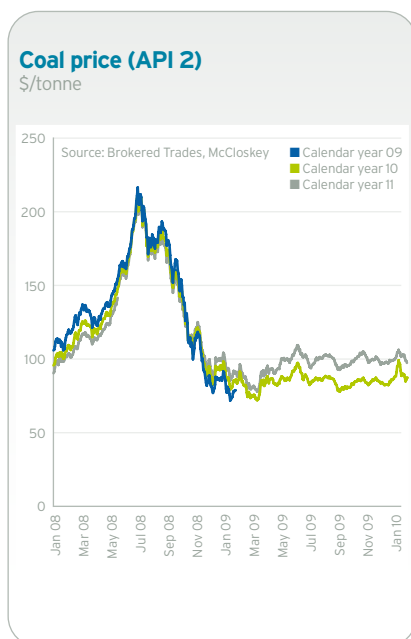
The price of Phase II CO<sub>2</sub> emissions allowances began 2008 at approximately €22.4 per tonne, and in common with power and coal prices rose steadily over the first half of that year to €28.4 per tonne at 30 June 2008. However, carbon prices also fell significantly over the final quarter of 2008, down to €15.4 per tonne by 31 December 2008, as commodity prices fell back and industrial demand reduced in response to the economic climate. Prices continued to fall in the early part of 2009, but have subsequently stabilised (€12.5 per tonne at 31 December 2009), with a reduction in industrial selling and Phase III “banking” supporting Phase II prices.

**Making the most of our asset**

“ Making the most of our flexibility, reliability and size we were able to participate successfully in the Balancing Mechanism, which is where the System Operator matches supply and demand in real-time. Through actions such as these and by offering wider balancing services we can extract value even when market conditions are poor.”

**Ian Foy**

Head of Energy Management Centre



## BUSINESS REVIEW

# OPERATIONAL AND FINANCIAL PERFORMANCE

## Introduction

The Group's principal performance indicators are highlighted on pages 20 and 21.

EBITDA was £355 million for the year ended 31 December 2009 compared to £454 million in 2008, reflecting a decrease in the margins captured for power delivered in 2009.

Commodity market conditions were generally challenging for Drax last year, with falling power prices resulting in narrowing dark green spreads. However, medium-term earnings and cash flow generation are underpinned by a strong contracted position. We accelerated our hedging for 2010, locking in higher average margins than for 2009 on our output sold to date. We have also executed an additional 300MW baseload power sales agreement with Centrica for the five years to September 2015, which provides us with fixed dark green spreads consistent with our trading strategy and signals the willingness of counterparties to contract beyond 2012.

The acquisition of Haven extends our trading capabilities and options for routes to market. We have also exceeded the cost reduction and cash management targets we set ourselves early in 2009, and have taken significant steps to strengthen our capital structure through the successful completion of a share placing and the refinancing of our outstanding term loan.

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

Commodity market conditions were generally challenging for Drax last year, with falling power prices resulting in narrowing dark green spreads. However, medium-term earnings and cash flow generation are underpinned by a strong contracted position.



## Results of operations

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Total revenue	<b>1,475.8</b>	1,752.8
Fuel costs in respect of generation <sup>(1)</sup>	<b>(692.5)</b>	(858.4)
Cost of power purchases <sup>(2)</sup>	<b>(209.5)</b>	(211.8)
Grid charges <sup>(3)</sup>	<b>(68.0)</b>	(59.4)
	<b>(970.0)</b>	(1,129.6)
<b>Gross profit</b>	<b>505.8</b>	623.2
Other operating and administrative expenses excluding depreciation, amortisation and unrealised (losses)/gains on derivative contracts <sup>(4)</sup>	<b>(150.9)</b>	(169.0)
<b>EBITDA<sup>(5)</sup></b>	<b>354.9</b>	454.2
Depreciation, amortisation and loss on disposal of fixed assets	<b>(52.0)</b>	(46.4)
Unrealised (losses)/gains on derivative contracts	<b>(129.7)</b>	56.3
<b>Operating profit</b>	<b>173.2</b>	464.1
Net finance costs	<b>(15.4)</b>	(21.6)
<b>Profit before tax</b>	<b>157.8</b>	442.5
Tax charge		
- Before changes in tax legislation	<b>(46.9)</b>	(100.8)
- Impact of industrial building allowances withdrawal on deferred tax	<b>-</b>	(8.8)
	<b>(46.9)</b>	(109.6)
<b>Profit for the year attributable to equity shareholders</b>	<b>110.9</b>	332.9
Earnings per share	pence per share	pence per share
- Basic and diluted	<b>31</b>	98

All results relate to continuing operations.

Notes:

- (1) Fuel costs in respect of generation predominantly comprise coal and CO<sub>2</sub> emissions allowances, together with petcoke, oil and biomass.
- (2) Cost of power purchases represents power purchased in the market.
- (3) Grid charges include transmission network use of system charges ("TNUoS"), balancing services use of system charges ("BSUoS") and distribution use of system charges ("DUoS").
- (4) Other operating and administrative expenses excluding depreciation, amortisation and unrealised (losses)/gains on derivative contracts include salaries, maintenance costs and other administrative expenses.
- (5) EBITDA is defined as profit before interest, tax, depreciation, amortisation, loss on disposal of fixed assets and unrealised (losses)/gains on derivative contracts.

## BUSINESS REVIEW

### OPERATIONAL AND FINANCIAL PERFORMANCE

#### Revenue

Total revenue for the year ended 31 December 2009 was £1,476 million compared to £1,753 million in 2008. Total revenue in 2009 includes sales of £66 million at Haven. Power sales were £1,345 million in 2009 compared to £1,692 million in 2008, reflecting an 11% reduction in our average achieved electricity price to £52.0 per MWh and a decrease in net power sold to 22.6TWh, compared to 25.4TWh in 2008.

In relation to sales volume, commodity market conditions through Summer 2008 meant that it was profitable to generate additional volumes in what have historically been low margin periods. Weaker market conditions in 2009 were such that, although Drax remains at the top of the coal merit order and continues to maintain a high load factor compared to other coal-fired plant, depressed near-term gas prices left coal plant at the margin from Summer 2009 resulting in lower generation volume.

Average achieved price for the year ended 31 December 2009 was £52.0 per MWh compared to £58.3 per MWh in 2008. Average capture price (being the price attained prior to Balancing Mechanism activity) for the year ended 31 December 2009 was £50.6 per MWh compared to £57.4 per MWh in 2008.

The reduction in average prices follows the trends in power prices described in Marketplace above, and reflected the impact of forward and near-term sales secured in the last six months of 2008 and through the first six months of 2009, during which time power prices were generally decreasing relative to the levels of late 2007 and early 2008, when most of the 2008 sales were secured.

In addition to power sales, total revenue also includes income from the provision of ancillary services, the sale of by-products (ash and gypsum), and the sale of ROCs and LECs. In the year ended 31 December 2009, these revenues were £66 million compared to £61 million in 2008 (see the following table). Significantly higher ROC sales in 2009 were driven by our growing biomass burn and the timing of ROC sales, and lower ancillary services revenues were a result of stronger competition in the market to provide frequency response services to National Grid.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
ROC and LEC sales	38.5	27.6
Ancillary services income	19.9	25.4
Other income	7.3	8.1
	65.7	61.1

#### Fuel costs (coal and other fuels)

Fuel costs in respect of generation during the year ended 31 December 2009 were £693 million, compared to £858 million in 2008. The decrease was due to lower generation and the benefit of gains arising on the close out of foreign exchange contracts (see Foreign exchange contract gains).

We burnt approximately 8.2 million tonnes of coal in the year ended 31 December 2009 compared to approximately 9.5 million tonnes in 2008. This coal was purchased from a variety of domestic and international sources under either fixed or variable priced contracts with different maturities. Coal comprised around 88% of total fuel burnt (by energy content) in the year ended 31 December 2009 compared to 95% in 2008.

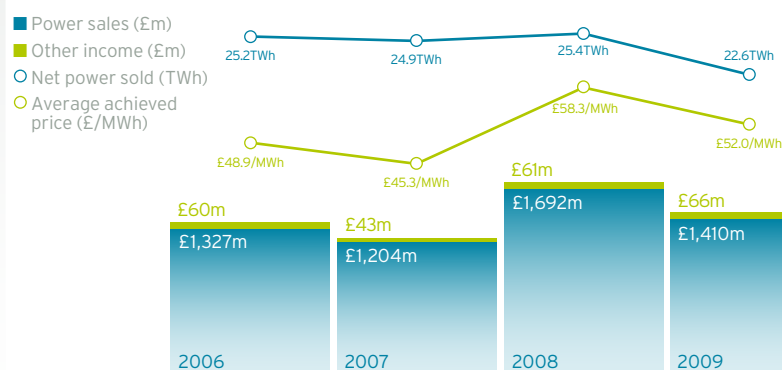
In 2009 we also burnt 0.4 million tonnes of biomass (2008: 0.4 million tonnes) and 0.5 million tonnes of petcoke (2008: 0.3 million tonnes).

Our average cost of fuel is a function of the timing of purchases under domestic and international contracts in the forward and near-term markets. A small increase in average fuel prices was driven by the trends in coal prices described in Marketplace above. The average cost of fuel per MWh (excluding CO<sub>2</sub> emissions allowances) was £25.4 for the year ended 31 December 2009, compared to £25.1 in 2008. 2009 excludes the benefit of gains arising on the close out of foreign exchange contracts (see Foreign exchange contract gains).

#### Fuel costs (CO<sub>2</sub> emissions allowances)

For Phase II of the EU ETS (2008-2012), Drax has an allocation of 9.5 million tonnes of CO<sub>2</sub> emissions allowances per annum under the UK NAP. We purchase CO<sub>2</sub> emissions allowances under fixed price contracts with different maturity dates from a variety of domestic and international sources.

#### Revenue analysis



#### About this measure

Sales analysis, average achieved price and net power sold. 2009 includes sales of £66 million at Haven.

Our CO<sub>2</sub> emissions allowances requirement for the year ended 31 December 2009, in excess of those allocated under the UK NAP, was approximately 10.3 million tonnes compared to approximately 12.8 million tonnes in 2008, as a result of lower generation and plant efficiency improvements.

Our average price of carbon is a function of the timing of purchases under fixed price contracts in the forward and near-term markets. The average price expended for purchased CO<sub>2</sub> emissions allowances during the year ended 31 December 2009 was £14.3 per tonne compared to £17.4 per tonne in 2008 with the reduction driven by the trends in CO<sub>2</sub> emissions allowances prices described in Marketplace above.

**Cost of power purchases**

We purchase power in the market when the cost of power in the market is below our marginal cost of production in respect of power previously contracted for generation and delivery by us, and to cover any shortfall in generation. For the year ended 31 December 2009, the cost of purchased power (excluding purchases of £40 million by Haven) was £169 million compared to £212 million incurred in 2008, primarily due to lower market prices for power.

**Grid charges**

Grid charges for the year ended 31 December 2009 were £68 million compared to £59 million in 2008. Grid charges in 2009 include costs of £12 million incurred at Haven. Balancing charges reduced by £4 million in 2009 reflecting lower System Operator costs and a fall in our generation.

**Foreign exchange contract gains**

To improve our operating cash flow in 2009 we closed out a number of in-the-money foreign exchange contracts relating to fuel and CO<sub>2</sub> emissions allowances purchases for the period 2010 to 2012. This resulted in additional gross profit and cash generation of £31 million. This gain has been included in fuel costs. New foreign exchange contracts have been entered into to hedge the foreign currency exposure of the relevant purchases.

As a result of these factors, gross profit for the year ended 31 December 2009 was £506 million compared to £623 million in 2008.

Despite poor market conditions, we have delivered gross profit ahead of expectations. Key to this was our ability to take advantage of the flexibility and reliability of Drax Power Station and capture value in the Balancing Mechanism.

**Operating and administrative expenses**

Other operating and administrative expenses were £151 million for the year ended 31 December 2009 compared to £169 million in 2008. Operating and administrative expenses in 2009 include costs of £12 million incurred at Haven and the costs of one major planned outage. Operating expenses in 2008 include the costs of two major planned outages.

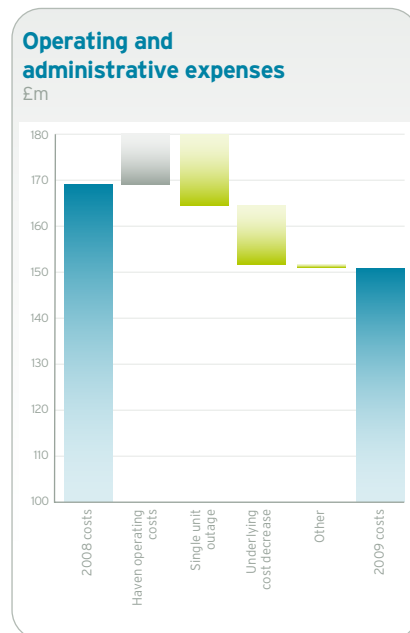
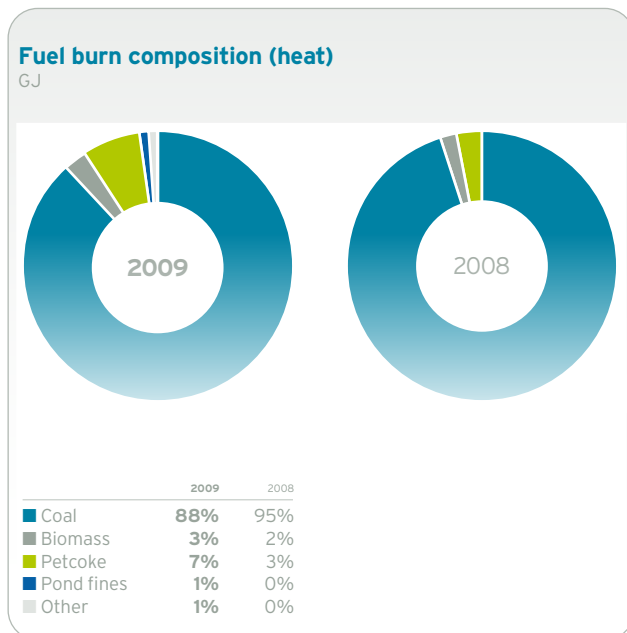
Whilst we have continued to invest in operational support for the implementation of our strategic capital projects, biomass procurement activities and to support the development of the biomass growth strategy, we have also exceeded the cost reduction and cash management targets we set ourselves early in the year.

EBITDA for the year ended 31 December 2009 was, therefore, £355 million compared to £454 million in 2008.

Depreciation and amortisation was £52 million for the year ended 31 December 2009 and £46 million for the year ended 31 December 2008. 2009 includes an impairment charge of £3 million to write down obsolete plant spares to their recoverable amount.

**Unrealised gains and losses on derivative contracts**

The Group recognises unrealised gains and losses on forward contracts which meet the definition of derivatives under IASs. Where possible, we take the own use exemption for derivative contracts entered into and held for our own purchase, sale or usage requirements, including forward domestic coal contracts.



## BUSINESS REVIEW

### OPERATIONAL AND FINANCIAL PERFORMANCE

As such, the unrealised gains and losses recognised in the balance sheet principally relate to the mark-to-market of our forward contracts for power yet to be delivered. The following table describes the movements in unrealised gains and losses and where they are recorded in our financial statements.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Net unrealised losses in the balance sheet at 1 January	(15.7)	(236.7)
Unrealised (losses)/gains recognised in the income statement	(129.7)	56.3
Fair value gains recognised in the hedge reserve (a component of equity)	375.5	164.7
Derivative financial instrument recognised on the acquisition of Haven	4.0	-
Net unrealised gains/(losses) in the balance sheet at 31 December	234.1	(15.7)

The trends in forward power prices, which largely determine the movements in our net unrealised gains/(losses) position are described within the Marketplace section.

As a result of falling power prices over the last quarter of 2008, the average price of power that had been contracted but had yet to be delivered at 31 December 2008 was not significantly different to market prices at that time, resulting in a small net unrealised loss of £16 million being recognised in the balance sheet. During 2009 power prices continued to fall, such that the average price of power that had been contracted but had yet to be delivered at 31 December 2009 was much higher than market prices, driving the recognition of a net unrealised gain of £234 million in the balance sheet.

The unrealised losses recognised in the income statement of £130 million for the year ended 31 December 2009 and gains of £56 million in 2008 arise from mark-to-market movements on our derivative contracts which do not qualify for hedge accounting; largely financial coal and foreign exchange contracts. The unrealised loss in 2009 includes the unwinding of unrealised gains recognised in 2008.

Mark-to-market movements on most of our derivative contracts, considered to be effective hedges, have been recognised through the hedge reserve, a component of shareholders' equity in the balance sheet. Movements in unrealised gains and losses recognised in the hedge reserve are mainly the result of unwinding mark-to-market positions relating to power delivered during a reporting period, and the recording of mark-to-market positions on power yet to be delivered at the end of that period. The net unrealised gain recognised through the hedge reserve in the year ended 31 December 2009 was £376 million, compared to a net unrealised gain of £165 million in 2008, both largely reflecting the forward power price trends described above.

In considering mark-to-market movements, it is important to recognise that profitability is driven by our strategy to deliver market level dark green spreads, not by the absolute price of electricity at any given date.

After allowing for the unrealised (losses)/gains on derivative contracts, operating profit for the year ended 31 December 2009 was £173 million compared to £464 million in 2008.

### Interest

Net finance costs for the year ended 31 December 2009 were £15 million compared to £22 million in 2008, as a result of lower debt levels.

### Tax

The tax charge for the year ended 31 December 2009 was £47 million (an effective rate of 30%), compared to £110 million in 2008 (an effective rate of 25%). Tax for 2008 includes a one-time charge of £9 million to reflect the estimated impact on deferred tax of the withdrawal of industrial buildings allowances introduced by the Finance Act 2008, offset by the tax effect of our Eurobond funding arrangements (see note 6 for further detail).

As a result of the above factors, profit attributable to equity shareholders for the year ended 31 December 2009 was £111 million compared to £333 million in 2008, and basic and diluted earnings per share were 31 pence compared to 98 pence in 2008. Underlying basic and diluted earnings per share (excluding unrealised (losses)/gains on derivative contracts and the associated tax effect) were 58 pence in 2009 compared to 86 pence in 2008.

## Other key factors affecting the business

### Outages and plant utilisation levels

	Year ended 31 December 2009	Year ended 31 December 2008
Electrical output (net sales) (TWh)	22.6	25.4
Load factor (%)	68.2	76.3
Availability (%)	89.1	85.8
Winter forced outage rate (%)	7.5	6.5
Forced outage rate (%)	6.5	5.8
Planned outage rate (%)	4.7	8.9
Total outage rate <sup>(1)</sup> (%)	10.9	14.2

Notes:

(1) The forced outage rate is expressed as a percentage of planned capacity available (that is, it includes a reduction for planned losses). The planned outage rate is expressed as a percentage of registered capacity. Accordingly, the aggregation of the forced outage rate and planned outage rate will not equate to the total outage rate.

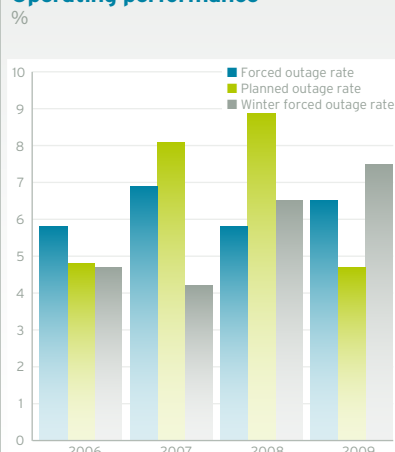
The load factor for the year ended 31 December 2009 was 68.2% compared to 76.3% in 2008. The reduction arises from a decrease in electrical output (net power sales) to 22.6TWh in 2009 compared with 25.4TWh in 2008 as described in Revenue above. However, we continued to demonstrate our leadership position in the coal-fired generation sector with plant availability of 89.1% for the year ended 31 December 2009 compared to 85.8% in 2008.

The forced outage and Winter forced outage rates for the year ended 31 December 2009 were 6.5% and 7.5% respectively, compared to 5.8% and 6.5% in 2008. The higher forced outage rates reflect a one-off incident in the first quarter which was confined to a single generating unit. Following investigation, we are confident that it was an isolated event and there are no indications that we will experience similar events in the future. During the rest of the year our forced outage rates were once again in line with our long-term target.

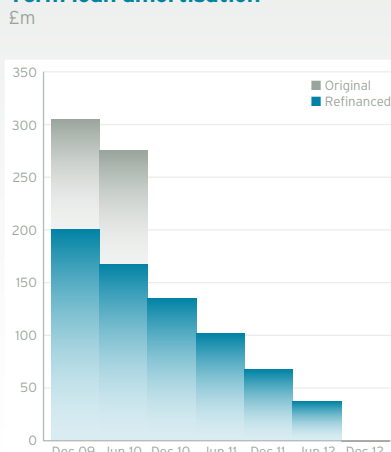
The planned outage rate achieved for the year ended 31 December 2009 was 4.7% compared to 8.9% in 2008. Our maintenance regime includes a major planned outage for each of our six units once every four years. Consequently there is an irregular pattern to planned outages and associated expenditure, since in two of the four years two units will each undergo a major planned outage. The single major planned outage for 2009 was completed in the second quarter of the year. Two major planned outages were completed in 2008.



### Operating performance



### Term loan amortisation



### Health and safety

Our lost time injury rate and total recordable injury rate were 0.09 and 0.17 respectively for the year ended 31 December 2009 compared to 0.10 and 0.31 respectively in 2008. This excellent performance was delivered against a backdrop of a high level of project activity as illustrated by the level of capital expenditure.

### Liquidity and capital resources

Net debt was £54 million as at 31 December 2009 compared to £235 million at 31 December 2008. Cash and short-term deposits were £135 million as at 31 December 2009 compared to £130 million at 31 December 2008. An analysis of cash flows for both years is set out in the following table.

#### Analysis of cash flows

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
<b>Cash generated from operations</b>	<b>321.4</b>	430.8
Income taxes refunded/(paid)	19.4	(102.2)
Net interest paid	(12.7)	(19.1)
<b>Net cash from operating activities</b>	<b>328.1</b>	309.5
<b>Net cash used in investing activities</b>	<b>(159.8)</b>	(91.4)
<b>Cash flows from financing activities</b>		
Equity dividends paid	(145.0)	(110.0)
Proceeds on issue of share capital	105.5	-
Repayment of borrowings	(170.1)	(35.0)
Other financing costs paid	(7.0)	-
Purchase of own shares held by employee trust	(1.5)	(2.6)
<b>Net cash used in financing activities</b>	<b>(218.1)</b>	(147.6)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(49.8)</b>	70.5

Cash generated from operations was £321 million in the year ended 31 December 2009 compared to £431 million in 2008. The decrease was the result of a reduction of £99 million in EBITDA and a working capital outflow of £33 million in 2009 compared to £21 million in 2008.

The working capital outflow of £33 million in 2009 is driven by an increase in coal stocks of 0.7 million tonnes over the year, resulting from lower than expected generation.

Net income taxes refunded were £19 million in the year ended 31 December 2009 compared to taxes paid of £102 million in 2008. Unwinding the Eurobond funding structure in December 2008 potentially reduced the 2008 tax liability to £nil, subject to HMRC agreement (see Tax risk within Principal risks and uncertainties). As a result we have now received a refund for payments on account made in respect of 2008.

Net cash used in investing activities includes payments in respect of capital expenditure of £93 million for the year ended 31 December 2009 and £91 million in 2008 (see Capital expenditure). 2009 also includes the net acquisition costs of Haven of £12 million (see Acquisition of Haven) and purchases of short-term investments, comprising cash deposits with a maturity of more than three months at inception, of £55 million.

Net cash used in financing activities was £218 million in the year ended 31 December 2009 compared to £148 million in 2008. The 2009 amount includes equity dividends paid of £145 million, net proceeds from the issue of share capital of £106 million and term loan repayments of £170 million. The 2008 amount includes equity dividends paid of £110 million and term loan repayments of £35 million (see Capital resources and refinancing).

The decrease in cash and cash equivalents was therefore £50 million in the year ended 31 December 2009, compared to an increase of £71 million in 2008. Drax's policy is to invest available cash in short-term bank, building society or other low risk deposits.

#### Capital resources and refinancing

On 23 June 2009, we announced the placing of approximately 25.5 million new ordinary shares, representing 7.5% of the Group's existing issued ordinary share capital. The placing raised approximately £106 million net of expenses and was undertaken to help maintain our investment grade debt rating, with the proceeds used to pay down debt. We believe the placing represented a sensible, prudent and cost-effective means of improving the resilience of our capital structure.

## BUSINESS REVIEW

### OPERATIONAL AND FINANCIAL PERFORMANCE

On 3 August 2009, we completed the refinancing of the remainder of our term loan facility and our £100 million working capital facility, both of which would otherwise have fallen due for repayment on 31 December 2010. The maturity date of both facilities has been extended to December 2012 to coincide with the maturity of the £200 million letter of credit facility, which remains in place.

Following scheduled repayments of £65 million in 2009, together with a repayment of £105 million using the placing proceeds, senior secured debt was £200 million at 31 December 2009 (before deferred finance costs). Scheduled debt repayments are £65 million in 2010 and £68 million in each of 2011 and 2012, after which point the term loan will be repaid in full.

The terms of the new facility agreement are substantially the same as the existing facilities, except that the initial margin over LIBOR for the new facilities is 3.5%. The margin on the existing facilities has been increased to be consistent with the margin in the new agreement.

#### Going concern

We acknowledge guidance on going concern for companies preparing financial statements, in the light of recent volatility in financial markets which has created a general level of uncertainty. However, we have significant headroom on our newly refinanced facilities, and a recent history of cash generation, strong covenant compliance, and good visibility in medium-term forecasts, due to our progressive hedging strategy. Accordingly we continue to adopt the going concern basis when preparing our 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 £100 million revolving credit facility assists in managing the cash low points in the cycle where required. The revolving credit facility was undrawn at 31 December 2009 and has a final maturity date of December 2012.

#### Acquisition of Haven

On 6 March 2009, we announced that, in line with our strategy to extend the Group's trading capabilities and options for routes to market, we had reached agreement with Welsh Power Group Limited to acquire Haven, an electricity supply company serving business customers. The cash consideration was £12 million including costs and net of cash acquired, which included a power trading book position worth £4 million, reflecting its mark-to-market value at that time. Goodwill of £11 million arose on the acquisition.

Haven provides another route to market for electricity generated by the Group, not only in terms of volume but also, importantly, through securing term contracts with customers. This additional ability to secure term hedges complements our existing trading strategy.

Haven is now fully integrated within the Drax business.

We believe it has the capacity to continue to grow significantly from its existing customer base and we have already seen pleasing growth in customer numbers since acquisition. Haven currently supplies electricity to around 24,000 small and medium sized businesses, equating to annualised sales of 1.1TWh per year, and we hope to increase significantly Haven's supplies to this segment of the market over the next few years. We also commenced direct sales through Haven to a few larger business customers in the final quarter of 2009, and will take forward our initiative to expand our sales to the industrial and commercial market segment in 2010.

#### Capital expenditure

Fixed asset additions were £92 million in the year ended 31 December 2009 compared to £102 million in 2008. This includes expenditure of £59 million (£67 million in 2008) on our two major strategic carbon abatement projects - the turbine upgrade and investments to extend our biomass co-firing capability - which both remain on schedule and in line with budget.

In relation to the turbine upgrade project, we expect to invest up to £100 million over the five year period from 2007 to upgrade the high pressure and low pressure turbine modules on all six generating units to improve efficiency. Using proven technology we expect to achieve an overall baseload efficiency (that is, the ratio of energy out to energy in when operating at full capacity) approaching 40%. This will represent a 5% improvement on original baseload efficiency of around 38%. When complete, the project is expected to deliver annual savings of one million tonnes of CO<sub>2</sub> emissions allowances and approximately half a million tonnes of coal.

During this year's major planned outage we successfully completed the installation of one high pressure and three low pressure turbine modules on one of our units. Overall, the project is now just over halfway complete with all of the new turbine modules meeting their guaranteed performance levels of 40% efficiency. We are now delivering tangible benefits in terms of efficiency gains and savings in CO<sub>2</sub> emissions of half a million tonnes per year.

With regard to extending our biomass capability, we are investing around £80 million to develop a 400MW direct injection co-firing biomass facility. The necessary processing and handling infrastructure is being installed to enable us to handle an additional one and a half million tonnes of biomass material per annum. Alongside our existing, through-the-mill delivery co-firing capacity of 100MW, the facility will provide us with a total co-firing capacity of 500MW. When complete, this will give us the capability to save over two and a half million tonnes of CO<sub>2</sub> emissions allowances, displace approximately one and a quarter million tonnes of coal and generate in excess of one and a half million ROCs per annum.

Commissioning phase one of the co-firing facility has now started, and we remain on course to achieve the full 400MW capacity around the middle of 2010. We expect the co-firing plant to be integral to our operations in the future.

