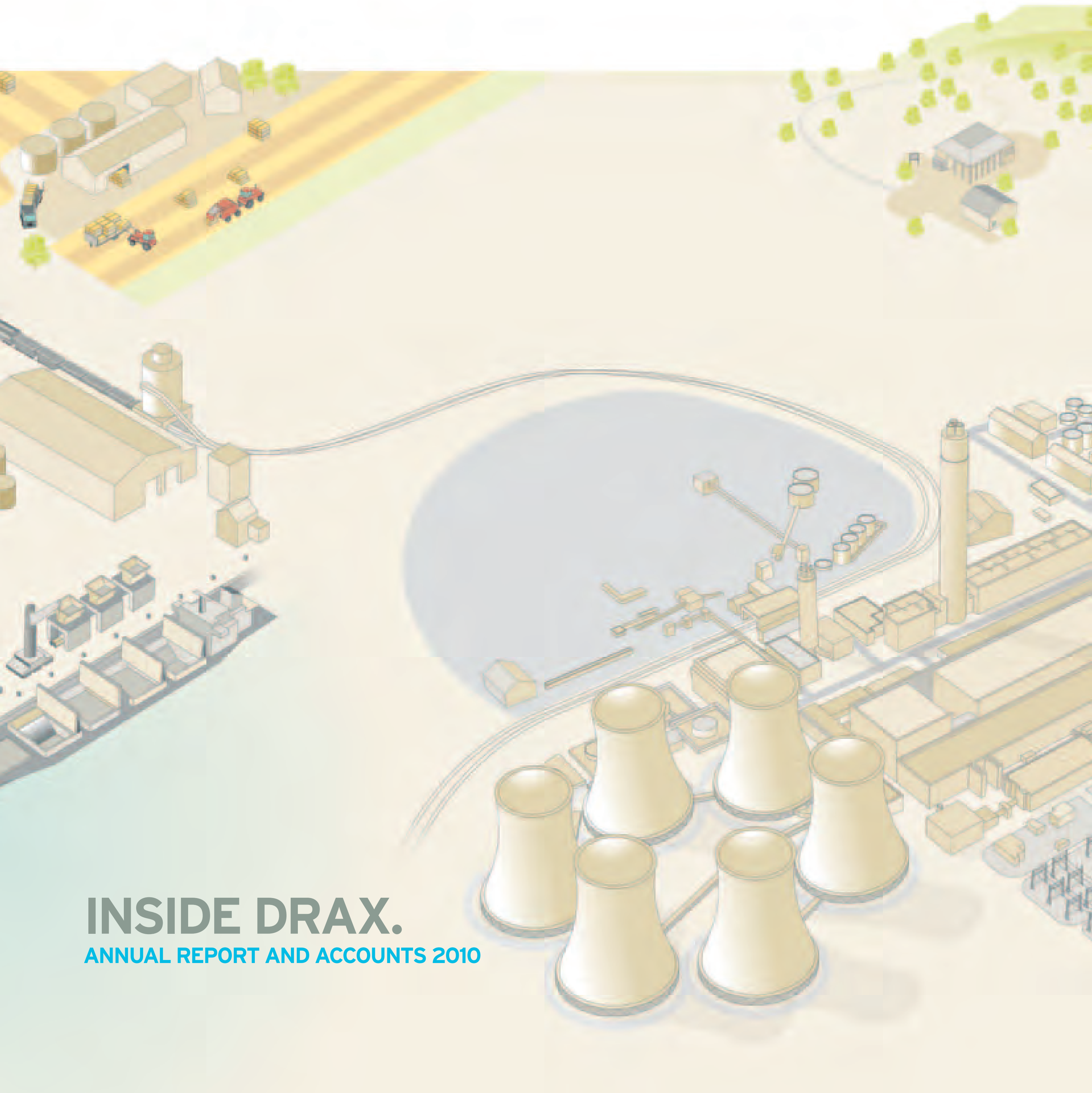
Drax Group plc



INSIDE DRAX.

ANNUAL REPORT AND ACCOUNTS 2010

DRAX IS SO MUCH MORE THAN THE UK'S LARGEST, CLEANEST AND MOST EFFICIENT COAL-FIRED POWER STATION...

WE ARE FOCUSED ON MAXIMISING VALUE AND ACHIEVING OUR VISION OF BECOMING A BOLD, CUSTOMER ORIENTATED POWER GENERATION AND SUPPLY BUSINESS, DRIVEN BY BIOMASS INNOVATION...