As part of our development of biomass supply sources, we have built a pellet plant for the production of pellets from locally sourced straw in Goole, approximately three miles from the Drax site. The plant takes straw from the local area and will have the capacity to produce around 100,000 tonnes of straw pellets annually, to be brought to Drax for combustion in the co-firing facility. Commissioning of the plant is almost complete, with the target daily output reached in December 2009.

Processing facilities, such as pellet plants, provide a secure and cost-effective supply of biomass. Based on the success of our first pellet plant in Goole, we are now developing plans for additional biomass pelleting facilities.

We will also continue to evaluate other investment opportunities which may result in additional capital expenditure. Further investment will be required prior to 2016 to meet the requirements of the LCPD and Industrial Emissions Directive ("IED").

**Biomass growth strategy**

We expect to be able to prove the long-term investment case for developing a dedicated biomass-fired business (three 290MW plants) towards the end of 2010. Current estimates of the total capital cost of the business are around £2 billion, including investments in ancillary biomass logistics and processing facilities.

Drax will manage and operate the biomass businesses, and will also be responsible for all biomass procurement and trading. It is proposed that the plants will use Siemens' turbine technology.

We are reviewing the capital structure under which these investments will be funded. The capital structure work is an integral part of the development of this business. There are numerous options under consideration, with value creation being paramount to the decision making process.

The development has progressed in line with our project timetable during 2009. Planning applications for two of the plants, those at Drax Power Station and the Port of Immingham, were submitted during the year. The preliminary engineering and design work has also been completed, and we have commenced the engineering, procurement and construction contract tendering process, which should conclude in the second half of 2010.

We believe that the long-term investment case for this business remains strong, particularly in the light of the UK's need for reliable renewable generation capacity by 2020.

**Positions under contract for 2010, 2011 and 2012**

We continue to follow our stated trading strategy of making steady forward power sales with corresponding purchases of CO<sub>2</sub> emissions allowances and fuel purchases. Our aim is to deliver market level dark green spreads across all traded market periods and, as part of this strategy, we retain power to be sold into the prompt (within season) power markets.

As at 12 February 2010, the positions under contract for 2010, 2011 and 2012 were as follows:

	2010	2011	2012
Power sales (TWh) comprising:	23.6	14.8	9.3
- Fixed price power sales (TWh) at an average achieved price (per MWh)	18.5 at £51.8	6.9 at £59.0	1.4 at £64.6
- Fixed margin and structured power sales (TWh)	5.1	7.9	7.9
CO <sub>2</sub> emissions allowances hedged, including UK NAP allocation, market purchases, structured contracts, and benefit of biomass co-firing (TWh equivalent)	22.6	20.3	20.1
Solid fuel at fixed price/hedged, including structured contracts (TWh equivalent)	22.3	15.1	9.4

Fixed price power sales include approximately 0.6TWh supplied to Centrica in the period 1 January 2010 to 12 February 2010 under the five and a quarter year baseload contract with Centrica which commenced on 1 October 2007.

Fixed margin power sales include approximately 5.1TWh in 2010 and 7.9TWh in each of 2011 and 2012 in connection with the above contract and the five year 300MW baseload contract commencing on 1 October 2010 with Centrica, announced on 5 November 2009.

Under these contracts the Group will supply power on terms which include Centrica paying for coal, based on international coal prices, and delivering matching CO<sub>2</sub> emissions allowances amounting in aggregate to approximately 5.4 million tonnes in 2010 and approximately 7.2 million tonnes in each of 2011 and 2012. The contracts provide the Group with a series of fixed dark green spreads, with the spreads in the first contract having been agreed in the first quarter of 2006 and with those in the second contract having been agreed in October 2009.

**Distributions**

**Distribution policy**

We notified investors of a change to our distribution policy when we announced our biomass growth strategy in October 2008. With respect to 2009, the Company will distribute all excess cash generated from operations after meeting business requirements in the year. For 2010 and beyond, we will target a pay-out ratio of 50% of underlying earnings (being profit attributable to equity shareholders adjusted to exclude the impact of unrealised gains and losses on derivative contracts) in each year.

**Dividends paid**

On 2 March 2009, the Board resolved, subject to approval by shareholders at the Annual General Meeting on 28 April 2009, to pay a final dividend for the year ended 31 December 2008 of 38.3 pence per share (£130 million). The final dividend was subsequently paid on 22 May 2009.

On 3 August 2009, the Board resolved to pay an interim dividend for the six months ended 30 June 2009 of 4.1 pence per share (£15 million). The interim dividend was subsequently paid on 7 October 2009.

**Dividends proposed**

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 2009 of 9.6 pence per share (£35 million) payable on or before 14 May 2010. Shares will be marked ex-dividend on 28 April 2010.

This Business review was approved by the Board on 22 February 2010.

**Tony Quinlan**  
Finance Director



## BUSINESS REVIEW

# PRINCIPAL RISKS AND UNCERTAINTIES

We manage the commercial and operational risks faced by the Group in accordance with policies approved by the Board.

Our assessment of the most significant risks and uncertainties which could impact long-term performance is described below. These risks are not set out in any order of priority and they do not comprise all the risks and uncertainties we face.

## Commodity market risk

Risk	Impact	Examples of mitigating activities
We are exposed to the effect of fluctuations in commodity prices, particularly the price of electricity, gas, the prices of coal (and other fuels), and the price of CO <sub>2</sub> emissions allowances	- Volatility in financial results	- Well understood progressive hedging strategy: forward power sales with corresponding purchases of fuel and CO <sub>2</sub> emissions allowances when profitable to do so

## Counterparty risk

Risk	Impact	Examples of mitigating activities
We rely on third party suppliers for the delivery of coal and other goods and services. We purchase a significant quantity of our coal under contracts with a number of large UK suppliers, so are exposed to the risk of non-performance by these suppliers	- Additional costs associated with securing coal and other goods and services from other suppliers - Failure to secure coal from other suppliers resulting in limitation of operations	- Diversified coal sourcing and logistics routes - Target to optimise holding of coal stocks - Close monitoring and reporting of concentration risk in suppliers
We enter into fixed price and fixed margin contracts for the sale of electricity to a number of counterparties, so are exposed to the risk of failure of one or more of these counterparties	- Adverse effect on cash flow arising from the failure of one or more of the counterparties to whom we sell power	- Full suite of power counterparties - Close monitoring and reporting of concentration risk in power counterparties

## Dedicated biomass strategy risks

Risk	Impact	Examples of mitigating activities
We may not be awarded the necessary planning permits and consents to construct the dedicated biomass-fired plants	- Inability to progress the biomass growth strategy	- Planning applications for two sites already submitted - Ongoing consultation with wide range of stakeholders demonstrating strong support
We may not be able to contract for the engineering design and construction of the dedicated biomass-fired plants at prices which meet our hurdle return rates		- Robust contracting strategy well advanced, with solid interest from several significant market participants
We may not be able to agree a commercial structure for this business which meets our objectives and banking requirements		- Development of commercial contracting structures with creditworthy counterparties to manage price exposures
We could fail to secure biomass supplies and logistics arrangements which meet our hurdle return rates, sustainability criteria and banking requirements		- Advanced discussions with large creditworthy feedstock suppliers - Focus on maximising UK term contract sources including energy crop volumes - Active in global markets identifying diverse fuel sourcing opportunities
We may not secure appropriate grandfathering arrangements for the ROC support, which underpins the economics of this business		- Engage with Government for guaranteed ROC support
We may fail to find an appropriate capital structure and secure the necessary equity and/or project finance debt to fund development of this business		- Pursue multiple sources of debt, including state funded banks - Target other financial institutions including private equity

## Electricity market liquidity risk

Risk	Impact	Examples of mitigating activities
Liquidity in the market for wholesale electricity is dependent on there being a sufficient number of counterparties willing to trade actively. Changes in the market structure or 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	<ul style="list-style-type: none"> <li>- Inability to hedge short- to medium-term exposure to electricity prices through wholesale market trading</li> <li>- Increased exposure to short-term market volatility</li> <li>- Inability to sell all of our output</li> <li>- Lower revenues and increased costs to achieve trading objectives</li> </ul>	<ul style="list-style-type: none"> <li>- Grow direct sales through Haven, our electricity supply business</li> <li>- Initiatives to be active, responsive and provide good credit towards counterparties make Drax an attractive business partner</li> <li>- Oppose structural changes that impact our market access, such as clearing and margining</li> </ul>

## Environmental and health and safety risk

Risk	Impact	Examples of mitigating activities
The EU, UK and local environmental and health and safety laws and regulations which affect our business are complex, frequently changing and becoming ever more stringent. They cover many aspects of our operations including limits on emissions to air and water, noise, soil/groundwater contamination, waste and health and safety standards	<ul style="list-style-type: none"> <li>- Increased compliance costs</li> <li>- Additional capital expenditure</li> <li>- Fines, penalties, civil or criminal liability</li> <li>- Limitation or suspension of operations</li> </ul>	<ul style="list-style-type: none"> <li>- Robust systems to ensure compliance and improve performance</li> <li>- Regular third party assurance over system effectiveness</li> <li>- Strong safety culture and related training</li> </ul>

## Plant operating risk

Risk	Impact	Examples of mitigating activities
Forced outages may be caused by the underperformance or outright failure of our power generation plant, or other equipment and components including the IT systems used to operate the plant or conduct trading activities. The duration of forced outages is influenced by the lead time to manufacture and procure replacement components and to carry out repairs	<ul style="list-style-type: none"> <li>- Lower revenues</li> <li>- Increased costs and contractual penalties</li> <li>- Adverse effect on financial results</li> </ul>	<ul style="list-style-type: none"> <li>- Comprehensive risk-based plant investment and maintenance programme</li> <li>- Target to optimise holding of spare components for use in the event of plant failure</li> </ul>

## Ratings risk

Risk	Impact	Examples of mitigating activities
Our investment grade debt rating currently underpins our ability to deliver optimal value from our trading strategy. A downgrade of our debt rating to sub-investment grade could impact our business model	<ul style="list-style-type: none"> <li>- Requirement to post collateral for current and future trading positions</li> <li>- Additional restrictions within facilities agreements</li> </ul>	<ul style="list-style-type: none"> <li>- Strengthened capital structure through share placing and subsequent refinancing in 2009</li> <li>- Maintain relatively low levels of debt</li> <li>- Well advanced with work to ensure we can trade effectively in future without the support of an investment grade debt rating, if necessary</li> <li>- Short-term protection provided by large favourable mark-to-market position in forward power sales</li> </ul>

## Regulatory and political risk

Risk	Impact	Examples of mitigating activities
The potential for market reform is increasing, driven predominantly by the need to deliver a low carbon economy and security of supply over the long-term. We are exposed to political and regulatory developments furthering this agenda. In addition, forthcoming EU and UK legislation continues to target emissions of SO <sub>x</sub> , NO <sub>x</sub> , and CO <sub>2</sub> , and other by-products of the generation process such as ash	<ul style="list-style-type: none"> <li>- Increased plant retrofit/investment costs</li> <li>- Lower generation levels</li> <li>- Adverse effect on financial results</li> </ul>	<ul style="list-style-type: none"> <li>- Good understanding within executive team and Board of possible implications</li> <li>- Integration of strategic and near-term investment planning</li> <li>- Briefing, representation and lobbying at EU and UK level</li> <li>- Development of abatement and alternative generation options</li> </ul>

## Tax risk

Risk	Impact	Examples of mitigating activities
A full description of the tax risks which relate to the Group's previous financing structure, and the unwinding of it, is set out in note 6 to the consolidated financial statements	<ul style="list-style-type: none"> <li>- Adverse effect on cash flow arising from successful HMRC challenge to historic interest deductions claimed under the structure</li> <li>- Failure to realise significant tax asset if HMRC disallows interest deductions arising as a result of unwinding the structure</li> </ul>	<ul style="list-style-type: none"> <li>- Structure unwound in December 2008 following proposed changes to tax legislation</li> <li>- Active engagement and dialogue with HMRC over structure and subsequent unwind</li> </ul>

We have worked with Groundwork North Yorkshire since 2001 on projects designed to help mitigate the effects of landfill upon our local community. During 2009, through the Landfill Communities Fund, we contributed £96,000 towards local community-based projects designed to bring about sustainable environmental benefits and contribute to the social and economic regeneration of the area.



# PAR FOR THE COURSE?

OR JUST ONE OF A NUMBER OF PROJECTS IN WHICH WE ENGAGE WITH THE LOCAL COMMUNITY THROUGH SPORT, EDUCATION OR THE ENVIRONMENT?



Teams including representatives of Drax's suppliers and contractors took part in the third annual Drax Charity Golf Day, held at Fulford Golf Club in York, raising £6,140 for the Yorkshire Air Ambulance.



Over 300 primary schools across Yorkshire took part in the 2009 Drax Cup competition for under 9s. The semi-finals and final were played at Headingley Carnegie Stadium, the home of Yorkshire CCC. This year the winning school was Westville House Primary School, in Ilkley.



SPONSORSHIP



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

**Melanie Wedgbury**  
Head of External Affairs



During 2009, we played host to some 7,200 visitors. The appeal of discovering more about how power is produced and the sheer scale of the site and its associated activities attracts schools and colleges as well as business organisations and associations.



COMMUNITY  
ENGAGEMENT

PEOPLE

## BUSINESS REVIEW

# CORPORATE RESPONSIBILITY

We take seriously our approach to corporate responsibility. Whether it's engaging with our stakeholders, reducing our environmental impact or looking after our people we strive to achieve best practice.

1  
Engaging with  
our stakeholders

2  
Caring for the  
environment

3  
Our people

4  
Caring for the  
community

## Corporate responsibility and our business

We operate our business within a framework of increasingly stringent and challenging legislative and regulatory requirements. We are, however, mindful of the still tougher expectations held by our wider stakeholder group. For us, corporate responsibility is about achieving a balance between the commercial and regulatory rigours of the competitive sector within which we operate and our commitment to our stakeholders as a whole.

The Board has ultimate control of policies in respect of both the wider corporate responsibility and in relation to environmental and health and safety matters. The Board's policies are implemented by dedicated specialists who make sure effective processes and procedures are in place to assure compliance and to identify and to report on risks and opportunities.

As in previous years we have continued to invest, not only to comply with environmental and health and safety requirements, but, where practicable, to go further. In 2009, we retained our presence in the FTSE4Good Index Series, which is designed to measure the performance of companies that meet globally recognised corporate responsibility standards and facilitate investment in those companies.

### 1 Engaging with our stakeholders

Like many businesses, our stakeholders are many and diverse, including our shareholders, employees, customers, suppliers, the local community, Government, non-governmental organisations, opinion formers and the media. Communication with all our stakeholders is considered to be an essential part of our business and we aim to be open and transparent in all that we do. We fulfil our communication commitments through an investor relations programme and a wide-ranging external relations programme.

#### Investor relations

Drax is committed to delivering shareholder value. We communicate our results and prospects to our shareholders in an accurate and timely manner using a variety of channels. In addition to the Annual General Meeting, we communicate through our Annual Report and Accounts, Half Year Report, Interim Management Statements and Trading Updates. All of these documents are made available on our website at [www.draxgroup.plc.uk](http://www.draxgroup.plc.uk). Significant matters relating to trading and the development of the business are disseminated to the market by way of announcements via a regulatory information service and those announcements appear as soon as practicable on our website.

### Community involvement

"We are extremely pleased with the level of interest shown by the community in our proposals to build dedicated biomass-fired power stations on the Drax Power Station site and at the Port of Immingham. The projects will bring many benefits to both local business and residents in these areas."

**Marvin Seaman**

Project Manager, New Business





Announcements are frequently followed up with either conference calls or presentations to provide further detail and greater understanding. In addition, face-to-face meetings are held with our major institutional shareholders, again to assist them in their understanding of the announcements, but also to ensure that the Board is aware of their views and concerns. In 2009, a formal meeting programme was conducted in the UK after each of the Preliminary and Half Year Results announcements and we undertook investor visits to the United States and mainland Europe during the year. To aid our communication with private investors, the investor section of our website has been developed to be a readily accessible and transparent source of information to enhance understanding of the business.

### External relations

As in previous years, we maintained our engagement with public affairs audiences on issues with implications for our business.

We engaged with Parliamentarians and officials both in the UK and the EU on issues including forthcoming environmental legislation, renewables policy, low carbon electricity and wholesale market issues.

The form of engagement was varied and included both face-to-face and written briefings, participation in public consultations, written evidence to inquiries, and visits by Parliamentarians and officials to Drax Power Station. In 2009, we were pleased to welcome to site some high profile visitors including the Archbishop of York, Dr John Sentamu, the Secretary of State for Energy and Climate Change, the Rt Hon Ed Miliband MP and Shadow Energy Minister, Charles Hendry MP.

Locally, we have continued to engage with parish, town, district and county councillors and officers, with the intention of keeping them up-to-date with our business issues and developments. Our regular communication channel with these and other local opinion formers takes the form of an annual consultative meeting, and three meetings each year with our local parish and town councillors.

To complement our proposal to build three dedicated biomass-fired power stations, we implemented a programme of community involvement within the vicinities of the planned developments at Drax Power Station and the Port of Immingham. We were keen to ensure that local people had an opportunity to study our proposals and discuss issues with members of the project team while the development was still in the design stage.

With the aim of forging and maintaining close relations with the local communities, both formal and informal links and discussions with representatives of parish, town and unitary councils were initiated. A programme of public consultation was implemented several months prior to the application for planning consent, to provide the community with an understanding of the development, and to provide us with an understanding of local opinion. These activities were supplemented by newsletters, press releases, information on our website and a freephone line to provide an immediate verbal response to any enquiries that arose.

No political donations were made in the UK or elsewhere during 2009, and the Company's contact with those active in the political arena has been and will continue to be aimed solely at the promotion of the Company's business interests.

### Suppliers

As in previous years, we encouraged local and national companies to bid for contracts to supply the many goods and services required by the Company. In making purchases, we are mindful that some companies or indeed countries may have poor ethical standards or human rights issues. Covering, as we do, a varied marketplace with a number of indirect manufacturers supporting the end product, it is impossible for us to be certain that we do not indirectly trade with certain companies or countries whose standards are poor. However, we do not knowingly support or trade with such companies or countries and we remain alert to changing circumstances.

### Community energy saving programme

The community energy saving programme ("CESP") was announced by the Prime Minister in September 2008 and became effective from October 2009. The programme targets households in specific low income areas across Great Britain to improve energy efficiency standards and permanently reduce fuel bills.

We have entered into an agreement with eaga, the UK's leading provider of household energy efficiency solutions, to develop community-based partnerships and promote energy efficiency solutions in fulfilment of our obligation. Work is at an advanced stage to identify communities within CESP-eligible areas to benefit from the programme.

## 2 Caring for the environment

### Tackling climate change

We believe we have an important part to play in managing the transition of the UK towards a low carbon economy. At Drax Power Station our focus is on co-firing and thermal efficiency improvement.

On co-firing, we are investing £80 million in a 400MW direct injection facility which, alongside our existing 100MW co-firing capability, will enable us to produce 12.5% of our output from renewable biomass materials by mid-2010. This is equivalent to the output of around 600 wind turbines, and has the potential to save over two and a half million tonnes of CO<sub>2</sub> emissions each year.

During 2009, we co-fired 381,000 tonnes of biomass which reduced our coal throughput and thereby, due to the carbon neutral status of biomass, avoided the emission of 582,000 tonnes of CO<sub>2</sub>.

At the centre of our thermal efficiency improvement programme is the £100 million upgrade of the high and low pressure turbines of each of our six generating units. During the major planned outage of 2009 we installed one high pressure and three low pressure turbine modules to one unit. Together with the installation of similar modules during 2007 and 2008, this means that we are over half way through the upgrade project and saving around a half million tonnes of CO<sub>2</sub> emissions a year.

## BUSINESS REVIEW

### CORPORATE RESPONSIBILITY

On completion of the upgrade we will see an improvement in our overall baseload efficiency of 5%, taking it to 40%, and an annual saving of one million tonnes of CO<sub>2</sub> emissions.

We fully recognise the challenge that we and other fossil fuel-fired power stations face in tackling carbon emissions and these two projects will give us the capability to reduce our emissions of CO<sub>2</sub> by over three and a half million tonnes a year, or 17.5% by the end of 2011.

Our focus on co-firing and in particular biomass procurement has made us well placed to pursue the development of a dedicated biomass-fired power generation business. Subject to the investment case, we plan to develop three 290MW biomass-fired power plants which, together with the co-firing capability at Drax Power Station, could result in Drax becoming responsible for supplying at least 15% of the UK's renewable power, and up to 10% of total UK electricity. In 2009, we applied to the Department of Energy and Climate Change ("DECC") for consent to build one of these plants on the Drax Power Station site, and another at the Port of Immingham.

#### Biomass sustainability

At the heart of our work with biomass is our sustainability policy, which places us at the forefront of the introduction of sustainable biomass practices in the UK. Through a set of sustainability principles we aim to ensure that the biomass consumed in our generation facilities is environmentally sustainable. We have engaged qualified third parties to develop and implement a rigorous programme of audit and verification of biomass supply chains to ensure compliance with our principles.

Our procurement process is designed to ensure that the production and delivery of biomass will:

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

Actions to progress the implementation of our policy during 2009 have included:

- the development of supplier guidance outlining our policy, the mechanism of implementation and the data requirements placed on suppliers;
- the development of a greenhouse gas emissions model to calculate the emissions for each supply chain;
- the introduction of pilot audits to provide feedback on the effectiveness and practicality of the policy implementation process; and
- the introduction of a suite of internal documentation to record sustainability information for audit and for dissemination.

We have adopted the minimum target of an annual saving of 70% in greenhouse gas emissions for the biomass materials used in co-firing as a replacement for coal. An independent third party, Ecofys, developed a model to allow us to determine the saving achieved during 2009. The calculations showed that substantial benefits of the order of 80%–92% were generally achieved across the range of biomass materials burnt, with an average saving of 87%. This is substantially in excess of the 70% threshold in our policy and provides good reassurance that the current suppliers and procurement routes are robust.

#### Environmental performance and compliance

We recognise our responsibilities to society and the environment and we are committed to furthering the environmental leadership position we hold in the coal-fired sector.

During the year we introduced an environmental policy at Haven, which is in line with the existing environmental policy at Drax Power Station.

Where practicable we work towards reducing the environmental impacts of our business, in line with our policy to regard compliance with legislation as a minimum level of achievement.

At Drax Power Station, we manage our environmental compliance under an Environmental Management System ("EMS"). During the year our EMS was externally audited and we were successful in maintaining certification to the international standard ISO 14001: 2004.

We freely discuss our environmental performance and activities with our stakeholders and are sensitive to their views and concerns. Amongst our staff, business partners and contractors we promote environmental awareness, ensuring that they understand the environmental aspects of their activities, that they act responsibly and are competent to undertake their duties.

We are pleased to report that there were no breaches of our environmental consents during the year.

## Environmental leadership

“We strive to be at the forefront of environmental performance in pursuit of maintaining our commercial and environmental leadership position in the sector. We are highly active in developing innovative sustainability standards for the biomass materials we burn, not only making good environmental sense, but good business sense as well.”

**Nigel Burdett**

Head of Environment



## Emissions to air

The principal emissions from burning coal are CO<sub>2</sub>, SO<sub>2</sub>, NO<sub>x</sub>, and particulates or dust. Our generating units have all been retrofitted with FGD equipment which removes, on average, around 90% of SO<sub>2</sub> emissions before the flue gas is released via the chimney into the atmosphere.

We maintain investment in our emissions abatement equipment and consider this to be a high priority. Our FGD plant already complies with SO<sub>2</sub> emissions limits to 2016 and we have now completed a programme of retrofitting all units with low NO<sub>x</sub>, Boosted Over Fire Air technology in line with the NO<sub>x</sub> requirements of the LCPD. All of our six units have been retrofitted and performance has been in line with expectations.

## Discharges to water

Procedures are in place to ensure that all discharges and drainage to water are monitored and treated where necessary to meet our discharge consent limits. There are a number of sources of discharge and drainage as part of the electricity generation process, including the cooling water used to cool the condensers, which as part of the steam cycle condense steam to water after it leaves the turbines and before returning to the boilers. The FGD process produces effluent water which is treated in a specially designed plant before it is discharged to the river, and there is also drainage from the main plant, coal plant and roads.

Water is abstracted mainly from the River Ouse and boiler feedwater originates from two boreholes on site. Approximately half of the water is returned to the River Ouse at a few degrees warmer than the river water.

## Disposals to land

When coal is burnt, ash is left as a residue. The finer particles of ash, pulverised fuel ash (“PFA”), are collected from the flue gas by electrostatic precipitators; the heavier ash, furnace bottom ash (“FBA”) falls to the bottom of the boiler. The majority of ash is sold to the construction industry with the remainder sent for landfill at the power station’s adjacent ash disposal site, which over time has been developed into farmland, woodland and wetland features providing a haven to many species of wildlife and birdlife.

Whilst our target is zero ash landfill, our ability to sell ash depends on the state of the construction industry. Hence performance in 2009 was not as good as we would have liked, reflecting contraction in the construction industry. The ash rail loading facility, completed in 2008, has however helped us to improve our ash export capability through providing greater and more efficient access to construction markets around the country.

We pay landfill tax on the PFA disposed of to the ash disposal site. Through the Landfill Communities Fund, we are able to claim a tax credit against our donations to recognised Environmental Bodies. We have worked with Groundwork North Yorkshire since 2001 on projects designed to help mitigate the effects of landfill upon our local community. During 2009, we contributed approximately £96,000 towards local community-based projects designed to bring about sustainable environmental benefits and contribute to the social and economic regeneration of the area.

## Alternative fuels

To help maintain our vital role in the UK economy and safeguard cost-effective power production, our fuel strategy recognises the need to sustain a ready supply of traditional quality coal and how best to incorporate alternative fuels, including different fossil fuels and renewable biomass materials. The choice of fuels has to be balanced with availability and flexibility of supply. A considerable amount of environmental data on the combustion of petcoke, a fuel derived from the petroleum industry, has been collected and analysed, where possible using independent specialists. In line with our policy on openness and transparency all data are discussed with the Environment Agency and local councils. The combustion of petcoke is now an integral part of our strategy of developing and utilising alternative fuels and during the year we burnt 478,000 tonnes.

## BUSINESS REVIEW

### CORPORATE RESPONSIBILITY

## 3 Our people

### Employment

We employed 977 people at the year end. The increase of 250 since 2008 is predominantly attributable to the acquisition of Haven.

The annual resignation rate at Drax Power Station is only 2%, and over 40% of the workforce have been with the Company for 20 years or more. Turnover at Haven is higher, reflecting the nature of the business, and averages 35% in the sales team and 11% in other areas of the business.

We work to achieve high standards in employment practices, for example, through the avoidance of discriminatory practices, and the speedy and clear resolution of queries and grievances. We review our policies and procedures on a regular basis to ensure legal compliance and improved service levels.

### Employee relations

There are high levels of trade union membership at Drax. Collective bargaining is well established at the power station with formal negotiations conducted through the Company Committee, which is a joint management and union body that meets regularly to progress discussions regarding pay and other terms and conditions of employment, as well as business restructuring. Through this joint process we have this year successfully managed a number of restructuring programmes, and through internal redeployment and retraining we have avoided the need for any redundancies.

We also signed a new "Working Together" agreement to reinforce the positive relationship we have developed with the unions. It is a joint statement of understanding which explains the role of communication, consultation and negotiation in the workplace. Implementation of the agreement has been supported by joint workshops between line managers and union representatives.

### Apprentice training programme

"It's great to get out of the classroom and put what I've learnt into practice. The apprentice training programme provides a good balance in terms of theory and reality, but I am looking forward to getting a better feel for power station life in my fourth year."

**Paul Wilkinson**

Third year Apprentice



### Learning and development

Our personal and career development processes are designed to ensure that all our people have the technical skills, management and leadership competencies, and personal behaviours needed to achieve the business plan. Our flagship programme is the Apprentice Training Programme. Each year we recruit six new employees for a four-year advanced modern apprenticeship in power station operations and engineering maintenance.

This year, we managed 28 work experience placements, two student nurse placement programmes in Occupational Health, and also four internships across different functions for recent graduates, through a programme co-ordinated by the University of Leeds. We also participate in local schools' career evenings and have assisted in supporting a range of careers events.

At Haven, our new team leaders completed a development programme entitled "Light, Power and Energy". All team managers undertake training to assist them in their role in respect of staff induction, conduct and capability, and absence management.

Throughout the Group we have a rolling programme of health and safety and first aid refresher training, to underpin the safety culture which is central to all operations at Drax.

### Internal communications

We use a variety of communication techniques, one-way and two-way, formal and informal, to ensure that all colleagues are kept fully informed of developments in the Company's operations.

This year we introduced Drax Open Forums, a quarterly series of face-to-face meetings where the Chief Executive and Executive Committee present business updates to small groups, followed by an open question and answer session. The Open Forums, which are scheduled to accommodate the power station's operational resource requirements, cover every shift pattern so that all employees have an opportunity to attend. In addition, our all-employee communication methods include monthly team briefs, a bi-monthly newsletter, e-mail and intranet communications.

At Haven there is a well-established framework of individual one-to-one discussions and team meetings. This year the operations team introduced "Did you know?" a fortnightly brief designed to provide useful information on team, system and process development.

Each month following the Haven Board meeting, members of the senior team conduct briefing sessions that all staff are invited to attend. These sessions update staff on the progress of the business and provide an opportunity to raise questions and to discuss any concerns.

### Performance and reward

Pay and benefits at Drax are very attractive and match or exceed the best in the industry sector and the local area.

We benchmark our salaries and benefits at every level against the industry sector and the market as a whole. We also participate in specialist industry meetings to exchange information and developments in employment policy.

Through a range of share plans we encourage all employees to build a personal stake in the ownership of the business.

### Promoting health and wellbeing

“The promotion of general health and wellbeing is a key part of the occupational health function at Drax. During the year we ran a number of campaigns with the aim of providing a reliable source of information on a variety of health-related issues.”

**Catherine Kelsey**  
Occupational Health Adviser



### Delivering on health and safety

“Sustaining top safety performance is very challenging against a backdrop of an increasing amount of construction and project work. However, our safety statistics demonstrate that we are achieving that goal through the safety programmes and initiatives we have implemented.”

**Gary Williams**  
Outage and Services Section Head



#### Health and wellbeing

We are committed to promoting the health and wellbeing of all our staff and ensuring a professional response to all first aid and emergency situations that occur.

Our occupational health team undertakes regular programmes to screen colleagues who are in contact with high noise levels and sensitive respiratory conditions. Everyone working in operational areas has a medical every three years. Health surveillance, such as hearing tests, lung function tests and eyesight tests are completed in accordance with risk, exposure and Health and Safety Executive (“HSE”) requirements. During 2009, 500 medical appointments were completed consisting of pre-employment medicals, periodic medicals, lung function tests and hearing tests, with specialist advice given where appropriate.

#### Pension provision and retired employees

Many of our employees are members of the Drax Power Group of the Electricity Supply Pension Scheme (“ESPS”), which was closed to new entrants in 2002. Since then, Drax employees have joined the Group Personal Pension Plan or the Haven Personal Pension Plan, which are both actively promoted to new recruits.

Each year we invite over 350 Drax pensioners to a celebratory event at Christmas. The Retired Employees Association organise trips and other events during the course of the year for people who have retired from Drax.

#### Sports and Social Club

Drax employees can join the Drax Sports and Social Club for a nominal monthly subscription through the payroll. Currently 424 employees are members. The Sports and Social Club, which is also open to public subscription, offers an extensive range of facilities including an excellent 13 hole golf course, fishing, bowls, snooker, tennis, football and gymnasium. It also offers a Sunday carvery and good quality bar meals throughout the week, and has a newly built children’s play area. The Club hosts regular nights of entertainment and events to suit all tastes and has a fully air conditioned concert room for up to 250 guests that is available for private hire.

#### Health and safety

Health and safety is at the heart of our corporate responsibility. Protecting our employees, contractors and all visitors from injury is fundamental to our business philosophy. We are committed to developing and maintaining a positive health and safety culture in which statutory requirements are viewed as a minimum standard and leading performance as our goal.

#### Personal safety statistics

	2007	2008	2009
Fatality	1	0	0
Time Losing Injuries	10	4	3
Restricted Work Injuries	2	1	3
Medical Treatment Injuries	3	7	0
First Aid Injuries	267	273	154
RIDDOR <sup>(1)</sup> reportable	13	7	4

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

#### Attaining leading performance

The lost time injury rate and total recordable injury rate for 2009 at 0.09 and 0.17 respectively are lower than in 2008. This improvement in performance is commendable given the significant increase in construction work during the year, and number of man-hours worked, which at the Drax Power Station site totalled some 3.5 million. Our safety record continues to compare favourably with that of our sector peers and international benchmarks. Amongst global comparator coal-fired power stations we are well in the upper quartile for total recordable injury rate, which is a clear indication that the safety programmes implemented in the last few years are now delivering sound sustainable performance.

The Company has been successful in retaining certification of its Health and Safety Management System to the internationally recognised Occupational Health and Safety standard OHSAS 18001. Drax is proud to be one of a select group of large coal-fired power stations in the country to hold this standard, which is approved by Lloyd’s Register Quality Assurance. In addition to this, the Company was equally delighted to be awarded the RoSPA Gold Medal Award having achieved Gold Award standards for five consecutive years.

## BUSINESS REVIEW

### CORPORATE RESPONSIBILITY

#### Processes underpinning performance

The Production Integrity Management System ("PIMS") continues to provide the platform the business needs to deliver continuous improvement of business critical systems which are fundamental to the safe and effective operation of the power station.

"Spotlight on Safety" ("SOS") is our implementation of the internationally proven DuPont™ STOP™ programme. This behavioural safety programme is coupled with the Drax "Four Pillars of Safety":

- 1 Task Risk Assessment ("TRA");
- 2 "Safety Kick-Off" start of shift safety briefings;
- 3 Dynamic point of work risk assessment ("POWRA"); and
- 4 Weekly Safety Meeting.

The Four Pillars and SOS give us the framework we need for open engagement between operatives and supervisors to develop the defensive behaviours which are a fundamental component of the robust world-class safety culture we aspire to create and maintain.

#### Safety leadership and recognition

The Company is constantly striving to improve the critical safety leadership contribution required from first line supervisors. The expectations of both management and supervisors have been reaffirmed in a Safety Leadership Charter.

People working on the site at all levels who have demonstrated safety leadership have been given recognition awards.

Our "Weekly Safety Bulletin" briefing process provides a fast-track communication vehicle to reach all those working on the site. We use the process to draw attention to specific safety issues, our performance record and to recognise achievements. Active engagement in the safety briefing process is a job requirement. In addition, the safety representatives and management team members of the Health and Safety Advisory Committee continue to play a vital role in facilitating staff consultation on health and safety issues.

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

## 4 Caring for the community

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

#### Sponsorship in the community

During 2009, we gave financial support of £138,930 (2008: £137,012) in total across a range of charitable and non-charitable community causes. Of that total, charitable donations amounted to £88,041 (2008: £99,952).

Some £24,000 of the total donations were made under the direction of our sponsorship team, across a range of activities within a 20-mile radius of the power station.

Each month the team meets to consider requests received for charitable donations and community sponsorship and makes awards against our criteria of furthering community, environmental and sporting interests.

An example of the good causes supported through the sponsorship team in 2009 is Home-Start, Goole & District, a voluntary organisation committed to promoting the welfare of families in the local area with at least one child under the age of five. Home-Start provides a service to families where parents may be experiencing difficulties such as isolation, depression, illness or low self esteem, and gives support where there are issues with children's health, disability, challenging behaviour or conflict within the family. Our donation helped with the costs of maintaining and expanding the scheme.

Our employees tackle many activities in aid of charity. During the year a team of ladies from Haven took part in a sponsored skydive to raise money for St Elizabeth's Hospice, Ipswich. The total raised was boosted with the help of colleagues who preferred land-based activities, including car washing and baking.

Drax also operates a "£ for £" matching scheme, under which we match any monies raised for charity by employees. During 2009, approximately £47,000 of the total donations made were through this scheme.

For the third year running we held a charity corporate golf tournament at the championship course at Fulford, York. The event raised £6,140 for the Yorkshire Air Ambulance, which provides a crucial emergency service for the region.

For the fifth year running, we ran a scheme to encourage and reward good safety performance during the major planned outage period. Through the scheme £500 is donated for every seven days that goes by without an injury requiring more than first aid treatment. In total £5,500 was raised during the single outage. The money was divided equally between ASBAH, the leading charity involved in advice and information for spinal and brain conditions, spina bifida and hydrocephalus, for advisers supporting families from the York/Selby/Goole area and the Yorkshire Air Ambulance, the nominated charities were chosen by Drax and our contractors, Doosan Babcock.

Other sponsorship activities included sponsoring concerts at both Howden Minster and Selby Abbey. In May, "Saturday Night at The Proms" featured the East Riding Senior Wind Band, supported by the East Riding Youth Singers, with special guests Lesley Julian, Frank Ella MBE and Colin Reed. The concert helped to raise vital funds for restoration work at the 800-year old Howden Minster.

In October, once again Selby Abbey was home to world-renowned Chetham's Symphony Orchestra for an evening of musical entertainment, including for the first time at Selby Abbey, the Chetham's Female Chorus led by mezzo-soprano Louise Winter, a former Chetham's student. The guest conductor was the internationally respected Paul McCreesh.

### Education in the community

We provide a choice of educational experiences hosted by our team of guides and specialist hosts when necessary. A state-of-the-art visitor centre is of particular interest to school parties where they can explore the properties of electricity, discover how a power station works and consider the environmental issues related to electricity generation.

For students in further and higher education the inner workings of the power station bring to life studies into the technical engineering equipment and complex processes used to harness energy from coal and alternative fuels.

A trip to the Centre can be combined with a tour of the power station to help pupils and students understand the scale of operations at Drax. All can learn about the basic principles and development of electricity generation, the role of different fuels in electricity generation, trading of electricity, environmental issues related to burning fossil fuels, the recycling of by-products and the role of a large industrial complex in the local economy and community.

Another visitor opportunity exists at our Skylark Centre that lies at the heart of the Barlow Mound ash disposal scheme. A nature reserve has been established there to provide a haven for over 100 species of wildlife. It is specially designed to help schoolchildren understand more about the natural habitat and ecology of the area.

Educational visits are complemented by classroom and laboratory facilities where teachers and students can discuss and investigate the results of pond dipping, a mini-beast hunt or a nature trail walk through woodland areas.

Our "Cricket in the Community" initiative launched in May 2006 has continued to prove popular with local schools. The England and Wales Cricket Board qualified coaches on our staff, together with England ladies' cricketer, Katherine Brunt took cricket coaching to schools in the local area as part of our support for education and to promote sports learning as part of the National Curriculum.

Strengthening our links with the game of cricket, for the third year we ran the Drax Cup, a cricket competition for teams of girls and boys under the age of nine.

Over 300 primary schools across Yorkshire took part in the knock-out tournament organised by the Yorkshire County Cricket Club ("Yorkshire CCC") in conjunction with the Yorkshire Cricket Board and the Yorkshire Schools' Cricket Association. The semi-finals and final were played at Headingley Carnegie Stadium, the home of Yorkshire CCC and a long-standing venue for test matches and one-day internationals. This year the winning school was Westville House Primary School, in Ilkley.

Under the "Art in the Community" banner, we held our third art competition for primary and secondary schools. Some 20 schools participated and the winners and their schools shared in prize money totalling over £2,500.

We also held a two-day art camp in the Summer for seven to 13-year-olds. Under the guidance of York-based artist Lesley Seeger, the budding artists produced their own artistic interpretations of Spring, Summer, Autumn and Winter. Following selection by a judging panel the best pieces were used to produce a 2010 calendar.

### Visitors to Drax

Thousands of visitors are welcomed to the power station every year. The appeal of discovering more about how power is produced and the sheer scale of the site and its associated activities attracts schools and colleges as well as business organisations and associations. During 2009, we played host to some 7,200 visitors.

For three Sundays in the run-up to Christmas, we converted the Skylark Centre into a Santa's Grotto. The attraction proved popular with local residents, some 1,000 people came to visit the grotto and through their generosity a total of £1,000 was raised for Selby Hands of Hope, a charity helping to fund groups and activities in the local area, through sales of our 2010 calendar and other donations.

### Welcoming visitors

"Each year our visitor programme goes from strength to strength. The power station has the almost unique ability to attract people of all ages and from all walks of life. We take pride in tailoring the programme to satisfy the needs of our visitors."

**Pauline Butler**  
Station Guide



# BOARD OF DIRECTORS

## Charles Berry

Chairman  
Age 57

### Appointment to the Board:

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

### Committee Membership:

Nominations (Chairman) and Remuneration.

### External Appointments:

The non-executive Chairman of eaga plc and a non-executive director of Securities Trust of Scotland plc and of Impax Environmental Markets plc.

### Previous Experience:

Charles has extensive experience within the UK power sector. He joined ScottishPower in 1991 and was appointed to the board in 1999. From 2000 to 2005, Charles was Chief Executive of the company's UK Operations, with responsibility for over 6,200MW of generating capacity as well as the trading business, energy retailing and strategic transactions, such as renewables development. Charles is also a former non-executive director and Chairman of THUS Group plc.

### Qualifications:

BSc (Hons) in Electrical Engineering and a MSc in Management.

1

## Dorothy Thompson

Chief Executive  
Age 49

### Appointment to the Board:

20 October 2005, having joined Drax in September 2005.

### Committee Membership:

Executive and Health and Safety.

### External Appointments:

A non-executive director of Johnson Matthey plc.

### Previous Experience:

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

### Qualifications:

BSc (Hons) and MSc in Economics.

2

## Tim Barker

Senior independent  
non-executive director  
Age 69

### Appointment to the Board:

20 October 2005, having joined Drax in June 2004, and was appointed as the senior independent director on 15 December 2005.

### Committee Membership:

Remuneration (Chairman), Audit and Nominations.

### External Appointments:

A non-executive director of several other companies including an early stage company developing a new energy storage technology, the UK subsidiary of a US investment bank and one of the largest housing associations in the UK.

### Previous Experience:

From 1993, Tim was Vice Chairman of Kleinwort Benson Group plc and from 1998, until his retirement in 2000, he was Vice Chairman of Dresdner Kleinwort Benson. Notably, he was involved with a number of clients in the energy sector and was an adviser to the UK Government on the privatisation of the electricity sector. In the mid-1980s, Tim was Director General of the City Panel on Takeovers and Mergers. He is a former Chairman of Robert Walters plc and was the senior independent non-executive director of Electrocomponents plc.

### Qualifications:

MA in Economics.

5

## Tony Quinlan

Finance Director  
Age 44

### Appointment to the Board:

1 September 2008.

### Committee Membership:

Executive.

### External Appointments:

None.

### Previous Experience:

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

### Qualifications:

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

3

## Peter Emery

Production Director  
Age 47

### Appointment to the Board:

20 October 2005, having joined Drax in June 2004.

### Committee Membership:

Executive and Health and Safety.

### External Appointments:

A director of the Association of Electricity Producers.

### Previous Experience:

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

### Qualifications:

BSc (Hons) in Mining Engineering, FIMMM and completed the Advanced Management Programme at INSEAD in 2007.

4





### Jamie Dundas

6

Independent non-executive director  
Age 59

**Appointment to the Board:**  
15 December 2005.

**Committee Membership:**  
Audit, Nominations and Remuneration.

**External Appointments:**  
The non-executive Chairman of Jupiter Investment Management Group, a non-executive director of Standard Chartered PLC, and Chairman of Macmillan Cancer Support.

**Previous Experience:**  
Jamie's career has been in merchant banking, finance and the property sector. Jamie spent 19 years with Morgan Grenfell Group, including ten years as a director of Morgan Grenfell & Co Limited. Jamie was Finance Director of the Airport Authority, Hong Kong between 1992-1996 before joining MEPC plc in 1997, initially as Finance Director and from 1999-2003 as Chief Executive. He is also a former non-executive director of J Sainsbury plc.

**Qualifications:**  
MA (Oxon) in Law and a Barrister (non-practising).

### Mike Grasby

7

Independent non-executive director  
Age 66

**Appointment to the Board:**  
20 October 2005, having joined Drax in December 2003.

**Committee Membership:**  
Health and Safety (Chairman), Nominations and Remuneration.

**External Appointments:**  
A non-executive director of OPG Power Venture plc, a director of executive recruitment business, Strategic Dimensions Technical Limited.

**Previous Experience:**  
Mike retired from International Power in February 2002 after 36 years in the power industry. During his career he held a number of senior positions in the UK and international power industry with the CEBG and National Power. He was manager of Drax Power Station between 1991 and 1995, and director of operations for National Power's portfolio, with responsibilities for over 16,000MW of generating capacity, until 1998. Mike was also a director of power companies in Portugal, Turkey and Pakistan. Following the demerger of National Power, he joined International Power as a senior vice-president, continuing with his international directorships and leading a major consortium in the Czech Republic.

**Qualifications:**  
Chartered Engineer, FIET and FIMechE.

### David Lindsay

8

Independent non-executive director  
Age 62

**Appointment to the Board:**  
1 December 2008.

**Committee Membership:**  
Audit (Chairman), Nominations and Remuneration.

**External Appointments:**  
A non-executive director of Premier Oil plc, a non-executive director of Gartmore Group Limited and Deputy Chairman of the Financial Reporting Review Panel.

**Previous Experience:**  
David was a partner at Ernst & Young for nearly 30 years. He specialised in audit and assurance services and has extensive experience across a range of industry sectors. He has served on a number of professional bodies relating to financial reporting, including the Standards Advisory Committee of the International Accounting Standards Board, the Auditing Practices Board, the Turnbull Committee and the European Financial Reporting Advisory Group.

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



## DIRECTORS' REPORT

The directors present their report for Drax Group plc, together with the consolidated financial statements of the Drax group of companies, for the year ended 31 December 2009.

### Annual General Meeting

The Annual General Meeting ("AGM") of the Company will be held on 21 April 2010, at The City Presentation Centre, 4 Chiswell Street, London EC1Y 4UP at 11.00am. A separate document accompanying this report contains the notice convening the AGM and a description of the business to be conducted.

### Corporate governance

The Group is committed to high standards of corporate governance, details of which are given in this Directors' report and the Corporate governance, Audit Committee, Nominations Committee and Remuneration Committee reports set out on pages 54 to 75.

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

### Business review

A review of the development and performance of the business of the Group during the year ended 31 December 2009, including the financial performance during the year, an analysis of the position of the Group at the end of the financial year, key performance indicators, a description of the principal risks and uncertainties facing the Group, and forward looking statements can be found in the Chairman's introduction on pages 4 and 5. The Business review on pages 2 to 45 incorporates the Chairman's introduction, Chief Executive's statement, How we're performing, Marketplace, Operational and financial performance, Principal risks and uncertainties and the Corporate responsibility review and the reports under the broad heading of Corporate governance as referred to above. The Business review is a constituent part of this Directors' report.

The purpose of this Annual report and accounts is to provide information to members of the Company. It contains certain forward looking statements relating to the operations, performance and financial condition of the Group. By their nature these statements involve uncertainty since future events and circumstances can differ from those anticipated. Nothing in this Annual report and accounts should be construed as a profit forecast.

### Principal activities

Drax Group plc is the holding company of the Drax group of companies. The principal activities of the Group are the generation and sale of electricity at the Drax Power Station, Selby, North Yorkshire and the sale of by-products of the electricity generation process.

On 6 March 2009, the Group's principal subsidiary, Drax Power Limited, acquired the entire issued share capital of Haven Power Limited, an electricity supply business serving business customers, from Welsh Power Group Limited. The consideration for the business was £12 million which included a power trading book position worth £4 million, reflecting the mark-to-market value at that time.

### Results

The Group results for the year are shown in the Consolidated income statement on page 78.

### Going concern

The Group's business activities, financial position, and key risks and uncertainties are set out in the Business review as referenced above. In addition note 17 of the consolidated financial statements includes details of the Group's borrowings, financial instruments, and hedging activities, together with its exposure to credit and liquidity risk and how it manages its capital.

The directors' consideration of the going concern basis is set out specifically on page 32. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within its available facilities.

The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing these consolidated and company accounts.

## Risk identification, assessment and management

A summary of the Group's position regarding risk identification, assessment and management and use of financial instruments is contained in the Audit Committee report on pages 60 to 62 and also in the Business review on pages 34 and 35.

## Dividends and distributions

Subject to the provisions of the Companies Acts, the Company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Board. The Board may pay interim dividends whenever the financial position of the Company, in the opinion of the Board, justifies such payment.

Details of the dividends paid and proposed on the ordinary share capital by financial year to which these relate are shown below:

	2009 £m	2008 £m
<b>Interim and final dividends</b>		
Interim dividend paid on 7 October 2009 of 4.1 pence per share (8 October 2008: 5.0 pence per share)	15.0	17.0
Proposed final dividend to be paid on 14 May 2010 <sup>(1)</sup> of 9.6 pence per share (22 May 2009: 38.3 pence per share)	35.0	130.0
<b>Special dividends</b>		
Paid on 8 October 2008 of 9.7 pence per share	-	32.9

Notes:

(1) Subject to approval by shareholders at the forthcoming AGM.

## Share capital

The Company has only one class of equity shares, which are ordinary shares. There are no known restrictions on the voting rights of the ordinary shares.

At 1 January 2009, 339,398,968 ordinary shares of 11<sup>16</sup>/<sub>29</sub> pence each in the Company were in issue and at 31 December 2009, 364,853,890 ordinary shares of 11<sup>16</sup>/<sub>29</sub> pence each in the Company were in issue. The following details the changes to the share capital during the year.

### Issue of shares

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

On 23 June 2009, a total of 25,454,922 new ordinary shares of 11<sup>16</sup>/<sub>29</sub> pence each (the "Placing Shares") in the Company were placed by Deutsche Bank AG, London Branch at a placing price of 425.0 pence per share, raising gross proceeds of approximately £108.2 million (less expenses of £2.7 million). The closing mid market price on the day of the Placing was 436.5 pence per share. The Placing Shares issued represented 7.5% of the Company's issued ordinary share capital prior to the Placing. No other new shares issued during the year.

### Authority to purchase own shares

At the AGM of the Company held on 28 April 2009, shareholders resolved to authorise the Company to make market purchases of up to 10% of the issued ordinary share capital. At the forthcoming AGM, shareholders will be asked to renew this authority. Details are contained in the Notice of the Annual General Meeting.

The Company did not purchase any of its own shares during 2009 and the Company held no Treasury shares during 2009.

Details of the share capital as at 31 December 2009, and shares issued during the year, are given in note 20 on page 101.

### Rights and obligations attaching to shares

The rights and obligations attaching to the ordinary shares are set out in the Articles. The Articles may only be changed by the shareholders by special resolution. It is proposed that the Company adopt new Articles of Association at the forthcoming AGM. Further details relating to this are set out in the Notice of the Annual General Meeting.

### Variation of rights

Subject to statute, the Company's Articles specify (and the proposed new Articles of Association will specify) that rights attached to any class of shares may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate

## DIRECTORS' REPORT

General Meeting of the holders of those shares. At every such separate General Meeting the quorum shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class (calculated excluding any shares held as Treasury shares). The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

### Transfer of shares

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

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

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

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

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

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

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

### Shares in uncertificated form

Directors may determine that any class of shares may be held in uncertificated form and title to such shares may be transferred by means of a relevant system or that shares of any class should cease to be held and transferred. Subject to the provisions of the Companies Act, the CREST Regulations and every other statute, statutory instrument, regulation or order for the time being in force concerning companies and affecting the Company (together, the Statutes), the directors may determine that any class of shares held on the branch register of members of the Company resident in South Africa or any other overseas branch register of the members of the Company may be held in uncertificated form in accordance with any system outside the UK which enables title to such shares to be evidenced and transferred without a written instrument and which is a relevant system. The provisions of the Articles (and the proposed new Articles of Association) shall not apply to shares of any class which are in uncertificated form to the extent that the Articles are inconsistent with the holding of shares of that class in uncertificated form, the transfer of title to shares of that class by means of a relevant system or any provision of the CREST Regulations.

## Substantial shareholdings

As at 22 February 2010, the Company has been notified in accordance with the Financial Services Authority's Disclosure and Transparency Rules, of the following interests in the voting rights of the Company:

	Date last TRI Notification made	Number of voting rights directly held	Number of voting rights indirectly held	Total number of ordinary shares held	% of the issued ordinary share capital held
Invesco plc	18.02.2010	-	105,789,646	105,789,646	28.99
Black Rock Inc.	08.12.2009	-	28,366,464	28,366,464	7.77
AXA S.A.	17.12.2009	1,704,050	14,952,477	16,656,527	4.57
Legal & General Group Plc	29.06.2009	13,827,458	-	13,827,458	3.79
<b>Total shares held by substantial shareholders</b>		<b>15,531,508</b>	<b>149,108,587</b>	<b>164,640,095</b>	<b>45.12</b>

## Directors

The current directors are Tim Barker, Charles Berry, Jamie Dundas, Peter Emery, Mike Grasby, David Lindsell, Tony Quinlan and Dorothy Thompson. Biographical notes of the directors appear on pages 46 and 47.

No other person served as a director or as an alternate director at any time during the year.

Jamie Dundas has stated that he intends to step down from the Board due to other work commitments. He will resign as a director at the conclusion of the AGM on 21 April 2010.

In accordance with the Company's Articles, Peter Emery and Mike Grasby will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. The evaluation of the Board described on page 56 concluded that the directors offering themselves for re-election continue to demonstrate commitment to their particular role and perform effectively.

The re-election of each director is recommended by the Board. Details of the relevant terms of appointment and service agreements appear on page 71.

The rules relating to the appointment or replacement of directors and the powers of directors are highlighted in the Corporate governance report on page 55.

A director is not required to hold any shares of the Company by way of qualification. Directors' interests in the share capital of the Company are shown on page 75.

## Directors' interests, indemnity arrangements and other significant agreements

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

Details of directors' remuneration, service contracts and interests in the shares of the Company are set out in the Remuneration Committee report on pages 64 to 75.

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

Under an £800 million credit facility agreement dated 27 October 2005, as amended on 6 December 2005 and further amended and restated on 3 August 2009, between, amongst others, Drax Finance Limited, Drax Power Limited and Barclays Bank PLC (as facility agent), on a change of control, if any lender requires, it may, by giving notice to Drax Finance Limited and the facility agent within 30 days of receiving notice from Drax Finance Limited that a change of control has occurred, cancel its commitments and require payment of its share of any outstanding amounts within three business days of such cancellation notice being given.

Under a £100 million credit facility dated 11 May 2006, as amended and restated on 3 August 2009, between, amongst others, Drax Finance Limited and Lloyds TSB plc (as facility agent), on a change of control, if any lender so requires, it may, by giving notice to Drax Finance Limited and the facility agent within 30 days of receiving notice from Drax Finance Limited that a change of control has occurred, cancel its commitments and require payment of its share of any outstanding amounts within three business days of such cancellation notice being given.

Under a £235 million forward start credit facility dated 3 August 2009 between, amongst others, Drax Finance Limited, Drax Power Limited and Barclays Bank PLC (as facility agent), on a change of control, if any lender so requires, it may by giving notice to Drax Finance Limited and the facility agent within 30 days of receiving notice from Drax Finance Limited that a change of control has occurred, cancel its commitments and require payment of its share of any outstanding amounts within three business days of such cancellation notice being given. The forward start credit facilities are currently undrawn; of these, the £135 million term loan element can be drawn from 1 July 2010 to 31 December 2010, whilst the £100 million revolving credit facility can be drawn at any time to December 2012.

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

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

## DIRECTORS' REPORT

### Employees

A commentary on employee involvement and the Group's commitment to its employees is set out within the Corporate responsibility review on pages 42 to 44 and details of employee involvement through share participation are contained in the Remuneration Committee report on pages 64 to 75. Shares awarded under the Group's Share Incentive Plan are registered in the name of the Trustee. Voting rights attached to those shares are at the direction of individual employee participants.

Drax uses a wide variety of communication methods in order to create a common awareness on the part of all employees of the financial and economic factors affecting the performance of the Company. For example, team briefings are held once a month where wide-ranging information is communicated throughout the organisation. In addition, plant-wide meetings are held on a regular basis and cover, inter alia, the financial and market factors affecting the performance of the Group. Details of the communication methods used are provided in the "Our people" section of the report on corporate responsibility on pages 42 to 44.

It is the Group's policy to give full and fair consideration to suitable applications for employment from people with disabilities having regards to their particular aptitudes and abilities. In the event of a member of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training and rehabilitation is provided. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The Group is committed to a policy of equal opportunities and ensures that country of origin, colour, gender, religious belief, sexual orientation, age or disability, are not barriers to working at Drax.

The Group provides a wide range of development opportunities to help employees develop the necessary skills, knowledge and experience to realise their performance potential.

### Corporate responsibility

Details of the Group's corporate responsibility policies and operations are set out on pages 38 to 45.

There are Group policies for environment, health and safety and human resources as well as a code of business ethics. The internal control processes described on pages 57 and 58, takes account of social, environmental and ethical risks.

### Charitable donations

The Group has continued to support community initiatives and charitable causes. The total charitable donations made by the Group in the year were £88,041 (2008: £99,952). More information on the charitable donations made is contained within the Corporate responsibility review on pages 38 to 45.

### Political donations

No political donations were made in the UK or elsewhere during the year (2008: £nil). It is the Board's policy not to make donations to political organisations or for political causes.