THIS YEAR'S REPORT ILLUSTRATES THE SIX KEY PRIORITIES THAT WILL HELP US ACHIEVE THIS VISION.

07

Drax is predominantly a power generation business responsible for meeting some 7% of the UK's electricity demand. Currently owning and operating the largest power station in the UK, we are committed to reducing our carbon footprint. Through the progressive expansion of the use of sustainable biomass, as a replacement for coal, we aim to provide a low carbon, low cost and low risk power generation business well into the future.

At the other end of the supply chain, through our retail arm, Haven Power, we serve the needs of over 32,000 business customers. Our intention is to grow a significant retail business providing us with a valuable alternative to trading through the wholesale electricity market.

IN THIS YEAR'S REPORT...

"Through significantly expanding our biomass burn, Drax can continue to be as reliable, flexible and cost effective as it is today well into the future, but, importantly, as a low carbon business."

"The systems, procedures, processes and controls that Drax has in place provide assurance to the Board and its stakeholders of a well governed business."

"For Drax, 2010 was a year characterised by strong financial results and excellent operational performance."

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CHAIRMAN'S INTRODUCTION

"I believe we have achieved significant progress during 2010 throughout the business and my sincere thanks go to all Group staff for their tireless dedication."

I am very pleased to report that, despite witnessing some of the weakest spreads between the price of power and the cost of generation since the electricity industry was privatised in 1990, Drax performed well in 2010. Our good performance was primarily due to a combination of record breaking operational plant performance and starting the year with strong forward sales.

We report earnings (EBITDA) for 2010 of £391 million (2009: £355 million), slightly ahead of market expectations, and an operating profit of £278 million (2009: £173 million). In line with our dividend policy, the Board proposes a final dividend in respect of 2010 of 17.9 pence per share, equivalent to £65 million. This would give a total dividend for the year of 32.0 pence per share (2009: 13.7 pence per share).

The outlook, however, is challenging as we face pressure on coal generation margins due to today's commodity market conditions.

Reducing our emissions of carbon dioxide remains central to our strategy. During the year we continued to make progress on both improving the overall efficiency of our plant and increasing our capability to burn renewable biomass fuel. In 2010, we delivered a reduction in carbon intensity per unit of electricity generated of 7.1% compared to 2007, when we first started our carbon abatement work.

We remain determined to make further progress in this area. Through eight years' experience of burning biomass we have built the technical and commercial expertise to greatly increase our electricity generation from biomass. However, we will only do so if the economics of such generation is attractive for our shareholders; this is not the case under the current regulatory regime for renewables.

The Government is actively reviewing the structure and levels of support for all renewable generation technologies. We welcome these reviews and are engaging fully with the Government to advance the case for increasing the amount of renewable electricity generated from biomass. Generating renewable electricity from sustainable biomass is relatively low cost, and can be both flexible and reliable. With the right regulatory support it has the potential to make a very significant contribution to the UK's commitment to delivering 15% of its energy from renewable sources by 2020.

The composition of the Board underwent some changes during the year. I was delighted to welcome Tony Thorne and Tim Cobbold to the Board as non-executive directors. Both Tony and Tim bring with them a wealth of experience in commercial and industrial matters which will be of great benefit to the Board. I was, however, sorry to see Jamie Dundas step down from the Board at last year's Annual General Meeting ("AGM") and I will be equally sorry to see Mike Grasby leave the Board at the conclusion of the 2011 AGM. My thanks go to them both for their time, commitment and considerable contribution to the Group since joining the Board.