The Corporate responsibility review explains that the Group's activities in the political sphere are aimed only at the promotion of its business interests. However, the definitions of EU political expenditure are broad and there is widespread doubt about the extent to which normal business activities, which might not be thought to be political expenditure in the usual sense, could be considered to be political expenditure within the meaning of the legislation. The Board wishes to avoid any inadvertent infringement of the legislation and is, therefore, seeking the authority of shareholders to incur expenditure for the Company and its subsidiaries for such purposes of £50,000 during the next 12 months. A resolution to that effect is contained within the Notice of Meeting for the AGM. The Board does not believe that the Group has incurred any political expenditure in the past year.

### Creditor payment policy and practice

Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms and pay creditors when sums owing fall due for payment, provided that the suppliers also comply with all relevant terms and conditions. Drax Group plc, the holding company of the Group, has no trade creditors. In respect of Group activities, the amounts due to trade creditors at 31 December 2009 represented approximately 23 days of average daily purchases through the year (2008: 21 days).

## Auditors and the disclosure of information to the auditors

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

In accordance with Section 489 of the Companies Act, a resolution is to be proposed at the AGM for the reappointment of Deloitte LLP as auditors of the Company. A resolution will also be proposed authorising the directors to determine the auditors' remuneration. The Audit Committee reviews the appointment of the auditors, the auditors' effectiveness and relationship with the Group, including the level of audit and non-audit fees paid to the auditors. Further details on the work of the auditors and the Audit Committee are set out in the Audit Committee report on pages 60 to 62.

## Voting

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

Where shares are held by trustees/nominees in respect of the Group's employee share plans and the voting rights attached to such shares are not directly exercisable by the employees, it is the Company's practice that such rights are not exercised by the relevant trustee/nominee.

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

The Company is aware of the debate concerning Section 323 of the Companies Act, related to the voting rights of corporate representatives. Drax Group plc is committed to ensuring all investors have the opportunity to exercise their voting rights and, to this end, has adopted the guidance issued by the Institute of Chartered Secretaries and Administrators (available at [www.icsa.org.uk](http://www.icsa.org.uk)).

## Deadlines for exercising voting rights

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

## Restrictions on voting

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

By order of the Board.

**Philip Hudson**  
Company Secretary  
22 February 2010



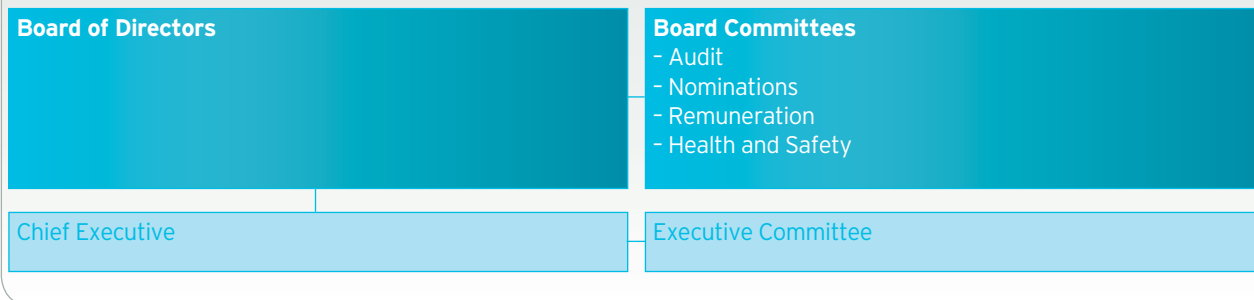
Registered Office:  
Drax Power Station  
Selby  
North Yorkshire YO8 8PH  
Registered in England No. 5562053

## CORPORATE GOVERNANCE

### Compliance with the Combined Code

It is the Board's view that throughout the period commencing on 1 January 2009, there has been full compliance with the provisions of Section 1 of the Combined Code. The Combined Code is available at: [www.frc.org.uk/corporate/combinedcode.cfm](http://www.frc.org.uk/corporate/combinedcode.cfm).

This section describes in broad terms how the Company is organised in terms of the overall structure and principal roles and responsibilities of the Board, its committees and other significant bodies.



### The Board of directors



As at 22 February 2010, the Board comprised the non-executive Chairman, four independent non-executive directors and three executive directors. The directors are named in the Directors' report on page 51 and their principal commitments outside the Group are described within their biographical notes on pages 46 and 47. The Board meets at least six times each year and more frequently if appropriate. In addition, the Board meets at least annually to consider Group strategy.

Charles Berry is the Chairman, having been appointed on 17 April 2008. The Board considered that Charles Berry was independent on appointment as a director of the Company in December 2005.

Dorothy Thompson is the Chief Executive and is responsible for all aspects of the stewardship of the Group and its business, including developing an appropriate business strategy for Board approval and securing its timely and effective implementation. She provides leadership to the executive team and takes responsibility for the important external relationships with customers, suppliers, regulatory agencies and Government bodies. The division of responsibilities between the Chairman and the Chief Executive is set out in writing, was agreed by the Board on 14 December 2005 and was reviewed and varied by the Board on 23 October 2006.

Tony Quinlan is the Finance Director. He is responsible for the financial management of the Group, and for relationships with the Group's bankers. He is the Chairman of the Risk Management Committee of Drax Power Limited. That committee provides reports to the Board on a monthly basis.

Peter Emery is the Production Director and is responsible for the operation, safety, repair and maintenance of the electricity generation plant at the power station and for the Drax site.

Mike Grasby was the manager of Drax Power Station between 1991 and 1995, whilst the power station was owned by National Power. He has never held an executive position within the Company. The Board considered that at the time he was appointed a non-executive director sufficient time had elapsed between him ceasing to be an employee and his appointment as a director to deem him independent at appointment.

Tim Barker, Jamie Dundas, Mike Grasby and David Lindsell have served the Group as independent non-executive directors throughout the year ended 31 December 2009. Having reviewed their position, the Board has again concluded that each non-executive director is independent within the meaning of the Combined Code. Tim Barker is the senior independent director.



The Company's Articles provide that one-third of directors (rounded down to the nearest whole number) shall retire by rotation each year but are eligible to submit themselves for re-election by shareholders and that directors shall not serve longer than the third Annual General Meeting ("AGM") following their election without being re-elected by shareholders. During the year, the Nominations Committee considered the requirements for directors to retire by rotation, together with the provisions of the Combined Code to ensure planned and progressive refreshing of the Board.

The Nominations Committee met on 16 February 2010, following the completion of the Board evaluation process, and identified Peter Emery and Mike Grasby to retire by rotation this year and offer themselves for re-election by shareholders at the next AGM. The Board considers it appropriate that each of them be re-elected because of their individual experience and knowledge within the electricity generation sector and wider management and industry experience. After performance evaluation, the Board has concluded that each continues to be effective and committed to their role.

Tim Barker, Jamie Dundas and Mike Grasby have letters of appointment for a six year term from 15 December 2005, subject to one month's notice. David Lindsell holds a letter of appointment for a three year term from 1 December 2008, subject to one month's notice of termination. Charles Berry's letter of appointment provides for a three-year term from 17 April 2008, subject to six months' notice on either side. It is the Board's policy that each non-executive director will be appointed for a term of three years which, subject to the Board being satisfied as to the director's performance and commitment and a resolution to re-elect at the appropriate AGM, may be renewed by mutual agreement. However, in the case of the independent non-executive directors, it is the Board's policy not to extend the aggregate period of service of any independent non-executive director beyond nine years and, as required by the Combined Code, any proposal made to extend a non-executive director's aggregate period of office beyond six years is the subject of a rigorous review. Such reviews in cases where a director remains in office after six years, will be conducted annually as part of the evaluation of the Board. Mike Grasby joined Drax in December 2003 and has therefore completed six years service since his initial appointment. The evaluation of the Board concluded that Mike continues to demonstrate commitment to his particular role and performs effectively.

The Board has adopted a schedule of matters reserved for its decision and formal terms of reference for its committees which are available to view on the Group's website at [www.draxgroup.plc.uk](http://www.draxgroup.plc.uk). The Board determines: the Group's strategy; the Group's appetite for risk (particularly in its trading activities); the internal control and risk management policies; the business plan and key performance indicators; acquisitions and disposals and other transactions outside delegated limits; material changes to accounting policies or practices; significant financial decisions; capital structure and dividend policy; shareholder communications; prosecution, defence or settlement of material litigation; Group remuneration policy; the terms of reference of Board committees; and the Board structure, composition and succession. Matters which are not specifically reserved to the Board and its committees under their terms of reference, or to shareholders in General Meeting, are delegated to the Chief Executive or otherwise delegated in accordance with a scheme of delegation approved by the Board.

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

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

The Board has adopted a policy whereby directors may, in the furtherance of their duties, seek independent professional advice at the Company's expense. During 2009 no director sought independent legal advice pursuant to the policy.

The Company's Articles give the directors power to approve conflicts of interest. The Board has adopted a procedure by which situations giving rise to potential conflicts of interest are identified to the Board, considered for authorisation and recorded. Under the proposed new Articles of Association certain conflicts of interest do not need to be authorised, for example an interest as a director of a group company. Generally the nature and extent of any conflict of interest must be disclosed before it can be authorised or before it is permitted without being authorised but the proposed new Articles of Association provide for some situations in which disclosure is not required where knowledge can be presumed and disclosure is unlikely to be necessary. The proposed new Articles of Association also allow the Board to exercise voting rights in group companies without restriction (e.g. so as to appoint a director to the board of a group company without this counting as a conflict requiring authorisation).

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

## CORPORATE GOVERNANCE

### Performance reviews and directors' development

The effectiveness of the Board is vital to the success of the Group. During the year, the Company undertook a review to assess the performance of the Board and its committees. This was facilitated by Equity Communications Limited, a consultancy specialising in providing assurance to listed companies on best practice in company regulation and corporate governance.

The directors and Company Secretary each completed questionnaires on the Board and committee performance and on the performance of each individual. Equity Communications Limited met with each individual to discuss the questionnaires and issues arising from them, and attended a board meeting to present its report on the process and its findings. Individual feedback sessions were later conducted by the Chairman, and by the senior independent director in relation to the Chairman. The conclusions were that the Board and its committees were effective and performance compared well with that of other companies, and that each director continued to perform effectively in their role.

During the year, the Chairman held meetings with the non-executive directors in the absence of the executive directors as required by provision A.1.3 of the Combined Code.

The Board is committed to the development of all employees and directors and has reviewed and will periodically again review each individual director's development requirements and make appropriate arrangements to address them. All new directors receive an induction, including information about the Company and their responsibilities, meetings with key managers and visits to the Company's site. In addition, specific Board training days are arranged involving presentations on relevant topics.

### Committees of the Board

The Board has established the following standing committees:

Committee	Membership
<b>Audit Committee<sup>(1)</sup></b>	David Lindsell (as Chairman), Tim Barker and Jamie Dundas.
<b>Remuneration Committee</b>	Tim Barker (as Chairman), Charles Berry, Jamie Dundas, Mike Grasby and David Lindsell.
<b>Nominations Committee</b>	Charles Berry (as Chairman), Tim Barker, Jamie Dundas, Mike Grasby and David Lindsell.
<b>Health and Safety Committee</b>	Mike Grasby (as Chairman), Dorothy Thompson, Peter Emery and the Drax Power Head of Safety.

Note:

(1) Jamie Dundas was Chairman of the Audit Committee until the conclusion of AGM, at which point he stood down as Chairman and David Lindsell was appointed to the role. Mike Grasby was a member of the Audit Committee until the conclusion of the AGM at which point he stood down as a member.

Details of the work of the Audit, Nominations and Remuneration Committees are given in the reports of those Committees on pages 60 to 75. The terms of reference for these Committees are reviewed annually by each Committee and then by the Board. A copy of the terms of reference is available on the Group's website at [www.draxgroup.plc.uk](http://www.draxgroup.plc.uk).

The Board attaches particular importance to the role of its Health and Safety Committee because of the fundamental importance of safety systems and procedures in a large and complex plant such as that of Drax Power Station. The Committee's terms of reference provide for it to review policy, monitor performance and hold management accountable for the efficacy of the Group's health and safety procedures and performance.

There is also an Executive Committee through which the Chief Executive discharges her duties in respect of the day-to-day management of the Company. The Executive Committee membership currently comprises: Dorothy Thompson (Chief Executive), Sean Ebnet (Director of New Business), Peter Emery (Production Director), Philip Hudson (General Counsel and Company Secretary), Tony Quinlan (Finance Director) and Paul Taylor (Director of Trading).

## Board and Board Committee attendance

The table below shows the number of meetings, and attendance at them by directors, of the Board, Audit, Nominations, Remuneration, and Health and Safety Committees of Drax Group plc during 2009.

The number in brackets represents the maximum number of meetings that each individual was entitled to and had the opportunity to attend.

	Years on the Board	Years with Drax <sup>(1)</sup>	Board <sup>(2)</sup>	Audit Committee	Nominations Committee	Remuneration Committee	Health and Safety Committee
Tim Barker	4	5	7(7)	4(4)	2(2)	3(3)	-
Charles Berry	4	4	7(7)	-	2(2)	3(3)	-
Jamie Dundas	4	4	7(7)	4(4)	2(2)	3(3)	-
Peter Emery	4	5	7(7)	-	-	-	2(2)
Mike Grasby	4	6	7(7)	2(2)	2(2)	3(3)	2(2)
David Lindsell	1	1	7(7)	4(4)	2(2)	3(3)	-
Tony Quinlan	1	1	7(7)	-	-	-	-
Dorothy Thompson	4	4	7(7)	-	-	-	1(2)

Notes:

(1) This includes both the time spent on the Board of Drax Group plc and also the effective predecessor companies Drax Group Limited and Drax Power Limited.

(2) In addition to the Board meetings identified above, there have also been five teleconference calls to discuss various matters such as the refinancing and share placement and there is a meeting held annually to consider strategy.

## Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. A process has been established for identifying, evaluating and managing the significant risks faced by the Group and this has been in place for the year under review up to the date of approval of the Annual report and accounts. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Group's risk management process aims to be comprehensive, systematic and continuous. Its key features include the identification and recording of the main risks facing the Group in a risk register with clear allocation of management responsibility for risk identification, analysis and control. The Group has comprehensive and well defined control policies with clear structures, delegated authority levels and accountabilities. During the year, the Executive Committee reviewed the risk management process and the controls applicable to the most significant risks facing the Group.

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

Management of commodity trading risk is undertaken by a Risk Management Committee of the principal operating subsidiary, Drax Power Limited, chaired by the Finance Director. The Board receives a summary report from the Risk Management Committee each month.

## CORPORATE GOVERNANCE

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

With the assistance of the Audit Committee, the Board has reviewed the effectiveness of the system of internal control. It has reviewed the reports of the Audit Committee, which has considered all significant aspects of internal control including financial, operational, trading, compliance, social, environmental and ethical risks in accordance with the "Internal Control: Guidance for Directors on the Combined Code" issued in September 1999 and updated in October 2005.

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

### Relations with shareholders

The Board places considerable importance on communication with shareholders and is proactive in obtaining an understanding of shareholder preferences and evaluating systematically the economic, social, environmental and ethical matters that may influence or affect the interests of shareholders. A number of formal communication channels are used to account to shareholders for the performance of the Group, which include the Annual report and accounts, the AGM and periodic reports to the London Stock Exchange. Presentations given at appropriate intervals to representatives of the investor community are available to all shareholders to download from the Group's website. Less formal processes include contacts with institutional shareholders by the Chairman and other directors.

Major shareholders are regularly offered the opportunity to meet with the Chairman. The Board also reviews and discusses the investor feedback from post-results investor meetings conducted by the Chief Executive and the Finance Director in the UK, Europe and the USA. These took place following both the preliminary and half year results announcements in 2009. The Company has also engaged Makinson Cowell, an independent capital markets consultancy firm, to advise and assist in relation to communications with shareholders.

The Company's private registered shareholders hold approximately 1% of the issued share capital. The Board is as interested in their concerns as it is in the concerns of institutional and corporate shareholders. All shareholders are free to put questions to the Board at the AGM. Questions asked in person at the AGM will receive an oral response whenever possible. Otherwise a written response will be provided as soon as practicable after the meeting. Questions asked at other times will normally receive a written response. Shareholders attending the AGM will have an opportunity to meet informally with the directors immediately after the meeting.

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

This Annual report and accounts together with other public announcements is designed to present a balanced and understandable view of the Group's activities and prospects. The Chairman's introduction, Chief Executive's statement, Business review, and Corporate responsibility review provide an assessment of the Group's affairs. This Annual report and accounts is despatched to shareholders at least 20 working days before the AGM and the accompanying Form of Proxy provides for a shareholder to vote in favour or against, or to indicate abstention as an alternative on each separate resolution. Particulars of aggregate proxies lodged will be announced to the London Stock Exchange via a regulatory information service and placed on the Group's website as soon as practicable after the conclusion of the AGM.

## Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and accounts, Remuneration Committee Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent Company financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Regular review meetings are held with the website administrators to ensure that the website is continually maintained to a high standard.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards, 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; and
2. the Business review, which is incorporated into the Directors' 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.

By order of the Board.

**Dorothy Thompson**  
Chief Executive  
22 February 2010



**Tony Quinlan**  
Finance Director  
22 February 2010



## AUDIT COMMITTEE REPORT

### Membership and process

The Committee comprises David Lindsell (as Chairman), Tim Barker and Jamie Dundas all of whom are independent non-executive directors. Mike Grasby was a member of the Committee until 28 April 2009 at which point he stood down. Jamie Dundas was Chairman of the Committee until 28 April 2009 at which point he stood down (as Chairman) and was replaced by David Lindsell.

The biographical notes of the members of the Committee are set out on pages 46 and 47. The Board is satisfied that the membership of the Committee meets the requirement for recent and relevant financial experience. The Company Secretary acts as Secretary to the Committee.

The Committee met on four occasions in 2009, and the members' attendance record is set out on page 57. The Chairman of the Committee reports the Committee's deliberations to the following Board meeting and the minutes of each meeting of the Committee are circulated to all members of the Board.

### Role

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

- monitor the integrity of the financial statements and other information provided to shareholders;
- review significant financial reporting issues and judgements contained in the financial statements;
- review the systems of internal control and risk management;
- maintain an appropriate relationship with the Group's external auditors and review the effectiveness and objectivity of the external audit process; and
- monitor and review the effectiveness of the internal audit function (which is provided by Grant Thornton UK LLP, a leading firm of accountants), review the internal audit plan, all internal audit reports and review and monitor management's responses to the findings and recommendations of the internal audit function.

The terms of reference for the Committee are reviewed annually by the Committee and then by the Board. A copy of the terms of reference is available on the Group's website at [www.draxgroup.plc.uk](http://www.draxgroup.plc.uk).

### Attendance at meetings

The Chairman of the Board, the Chief Executive, the Finance Director, the Financial Controller and the internal and external auditors are normally invited by the Chairman of the Committee to attend meetings of the Committee. In undertaking its duties, the Committee has access to the services of the Finance Director and the Company Secretary and their resources, as well as access to external professional advice.

### Programme of work

During the year, the Committee undertook its duties in accordance with an agreed annual work plan of which the main features were:

- at meetings in February and July 2009, the Committee reviewed the Group's Preliminary results announcement and Annual report and accounts, and the Half year results announcement and Half year report respectively. On each occasion, the Committee received reports from management and the external auditors identifying accounting or judgemental issues requiring its attention and also satisfied itself of the independence and objectivity of the external auditors;
- at each meeting, the Committee received reports from the internal audit function on the progress of their programme for the year, reviewed new internal audit reports and monitored progress with the implementation of internal control recommendations. The Committee reviewed the arrangements for the provision of the internal audit function and the performance of the current provider, Grant Thornton UK LLP. The Committee considered that outsourcing the internal audit function through Grant Thornton UK LLP continues to be effective and appropriate. In establishing the internal audit plan for 2010, the Committee has extended its remit to specifically identified strategic risk areas, as well as ensuring the provision of a core compliance assurance service;
- in April 2009, the Committee undertook a detailed review of the management letter covering the external auditors' findings in respect of the prior financial year and also reviewed the performance of the external auditors;
- at meetings in April and November 2009, the Committee reviewed the Company's risk register and in November 2009 it undertook a review of the effectiveness of the system of internal controls;
- in November 2009, the Committee received a specific report that it had commissioned from PricewaterhouseCoopers LLP ("PwC") on the effectiveness of controls applicable to Drax Power Limited's commodity trading activities. The report concluded that there were no significant weaknesses in the controls. PwC are to conduct a further phase of their review during 2010; and

- during the year, the Committee met four times in the absence of management with the external auditors and three times with the internal auditors. No matters of concern were drawn to the Committee's attention at any of these meetings. The Committee's understanding with both the external and internal auditors is that, if they should at any time become aware of any matters occasioning them material concern, they will immediately draw it to the Committee's attention via the Chairman. Nothing was subject to this procedure in the course of the year.

The nature of the Group's activities, and the markets in which it operates, are such that from time to time there is a need to consider carefully certain complex accounting issues and make subjective judgements. During the year, the Committee reviewed the Group's accounting for unrealised gains and losses under derivative contracts, and the methodology through which we determine appropriate actuarial assumptions for our defined benefit pension scheme. The Committee also considered the subjective judgements which are made in connection with the Group's tax accounting and the remaining useful economic life of the Drax Power Station.

On each occasion, the Committee concluded that the relevant accounting standards were being properly applied, and that the judgements taken were reasonable and appropriate to the circumstances.

## Independence of the audit

In July 2008, the Committee considered and adopted an enhanced Auditor Independence Policy. In accordance with the Policy, the Committee annually reviews the quality and cost effectiveness of the external audit and the independence and objectivity of the external auditor.

The provisions of the Policy include:

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

Details of the amounts paid to the external auditors during the year for audit and other services are set out in the Notes to the consolidated financial statements on page 88.

The external auditors are required to rotate the audit partner responsible for the Group audit every five years and the current audit partner has been in place for one year.

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

## AUDIT COMMITTEE REPORT

### Internal audit

Under an outsourcing arrangement, Grant Thornton UK LLP undertakes the Group's internal audit function. Regular reports are provided to the Audit Committee regarding the audit programme and reviews undertaken. Recommendations are made to management for process improvements as appropriate. Topics dealt with by internal audit reports reviewed by the Committee during 2009 included: information technology; financial reporting; budgeting; revenue; procurement; VAT and expenditure; human resources and payroll; large capital projects; risk register; and treasury. The Committee is of the opinion that, because of the nature of the Group's business, a higher quality of service is available through outsourcing the function than would be possible through the employment of internal audit staff.

### External auditors

Deloitte LLP were appointed auditors of the Company in 2005 and have been reappointed at each subsequent Annual General Meeting. They previously acted as auditors to the Drax group of companies prior to the listing of the Company in December 2005. Any decision to open the external audit to tender is taken on the recommendation of the Audit Committee based on the results of the performance review described below.

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

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

This report was reviewed and approved by the Board on 22 February 2010.

**David Lindsell**  
Chairman,  
Audit Committee





## NOMINATIONS COMMITTEE REPORT

The Committee comprises Charles Berry (as Chairman), Tim Barker, Jamie Dundas, Mike Grasby and David Lindsell. The biographical notes of the members of the Committee are set out on pages 46 and 47. The Company Secretary acts as Secretary to the Committee.

The principal duties of the Committee are to keep under review the structure, size and composition of the Board (including the skills, knowledge and experience required by it), to consider succession planning for the directors and other senior managers, to identify and nominate candidates to fill vacancies among the directors and to review the time required from non-executive directors. It also reviews those directors retiring by rotation in accordance with the Company's Articles and makes recommendations to the Board regarding their re-election.

The terms of reference for the Committee are reviewed annually by the Committee and then by the Board. A copy of the terms of reference is available on the Group's website at [www.draxgroup.plc.uk](http://www.draxgroup.plc.uk).

The Committee met on two occasions in 2009, and the members' attendance record is set out on page 57.

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

During the year, the Committee considered the succession planning process for the directors and senior managers and concluded that it was appropriate for the business. The outcome of the process which it initiated for the review of the performance of the Board and individual directors is reported in the Corporate governance report on pages 54 to 59.

In September 2009, the Committee considered a paper setting out the requirements for directors to retire by rotation, together with the provisions of the Combined Code to ensure planned and progressive refreshing of the board. It was noted that Tim Barker and Mike Grasby were each approaching six years' service since their appointment as directors of Drax Power Limited, and that the extension of terms beyond six years should be subject to particularly rigorous review.

The Committee met on 16 February 2010, following the completion of the Board evaluation process, and identified, Peter Emery and Mike Grasby to retire by rotation this year and offer themselves for re-election by shareholders at the next AGM. The Board considers it appropriate that each of them be re-elected because of their individual experience and knowledge within the electricity generation sector, wider management and industry experience. After performance evaluation, the Board has concluded that each continues to be effective and committed to their role.

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

This report was reviewed and approved by the Board on 22 February 2010.

**Charles Berry**

Chairman,  
Nominations Committee



## REMUNERATION COMMITTEE REPORT



“By maintaining the right balance between fixed and variable pay, together with the challenging performance targets on executive incentive plans, we will continue to ensure “pay for performance” is central to our decisions concerning remuneration.”

**Tim Barker**

Chairman of the Remuneration Committee

### Introduction

This Remuneration report has been prepared on behalf of the Board by the Remuneration Committee (the “Committee”). The Committee has adopted the principles of good governance as set out in the Combined Code and complies with the Listing Rules of the Financial Services Authority, the relevant schedules of the Companies Act and the Directors’ Remuneration Report Regulations, 2002.

These Regulations require the Company’s auditors to report on the “Audited information” in the report and to state that this section has been properly prepared in accordance with the Regulations. For this reason the report is divided into unaudited and audited information.

The Remuneration report is subject to shareholder approval at the Annual General Meeting on 21 April 2010.

### Part 1 - Unaudited information

#### The Committee

During the year, the Committee comprised Tim Barker (as Chairman), Jamie Dundas, Mike Grasby and David Lindsell, all of whom are independent non-executive directors. Charles Berry, Chairman of the Company is also a member of the Committee. The biographical notes of the members of the Committee are set out on pages 46 and 47.

The Committee met on three occasions during the year and its members’ attendance record is set out on page 57.

#### Advice to the Committee

Adviser	Services provided to the Committee	Other services provided to the Company
<b>Kepler Associates LLP (“Kepler”)</b>	Independent adviser, appointed by the Committee. They have provided advice on market practice, incentive plans and other remuneration-related topics. Kepler also advised the Board on the remuneration of non-executive directors.	Kepler provided no other services to the Company during the year.
<b>Norton Rose LLP</b>	Appointed by the Board, with the agreement of the Committee, to provide legal advice on long-term incentives and directors’ service contracts.	The Company also received legal advice and other legal services from Norton Rose LLP who were appointed by the Board to act as principal legal advisers to the Group.
<b>Deloitte LLP (“Deloitte”)</b>	Deloitte provided no advice to the Committee during the year.	In their capacity as Group auditors, Deloitte undertakes an audit of Part 2 of the remuneration report annually.
<b>Philip Hudson</b>	Philip has attended meetings as Secretary to the Committee and has provided assistance on HR matters to the Committee as he also has overall responsibility for Human Resources.	Philip is General Counsel and Company Secretary for the Group and therefore provides advice and assistance to the Board, Board Committees and other companies within the Group.

The Chief Executive is invited to attend meetings of the Committee except when her own remuneration is being discussed.

## Principal responsibilities

The Committee's principal responsibilities are:

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

## Remuneration policy

The core principles of the remuneration policy are to:

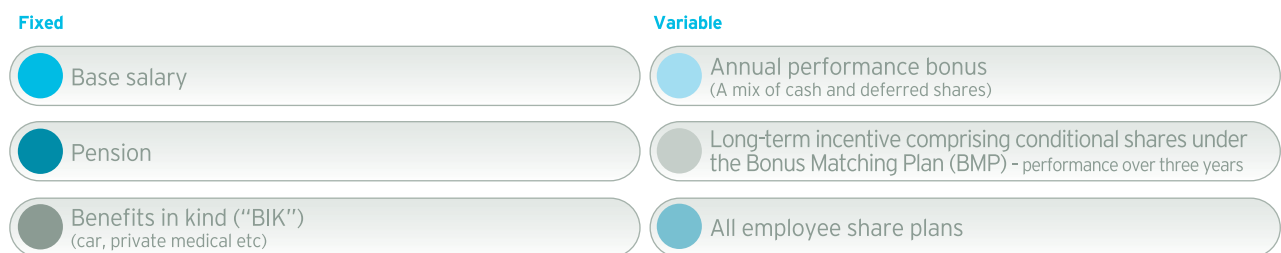
- manage salaries and benefits around market levels, taking into account both industry and cross-industry benchmarks;
- link a significant proportion of remuneration to performance;
- award annual bonuses which are linked to the delivery of the annual business plan targets and personal performance; and
- provide staff with long-term incentives linked to total shareholder returns.

When applying this policy to senior managers below director level, the Committee selects salary and benefit benchmarks appropriate to individual specialisms.

The objectives of the remuneration policy are to:

- motivate executive directors and staff to help ensure that Drax meets challenging performance goals;
- enable Drax to recruit and retain the expertise needed to manage and develop its business;
- strengthen teamwork at all levels; and
- ensure alignment of executive and shareholder interests.

During the year under review the remuneration package of executive directors and senior managers comprised:



Around 45% of the executive director remuneration package is based on variable pay elements. The following table shows the mix of remuneration that applied in 2009 for executive directors between variable and fixed, and short-term and long-term remuneration.

During 2009, the Committee, with the assistance of its independent advisers, Kepler, reviewed the Company's remuneration arrangements for its executive directors to ensure that they remain appropriate in the light of recent market developments. The review included benchmarking practice, the link between variable remuneration and the Company's objectives, the balance between fixed and variable pay, the balance between short-term and long-term pay and the appropriate period over which to measure long-term pay.

Following this review, the Committee believes that the remuneration arrangements are appropriate and fit for purpose with particular reference to the nature of Drax's business.

## REMUNERATION COMMITTEE REPORT

### Components of remuneration

The main components of current executive directors' remuneration are summarised as follows:

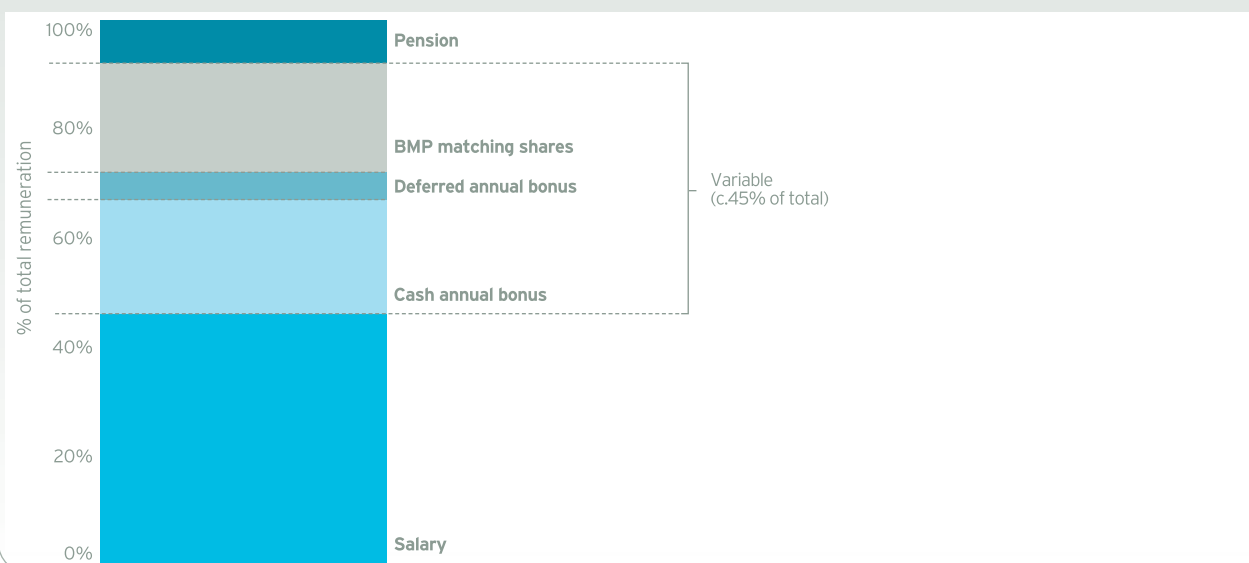
	Chief Executive	Finance Director	Production Director
Salary <sup>(1)</sup>	£450,000	£300,000	£255,000
Annual bonus <sup>(2)</sup> (% of salary)	Target	65%	60%
	Maximum	130%	120%
Bonus match <sup>(3)</sup> (maximum match as a multiple of annual bonus award)	1.5x	1.5x	1.5x
Pension contribution (% of salary) <sup>(4)</sup>	20%	20%	20%

Notes:

- (1) Salaries were benchmarked in 2008 against comparator groups of utilities, power generators and selected other industrial and commercial companies with comparable market capitalisation, turnover and employee numbers.
- (2) 25% of any bonus is settled in shares deferred for three years. Bonuses are based on Group and individual performance against objectives, including a 25% discretionary element.
- (3) An award of conditional shares which vests based on Drax three-year Total Shareholder Return compared to that of the FTSE51-150 with full vesting at upper quartile and 15% vesting at median (zero below median).
- (4) Employer's contribution.

#### Drax executive director - Pay mix

% of total remuneration



The chart values the annual bonus at target with a 5% p.a. forfeiture risk applied to the mandatory deferred bonus. The Bonus Matching Plan opportunity is based on "fair value" assuming the annual bonus pays out at target and the fair value of a BMP performance share is 45% of its face value.

The following paragraphs provide more detail in relation to each of the components of remuneration for executive directors.

#### Base salary

Executive directors' base salaries and benefits are reviewed each year with any changes taking effect from 1 April. The review takes into account individual performance and market competitiveness.

Executive director salaries are benchmarked against two relevant comparator groups. Firstly, an industry sector group comprising companies in the electricity, oil and gas, engineering and utilities sectors. Secondly, a comparator group comprising companies of comparable size to Drax in terms of market capitalisation, turnover and employee numbers.

However, taking account of market conditions and their effect on the Company's performance, the Committee decided not to award any increase in executive directors' base salaries for the pay review year ending on 31 March 2010. This being the case, the benchmarking exercise was not undertaken in 2009.

Pensionable salary is derived from base salary only.

### Annual performance bonus

The Group operates an annual bonus scheme. Bonuses are based on both Group and individual performance against objectives.

The Committee determines Group performance measures by reference to a balanced corporate scorecard for which the Board sets challenging performance targets as part of the business plan approval process. Each element of the scorecard is given a percentage weighting. In 2009 the scorecard had the following elements and weightings:

	Elements	Weighting
<b>Financial targets</b>	Include profit, cash available for distribution and controllable costs	30%
<b>Production targets</b>	Include safety, plant and operational performance	20%
<b>Business plan objectives</b>	Include trading, biomass co-firing, sustainability and business development objectives	50%

In setting these measures and weightings, the Committee recognises that the financial performance of the Group is very substantially determined by commodity prices, and especially the dark green spread. These are factors which predominately are not within the control of the Company's management. The Committee, nevertheless, believes that the variable elements of pay should be sufficiently linked to financial performance to ensure that there is alignment with the interests of shareholders. The Committee considers that the annual bonus measures and weightings achieve an appropriate balance between financial performance measures and other key performance measures that are more directly in the control of management. With the same reasoning, the Committee believes it is appropriate to put a somewhat higher weighting on salary and annual performance bonus relative to the weighting of the longer-term BMP matching share plan, the outcome of which is significantly outside the control of management.

The Committee assesses corporate performance against each of these measures, and has a discretion to adjust the overall score by a factor between 0.75x and 1.25x (i.e. +/-25%) to reflect performance and unexpected developments that are not directly included in the scorecard.

The Board determines individual performance objectives for each executive director. The Committee assesses performance against these objectives and applies an individual performance multiplier of between 0.67x and 1.33x to the corporate score to determine the percentage of target bonus awarded to each executive director.

For bonus awards in 2009, the target bonus for the Chief Executive and the other executive directors was 65% and 60% of base salary respectively. The maximum bonus was 130% and 120% respectively. 75% of any bonus award is paid in cash and 25% is deferred in shares that vest after three years and is forfeited if the executive leaves the Group other than as a "good leaver" before the shares vest.

In 2009, the corporate score led to an award of 120% of target bonus. This was adjusted according to the individual performance multipliers to set the individual awards. The amounts payable in cash are shown in the Directors' emoluments table in Part 2 of this report.

The target and maximum bonus percentages for 2010 for the Chief Executive and the other executive directors are the same as in 2009, and bonus measures and targets have been set using a similar process to that used previously.

### Conditional share awards under the Bonus Matching Plan

The Group operates a Bonus Matching Plan (BMP) as a long-term performance share plan. The BMP was approved by shareholders at the 2009 Annual General Meeting, and the first awards under it were made in May 2009.

Under the BMP executive directors and other senior executives receive an annual grant of conditional shares to a value of up to 1.5 times the amount of the executive's annual bonus for the prior year. No payment is made for the shares. However vesting is subject to service and performance conditions.

Thirty-three per cent of awards granted to those senior executives who are not Executive Committee members will vest on the third anniversary of grant provided that the participant is still employed by the Group. Awards granted to members of the Executive Committee and the balance (i.e. 67%) of the shares granted to other executives will vest on the third anniversary of grant provided the participant is still employed by the Group and subject to achievement of a performance condition determined by the Committee and described below.

The Committee has approved a condition relating to the Company's total shareholder return (TSR) over the three year period measured from the start of the financial year in which an award is granted relative to the TSR over the same period of the FTSE51-150 companies (the Comparator Group).

## REMUNERATION COMMITTEE REPORT

The TSR condition provides for vesting as follows:

Company rank within the Comparator Group	Vesting of Matching Awards granted to Executive Committee members	Vesting of Matching Awards granted to other participants
Within upper quartile	100%	100%
At median	15%	33%
Below median	0%	33%

(subject normally to continuing service up to the third anniversary)

In addition, the Committee must be satisfied that there has also been a demonstrable and sustained improvement in the Company's performance over the period. In determining this, the Committee will take into account all relevant factors but in particular will consider improvement in the Company's financial, production and trading performance.

The Committee recognises, as mentioned above, that the Group's performance is very substantially determined by commodity prices but believes that the BMP provides an acceptable balance between the interests of participants and shareholders. Moreover, it captures both short-term performance through linking grant value to earned annual bonus and long-term performance by linking vesting to Drax's relative TSR. It also better supports retention by linking vesting partly to time for participants below the Executive Committee.

### Pension

Executive directors are entitled to membership of the Group's defined contribution pension plan. The employer's contribution for executive directors is 20% of base salary. Contributions were and are capped by the different statutory limits applicable before and after 6 April 2006, although there is no executive director for whom contributions would mean they exceed either the lifetime or annual allowances.

Alternatively, at their option, executive directors may either have contributions of the same amounts made to their personal pension schemes or cash in lieu of pension at the stated rate and subject to normal statutory deductions. Details of pension contributions for executive directors and of payments in lieu are included in the Directors' emoluments table in Part 2 of this report.

### Benefits in kind (car, private medical cover, etc)

<b>Car allowance</b>	The Company's policy is to offer a car allowance to executive directors and to certain senior managers, according to their role. The annual allowance is currently: £17,500 per annum for the Chief Executive; £12,000 per annum for other executive directors; and £9,000 per annum for senior managers whose remuneration is determined by the Committee.
<b>Life assurance</b>	Life assurance (in a sum assured of four times base salary) is provided for the executive directors and senior managers.
<b>Private medical cover</b>	The Company's policy is to offer BUPA private medical cover to all employees within the Group. The executive directors and senior managers receive medical cover for them and their dependants.
<b>Relocation expenses and second base expenses</b>	Relocation expenses are paid where appropriate. Second base expenses provide an allowance towards the cost of accommodation and travel when a director is required to spend a significant amount of time at two Drax locations.

### Executive Share Incentive Plan

Between 2006 and 2008, the Group operated the Executive Share Incentive Plan ("ESIP"). The ESIP is a long-term performance share plan under which executives received conditional awards of shares which vest after a three year performance period, subject to Drax's relative TSR compared to an index of comparator companies. The ESIP was replaced by the BMP in 2009. Details of awards made to the executive directors under the ESIP are set out in Part 2 of this report.

The 2006 ESIP award was due to mature on 19 September 2009. Over the three year performance period, Drax's TSR was below that of the index. As a result, all awards under the 2006 ESIP award have lapsed and no shares have been transferred to participants.

### Current annualised rates of pay

The following table shows the current annualised rates of base salary, benefits, bonus (at target level) and pension contributions for each of the directors:

	Annual salary £000	Annual fees <sup>(1)</sup> £000	Annual bonus <sup>(2)</sup> £000	Annual benefits <sup>(3)</sup> £000	Annual cash pension <sup>(4)</sup> £000
Tim Barker	-	58	-	-	-
Charles Berry	-	200	-	-	-
Jamie Dundas	-	48	-	-	-
Peter Emery	255	-	153	12	51
Mike Grasby	-	58	-	-	-
David Lindsell	-	58	-	-	-
Tony Quinlan	300	-	180	35	60
Dorothy Thompson	450	-	293	18	90

Notes:

- (1) Includes Board Committee membership fees paid as separate amounts.
- (2) The annual bonus assumes an "on target" performance yielding a bonus of 65% of base salary for Dorothy Thompson and 60% of base salary for the other executive directors, of which 25% is required to be deferred into shares.
- (3) Covers car allowance and second base expenses only. The cost of other benefits such as BUPA and additional life cover is not easily predicted because they are subject to price variation (the amount of which depends on personal circumstances at the time) during the year.
- (4) Annual contribution by the Company to the directors' pension plans or cash in lieu.

### All employee share plans

The Committee operates a Savings-Related Share Option Plan ("SAYE") and a Share Incentive Plan ("SIP"), both of which are approved by HM Revenue & Customs and must be operated on an all employee basis. The executive directors may participate in each plan upon the same terms as other employees.

#### SAYE

The SAYE provides for the grant of options (which, at the Committee's discretion, may be offered at a discount of up to 20% to the market price of a share determined in accordance with the rules of the plan) linked to a savings contract which pays interest at a statutory rate. In May 2006, the plan was operated so that (subject to the statutory upper aggregate limit of £250 per month on an individual's savings under all SAYE plans) a participating employee could choose to save for either or both periods of three or five years.

The options were granted at the permitted discount of 20% to the prevailing share price (determined in accordance with the plan rules) resulting in an option price of 636 pence per share and may be exercised upon successful completion of the savings contract to which they are linked.

The three-year contracts matured on 1 July 2009 at which point the options were significantly underwater to the share price of 442 pence and therefore participants simply took their savings plus interest.

Details of the SAYE options held by the executive directors are shown in the table in Part 2 of this report.

The Committee has agreed that an invitation will be made under the SAYE in 2010, immediately following the preliminary results announcement. Once again, the 20% discount to the market price will be applied and participants will be able to take out SAYE contracts over three, five and seven years and contribute in total no more than £250 per month.

## REMUNERATION COMMITTEE REPORT

### SIP

In any one tax year, the Committee may operate the SIP for the benefit of participants using any combination of the following elements:

- award Free Shares (up to £3,000 in value);
- allow the purchase of Partnership Shares (up to £1,500 in value subject to an overriding maximum of 10% of salary);
- allocate free Matching Shares (in a maximum ratio of two Free Shares for each Partnership Share); and
- allow the investment in shares of dividends received in respect of SIP shares.

Below is detail of how the SIP has operated between 2006 and 2009:

	2006	2007	2008	2009
<b>SIP Free Share Award<sup>(1)</sup></b>	Participants received £2,000 worth of shares.	Participants received £2,500 worth of shares in each year.		Participants received £1,000 worth of shares.
<b>Partnership Shares</b>	Not operated.	Participants were allowed to invest up to the maximum permitted of £1,500 (subject to an overriding maximum of 10% of salary) in each year.		
<b>Matching Share Award<sup>(1)</sup></b>	Not operated.	Partnership shares matched on a 1 for 1 basis in each year.		

Notes:

(1) The SIP Trustee was funded by the Group to purchase the required Free and Matching Shares in order to avoid any dilution.

In accordance with the plan rules, shares taken up by an employee are allocated to a trustee which holds them on behalf of the employee. Under normal circumstances, the employee will receive the shares from the trustee without incurring a tax liability once the shares have been held in trust for five years. The employee is entitled to receive dividends paid in respect of the shares held in trust.

Details of the shares allocated to executive directors under the SIP are shown in the table in Part 2 of this report.

The Committee has decided not to operate the SIP in 2010.

### Provision of shares for share plans – dilution

All equity-based plans are funded through the issuance of shares, or through the purchase of shares in the marketplace through a trust, subject to an overall dilution limit for all employee share plans of no more than 10% of share capital in any ten year period and a limit of 5% of share capital in any ten year period for the Company's discretionary share plans (e.g. BMP).

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

### Share ownership guidelines

The Company has share ownership guidelines for executives participating in its performance share plans. They are 100% and 50% of base salary for executive directors and other senior manager ESIP/BMP participants, respectively.

Those who receive shares by virtue of share plan awards or who receive deferred bonus shares must retain 50% of the net (that is, after income tax and national insurance contributions) shares received until the applicable guideline is reached.



## Service contracts

Executive directors' service agreements are of indefinite duration, subject to a normal retirement age of 65, terminable at any time by either party giving 12 months' prior notice except that Peter Emery's contract is terminable by him providing six months' notice to the Company.

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

The following table shows for each person who has served as a director of the Company at any time during the year ended 31 December 2009, the commencement date and term of the service agreement or contract for services, and details of the notice periods. No service agreement now includes any operative provision for the payment of compensation upon early termination. Any compensation payable in those circumstances would need to be negotiated at the time and in the light of the circumstances.

	Contract start date	Contract term	Notice period by the Company (months)	Notice period by the director (months)
Tim Barker	15 December 2005	6 years	1	1
Charles Berry	17 April 2008	3 years	6	6
Jamie Dundas	15 December 2005	6 years	1	1
Peter Emery	14 June 2004	Indefinite duration	12	6
Mike Grasby	15 December 2005	6 years	1	1
David Lindsell	1 December 2008	3 years	1	1
Tony Quinlan	1 September 2008	Indefinite duration	12	12
Dorothy Thompson	26 September 2005	Indefinite duration	12	12

Directors' service agreements and contracts for services are available for inspection at the Company's registered office during normal hours of business and will be available at the place of the AGM from 10.00am until the close of the meeting.

## External appointments

The Committee recognises that executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience to the benefit of the Company. The policy is that an executive director who accepts an external appointment having had the prior approval of the Board should retain the fees payable in respect of the appointment. Dorothy Thompson was appointed as a non-executive director of Johnson Matthey plc with effect from 1 September 2007, and received £45,000 in fees for that appointment during 2009.

## REMUNERATION COMMITTEE REPORT

### Non-executive directors

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

The remuneration of the Chairman is determined by the Committee whilst that of the other non-executive directors is determined by the Chairman and the executive directors. It is designed to:

- recognise prevailing market rates for non-executive directors' fees in other listed companies of a similar market value or turnover to Drax;
- reflect the responsibilities and time commitment; and
- attract and retain individuals with the necessary skills and experience to contribute to the future growth of the Company.

#### Chairman

The Committee determined that upon his appointment on 17 April 2008, the Chairman's remuneration should be at the annual rate of £200,000, which is reflected in the table of annualised rates of pay on page 69. The Committee determined that the Chairman would not receive any increase in his remuneration in the review year ending on 31 March 2010.

#### Other non-executive directors

The fees for non-executive directors were determined in April 2008 as shown below:

<b>Basic fee</b>	£40,000 per annum
<b>Board committee membership</b>	£2,500 per annum
<b>Audit, Remuneration and Health and Safety committee Chairmanship</b>	£10,000 per annum

### Value of £100 invested

The following graph shows how the value of £100 invested in the Company on the listing of its shares on the London Stock Exchange on 15 December 2005 has changed and compares that performance with the changing value of the same amount invested at the same time in the FTSE100 and FTSE250 indices. These indices have been chosen as suitable broad comparators against which the Company's shareholders may judge their relative returns given that, during the year under review, the Company has been a member of both the FTSE100 and FTSE250 indices. The graph reflects the total shareholder return (determined according to usual market practice) for the Company and each of the indices referred to on a cumulative basis over the period from 15 December 2005 to 31 December 2009.

#### TSR performance since listing – Drax versus FTSE100 and FTSE250



## Part 2 - Audited information

This section of the report (which has been subject to audit) sets out the remuneration paid to the directors during the year ended 31 December 2009.

### Directors' emoluments

The emoluments payable in respect of 2009 to directors who held office for any part of the financial year, including amounts paid to them as directors of subsidiary undertakings and compensation for loss of office were as follows:

	Salary £000	Fees £000	Cash bonus in respect of 2009 £000	Benefits £000	Pension <sup>(1)</sup> £000	Total 2009 £000	Total 2008 £000
Tim Barker	-	58	-	-	-	58	57
Charles Berry	-	200	-	-	-	200	157
Jamie Dundas	-	51	-	-	-	51	57
Peter Emery	255	-	165	17	51	488	489
Mike Grasby	-	58	-	-	-	58	59
David Lindsell	-	54	-	-	-	54	4 <sup>(2)</sup>
Tony Quinlan	300	-	201	41	60	602	194 <sup>(3)</sup>
Dorothy Thompson	450	-	340	23	90	903	894

Notes:

(1) Annual contribution by the Company to directors' pension plans or cash in lieu.

(2) David Lindsell was appointed on 1 December 2008, hence the 2008 total does not represent a full 12 months remuneration.

(3) Tony Quinlan was appointed on 1 September 2008, hence the 2008 total does not represent a full 12 months remuneration.

Gordon Boyd, the former Finance Director, who resigned on 31 August 2008 received total remuneration of £786,000 in 2008, and Gordon Horsfield, the former Chairman, who retired on 17 April 2008 received total remuneration of £58,000 in 2008.

### Directors' interests under the BMP

The following information shows the interests of the directors as at the end of the financial year in the Company's BMP:

	As at 1 January 2009 (number)	Awards made during the year (number)	Awards vesting during the year (number)	Awards lapsing during the year (number)	As at 31 December 2009 (number)	Market value at the date of award (pence)
<b>Peter Emery</b>						
2009 Matching Award	-	69,489	-	-	69,489	495.40
2009 Deferred Award	-	11,581	-	-	11,581	495.40
<b>Tony Quinlan</b>						
2009 Matching Award	-	81,752	-	-	81,752	495.40
2009 Deferred Award	-	4,716	-	-	4,716	495.40
<b>Dorothy Thompson</b>						
2009 Matching Award	-	138,382	-	-	138,382	495.40
2009 Deferred Award	-	23,063	-	-	23,063	495.40

Notes:

(1) For the 2009 BMP cycle, Drax's TSR is measured against FTSE51-150 companies at the start of the cycle. Drax's TSR to 31 December 2009 of minus 31.3% is first percentile in its comparator group, justifying nil vesting at this time.

Details of the conditions subject to which the above awards will vest are given on page 67.

## REMUNERATION COMMITTEE REPORT

### Directors' interests under the ESIP

The following information shows the interests of the directors as at the end of the financial year in the Company's ESIP:

	As at 1 January 2009 (number)	Awards made during the year (number)	Awards vesting during the year (number)	Awards lapsing during the year (number)	As at 31 December 2009 (number)	Market value at the date of award (pence)
<b>Peter Emery</b>						
2006 award <sup>(1)</sup>	30,024	-	-	30,024	-	874.3
2007 award <sup>(2)</sup>	25,718	-	-	-	25,718	797.1
2008 award <sup>(3)</sup>	39,861	-	-	-	39,861	577.0
<b>Dorothy Thompson</b>						
2006 award <sup>(1)</sup>	60,048	-	-	60,048	-	874.3
2007 award <sup>(2)</sup>	46,104	-	-	-	46,104	797.1
2008 award <sup>(3)</sup>	71,057	-	-	-	71,057	577.0

Notes:

- (1) The 2006 ESIP Award was made on 19 September 2006, and was due to mature on 19 September 2009. The performance period for the award was 1 July 2006 to 30 June 2009. Over the Performance Period, Drax's TSR of minus 16.6% was below the index TSR of 0.5%. Drax therefore underperformed the index by 17.1%. As a result, no shares vested to the benefit of participants under the 2006 ESIP.
- (2) The 2007 ESIP Award was made on 19 April 2007 and is due to mature on 19 April 2010. At 31 December 2009, Drax's TSR of minus 38.8% is below the index TSR of minus 3.7%.
- (3) The 2008 ESIP Award was made on 14 April 2008 and is due to mature on 14 April 2011. At 31 December 2009, Drax's TSR of minus 27.9% is below the index TSR of minus 11.0%.

Details of the conditions subject to which the above awards will vest are given on page 68.

### Directors' interests under SAYE

The following information shows the interests of directors as at the end of the financial year in the Company's SAYE Plan:

	As at 1 January 2009 (number)	Share options granted during the year (number)	Share options exercised during the year (number)	Share options lapsed during the year (number)	Exercise price per share (pence)	Exercise period	As at 31 December 2009 (number)
Dorothy Thompson	2,531	-	-	-	636.0	1 July 2011 to 31 December 2011	2,531

The middle market closing quotation for an ordinary share of the Company on 31 December 2009, was 414.80 pence and the daily middle market closing quotations during the financial year ranged from 400.25 pence to 631.50 pence.

## Directors' interests in Drax Group shares

The interests held by each director at the end of the financial year in the ordinary shares in the Company are shown below. All the disclosed interests are beneficial. No director had any interest at any time during the year or since in any security issued by the Company other than its ordinary shares.

	As at 31 December 2009			As at 1 January 2009		
	Ordinary shares	SIP shares <sup>(1)</sup>	SAYE option shares <sup>(2)</sup>	Ordinary shares	SIP shares <sup>(1)</sup>	SAYE option shares <sup>(2)</sup>
Tim Barker	3,462	-	-	3,462	-	-
Charles Berry	1,730	-	-	1,730	-	-
Jamie Dundas	1,730	-	-	1,730	-	-
Peter Emery	30,551	2,616	-	30,551	1,813	-
Mike Grasby	1,730	-	-	1,730	-	-
David Lindsell	-	-	-	-	-	-
Tony Quinlan	2,500	803	-	-	-	-
Dorothy Thompson	63,569	2,616	2,531	63,569	1,813	2,531

Notes:

(1) The SIP shares include the Free, Partnership and Matching elements of the plan.

(2) The number of SAYE option shares are those which will be available to exercise at the maturity of the savings contract.

No director had at any time during the financial year, or has had since, any beneficial interest in the shares of any subsidiaries.

No other changes to directors' share interests have taken place between 31 December 2009 and the date upon which this report was approved by the Board.

This report was reviewed and approved by the Board on 22 February 2010.

### Tim Barker

Chairman,  
Remuneration Committee



## GROUP - INDEPENDENT AUDITORS' REPORT

### To the members of Drax Group plc

We have audited the Group financial statements of Drax Group plc for the year ended 31 December 2009 which comprise the consolidated income statement, consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the Directors' report in relation to going concern; and
- the part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

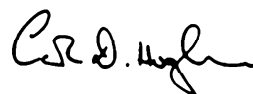
## Other matters

We have reported separately on the parent company financial statements of Drax Group plc for the year ended 31 December 2009 and on the information in the Directors' remuneration report that is described as having been audited.

**Carl Hughes MA FCA (Senior Statutory Auditor)**

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

22 February 2010



## CONSOLIDATED INCOME STATEMENT

	Notes	Years ended 31 December	
		2009 £m	2008 £m
Revenue		1,475.8	1,752.8
Fuel costs in respect of generation		(692.5)	(858.4)
Cost of power purchases		(209.5)	(211.8)
Grid charges		(68.0)	(59.4)
		505.8	623.2
Other operating and administrative expenses	4	(202.9)	(215.4)
Unrealised (losses)/gains on derivative contracts	17	(129.7)	56.3
<b>Operating profit</b>		<b>173.2</b>	<b>464.1</b>
Interest payable and similar charges	5	(17.3)	(28.8)
Interest receivable	5	1.9	7.2
<b>Profit before tax</b>		<b>157.8</b>	<b>442.5</b>
Tax charge	6	(46.9)	(109.6)
<b>Profit for the year attributable to equity shareholders</b>		<b>110.9</b>	<b>332.9</b>
<b>Earnings per share</b>		pence per share	pence per share
- Basic and diluted	8	31	98

All results relate to continuing operations.