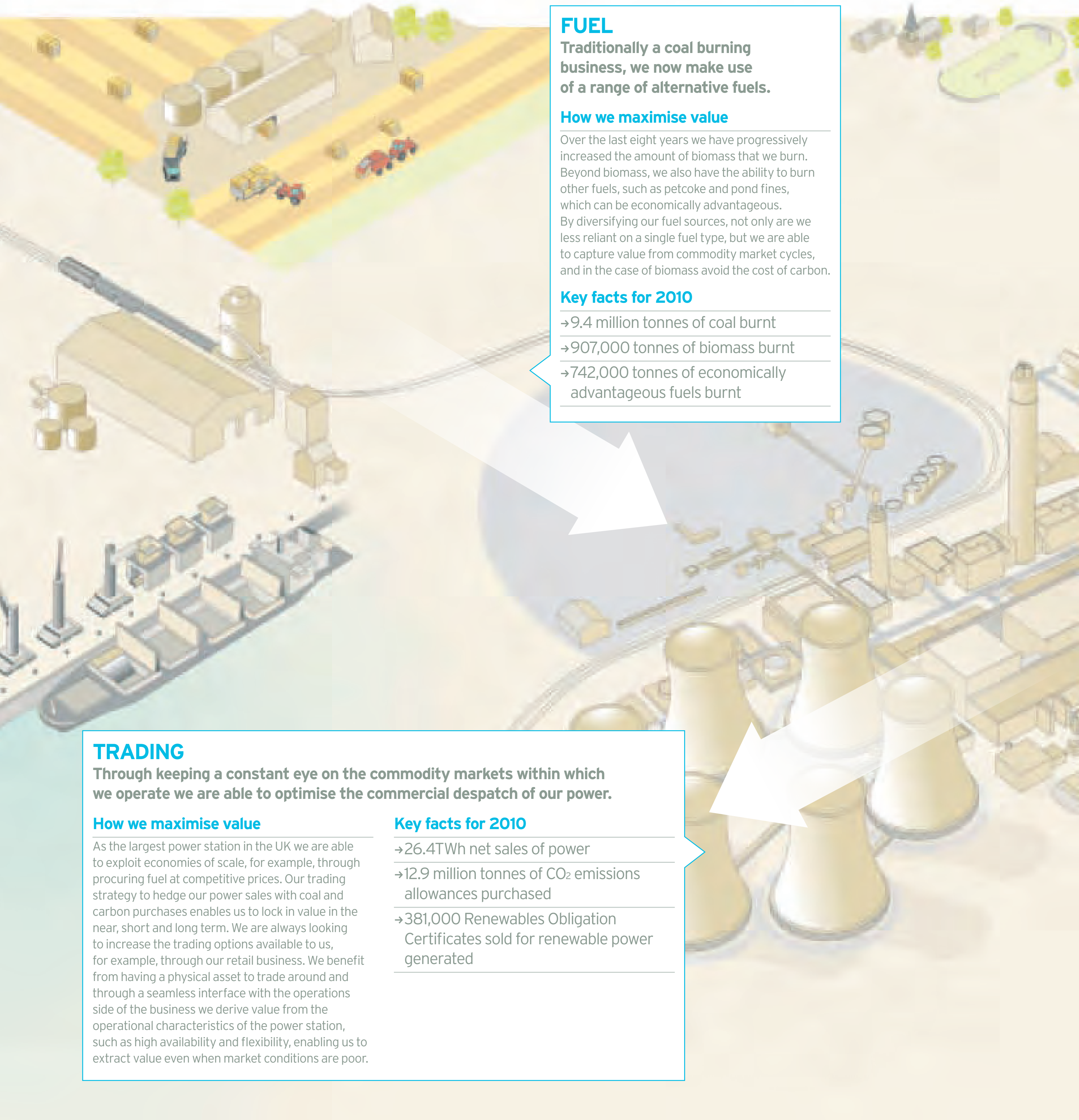
I believe we have achieved significant progress during 2010 throughout the business and my sincere thanks go to all Group staff for their tireless dedication. Without their hard work and commitment none of these achievements would have been possible.

Charles Berry
Chairman
21 February 2011

MAXIMISING THE VALUE OF THE DRAX BUSINESS

Our business model

Our overriding objective is to maximise the value of the Drax business whilst increasing our electricity generation from biomass, and so reducing our carbon footprint, subject to the availability of appropriate levels of regulatory support. Our profitability is determined by the difference between the price at which we sell our power and the cost of coal and carbon – known 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 maximising the value of our business and delivering our gross margin.



FUEL

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

How we maximise value

Over the last eight years we have progressively increased the amount of biomass that we burn. Beyond biomass, we also have the ability to burn other fuels, such as petcoke and pond fines, which can be economically advantageous.
By diversifying our fuel sources, not only are we less reliant on a single fuel type, but we are able to capture value from commodity market cycles, and in the case of biomass avoid the cost of carbon.

Key facts for 2010

- →9.4 million tonnes of coal burnt
- →907,000 tonnes of biomass burnt
- →742,000 tonnes of economically advantageous fuels burnt

TRADING

Through keeping a constant eye on the commodity markets within which we operate we are able to optimise the commercial despatch of our power.