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Years ended 31 December	
		2009 £m	2008 £m
<b>Profit for the year</b>		110.9	332.9
Actuarial losses on defined benefit pension scheme	28	(15.1)	(12.9)
Deferred tax on actuarial losses on defined benefit pension scheme	6	4.2	3.6
Fair value gains on cash flow hedges	23	375.5	164.7
Deferred tax on cash flow hedges	6	(105.1)	(47.4)
<b>Other comprehensive income</b>		259.5	108.0
<b>Total comprehensive income for the year attributable to equity shareholders</b>		370.4	440.9

## CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December	
		2009 £m	2008 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets - goodwill	9	10.7	-
Property, plant and equipment	10	1,177.2	1,135.7
Derivative financial instruments	17	112.5	105.5
		1,300.4	1,241.2
<b>Current assets</b>			
Inventories	11	205.9	189.5
Trade and other receivables	12	208.9	259.9
Derivative financial instruments	17	308.8	286.5
Short-term investments	13	55.0	-
Cash and cash equivalents	14	80.4	130.2
		859.0	866.1
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	227.3	295.0
Current tax liabilities		157.8	49.4
Financial liabilities:			
- Borrowings	16	62.9	14.9
- Derivative financial instruments	17	178.3	337.1
		626.3	696.4
<b>Net current assets</b>			
		232.7	169.7
<b>Non-current liabilities</b>			
Financial liabilities:			
- Borrowings	16	126.9	350.0
- Derivative financial instruments	17	8.9	70.6
Provisions	18	5.9	2.6
Deferred tax liabilities	19	333.6	273.8
Retirement benefit obligations	28	33.1	20.6
		508.4	717.6
<b>Net assets</b>			
		1,024.7	693.3
<b>Shareholders' equity</b>			
Issued equity	20	42.1	39.2
Capital redemption reserve	22	1.5	1.5
Share premium	22	420.7	420.7
Merger reserve	22	710.8	710.8
Hedge reserve	23	226.4	(44.0)
Retained losses	24	(376.8)	(434.9)
<b>Total shareholders' equity</b>			
		1,024.7	693.3

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 22 February 2010.

Signed on behalf of the Board of directors:

**Dorothy Thompson**  
Chief Executive

**Tony Quinlan**  
Finance Director




## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued equity £m	Capital redemption reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Retained losses £m	Total £m
<b>At 1 January 2008</b>	39.2	1.5	420.7	710.8	(161.3)	(649.9)	361.0
Profit for the year	-	-	-	-	-	332.9	332.9
Other comprehensive income	-	-	-	-	117.3	(9.3)	108.0
Total comprehensive income for the year	-	-	-	-	117.3	323.6	440.9
Equity dividends paid (note 7)	-	-	-	-	-	(110.0)	(110.0)
Movement in equity associated with share-based payments (note 21)	-	-	-	-	-	3.8	3.8
Own shares held by employee trust	-	-	-	-	-	(0.6)	(0.6)
Own shares purchased and vested with employees	-	-	-	-	-	(1.8)	(1.8)
<b>At 1 January 2009</b>	39.2	1.5	420.7	710.8	(44.0)	(434.9)	693.3
Profit for the year	-	-	-	-	-	110.9	110.9
Other comprehensive income	-	-	-	-	270.4	(10.9)	259.5
Total comprehensive income for the year	-	-	-	-	270.4	100.0	370.4
Issue of share capital (note 20)	2.9	-	-	-	-	102.6	105.5
Equity dividends paid (note 7)	-	-	-	-	-	(145.0)	(145.0)
Movement in equity associated with share-based payments (note 21)	-	-	-	-	-	2.0	2.0
Own shares held by employee trust	-	-	-	-	-	(0.8)	(0.8)
Own shares purchased and vested with employees	-	-	-	-	-	(0.7)	(0.7)
<b>At 31 December 2009</b>	42.1	1.5	420.7	710.8	226.4	(376.8)	1,024.7

## CONSOLIDATED CASH FLOW STATEMENT

	Notes	Years ended 31 December	
		2009 £m	2008 £m
<b>Cash generated from operations</b>	25	321.4	430.8
Income taxes refunded/(paid)		19.4	(102.2)
Interest paid		(13.4)	(25.9)
Interest received		0.7	6.8
<b>Net cash from operating activities</b>		328.1	309.5
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(93.1)	(91.4)
Acquisition of a subsidiary	31	(11.7)	-
Short-term investments		(55.0)	-
<b>Net cash used in investing activities</b>		(159.8)	(91.4)
<b>Cash flows from financing activities</b>			
Equity dividends paid	7	(145.0)	(110.0)
Proceeds on issue of share capital	20	105.5	-
Repayment of borrowings	16	(170.1)	(35.0)
Other financing costs paid		(7.0)	-
Purchase of own shares held by employee trust		(1.5)	(2.6)
<b>Net cash used in financing activities</b>		(218.1)	(147.6)
<b>Net (decrease)/increase in cash and cash equivalents</b>		(49.8)	70.5
Cash and cash equivalents at 1 January		130.2	59.7
<b>Cash and cash equivalents at 31 December</b>	14	80.4	130.2

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. General information

Drax Group plc (the "Company") is a company incorporated in England and Wales under the Companies Act. The Company and its subsidiaries (together the "Group") operate in the electricity generation and supply industry within the UK. The address of the Company's registered office and principal establishment is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom. The operating companies of the Group are disclosed in note 3 of the Company's separate financial statements, which follow these consolidated financial statements.

## 2. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards, ("IFRSs"). The financial statements have also 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, as set out in the Directors' report on page 48 and after considering the Group's capital resources as described on page 99.

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

Following the acquisition of Haven, the Group performed a review of the presentation of costs within the consolidated income statement. Management concluded that separate identification of grid charges would provide better information to the users of the Annual report and accounts. Grid charges are defined as transmission network use of system charges ("TNUoS"), balancing services use of system charges ("BSUoS") and distribution use of system charges ("DUoS"), and generally vary in line with generation or end-user sales. This is a presentational change only and has no net impact on operating profit.

### Adoption of new and revised accounting standards

In 2009, two new standards and three revisions of standards became effective. These are IFRS 8 "Operating segments", IAS 23 "Borrowing costs", IFRS 7 "Financial instruments - Disclosures" (amendment), IFRS 2 "Share-based payment" (amendment) and IAS 1 "Presentation of financial statements" revision. The adoption of these standards has not had a material impact on the financial statements of the Group with the exception of IFRS 7, which requires additional disclosure of fair value measurements. In future periods, IAS 23 is expected to impact the treatment of any borrowing costs incurred on the construction of new plant, with such costs being capitalised as part of the construction cost.

At the date of authorisation of these financial statements, the following standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and some of which were pending endorsement by the EU).

- IFRIC 18 "Transfers of assets from customers" - effective for accounting periods beginning on or after 1 July 2009.
- IAS 39 "Financial instruments: recognition and measurement - eligible hedged items" - revision applies retrospectively for accounting periods beginning on or after 1 July 2009.
- IFRIC 17 "Distribution of non-cash assets to owners" - effective for accounting periods beginning on or after 1 July 2009.
- IAS 27 (revised) "Consolidated and separate financial statements" - revision effective for accounting periods beginning on or after 1 July 2009.
- IFRS 3 (revised) "Business combinations" - revision effective for business combinations after 1 July 2009.
- IAS 38 (amendment) "Intangible assets" - amendment effective for accounting periods beginning on or after 1 July 2009.
- IFRS 5 (amendment) "Non-current assets held for sale and discontinued operations" - effective for accounting periods beginning on or after 1 January 2010.
- IAS 1 (amendment) "Presentation of financial statements" - effective for accounting periods beginning on or after 1 January 2010.
- IFRS 2 (amendment) "Share-based payment" - revision effective for accounting periods beginning on or after 1 January 2010.
- IFRS 9 "Financial instruments - Classification and measurement" - effective for accounting periods beginning on or after 1 January 2013.

The adoption of these standards in future periods are not expected to have a material impact on the financial statements of the Group, with the exception of IFRS 3. Under IFRS 3 any future acquisition costs will be expensed in the income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

#### (A) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to the reporting date each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### (B) Critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's reasonable knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The critical accounting judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Fixed assets and depreciation** - Estimated useful lives and residual values are reviewed annually, taking into account prices prevailing at each balance sheet date. The carrying values of fixed assets are also reviewed for impairment where there has been a trigger event (that is, an event which may have resulted in impairment) by assessing the present value of estimated future cash flows and net realisable value compared with net book value. The calculation of estimated future cash flows and residual values is based on management's reasonable estimates of future prices, output and costs, and is therefore subjective.

**Pensions** - The Group operates an approved defined benefit scheme. The cost of providing benefits is determined using the projected unit credit method and actuarial valuations of the plan assets and liabilities are carried out as at the balance sheet date. Inherent in these valuations are key assumptions, including discount rates, inflation rates, expected returns on scheme assets, salary and pension increases, and mortality rates.

These actuarial assumptions are reviewed annually and modified as appropriate. The Group believes that the assumptions utilised in recording obligations under the scheme are reasonable based on prior experience, market conditions and the advice of scheme actuaries. However, actual results may differ from such assumptions.

**Taxation** - In accounting for taxation the Group makes assumptions regarding the treatment of items of income and expenditure for tax purposes. The Group believes that these assumptions are reasonable based on prior experience and consultation with advisers.

Full provision is made for deferred taxation at the rates of tax prevailing at the period end dates unless future rates have been substantively enacted. Deferred tax assets are recognised where it is considered more likely than not that they will be recovered.

**Derivatives** - Derivative financial instruments are stated in the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in earnings unless specific hedge accounting criteria are met. The fair values of derivative instruments for commodities and foreign exchange rates are determined using forward price curves. Forward price curves represent the Group's estimates of the prices at which a buyer or seller could contract today for delivery or settlement of a commodity or foreign exchange payment or receipt, at future dates. The Group generally bases forward price curves upon readily obtainable market price quotations, as the Group's commodity and forward foreign exchange contracts do not generally extend beyond the actively traded portion of these curves. However, the forward price curves used are only an estimate of how future prices will move and are, therefore, subjective.

#### (C) Revenue recognition

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

Revenues from the sale of electricity are recorded based upon output delivered at rates specified under contract terms or prevailing market rates as applicable.

Revenues from sales of ROCs are recorded at the invoiced value, net of VAT. Revenue is recognised when the risks and rewards of ownership have been substantially transferred to a third party.

Where goods or services are exchanged for goods or services of a similar nature and value, the exchange is not treated as giving rise to revenue. Where goods or services are exchanged for goods or services of a dissimilar nature, the exchange is treated as giving rise to revenue. The revenue is measured at the fair value of goods or services received, adjusted by the amount of any cash or cash equivalents received or paid. If the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents received or paid.

Revenue from the sale of electricity direct to customers through our retail business, Haven is recorded after deduction of trade discounts, VAT and Climate Change Levy. Revenue is recognised on the supply of electricity when a contract exists, supply has taken place, a quantifiable price has been established or can be determined and the receivables are likely to be recovered. Energy supplied, but not yet measured or billed is calculated based on consumption statistics and selling price estimates.

#### (D) Segmental reporting

The business activity of the Group consists primarily of the generation and sale of electricity at the Drax Power Station, the results of which are reviewed as a whole by the Executive Committee and the Board for the purpose of assessing performance and making investment decisions.

#### (E) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the criteria for recognition under IFRS 3 are recognised at their fair value at the acquisition date. For business combinations made after 1 July 2009, costs directly attributable to the business combination will not be included in the measurement of cost, but expensed in the income statement in line with IFRS 3 (revised).

#### (F) Goodwill

Goodwill arising on an acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually or more frequently where there is an indication it may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of goodwill and then to its other assets.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### (G) Property, plant and equipment

Property, plant and equipment are initially measured at cost. Cost comprises the purchase price (after deducting trade discounts and rebates), any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the estimate of the present value of the costs of dismantling and removing the item and restoring the site. Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment in value. Freehold land and assets in the course of construction are not depreciated.

Depreciation is provided on a straight-line basis to write down assets to their residual value evenly over the estimated useful lives of the assets from the date of acquisition (limited to the expected decommissioning date of the power station). The estimated useful lives, beginning in 2004 when they were reset, are currently:

	Years
Main generating plant and freehold buildings	35
Other plant and machinery	3-20
Decommissioning asset	35
Plant spare parts	35

Estimated useful lives and residual values are reviewed annually, taking into account commercial and technological obsolescence as well as normal wear and tear, and any provision for impairment. Residual values are based on prices prevailing at each balance sheet date.

Costs relating to major inspections, overhauls and upgrades to the power station are included in the asset's carrying amount or recognised as a separate asset, as appropriate, if the recognition criteria are met; namely, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. Summary of significant accounting policies (continued)

#### (H) Impairment of property, plant and equipment

At each balance sheet date the Group reviews its property, plant and equipment to determine whether there is any indication that these assets may have suffered an impairment loss. If such an indication exists, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the asset (value-in-use) or sales value net of expenses. If an asset is impaired, a provision is made to reduce its carrying amount to the estimated recoverable amount. The discount rate applied is a pre-tax rate based upon the Group's weighted average cost of capital and reflects the current market assessment of the time value of money and the risks specific to the business.

#### (I) Decommissioning costs

Provision is made for the estimated decommissioning costs at the end of the useful economic life of the Group's generating assets, when a legal or constructive obligation arises, on a discounted basis. The amount provided represents the present value of the expected costs. An amount equivalent to the discounted provision is capitalised within tangible fixed assets and is depreciated over the useful lives of the related assets. The unwinding of the discount is included in interest payable and similar charges.

#### (J) Inventories

Inventories primarily comprise coal stocks, together with other fuels and consumables. Coal stocks are valued at the lower of the weighted average cost of coal and net realisable value. Other stocks of fuel and consumables are valued at the lower of average cost and net realisable value.

The Group is able to claim ROCs from the Office of Gas and Electricity Markets ("OFGEM") as a result of burning renewable fuels instead of coal. A market exists for sale of ROCs and the Group recognises income in the income statement at the point where the risks and rewards of ownership have been substantially transferred to a third party. The attributable incremental cost of generating ROCs above that of burning coal is included within inventory in respect of ROCs earned but not yet sold. The inventory value is stated at the lower of cost and net realisable value.

#### (K) CO<sub>2</sub> emissions allowances

The Group recognises its free emissions allowances received under the UK NAP at nil cost. Any additional allowances purchased in the market are recorded at cost. The Group also recognises a liability in respect of its unsettled obligations to deliver emissions allowances. The charge to the income statement within fuel costs and the liability is measured based on an estimate of the amounts that will be required to satisfy the net obligation, taking into account generation, free allowances allocated under the UK NAP, market purchases, sales and forward contracts already in place, and the market price at the year end.

#### (L) Taxation

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 generally 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.

Deferred tax is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, and is charged or credited in the income statement, except where it relates to items charged or credited to equity via the statement of comprehensive income, in which case the deferred tax is also dealt with in equity and is shown in the statement of comprehensive income.

#### (M) Pension and other post-retirement benefits

The Group provides pensions through an approved industry defined benefit scheme and a defined contribution scheme. The cost of providing benefits under the defined benefit scheme is determined using the projected unit credit method, and actuarial valuations of the plan assets and liabilities are carried out as at the balance sheet date. Actuarial gains and losses are recognised in full in the statement of comprehensive income.

The current service cost and finance cost of the pension charge are deducted in arriving at operating profit in other operating expenses. The excess of the present value of the defined benefit obligation over the fair value of the plan assets is recognised as a liability in the balance sheet.

For the defined contribution scheme, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due to be paid.



**(N) Share-based payments**

Share-based payments are measured at fair value at the date of grant and expensed on a straight-line basis over the relevant vesting period, based on an estimate of the shares that will ultimately vest.

**(O) Foreign currencies**

The Group's consolidated financial statements are presented in sterling, which is the functional and presentational currency of the Company and its principal subsidiaries. Transactions in foreign currencies are translated into sterling at the exchange rate ruling at the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the exchange rate ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

**(P) Financial instruments****Debt instruments**

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

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.

**Commodity contracts and treasury derivatives**

Where possible, the Group takes the own use exemption for commodity contracts entered into and held for the purpose of the Group's own purchase, sale or usage requirements. Commodity contracts which do not qualify for the own use exemption are dealt with as derivatives and are recorded at fair value in the balance sheet with changes in fair value reflected through the hedge reserve to the extent that contracts are treated as effective hedges, or the income statement to the extent the contracts are not treated as effective hedges.

The Group designates certain hedging instruments used to address commodity price risk as cash flow hedges. At the inception of the hedge, the relationship between the hedging instrument and hedged item is documented, along with its risk management objectives. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The Group also uses a number of treasury-related derivatives to manage exposure to interest rate and currency fluctuations. Treasury-related derivatives are recorded at fair value in the balance sheet with changes in fair value reflected through the hedge reserve to the extent that contracts are considered to be effective cash flow hedges, or the income statement to the extent the contracts are not effective as hedges. Income statement movements under interest rate hedges are accounted for as adjustments to interest payable/receivable for the period. Income statement movements under foreign currency hedges are accounted for as adjustments to cost of sales.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to any ineffective portion is recognised immediately in the income statement. Amounts deferred in equity are released in the periods when the hedged item is recognised in the income statement.

The fair value of hedging derivatives is classified as a non-current asset or non-current liability if the remaining maturity of the hedge relationship is more than 12 months, and as a current asset or liability if the remaining maturity of the hedge relationship is less than 12 months. Derivatives not designated into an effective hedge relationship are classified as a current asset or current liability.

**Other financial instruments**

Issued equity - Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting all of its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. The share premium account records the difference between the nominal value of shares issued and the fair value of the consideration received.

Cash and cash equivalents - Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Trade and other receivables and payables - Trade and other receivables and payables are measured at amortised cost using the effective interest method. A provision for impairment of trade receivables is established subsequently where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Interest income is recognised by applying the effective interest rate, except for short-term items where the recognition of interest would be immaterial.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4. Operating profit

	Years ended 31 December	
	2009 £m	2008 £m
<b>The following charges have been included in arriving at operating profit:</b>		
Staff costs (note 27)	57.6	51.1
Depreciation of property, plant and equipment (note 10)	51.7	46.2
Repairs and maintenance expenditure on property, plant and equipment	39.3	56.3
Other operating and administrative expenses	54.3	61.8
<b>Total other operating and administrative expenses</b>	<b>202.9</b>	<b>215.4</b>

Total other operating and administrative expenses for 2009 includes £12.7 million incurred at Haven.

**Auditors' remuneration**

During the year the Group obtained the following services from its auditors, Deloitte LLP, at costs as detailed below:

	Years ended 31 December	
	2009 £000	2008 £000
<b>Audit fees:</b>		
Fees payable for the audit of the Group's consolidated financial statements	251	261
Fees payable for the audit of the Company's subsidiaries pursuant to legislation	39	10
	290	271
<b>Other fees:</b>		
Pursuant to legislation - interim review	59	59
Other services	22	-
<b>Total audit related fees</b>	<b>371</b>	<b>330</b>
Taxation services	45	-
Other advisory services	52	8
<b>Total non-audit fees</b>	<b>97</b>	<b>8</b>
<b>Total auditors' remuneration</b>	<b>468</b>	<b>338</b>

In addition to the amounts set out above, the Drax Power Group of the Electricity Supply Pension Scheme paid fees of £190,000 in 2008 to Deloitte LLP in respect of pension advisory services. No such fees were incurred in 2009.

## 5. Net finance costs

	Years ended 31 December	
	2009 £m	2008 £m
<b>Interest payable and similar charges:</b>		
Interest payable on bank borrowings	(14.0)	(25.6)
Unwinding of discount on provisions (note 18)	(0.5)	(0.2)
Amortisation of deferred finance costs	(2.8)	(3.0)
<b>Total interest payable and similar charges</b>	<b>(17.3)</b>	<b>(28.8)</b>
<b>Interest receivable:</b>		
Interest income on bank deposits	1.9	7.2
<b>Total interest receivable</b>	<b>1.9</b>	<b>7.2</b>

## 6. Taxation

The income tax expense reflects the estimated effective tax rate on profit before taxation for the Group for the year ended 31 December 2009 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the income statement.

The Finance Act 2008 introduced the withdrawal of industrial buildings allowances, and accordingly tax for 2008 includes an additional deferred tax charge of £8.8 million to reflect the estimated impact of loss of tax base in April 2011.

	Years ended 31 December	
	2009 £m	2008 £m
<b>Tax charge comprises:</b>		
Current tax	89.1	81.2
Deferred tax:		
- Before impact of changes in tax legislation	(42.2)	19.6
- Impact of withdrawal of industrial buildings allowances	-	8.8
<b>Tax charge</b>	<b>46.9</b>	<b>109.6</b>

	Years ended 31 December	
	2009 £m	2008 £m
<b>Tax on items charged/(credited) to equity:</b>		
Deferred tax on actuarial losses on defined benefit pension scheme (note 19)	(4.2)	(3.6)
Deferred tax on cash flow hedges (note 19)	105.1	47.4
	<b>100.9</b>	<b>43.8</b>

The tax differs from the standard rate of corporation tax in the UK of 28% (2008: 28.5%). The differences are explained below:

	Years ended 31 December	
	2009 £m	2008 £m
<b>Profit before tax</b>	<b>157.8</b>	<b>442.5</b>
Profit before tax multiplied by rate of corporation tax in the UK of 28% (2008: 28.5%)	44.2	126.1
<b>Effects of:</b>		
Adjustments in respect of prior periods	-	(2.6)
Expenses not deductible for tax purposes	1.4	1.4
Tax effect of funding arrangements	-	(24.0)
Other	1.3	(0.1)
Change to industrial buildings allowances	-	8.8
<b>Total tax charge</b>	<b>46.9</b>	<b>109.6</b>

Further information in relation to deferred tax is included in note 19.

Under the Group's previous financing structure, Drax Holdings Limited (a subsidiary company) was partially funded by a Eurobond payable to another group company. The whole of the coupon was previously prepaid, and an accounting based tax deduction has been claimed for the corresponding interest charged in the Drax Holdings Limited income statement each year to 31 December 2008. Were HMRC to successfully challenge the deductions claimed in respect of the Eurobond coupons for open years to 31 December 2008, it is estimated that the additional tax liability would be up to £90 million, together with interest and penalties.

In November/December 2008, HMRC issued draft legislation which updated rules on, amongst other things, the tax deductibility of interest and which was generally expected to reduce the tax effectiveness of the Eurobond financing arrangements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6. Taxation (continued)

As previously described, the Eurobond was formally waived by the lending group company on 30 December 2008. As a result, the whole of the remaining prepaid coupon was charged in the Drax Holdings Limited income statement, giving rise to potential additional interest deductions with a tax effect of around £220 million. Because of the risks related to the unwind of the Eurobond structure, no benefit will be recognised in the Group's financial statements with respect to the potential additional deductions until the Group is more certain they will be realised.

### 7. Dividends

	Years ended 31 December	
	2009 £m	2008 £m
<b>Amounts recognised as distributions to shareholders in the year (based on the number of shares in issue at the record date):</b>		
Interim dividend for the year ended 31 December 2009 of 4.1 pence per share paid on 7 October 2009 (2008: 5.0 pence per share paid on 8 October 2008)	15.0	17.0
Final dividend for the year ended 31 December 2008 of 38.3 pence per share paid on 22 May 2009 (2008: 9.9 pence per share paid on 7 May 2008)	130.0	33.6
Special interim dividend for the year ended 31 December 2008 of 9.7 pence per share paid on 8 October 2008	-	32.9
Special interim dividend for the year ended 31 December 2007 of 7.8 pence per share paid on 7 May 2008	-	26.5
	145.0	110.0

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 2009 of 9.6 pence per share (equivalent to approximately £35 million) payable on or before 14 May 2010. The final dividend has not been included as a liability as at 31 December 2009.

### 8. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. In calculating diluted earnings per share the weighted average number of ordinary shares outstanding during the year is adjusted, when relevant, to take account of outstanding share options in relation to the Group's Savings-Related Share Option Plan ("SAYE Plan") and contingently issuable shares under the Group's Executive Share Incentive Plan ("ESIP") and Bonus Matching Plan ("BMP").

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

	Years ended 31 December	
	2009 £m	2008 £m
<b>Earnings attributable to shareholders of the Company for the purposes of basic and diluted earnings</b>	110.9	332.9

	Years ended 31 December	
	2009	2008
<b>Number of shares:</b>		
<b>Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)</b>	352.7	339.3
Effect of dilutive potential ordinary shares under share options	-	0.3
<b>Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)</b>	352.7	339.6
<b>Earnings per share - basic and diluted (pence)</b>	31	98

## 9. Intangible assets - goodwill

	£m
<b>Cost and carrying amount:</b>	
<b>At 1 January 2008 and 2009</b>	-
Recognised on acquisition of Haven (note 31)	10.7
<b>At 31 December 2009</b>	<b>10.7</b>

Goodwill arising on the Haven acquisition has been allocated to the Haven cash-generating unit (Haven Power Limited, or Haven). The Group's analysis indicated that the recoverable amount of Haven in December 2009 is in excess of its carrying amount, and therefore that no further impairment or sensitivity analysis is necessary. The recoverable amount of Haven was calculated based on estimated fair value less costs to sell. Fair value was estimated using customer account multiples drawn from recent transactions for businesses similar to Haven.

## 10. Property, plant and equipment

	Freehold land and buildings £m	Plant and equipment £m	Plant spare parts £m	Total £m
<b>Cost:</b>				
<b>At 1 January 2008</b>	134.8	1,213.7	33.6	1,382.1
Additions at cost	18.7	80.2	2.8	101.7
Disposals	-	(13.5)	-	(13.3)
<b>At 1 January 2009</b>	153.5	1,280.4	36.4	1,470.3
Acquisition of subsidiary	-	1.2	-	1.2
Additions at cost	4.7	86.1	1.5	92.3
Disposals	-	(9.2)	-	(9.2)
<b>At 31 December 2009</b>	<b>158.2</b>	<b>1,358.5</b>	<b>37.9</b>	<b>1,554.6</b>
<b>Accumulated depreciation:</b>				
<b>At 1 January 2008</b>	29.4	267.8	4.5	301.7
Charge for the year	3.5	42.0	0.7	46.2
Disposals	-	(13.3)	-	(13.3)
<b>At 1 January 2009</b>	32.9	296.5	5.2	334.6
Charge for the year	3.5	44.3	3.9	51.7
Disposals	-	(8.9)	-	(8.9)
<b>At 31 December 2009</b>	<b>36.4</b>	<b>331.9</b>	<b>9.1</b>	<b>377.4</b>
<b>Net book amount at 31 December 2008</b>	120.6	983.9	31.2	1,135.7
<b>Net book amount at 31 December 2009</b>	<b>121.8</b>	<b>1,026.6</b>	<b>28.8</b>	<b>1,177.2</b>

Assets in the course of construction amounted to £113.3 million at 31 December 2009 (2008: £81.0 million).

Plant and equipment includes assets held under finance lease agreements with a carrying value at 31 December 2009 of £0.7 million (2008: £nil).

2009 includes an impairment charge of £3 million to write down obsolete plant spares to their recoverable amount (2008: £nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11. Inventories

	As at 31 December	
	2009 £m	2008 £m
Coal	163.4	142.3
Other fuels and consumables	30.8	25.1
ROCs	11.7	22.1
	205.9	189.5

The cost of inventories recognised as an expense in the year ended 31 December 2009 was £581.4 million (2008: £635.7 million).

### 12. Trade and other receivables

	As at 31 December	
	2009 £m	2008 £m
<b>Amounts falling due within one year:</b>		
Trade receivables	173.8	228.3
Accrued income	29.0	-
Prepayments and other receivables	6.1	31.6
	208.9	259.9

Trade receivables principally represent sales of electricity to a number of counterparties. At 31 December 2009, the Group had amounts receivable from four (2008: five) significant counterparties, and a number of smaller counterparties, representing 73% (2008: 86%) of trade receivables, all of which paid within 15 days of receipt of invoice in line with agreed terms. Counterparty risk is discussed in note 17.

Management does not consider there to be a significant concentration of credit risk and as a result, does not believe that a further credit risk provision is required in excess of the normal provision for doubtful debts of £1.2 million (2008: £0.1 million). This allowance has been determined by reference to past default experience, and includes £1.1 million in relation to Haven.

Total revenue for the year ended 31 December 2009 includes amounts of £222.9 million and £221.8 million (2008: £325.2 million and £167.2 million) derived from two customers, each representing 10% or more of the Group's revenue for the year.

Prepayments and other receivables at 31 December 2008 included £26.4 million in relation to market purchases of CO<sub>2</sub> emissions allowances acquired in advance to satisfy part of the Group's 2009 obligation. As at 31 December 2009 no market purchases of CO<sub>2</sub> emissions allowances had been settled in advance to satisfy the Group's 2010 obligation.

### 13. Short-term investments

	As at 31 December	
	2009 £m	2008 £m
Short-term investments	55.0	-

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

### 14. Cash and cash equivalents

	As at 31 December	
	2009 £m	2008 £m
Cash and cash equivalents	80.4	130.2

The Group's policy is to invest available cash in short-term bank, building society or other low risk deposits.

## 15. Trade and other payables

	As at 31 December	
	2009 £m	2008 £m
<b>Amounts falling due within one year:</b>		
Trade payables	26.4	21.0
Accruals	180.4	259.6
Other payables	20.5	14.4
	<b>227.3</b>	<b>295.0</b>

Accruals at 31 December 2009 include £113.6 million (2008: £158.3 million) with respect to the Group's estimated net liability to deliver CO<sub>2</sub> emissions allowances.

## 16. Borrowings

	As at 31 December	
	2009 £m	2008 £m
<b>Current:</b>		
Term loans	62.8	14.9
Finance lease liabilities	0.1	-
	<b>62.9</b>	<b>14.9</b>

	As at 31 December	
	2009 £m	2008 £m
<b>Non-current:</b>		
Term loans	126.4	350.0
Finance lease liabilities	0.5	-
	<b>126.9</b>	<b>350.0</b>

Scheduled term loan repayments of £32.5 million were made on each of 30 June 2009 and 31 December 2009. Previously, scheduled repayments of £17.5 million were made on each of 30 June 2008 and 31 December 2008. These repayments were made in line with the target repayment profile as a result of the levels of cash available for debt service.

£105.0 million of the term loans was repaid on 31 July 2009, using the proceeds of a share placing announced on 23 June 2009. The purpose of the share placing was to help maintain the Group's investment grade debt rating (see note 20).

On 3 August 2009, the Group completed the refinancing of the balance of the term loan facility and the £100 million working capital facility which would otherwise have fallen due for repayment on 31 December 2010. The maturity date of both facilities has been extended to December 2012 to coincide with the maturity of the £200 million letter of credit facility, which remains in place. Scheduled debt repayments are £65.0 million in 2010 and £67.5 million in each of 2011 and 2012, after which point the term loan will have been repaid in full.

The terms of this supplementary facility agreement are substantially the same as the existing facilities, except that the initial margin over LIBOR for the new facilities is 3.5%. The margin on the existing facilities of 0.8% has been increased to be consistent with the margin on the new agreement.

Interest payments are calculated based on forward interest rates estimated at the balance sheet date using publicly available information. The interest rates payable at the balance sheet dates were as follows:

	As at 31 December	
	2009 % p.a.	2008 % p.a.
Term loans	5.93	4.09

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 16. Borrowings (continued)

#### Analysis of borrowings

Borrowings at 31 December 2009 and 31 December 2008 consisted principally of bank loans held by the Company's subsidiary Drax Finance Limited as follows:

	As at 31 December 2009		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Term loans	200.0	(10.8)	189.2
Finance lease liabilities	0.6	-	0.6
<b>Total borrowings</b>	<b>200.6</b>	<b>(10.8)</b>	<b>189.8</b>
Less current portion of debt	(65.1)	2.2	(62.9)
<b>Non-current borrowings</b>	<b>135.5</b>	<b>(8.6)</b>	<b>126.9</b>

	As at 31 December 2008		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Term loans	370.0	(5.1)	364.9
<b>Total borrowings</b>	<b>370.0</b>	<b>(5.1)</b>	<b>364.9</b>
Less current portion of debt	(15.0)	0.1	(14.9)
<b>Non-current borrowings</b>	<b>355.0</b>	<b>(5.0)</b>	<b>350.0</b>

The Group's debt is guaranteed and secured directly by each of the principal subsidiary undertakings of the Company, as set out in note 3 to the Company's separate financial statements. Drax Group plc is not a guarantor of the Group's debt, but has granted a charge over the shares in its subsidiary, Drax Finance Limited.

#### Letter of credit facility and revolving credit facility

In addition to its borrowings, the Group has access to a letter of credit facility which provides credit support of up to £200 million to the Group's trading activities. The letter of credit facility, which has a final maturity date in December 2012, provides a mechanism whereby it may be extended for a further 12 months at any time up to one year before the final maturity date. The Group guarantees the obligations of a number of banks in respect of the letters of credit issued by those banks to counterparties of the Group. As at 31 December 2009 the Group's contingent liability in respect of these guarantees amounted to £141.3 million (2008: £160.2 million).

In addition, the Group has access to an undrawn £100 million revolving credit facility agreement, which may be used to issue letters of credit or for working capital, with a final maturity date of December 2012.

### 17. Financial instruments

The Group issues or holds financial instruments for two purposes: financial instruments relating to the financing and management of risks for the Group's operations; and financial instruments relating to the financing and risks in the Group's debt portfolio.

The Group's financial instruments comprise borrowings, cash and liquid resources, items that arise directly from its operations and derivative contracts. The Group enters into short-term and medium-term forward contracts for the sale of electricity and the purchase of coal and CO<sub>2</sub> emissions allowances. The Group also enters into interest rate swap agreements and forward foreign currency exchange contracts.

#### Fair value

Cash and cash equivalents, short-term investments, trade and other receivables, and trade and other payables generally have short times to maturity. For this reason, their carrying values approximate their fair value. The Group's borrowings relate principally to term loans, the carrying amounts of which approximate their fair values by virtue of being floating rate instruments.



The fair values and maturities of the Group's derivative financial instruments which are marked to market and recorded in the balance sheet at 31 December 2009 and 31 December 2008 were as follows:

	As at 31 December 2009		As at 31 December 2008	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
<b>Commodity contracts:</b>				
Less than one year	286.1	(141.3)	172.9	(267.5)
More than one year but not more than two years	89.4	(5.7)	63.9	(51.2)
More than two years	23.1	(0.3)	41.6	(17.9)
<b>Interest rate swaps:</b>				
Less than one year	-	(4.4)	-	(5.8)
More than one year but not more than two years	-	(2.1)	-	(1.5)
More than two years	-	(0.8)	-	-
<b>Forward foreign currency exchange contracts:</b>				
Less than one year	22.7	(32.6)	113.6	(63.8)
<b>Total</b>	<b>421.3</b>	<b>(187.2)</b>	<b>392.0</b>	<b>(407.7)</b>
<b>Less: non-current portion</b>				
Commodity contracts	(112.5)	6.0	(105.5)	69.1
Interest rate swaps	-	2.9	-	1.5
<b>Total non-current portion</b>	<b>(112.5)</b>	<b>8.9</b>	<b>(105.5)</b>	<b>70.6</b>
<b>Current portion</b>	<b>308.8</b>	<b>(178.3)</b>	<b>286.5</b>	<b>(337.1)</b>

The amounts recorded in the income statement in respect of derivatives which are marked-to-market were as follows:

	Years ended 31 December	
	2009 £m	2008 £m
Unrealised (losses)/gains on derivative contracts recognised in arriving at operating profit	(129.7)	56.3

The unrealised gains and losses recorded in the income statement arise from our derivative contracts which do not qualify for hedge accounting; largely financial coal and foreign exchange contracts.

Due to the nature of commodity contracts and the way they are managed, the own use exemption has been applied to a limited number of them, including the five and a quarter year baseload contract with Centrica which commenced on 1 October 2007, and the five year baseload contract with Centrica which is due to commence on 1 October 2010.

- **Commodity contracts fair value** - The fair value of commodity contracts qualifying as derivative financial instruments, not excluded through the own use exemption, is calculated by reference to forward market prices at the balance sheet date. As contracts are generally short-term, forward market price curves are available for the duration of the contracts. The quoted market price used for financial assets held by the Group is the current bid price; the quoted price for financial liabilities is the current ask price.
- **Interest rate swaps fair value** - The fair value of interest rate swap contracts is determined by discounting the future cash flows using forward interest rate curves at the balance sheet date.
- **Forward foreign currency exchange contracts fair value** - The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the balance sheet date.
- **Embedded derivatives fair value** - The Group has also reviewed all contracts for the presence of embedded derivatives. Where contracts were found to contain embedded derivatives, they were considered to be closely related to the economic characteristics and risks of the host contract, and therefore do not require separate valuation from their host contracts.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17. Financial instruments (continued)

All financial instruments that are measured subsequent to initial recognition at fair value, have been grouped into Level 2, as defined below, based on the degree to which fair value is observable.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset/liability as follows:

**Level 1** - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

**Level 2** - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

**Level 3** - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of commodity contracts and forward foreign exchange currency contracts is determined by comparison between forward market prices and the contract price; therefore these contracts are categorised as Level 2. The fair value of interest rate swap contracts is determined by discounting future cash flows using forward interest rate curves at the balance sheet date. These are also categorised as Level 2 inputs.

There have been no transfers during the year between Level 1, 2 or 3 category inputs.

#### Risk

The Group's activities expose it to a variety of financial risks including commodity price risk, interest rate risk, foreign currency risk, liquidity risk and counterparty risk. The Group's overall risk management programme focuses on the unpredictability of commodity and financial markets and seeks to manage potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a management committee and treasury function which identify, evaluate and hedge financial risks in close co-operation with the Group's trading function under policies approved by the Board of directors.

#### Commodity price risk

The Group is exposed to the effect of fluctuations in commodity prices, particularly the price of electricity, the price of coal (and other fuels) and the price of CO<sub>2</sub> emissions allowances. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so.

The Group has a policy of making forward power sales with corresponding purchases of fuel and CO<sub>2</sub> emissions allowances when profitable to do so. All commitments to sell power under fixed price contracts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from fluctuations in the price of electricity.

The Group purchases coal (and other fuels) under either fixed or variable priced contracts with different maturities from a variety of domestic and international sources. All international physical coal purchase contracts transacted at a fixed price and financial coal contracts exchanging floating price coal for fixed price amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from fluctuations in the price of coal.

The Group purchases CO<sub>2</sub> emissions allowances under fixed price contracts with different maturity dates from a range of domestic and international sources. All commitments to purchase CO<sub>2</sub> emissions allowances under fixed price contracts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from fluctuations in the price of CO<sub>2</sub> emissions allowances.

#### Commodity price sensitivity

The sensitivity analysis below has been determined based on the exposure to commodity prices for outstanding monetary items at the balance sheet date. The analysis is based on the Group's commodity financial instruments held at each balance sheet date.

If commodity prices had been 5% higher/lower and all other variables were held constant, the Group's:

- profit after tax for the year ended 31 December 2009 would decrease/increase by £16.1 million (2008: decrease/increase by £3.2 million). This is mainly attributable to the Group's exposure to financial coal derivatives; and
- other equity reserves would decrease/increase by £30.3 million (2008: decrease/increase by £64.2 million) mainly as a result of the changes in the fair value of commitments to sell power.

### Interest rate risk

The Group is exposed to interest rate risk principally in relation to its outstanding bank debt. In particular, it is exposed to changes in the LIBOR interest rate of sterling denominated debt, as all of its debt is both denominated in sterling and has a variable LIBOR rate. The Group mitigates this risk with interest rate hedges on a proportion of its debt facilities. Information about the Group's instruments that are exposed to interest rate risk and their repayment schedules is included in note 16.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swap payments and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the loan period.

### Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's:

- profit after tax for the year ended 31 December 2009 would decrease/increase by £0.8 million (2008: decrease/increase by £1.7 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings; and
- other equity reserves would increase/decrease by £1.2 million (2008: increase/decrease by £2.0 million) mainly as a result of the changes in the fair value of interest rate swaps.

### Foreign currency risk

Foreign currency exchange contracts are entered into to hedge substantially all of the Group's fixed price international coal purchases in US dollars, biomass purchases in Canadian and US dollars and CO<sub>2</sub> emissions allowances purchases in euros. Exchange rate exposures are managed within approved policy parameters utilising foreign currency exchange contracts.

### Foreign currency sensitivity

If sterling exchange rates had been 5% stronger/weaker against other currencies, and all other variables were held constant, the Group's profit after tax and net assets for the year ended 31 December 2009 would increase/decrease by £1.1 million (2008: increase/decrease by £10.7 million).

### Liquidity risk

The treasury function is responsible for liquidity, funding and settlement management under policies approved by the Board of directors. Liquidity needs are monitored using regular forecasting of operational cash flows and financing commitments. The Group maintains a mixture of cash and cash equivalents, long-term debt and committed facilities in order to ensure sufficient funding for business requirements.

The following table sets out details of the expected contractual maturity of non-derivative financial liabilities. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date.

	As at 31 December 2009			
	Within 3 months £m	3 months- 1 year £m	1-5 years £m	Total £m
Term loans, carrying value	-	62.8	126.4	189.2
Finance lease liabilities, carrying value	-	0.1	0.5	0.6
Add interest payments	-	10.5	13.5	24.0
<b>Borrowings, contractual maturity</b>	-	73.4	140.4	213.8
Trade and other payables	147.5	79.8	-	227.3
	147.5	153.2	140.4	441.1

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17. Financial instruments (continued)

	As at 31 December 2008			
	Within 3 months £m	3 months- 1 year £m	1-5 years £m	Total £m
Term loans, carrying value	-	14.9	350.0	364.9
Add interest payments	-	13.9	13.2	27.1
<b>Borrowings, contractual maturity</b>	-	28.8	363.2	392.0
Trade and other payables	178.5	116.5	-	295.0
	178.5	145.3	363.2	687.0

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

	As at 31 December 2009			
	Within 1 year £m	1-2 years £m	>2 years £m	Total £m
Commodity contracts, net	692.5	248.6	76.6	1,017.7
Interest rate swaps	(4.4)	(2.1)	(0.8)	(7.3)
Forward foreign currency exchange contracts, net	194.2	(58.9)	(157.3)	(22.0)
	882.3	187.6	(81.5)	988.4

	As at 31 December 2008			
	Within 1 year £m	1-2 years £m	>2 years £m	Total £m
Commodity contracts, net	456.7	563.2	291.0	1,310.9
Interest rate swaps	(5.8)	(1.5)	-	(7.3)
Forward foreign currency exchange contracts, net	(201.5)	1.6	(63.8)	(263.7)
	249.4	563.3	227.2	1,039.9

**Counterparty risk**

As the Group relies on third party suppliers for the delivery of coal and other goods and services, it is exposed to the risk of non-performance by these third party suppliers. The Group purchases a significant portion of its coal requirement under contracts with a number of UK suppliers. There is a risk that if a large supplier falls into financial difficulty and/or fails to deliver against the contracts, there would be additional costs associated with securing coal from other suppliers.

The Group enters into fixed price and fixed margin contracts for the sale of electricity to a number of counterparties. The failure of one or more of these counterparties to perform their contractual obligations may cause the Group financial distress or increase the risk profile of the Group.

**Credit risk**

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	As at 31 December	
	2009 £m	2008 £m
<b>Financial assets:</b>		
Cash and cash equivalents	80.4	130.2
Short-term investments	55.0	-
Trade and other receivables	210.1	260.0
Derivative financial instruments	421.3	392.0
	766.8	782.2

Trade and other receivables are stated gross of the provision for doubtful debts of £1.2 million (2008: £0.1 million). Credit exposure is controlled by counterparty limits that are reviewed and approved by a management committee. Counterparties without an investment grade rating are normally required to provide credit support in the form of a parent company guarantee, letter of credit, deed of charge, or cash collateral. Where deemed appropriate the Group has purchased credit default swaps.

The investment of surplus cash is undertaken to maximise the return within Board approved policies. These policies manage credit risk exposure by setting out minimum rating requirements, maximum investment with any one counterparty and the maturity profile.

### Capital risk management

The Group manages its capital to ensure it is able to continue as a going concern, and maintain its credit rating while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of the borrowings disclosed in note 16, cash and cash equivalents in note 14, short-term investments in note 13 and equity attributable to the equity holders of the parent, comprising issued capital, capital reserves and retained earnings (see Consolidated statement of changes in equity).

The capital structure of the Group is as follows:

	As at 31 December	
	2009 £m	2008 £m
Borrowings	(189.8)	(364.9)
Cash and cash equivalents	80.4	130.2
Short-term investments	55.0	-
<b>Net debt</b>	<b>(54.4)</b>	<b>(234.7)</b>
<b>Total shareholders' equity, less hedge reserve</b>	<b>798.3</b>	<b>737.3</b>

## 18. Provisions

	Re-instatement £m
<b>At 1 January 2008</b>	<b>2.4</b>
Unwinding of discount	0.2
<b>At 1 January 2009</b>	<b>2.6</b>
Additional provision	2.8
Unwinding of discount	0.5
<b>At 31 December 2009</b>	<b>5.9</b>

The provision for re-instatement represents the estimated decommissioning, demolition and site remediation costs at the end of the useful economic life of the Group's generating assets, on a discounted basis. The amount provided represents the present value of the expected costs. An amount equivalent to the initial provision is capitalised within tangible fixed assets and is being depreciated over the useful lives of the related assets. The unwinding of the discount is included in interest payable and similar charges.

The provision is estimated using the assumption that the re-instatement will take place between 2039 and 2045.

The provision has been estimated using existing technology at current prices. The discount rate applied is the pre-tax rate based upon the Group's weighted average cost of capital and reflects the current market assessment of the time value of money and the risks specific to the business.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19. Deferred tax

The movement on the deferred tax account is as shown below:

	Years ended 31 December	
	2009 £m	2008 £m
<b>Deferred tax liability at 1 January</b>	273.8	201.6
(Credited)/charged to the income statement	(42.2)	28.4
Deferred tax on actuarial losses on defined benefit pension scheme	(4.2)	(3.6)
Deferred tax on acquisition of subsidiary (note 31)	1.1	-
Deferred tax on cash flow hedges	105.1	47.4
<b>Deferred tax liability at 31 December</b>	<b>333.6</b>	<b>273.8</b>

The movements in deferred tax assets and liabilities during each year are shown below. Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

#### Deferred tax liabilities/(assets)

	Financial instruments £m	Accelerated capital allowances £m	Other liabilities £m	Other assets £m	Total £m
<b>At 1 January 2008</b>	(67.3)	261.2	17.6	(9.9)	201.6
Charged to the income statement	15.5	8.8	-	4.1	28.4
Charged/(credited) to equity	47.4	-	-	(3.6)	43.8
<b>At 1 January 2009</b>	(4.4)	270.0	17.6	(9.4)	273.8
Acquisition of subsidiary	1.1	-	-	-	1.1
(Credited)/charged to the income statement	(36.3)	(7.9)	-	2.0	(42.2)
Charged/(credited) to equity	105.1	-	-	(4.2)	100.9
<b>At 31 December 2009</b>	<b>65.5</b>	<b>262.1</b>	<b>17.6</b>	<b>(11.6)</b>	<b>333.6</b>

Deferred tax assets are recognised to the extent that the realisation of the related tax benefit through future associated taxable profits is probable.

As described in note 6, no deferred tax asset has been recognised with respect to the unwind of the Eurobond financing structure.

The Group did not recognise deferred tax assets amounting to £3.7 million at 31 December 2009 in respect of losses that can be carried forward against future taxable income (2008: £nil).

### 20. Issued equity

	As at 31 December	
	2009 £m	2008 £m
<b>Authorised</b>		
865,238,823 ordinary shares of 11 <sup>16</sup> / <sub>29</sub> pence each	100.0	100.0
<b>Issued and fully paid</b>		
2008 - 339,398,968 ordinary shares of 11 <sup>16</sup> / <sub>29</sub> pence each	-	39.2
2009 - 364,853,890 ordinary shares of 11 <sup>16</sup> / <sub>29</sub> pence each	42.1	-
	42.1	39.2

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

	Years ended 31 December	
	2009 number	2008 number
<b>At 1 January</b>	<b>339,398,968</b>	<b>339,397,000</b>
Issue of share capital	25,454,922	-
Issued under employee share schemes	-	1,968
<b>At 31 December</b>	<b>364,853,890</b>	<b>339,398,968</b>

### Issue of share capital

On 23 June 2009, the Group announced the placing of approximately 25.5 million new ordinary shares, representing 7.5% of the Group's existing issued ordinary share capital. The placing raised £105.5 million and was undertaken to help maintain the Group's investment grade debt rating, with the proceeds used to pay down debt on 31 July 2009.

The placing shares have been credited as fully paid and rank equally in all respects with the existing ordinary shares of 11<sup>16</sup>/<sub>29</sub> pence each in the capital of the Company, including the right to receive all dividends and other distributions declared, made or paid in respect of such shares after the date of issue of the placing shares.

The share placing was achieved through a "cash box" placing arrangement. The benefit of a cash box placing arrangement is that it is legally structured to enable the merger relief criteria within the Companies Act 1985 to apply. Accordingly the funds raised in excess of the nominal value of the shares issued have been treated as distributable within retained reserves rather than credited to the share premium account. As a consequence, of the £105.5 million funds raised, share capital increased by £2.9 million, and the balance of £102.6 million reduced the Group's retained losses in the year ended 31 December 2009.

### Issued under employee share schemes

During 2008, a total of 1,968 ordinary shares of 11<sup>16</sup>/<sub>29</sub> pence each were issued in satisfaction of share options which were exercised in accordance with the rules of the SAYE Plan. There were no such issues in 2009.

The Company has only one class of ordinary shares, which carry no right to fixed income. No shareholders have waived their rights to dividends.

## 21. Share-based payments

Costs recognised in the income statement in relation to share-based payments are as follows:

	Years ended 31 December	
	2009 £m	2008 £m
SIP	1.3	2.4
ESIP	0.4	1.3
BMP	0.3	-
SAYE	-	0.1
	<b>2.0</b>	<b>3.8</b>

### Share Incentive Plan ("SIP")

Under the 2009 SIP Free share award, the Company's employee benefit trust purchased shares in April 2009 to be held on behalf of qualifying employees equating to a cash value of approximately £1,000 (2008: £2,500) per employee based on the Company's share price at the time of the award. The fair value of the 2009 Free share award of £0.7 million was charged to the income statement in full in the year ended 31 December 2009, on the basis that employees were granted specific immediate rights in relation to shares held in trust on their behalf. Similarly, the fair value of the 2008 Free share award of £1.8 million was charged to the income statement in full in the year ended 31 December 2008.

In addition, qualifying employees can buy up to £1,500 worth of Partnership shares in any one tax year. Matching shares are awarded to employees to match any Partnership shares they buy, in a ratio of one-to-one, with the cost of Matching shares borne by the Group. The fair value of Matching shares awarded in the year to 31 December 2009 of £0.5 million is being charged in the income statement on a straight-line basis over a one-year vesting period. Similarly, the fair value of the 2008 Matching shares award of £0.6 million was charged to the income statement on a straight-line basis over a one-year vesting period now ended.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. Share-based payments (continued)

Shares in the Company held under trust and under the Company's control as a result of the SIP (i.e. the Matching shares) were as follows:

	Shares held at 1 January 2009 number	Shares acquired during year number	Shares transferred during year number	Shares held at 31 December 2009 number	Cost at 31 December 2009 £000	Nominal value at 31 December 2009 £000	Market value at 31 December 2009 £000
SIP	230,790	159,135	(8,829)	381,096	2,359	44	1,568

#### Executive Share Incentive Plan ("ESIP")

Between 2006 and 2008 the Group operated the ESIP. Under the ESIP, annual awards of performance shares were made at nil consideration to executive directors and other senior staff up to a normal maximum of 100% of salary. Shares vest according to whether Drax's TSR matches or outperforms an index (determined in accordance with the scheme rules) over three years.

The fair value of the 2008 ESIP awards of £1.2 million, is being charged to the income statement on a straight-line basis over the three-year vesting period to April 2011. Similarly, the fair values of the 2006 and 2007 ESIP awards of £1.9 million and £0.9 million respectively are being charged to the income statement on a straight-line basis over the corresponding three year vesting periods.

#### Bonus Matching Plan ("BMP")

The BMP was introduced during 2009 to replace the ESIP. Under the BMP, annual awards of performance shares are made at nil consideration to executive directors and other senior staff up to a normal maximum of 150% of their annual bonus. A proportion of the shares vesting is conditional upon whether Drax's TSR matches or out-performs an index (determined in accordance with the scheme rules) over three years. The fair value of the 2009 BMP awards of £1.2 million is being charged to the income statement on a straight-line basis over the three-year vesting period to April 2012.

Movements in the number of share options outstanding for the ESIP and BMP awards are as follows:

	2009		2008
	ESIP number	BMP number	ESIP number
<b>At 1 January</b>	1,272,877	-	721,596
Granted	-	1,010,332	604,753
Forfeited	(234,710)	(28,400)	(53,472)
Exercised	-	-	-
Expired	(283,242)	-	-
<b>At 31 December</b>	754,925	981,932	1,272,877

#### Savings-Related Share Option Plan ("SAYE Plan")

In July 2006, participation in the SAYE Plan was offered to all qualifying employees. Options were granted for employees to acquire shares at a price of £6.36 (representing a discount of 20% to the prevailing market price determined in accordance with the scheme rules), exercisable at the end of three or five year savings contracts. The fair value of the 899,396 options granted in connection with the SAYE Plan of £0.5 million is being charged to the income statement over the life of the respective contracts. There have been no further offers under the SAYE Plan since that made in July 2006.

Movements in the number of share options outstanding for the SAYE plans are as follows:

	2009		2008	
	SAYE 3 Year number	SAYE 5 Year number	SAYE 3 Year number	SAYE 5 Year number
<b>At 1 January</b>	223,959	530,905	270,233	568,610
Granted	-	-	-	-
Forfeited	(490)	(66,456)	(44,306)	(37,705)
Exercised	-	-	(1,968)	-
Expired	(223,469)	-	-	-
<b>At 31 December</b>	-	464,449	223,959	530,905



### Fair value of share-based payment awards

The fair value of share-based payment awards was determined as follows:

**SIP** - based on price paid at award dates;

**ESIP and BMP** - Monte Carlo valuation model, which takes into account the estimated probability of different levels of vesting; and

**SAYE** - Black Scholes model which compares exercise price to share price at the date of grant.

Additional information in relation to the Group's share-based incentive plans is included in the Remuneration Committee report.

## 22. Other reserves

	Capital redemption reserve		Share premium		Merger reserve	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
<b>At 1 January and 31 December</b>	1.5	1.5	420.7	420.7	710.8	710.8

The capital redemption reserve arose when the Group completed a share buy-back programme in 2007.

The share premium and the merger reserve arose on the financial restructuring of the Group which took place in 2005.

## 23. Hedge reserve

	Years ended 31 December	
	2009 £m	2008 £m
<b>At 1 January</b>	(44.0)	(161.3)
Gains/(losses) recognised:		
- Commodity contracts	327.0	49.0
- Interest rate swaps	-	(5.9)
Released from equity:		
- Commodity contracts	47.3	123.2
- Interest rate swaps	1.2	(1.6)
Related deferred tax, net	(105.1)	(47.4)
<b>At 31 December</b>	226.4	(44.0)

The Group's cash flow hedges relate to commodity contracts (principally commitments to sell power) and interest rate swaps. Amounts are recognised in the hedge reserve as the designated contracts are marked-to-market at each period end for the effective portion of the hedge, which is generally 100% of the relevant contract. Amounts held within the hedge reserve are then released as the related contract matures and the hedged transaction impacts profit or loss. For power sales contracts, this is when the underlying power is delivered. Further information in relation to the Group's accounting for financial instruments is included in notes 3 and 17.

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

	As at 31 December 2009			
	Within 1 year £m	1-2 years £m	>2 years £m	Total £m
Commodity contracts	151.8	60.8	16.6	229.2
Interest rate swaps	(2.8)	-	-	(2.8)
	149.0	60.8	16.6	226.4

	As at 31 December 2008			
	Within 1 year £m	1-2 years £m	>2 years £m	Total £m
Commodity contracts	(67.4)	9.1	18.0	(40.3)
Interest rate swaps	(2.7)	(1.0)	-	(3.7)
	(70.1)	8.1	18.0	(44.0)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24. Retained losses

	Years ended 31 December	
	2009 £m	2008 £m
<b>At 1 January</b>	(434.9)	(649.9)
Profit for the year	110.9	332.9
Actuarial losses on defined benefit pension scheme (note 28)	(15.1)	(12.9)
Deferred tax on actuarial losses on defined benefit pension scheme (note 19)	4.2	3.6
Issue of share capital (note 20)	102.6	-
Equity dividends paid (note 7)	(145.0)	(110.0)
Net movements in equity associated with share-based payments	0.5	1.4
<b>At 31 December</b>	<b>(376.8)</b>	<b>(434.9)</b>

## 25. Cash generated from operations

	Years ended 31 December	
	2009 £m	2008 £m
<b>Profit for the year</b>	<b>110.9</b>	<b>332.9</b>
Adjustments for:		
Interest payable and similar charges	17.3	28.8
Interest receivable	(1.9)	(7.2)
Tax charge	46.9	109.6
Depreciation and loss on disposal of fixed assets	52.0	46.2
Unrealised losses/(gains) on derivative contracts	129.7	(56.3)
Defined benefit pension scheme charge	5.1	4.1
Non-cash charge for share-based payments	2.0	3.8
<b>Operating cash flows before movement in working capital</b>	<b>362.0</b>	<b>461.9</b>
<b>Changes in working capital:</b>		
Increase in inventories	(17.0)	(81.2)
Decrease/(increase) in receivables	61.8	(130.3)
(Decrease)/increase in payables	(77.7)	190.1
Total increase in working capital	(32.9)	(21.4)
Defined benefit pension scheme contributions	(7.7)	(9.9)
Increase in provisions charged to the income statement	-	0.2
<b>Cash generated from operations</b>	<b>321.4</b>	<b>430.8</b>

## 26. Reconciliation of net debt

	Years ended 31 December	
	2009 £m	2008 £m
<b>Net debt at 1 January</b>	<b>(234.7)</b>	<b>(337.2)</b>
(Decrease)/increase in net cash	(49.8)	70.5
Increase in short-term investments	55.0	-
Decrease in borrowings	175.1	32.0
<b>Net debt at 31 December</b>	<b>(54.4)</b>	<b>(234.7)</b>

## 27. Employees and directors

### Staff costs (including executive directors)

	Years ended 31 December	
	2009 £m	2008 £m
<b>Included in other operating and administrative expenses (note 4):</b>		
Wages and salaries	45.2	39.0
Social security costs	3.7	3.1
Other pension costs (note 28)	6.7	5.2
Share-based payments (note 21)	2.0	3.8
	<b>57.6</b>	<b>51.1</b>

### Average monthly number of people employed (including executive directors)

	Years ended 31 December	
	2009 number	2008 number
Operations	591	566
Retail services	153	-
Business services	156	146
	<b>900</b>	<b>712</b>

The average number of people employed for 2009 includes 153 at Haven.

## 28. Retirement benefit obligations

The Group operates an approved defined benefit scheme on behalf of the Drax Power Group of the Electricity Supply Pension Scheme ("DPG ESPS"). This scheme was closed to new members as from 1 January 2002 unless they qualify through being existing members of another part of the ESPS. The Group also operates a defined contribution scheme.

### Defined benefit scheme

The most recent actuarial valuation of the DPG ESPS was 31 March 2007. This has been updated as at 31 December 2009 to reflect relevant changes in assumptions. The principal assumptions were as follows:

	As at 31 December	
	2009 % p.a.	2008 % p.a.
Discount rate	5.7	6.1
Inflation	3.6	3.0
Rate of increase in pensions in payment and deferred pensions	3.4	3.0
Rate of increase in pensionable salaries	5.1	4.5
Expected return on plan assets	6.1	5.4

The mortality assumptions are based on standard mortality tables which incorporate an adjustment to allow for future mortality improvements. The assumptions are that a member who retired in 2009 at age 60 will live on average for a further 25 years (2008: 25 years) after retirement if they are male, and for a further 27 years (2008: 27 years) after retirement if they are female. Similarly life expectancy at age 60 for male and female non-pensioners (currently aged 45) is assumed to be 27 years and 28 years respectively (2008: 27 years and 28 years respectively).

The amounts recognised in the balance sheet are determined as follows:

	As at 31 December	
	2009 £m	2008 £m
Defined benefit obligation	146.5	114.4
Fair value of plan assets	(113.4)	(93.8)
<b>Net liability recognised in the balance sheet</b>	<b>33.1</b>	<b>20.6</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 28. Retirement benefit obligations (continued)

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

	Years ended 31 December	
	2009 £m	2008 £m
Current service cost	3.3	3.7
Past service cost	-	0.3
Interest cost	7.0	7.0
Expected return on plan assets	(5.2)	(6.9)
<b>Total included in staff costs (note 27)</b>	<b>5.1</b>	<b>4.1</b>

The actual return on plan assets was a gain of £13.2 million (2008: loss of £19.2 million).

The amounts recognised in the statement of comprehensive income are as follows:

	Years ended 31 December	
	2009 £m	2008 £m
Cumulative actuarial losses on defined benefit pension scheme at 1 January	(38.6)	(25.7)
Actuarial losses on defined benefit pension scheme recognised in the year	(15.1)	(12.9)
<b>Cumulative losses recognised in the statement of comprehensive income at 31 December</b>	<b>(53.7)</b>	<b>(38.6)</b>

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

	Years ended 31 December	
	2009 £m	2008 £m
<b>Defined benefit obligation at 1 January</b>	<b>114.4</b>	<b>118.6</b>
Current service cost	3.3	3.7
Past service cost	-	0.3
Employee contributions	1.0	1.0
Interest cost	7.0	7.0
Actuarial losses/(gains)	23.1	(13.2)
Benefits paid	(2.3)	(3.0)
<b>Defined benefit obligation at 31 December</b>	<b>146.5</b>	<b>114.4</b>

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

	Years ended 31 December	
	2009 £m	2008 £m
<b>Fair value of plan assets at 1 January</b>	<b>93.8</b>	<b>105.1</b>
Expected return on plan assets	5.2	6.9
Actuarial gains/(losses)	8.0	(26.1)
Employer contributions	7.7	9.9
Employee contributions	1.0	1.0
Benefits paid	(2.3)	(3.0)
<b>Fair value of plan assets at 31 December</b>	<b>113.4</b>	<b>93.8</b>

Employer contributions included payments to reduce the actuarial deficit of £3.7 million (2008: £6.7 million).

The major categories of plan assets as a percentage of total plan assets were as follows:

	As at 31 December	
	2009 %	2008 %
Equities	40.2	48.4
Fixed interest bonds	39.8	47.9
Hedge funds	14.5	-
Cash	5.5	3.7

The pension plan assets do not include any ordinary shares issued by Drax Group plc or any property occupied by the Group.

The Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme.

The net liability recognised in the balance sheet is particularly sensitive to the discount rate assumption, which is determined by reference to market yields at the balance sheet date on high quality corporate bonds, allowing for the duration of the scheme's liabilities. Recent volatility in financial markets has caused the range of yields on corporate bonds to widen significantly. It is estimated that an increase of 0.5% in the discount rate would have the effect of decreasing the net liability recognised in the balance sheet by approximately £14 million (2008: £11 million) and a decrease of 0.5% in the discount rate would increase the net liability recognised in the balance sheet by £16 million (2008: £11 million).

The history of experience adjustments is as follows:

	As at 31 December				
	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Defined benefit obligation	(146.5)	(114.4)	(118.6)	(109.4)	(107.0)
Fair value of plan assets	113.4	93.8	105.1	96.9	62.3
<b>Deficit</b>	<b>(33.1)</b>	<b>(20.6)</b>	<b>(13.5)</b>	<b>(12.5)</b>	<b>(44.7)</b>
Experience adjustments on plan liabilities	(23.1)	13.2	(1.1)	5.3	(15.1)
Experience adjustments on plan assets	8.0	(26.1)	(2.2)	3.3	6.9

#### Defined contribution plans

Pension costs for the defined contribution scheme are as follows:

	Years ended 31 December	
	2009 £m	2008 £m
Total included in staff costs (note 27)	1.6	1.1

The Group expects to contribute £9.1 million to its pension plans during the 12 months ended 31 December 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29. Capital and other financial commitments

	As at 31 December	
	2009 £m	2008 £m
Contracts placed for future capital expenditure not provided in the financial statements	103.6	110.9
Future support contracts not provided in the financial statements	77.3	65.2
Future commitments to purchase fuel under fixed and variable priced contracts	1,369.8	1,211.3

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

	Buildings	
	2009 £m	2008 £m
Within one year	0.4	0.4
Within two to five years	1.5	1.6
After five years	4.3	4.6
	6.2	6.6

### 30. Related party transactions

#### Subsidiary companies

The Company's subsidiary undertakings including the name, country of incorporation and proportion of ownership interest for each are disclosed in note 3 to the Company's separate financial statements which follow these consolidated financial statements. Transactions between subsidiaries and between the Company and its subsidiaries are eliminated on consolidation.

#### Remuneration of key management personnel

The remuneration of the directors, who are considered to be the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 "Related party disclosures". Further information about the remuneration of individual directors, together with the directors' interests in the share capital of Drax Group plc, is provided in the audited part of the Remuneration Committee report on pages 73 to 75.

	Years ended 31 December	
	2009 £000	2008 £000
Salaries and short-term benefits	2,213	2,080
Termination payment	-	485
Aggregate amounts receivable under share-based incentive schemes	248	343
Company contributions to money purchase pension schemes	201	190
	2,662	3,098

Amounts receivable under long-term incentive schemes represents the expenses arising from share-based payments included in the income statement, determined based on the fair value of the related awards at the date of grant (note 21).

On 7 January 2010, the Company announced that its subsidiary Drax Power Limited ("DPL") had chosen eaga plc as its partner to provide services in connection with DPL's Community Energy Saving Programme obligation (details of which are contained in the Corporate responsibility review report on page 39). Charles Berry, who is Chairman of both Drax Group plc and eaga plc had no involvement in the discussions which led to the decision, or the decision itself, which was taken at Executive Committee level.

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

## 31. Business combinations

On 6 March 2009, the Group acquired 100% of the share capital of Haven, an electricity supply business serving business customers, in line with its strategy to extend its trading capabilities and options for routes to market.

Haven contributed revenues of £65.9 million to the Group for the period from 6 March 2009 to 31 December 2009. If the acquisition had been completed on 1 January 2009, consolidated revenues for the period would have been £79.6 million. This information is provided for disclosure purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the combined companies.

The attributed fair values of the identifiable assets and liabilities of Haven and the corresponding carrying amounts immediately before acquisition are detailed below:

	Book value £m	Fair value £m
<b>Recognised amounts of identifiable assets acquired and liabilities assumed:</b>		
Cash and cash equivalents	0.9	0.9
Trade and other receivables	9.6	9.6
Property, plant and equipment	1.2	1.2
Trade and other payables	(12.7)	(12.7)
Derivative financial instruments	-	4.0
Deferred tax liabilities on derivative financial instruments	-	(1.1)
	(1.0)	1.9
<b>Goodwill</b>		10.7
<b>Total consideration</b>		12.6
Satisfied as:		
Cash paid		12.0
Directly attributable costs		0.6
		12.6
		£m
Purchase consideration settled in cash		(12.6)
Cash and cash equivalents in subsidiary acquired		0.9
<b>Cash outflow on acquisition</b>		(11.7)

The fair value adjustments reflect the mark-to-market value of Haven's short-term power trading book position at acquisition, and the related deferred tax. No other fair value adjustments were identified.

The goodwill of £10.7 million is attributable to various features of the business, including the ability to secure term power sales, which complements Drax's existing trading strategy, and its capacity to grow significantly from its customer base at acquisition.

## COMPANY INDEPENDENT AUDITORS' REPORT

### To the members of Drax Group plc

We have audited the parent Company financial statements of Drax Group plc for the year ended 31 December 2009 which comprise the parent Company balance sheet and the related notes 1 to 6. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the parent Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.



## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

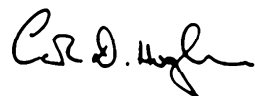
## Other matters

We have reported separately on the Group financial statements of Drax Group plc for the year ended 31 December 2009.

### **Carl Hughes MA FCA (Senior Statutory Auditor)**

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

22 February 2010



## COMPANY BALANCE SHEET

	Notes	As at 31 December	
		2009 £000	2008 £000
<b>Fixed assets</b>			
Investment in subsidiaries	3	463,459	461,373
<b>Current assets</b>			
Amounts due from other Group companies		92,785	-
Other debtors		4	11
Cash at bank and in hand		8,810	3,370
		101,599	3,381
<b>Current liabilities</b>			
Amounts due to other Group companies		(7,258)	(3,198)
<b>Net current assets</b>		94,341	183
<b>Net assets</b>		557,800	461,556
<b>Capital and reserves</b>			
Called-up share capital	4	42,147	39,207
Capital redemption reserve	5	1,502	1,502
Share premium account	5	420,688	420,688
Profit and loss account	5	93,463	159
<b>Total equity shareholders' funds</b>	5	557,800	461,556

These financial statements were approved by the Board of directors on 22 February 2010.

Signed on behalf of the Board of directors:

**Dorothy Thompson**  
Chief Executive

**Tony Quinlan**  
Finance Director




## NOTES TO THE COMPANY BALANCE SHEET

### 1. Summary of significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below, and have been consistently applied to both years presented.

#### (A) Cash flow statement

The cash flows of the Group are included in the Consolidated cash flow statement of Drax Group plc, whose accounts are publicly available. Accordingly, the Company has taken advantage of the exemption under FRS 1 "Cash flow statements" not to publish a cash flow statement.

#### (B) Related party transactions

The Company has taken advantage of the exemption granted by paragraph 3(b) of FRS 8 "Related party disclosures" not to disclose transactions with other Group companies.

#### (C) Fixed asset investments

Fixed asset investments in subsidiaries are stated at cost less, where appropriate, provision for impairment.

### 2. Profit and loss account

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company's profit and loss account was approved by the Board on 22 February 2009. Drax Group plc reported a profit for the year ended 31 December 2009 of £135.1 million (£1.1 million before dividends received from other Group companies) (2008: £110.1 million, or £0.1 million before dividends received from other Group companies).

The Company has no employees other than the directors, whose remuneration was borne by a subsidiary undertaking and re-charged to the Company. The amount re-charged during the year was £506,000 (2008: £599,000).

The auditors' remuneration for audit services to the Company, totalling £20,000 (2008: £20,000), was borne by a subsidiary undertaking and re-charged to the Company during the year.

### 3. Fixed asset investments

	Subsidiary undertakings £000
<b>Carrying amount:</b>	
<b>At 1 January 2009</b>	461,373
Capital contribution	2,086
<b>At 31 December 2009</b>	<b>463,459</b>

The capital contribution relates to the share-based payment charge associated with the Share Incentive Plan, Executive Share Incentive Plan, Savings-Related Share Option Plan and Bonus Matching Plan schemes, and arises because the beneficiaries of the scheme are employed by a subsidiary. For more information see note 21 in the consolidated financial statements.

## NOTES TO THE COMPANY BALANCE SHEET

### 3. Fixed asset investments (continued)

#### Subsidiary undertakings

Name and nature of business	Country of incorporation and registration	Type of share	Group effective shareholding
Drax Finance Limited (holding company)	England and Wales	Ordinary	100%
Drax GCo Limited (non-trading company) <sup>(1)</sup>	England and Wales	– <sup>(3)</sup>	100%
Drax Group Limited (holding company) <sup>(1)</sup>	Cayman Islands	Ordinary	100%
Drax Intermediate Holdings Limited (holding company) <sup>(1)</sup>	Cayman Islands	Ordinary	100%
Drax Holdings Limited (holding company) <sup>(1)(2)</sup>	Cayman Islands	Ordinary	100%
Drax Electric Limited (in members' voluntary liquidation) (dormant company) <sup>(1)</sup>	Cayman Islands	Ordinary	100%
Drax Limited (holding company) <sup>(1)</sup>	Cayman Islands	Ordinary	100%
Drax Power Limited (trading company, power generation) <sup>(1)</sup>	England and Wales	Ordinary	100%
Drax Ouse (dormant company) <sup>(1)</sup>	England and Wales	Ordinary	100%
Drax Investments Limited (investment company) <sup>(1)</sup>	England and Wales	Ordinary	100%
Drax Biomass Developments Limited (holding company)	England and Wales	Ordinary	100%
Drax Biomass (Selby) Limited (non-trading company) <sup>(1)</sup>	England and Wales	Ordinary	100%
Drax Biomass (Immingham) Limited (non-trading company) <sup>(1)</sup>	England and Wales	Ordinary	100%
Mid Suffolk Power Limited (non-trading company) <sup>(1)</sup>	England and Wales	Ordinary	100%
BondPower Limited (investment company)	Jersey	Ordinary	100%
Haven Power Limited (trading company, power retail)* <sup>(1)</sup>	England and Wales	Ordinary	100%

All subsidiary undertakings operate in their country of incorporation. All subsidiary undertakings have 31 December year ends, except as indicated below.

Notes:

(1) Held by an intermediate subsidiary undertaking. (2) 30 December year end. (3) Limited by guarantee.

\* Additions in year.

InPower Limited and InPower 2 Limited are incorporated in Jersey. Although not subsidiaries of Drax Group plc, they have been included in the consolidated financial statements (prepared under IFRSs) in accordance with SIC 12 "Consolidation - special purpose entities" on the basis that their sole purpose was to hold the debt of the Group prior to the Refinancing and listing on 15 December 2005.

### 4. Called-up share capital

	As at 31 December	
	2009 £000	2008 £000
<b>Authorised</b>		
865,238,823 ordinary shares of 11 <sup>16</sup> / <sub>29</sub> pence each	99,950	99,950
<b>Issued and fully paid</b>		
2008 - 339,398,968 ordinary shares of 11 <sup>16</sup> / <sub>29</sub> pence each	-	39,207
2009 - 364,853,890 ordinary shares of 11 <sup>16</sup> / <sub>29</sub> pence each	42,147	-
	42,147	39,207

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

	Years ended 31 December	
	2009 number	2008 number
<b>At 1 January</b>	339,398,968	339,397,000
Issue of share capital	25,454,922	-
Issued under employee share schemes	-	1,968
<b>At 31 December</b>	364,853,890	339,398,968

### Issue of shares

On 23 June 2009, the Group announced the placing of approximately 25.5 million new ordinary shares, representing 7.5% of the Group's existing issued ordinary share capital. The placing raised £105.5 million and was undertaken to help maintain the Group's investment grade debt rating, with the proceeds used to pay down debt on 31 July 2009.

The placing shares have been credited as fully paid and rank equally in all respects with the existing ordinary shares of 11<sup>6</sup>/<sub>29</sub> pence each in the capital of the Company, including the right to receive all dividends and other distributions declared, made or paid in respect of such shares after the date of issue of the placing shares.

The share placing was achieved through a "cash box" placing arrangement. The benefit of a cash box placing arrangement is that it is legally structured to enable the merger relief criteria within the Companies Act 1985 to apply. Accordingly the funds raised in excess of the nominal value of the shares issued have been treated as distributable within retained reserves rather than credited to the share premium account. As a consequence, of the £105.5 million funds raised, share capital increased by £2.9 million, and the balance of £102.6 million increased the Company's profit and loss account reserve in the year ended 31 December 2009.

### Issued under employee share schemes

During 2008, a total of 1,968 ordinary shares of 11<sup>6</sup>/<sub>29</sub> pence each were issued in satisfaction of share options which were exercised in accordance with the rules of the SAYE Plan. There were no such issues in 2009.

The Company has only one class of ordinary shares, which carry no right to fixed income. No shareholders have waived their rights to dividends.

## 5. Analysis of movements in equity shareholders' funds

	Share capital £000	Capital redemption reserve £000	Share premium £000	Profit and loss account £000	Total £000
<b>At 1 January 2008</b>	39,207	1,502	420,675	2,572	463,956
Share capital issued	-	-	13	-	13
Retained profit for the year	-	-	-	110,147	110,147
Charged to equity for share-based payments	-	-	-	(2,595)	(2,595)
Equity dividends paid (note 6)	-	-	-	(109,965)	(109,965)
<b>At 1 January 2009</b>	39,207	1,502	420,688	159	461,556
Share capital issued (note 4)	2,940	-	-	102,599	105,539
Retained profit for the year	-	-	-	135,058	135,058
Credited to equity for share-based payments	-	-	-	596	596
Equity dividends paid (note 6)	-	-	-	(144,949)	(144,949)
<b>At 31 December 2009</b>	42,147	1,502	420,688	93,463	557,800

## 6. Dividends

	Years ended 31 December	
	2009 £000	2008 £000
<b>Amounts recognised as distributions to shareholders in the year (based on the number of shares in issue at the record date):</b>		
Interim dividend for the year ended 31 December 2009 of 4.1 pence per share paid on 7 October 2009 (2008: 5.0 pence per share paid on 8 October 2008)	14,959	16,970
Final dividend for the year ended 31 December 2008 of 38.3 pence per share paid on 22 May 2009 (2008: 9.9 pence per share paid on 7 May 2008)	129,990	33,600
Special interim dividend for the year ended 31 December 2008 of 9.7 pence per share paid on 8 October 2008	-	32,922
Special interim dividend for the year ended 31 December 2007 of 7.8 pence per share paid on 7 May 2008	-	26,473
	144,949	109,965

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 2009 of 9.6 pence per share (equivalent to approximately £35 million) payable on or before 14 May 2010. The final dividend has not been included as a liability as at 31 December 2009.

## SHAREHOLDER INFORMATION

### Key dates for 2010

At the date of publication of this document, the following are the proposed key dates in the 2010 financial calendar:

Annual General Meeting	21 April
Ordinary shares marked ex-dividend <sup>(1)</sup>	28 April
Record Date for entitlement to the final dividend <sup>(1)</sup>	30 April
Payment of final dividend <sup>(1)</sup>	14 May
Interim management statement	18 May
Financial half year end	30 June
Announcement of half year results	3 August
Interim management statement	16 November
Pre-close statement	14 December
Financial year end	31 December

Notes:

(1) The ex-dividend and record dates and the payment of the final dividend are all subject to shareholders approving the final dividend at the forthcoming Annual General Meeting.

Other significant dates, or amendments to the proposed dates above, will be posted on the Company's website as and when they become available.

### Results announcements

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

### Financial reports

Copies of all financial reports we publish are available from the date of publication on our website. Printed copies of reports can be requested by writing to the Company Secretary at the registered office, by clicking on "Contact Us" on our website, or direct by e-mail to enquiries@draxpower.com.

### Share price

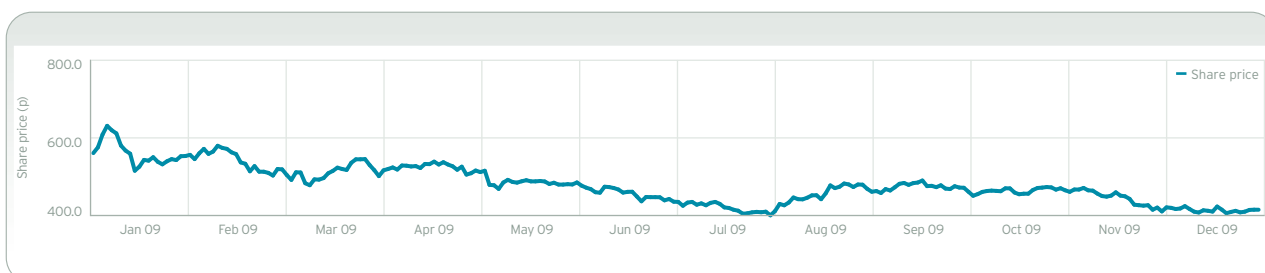
Shareholders can access the current share price of Drax Group plc ordinary shares on our website at [www.draxgroup.plc.uk](http://www.draxgroup.plc.uk). During Stock Exchange trading hours the price shown on the website is subject to a delay of approximately 15 minutes and outside trading hours it is the last available price.

The table below provides an indication of fluctuations in the Drax Group plc share price during the course of 2009, and the graph provides an indication of the trend of the share price throughout the year.

Closing price on 31 December 2008	High during the year (6 January 2009)	Low during the year (31 July 2009)	Closing price on 31 December 2009
561.00 pence	631.50 pence	400.25 pence	414.80 pence

Notes:

(1) The share prices given are the middle market closing prices as derived from the London Stock Exchange Daily Official List and no adjustment has been made to try to reflect the effects of the share consolidation.



## Market capitalisation

The market capitalisation, based on shares in issue and closing middle market price at 31 December 2009, was approximately £1.51 billion.

## Company share registrars and transfer office

Shareholders who have a query regarding their shareholding should contact the Company's share registrars at:

- Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA; or
- 0871 384 2030 from within the UK (calls to 0871 Helpline numbers are charged at 8 pence per minute from a BT landline. Other telephony provider costs may vary); or +44 121 415 7047 from outside the UK.

When contacting the registrar it is advisable to have the shareholder reference to hand and quote Drax Group plc, as well as the name and address in which the shares are held.

## Electronic communication

Registering for online communication gives shareholders more control of their shareholding. The registration process is via our registrars' secure website [www.shareview.com](http://www.shareview.com).

Once registered shareholders are able to:

- elect how we communicate with them;
- amend their details;
- amend the way dividends are received; and
- buy or sell shares online.

This does not mean shareholders can no longer receive paper copies of documents. We are able to offer a range of services and tailor communication to meet our shareholders' needs.

## Beneficial owners of shares with "information rights"

Beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under Section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares and not to the Company or Equiniti Limited.

## SHAREHOLDER INFORMATION

### Shareholder profile

The categories of ordinary shareholders and the ranges and size of shareholdings are set out below:

Analysis of shareholders	As at 31 December 2009			
	Number of shareholders	%	Number of shares <sup>(1)</sup>	%
Private shareholders	978	36.79	2,187,897	0.60
Institutional and corporate holders	1,680	63.21	362,665,993	99.40
<b>Total</b>	<b>2,658</b>	<b>100.00</b>	<b>364,853,890</b>	<b>100.00</b>

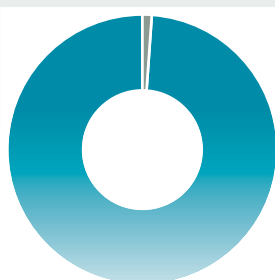
Range	As at 31 December 2009			
	Number of shareholders	%	Number of shares <sup>(1)</sup>	%
1-100	110	4.14	6,313	0.00
101-200	141	5.30	22,658	0.01
201-500	443	16.67	160,100	0.04
501-1,000	538	20.24	433,062	0.12
1,001-5,000	689	25.92	1,538,789	0.42
5,001-10,000	130	4.89	958,832	0.26
10,001-100,000	354	13.32	13,648,843	3.74
100,001-500,000	162	6.09	36,605,595	10.03
500,001-5,000,000	79	2.97	110,169,410	30.20
5,000,001 and above	12	0.45	201,310,288	55.18
<b>Total</b>	<b>2,658</b>	<b>100.00</b>	<b>364,853,890</b>	<b>100.00</b>

Notes:

(1) Ordinary shares of 11<sup>16</sup>/<sub>29</sub> pence each.

#### Shareholders by percentage ownership

as at 31 December 2009



■ Private shareholders 0.60%  
■ Institutional and corporate holders 99.40%

#### Shareholders by number

as at 31 December 2009



■ Private shareholders 978  
■ Institutional and corporate holders 1,680



## GLOSSARY

### 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.

### Company

Drax Group plc.

### Frequency response service

Services purchased by National Grid to maintain system frequency.

### Availability

Average percentage of time the units were available for generation.

### Dark green spread

The difference between the price available in the market for sales of electricity and the marginal cost of production (being the cost of coal and other fuels including CO<sub>2</sub> emissions allowances).

### Grid charges

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

### Average achieved price

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

### Direct injection co-firing

Is a process whereby biomass is fed directly (that is, avoiding the pulverising mills) to the burners situated in the boiler walls.

### Group

Drax Group plc and its subsidiaries.

### Average capture price

Revenue derived from bilateral contracts divided by volume of net merchant sales.

### EBITDA

Profit before interest, tax, depreciation and amortisation, gain/(loss) on disposal of fixed assets and unrealised gains/(losses) on derivative contracts.

### IASs

International Accounting Standards.

### 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.

### ESIP

The Drax Group plc Restricted Share Plan, also known as the Drax Group plc Executive Share Incentive Plan.

### IFRSs

International Financial Reporting Standards.

### Baseload

Running 24 hours per day, seven days per week remaining permanently synchronised to the system.

### EU ETS

The EU Emissions Trading Scheme is a mechanism introduced across the EU to reduce emissions of CO<sub>2</sub>; the scheme is capable of being extended to cover all greenhouse gas emissions.

### LECs

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

### Bilateral contracts

Contracts with counterparties and power exchange trades.

### Forced outage

Any reduction in plant availability excluding planned outages.

### Load factor

Net sent out generation as a percentage of maximum sales.

### BMP

The Drax Group plc Bonus Matching Plan.

### 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.

### Lost time injury rate

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

## GLOSSARY

**Net Balancing Mechanism**

Net volumes attributable to accepted bids and offers in the Balancing Mechanism.

**Pond fines**

Coal dust and waste coal from the cleaning and screening process which can be used for coal-fired power generation.

**Summer**

The calendar months April to September.

**Net merchant sales**

Net volumes attributable to bilateral contracts and power exchange trades.

**Power exchange trades**

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

**Technical availability**

Total availability after planned and forced outages.

**Net sales**

The aggregate of net merchant sales and net Balancing Mechanism.

**Power revenues**

The aggregate of bilateral contracts and Balancing Mechanism income/expense.

**Through-the-mill co-firing**

Is a process whereby biomass passes first through the pulverising mills before going to the burners situated in the border walls.

**Occupational health and safety assessment series (OHSAS)**

The OHSAS specification gives requirements for an occupational health and safety management system to enable an organisation to control occupational health and safety risks and improve its performance.

**ROCs**

Renewables Obligation Certificates.

**Total recordable injury rate (TRIR)**

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

**Planned outage**

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

**SAYE Plan**

The Drax Group plc Approved Savings-Related Share Option Plan.

**UK NAP**

UK National Allocation Plan.

**Planned outage rate**

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

**SIP**

The Drax Group plc Approved Share Incentive Plan.

**Winter**

The calendar months October to March.

**Design and production**

Radley Yeldar | [www.ry.com](http://www.ry.com)

**Photography**

Marcus Ginns, Lloyd Sturdy and Henry Thomas

**Print**

Granite

This report has been printed on Cocoon Silk which is 100% recycled and FSC certified. This report was printed by an FSC and ISO14001 accredited printer using vegetable oil and soya based inks.

FSC - Forest Stewardship Council. This ensures that there is an audited chain of custody from the tree in the well-managed forest through to the finished document in the printing factory.

ISO 14001 - A pattern of control for an environmental management system against which an organisation can be certified by a third party.



[www.draxgroup.plc.uk](http://www.draxgroup.plc.uk)



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