How we maximise value

As the largest power station in the UK we are able to exploit economies of scale, for example, through procuring fuel at competitive prices. Our trading strategy to hedge our power sales with coal and carbon purchases enables us to lock in value in the near, short and long term. We are always looking to increase the trading options available to us, for example, through our retail business. We benefit from having a physical asset to trade around and through a seamless interface with the operations side of the business we derive value from the operational characteristics of the power station, such as high availability and flexibility, enabling us to extract value even when market conditions are poor.

Key facts for 2010

- →26.4TWh net sales of power
- →12.9 million tonnes of CO_2 emissions allowances purchased
- →381,000 Renewables Obligation Certificates sold for renewable power generated

ENVIRONMENT

We work towards reducing our impact on the environment with a policy of regarding compliance with legislation as a minimum level of achievement.

How we maximise value

We strive to be at the forefront of environmental performance in pursuit of maintaining our commercial and environmental leadership position in the coal-fired sector. Through our turbine upgrade and biomass co-firing projects we are able to reduce the amount of coal we burn, save on carbon costs and reduce emissions of CO_2. We generate revenue through sales of our by-products. We aim to maximise the sales of ash produced from burning coal, which not only saves on landfill costs, but creates its own revenue stream. By reducing emissions of sulphur dioxide, through our flue gas desulphurisation process, we produce gypsum which, like ash, is sold to the construction industry.

Key facts for 2010

- →1.5 million tonnes of CO_2 saved through co-firing biomass
- →1.0 million tonnes of ash sold
- →696,000 tonnes of gypsum sold

GENERATION

Drax Power Station is the largest, cleanest and most efficient coal-fired power station in the UK, almost twice the size of the next largest power station.

How we maximise value

Already the most efficient coal-fired power station in the UK, our turbine upgrade project is improving our overall efficiency bringing with it coal and carbon savings. With leading performances across all aspects of the operational side of the generation business, from safety to maintenance, we are able to deliver high availability and reliability. In addition, the flexibility of our power station allows us to respond quickly to changes in demand. Together that means we are consistently there when needed, both to meet our contractual obligations and to provide support services critical to security of supply.

Key facts for 2010

- →3,960MW connected capacity of Drax Power Station
- →92.1% plant availability
- →3.4% forced outage rate
- →4.6% planned outage rate

RETAIL

Our retail supply business is focused on providing businesses of all sizes with cost effective, tailored electricity supply backed by dedicated customer support.

How we maximise value

We have already achieved significant growth in the marketplace and have become a recognised key player by businesses throughout the UK. We have ambitious plans to grow further and bring this individual service to even more business customers. Always looking to increase the trading options available to us, our retail supply business provides us with an alternative and direct route to market.

Key facts for 2010

- →1.4TWh supplied
- →100% sales growth by volume
- →32,000+ business customers on supply at the end of the year

06 BUSINESS REVIEW
DELIVERING RESULTS

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

WE HAVE A CLEAR INTENT

OUR VISION FOR DRAX IS TO BE A BOLD, CUSTOMER ORIENTATED POWER GENERATION AND SUPPLY BUSINESS, DRIVEN BY BIOMASS INNOVATION.

INFLUENCED BY

WE MANAGE MANY EXTERNAL FACTORS

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

Commodity market risk	Counterparty risk	Ratings risk
Environmental and health and safety risk	Electricity wholesale market risk	Biomass strategy risk
Plant operating risk	Regulatory and political risk	Tax risk

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FOCUSING ON

WE HAVE SIX KEY PRIORITIES

In order to achieve our vision and our overriding objective to maximise the value of the Drax business, we will continue to focus our efforts on the following key priorities:

- Maintain operational excellence 10
- Deliver carbon abatement 11
- Develop our biomass operations 12
- Influence the regulatory framework 14
- Grow our retail customer base 09
- Maintain an optimal supporting capital structure 17

RESULTING IN

WE DELIVER

In 2010 we achieved:

Total revenue
£1,648 million
(2009: £1,476 million)

Gross profit
£551 million
(2009: £503 million)

EBITDA
£391 million
(2009: £355 million)

Underlying earnings
64 pence per share
(2009: 58 pence per share)

Some of our principal performance indicators for 2010 are:

Net cash
£204 million
(2009: £54 million net debt)

Load factor
80%
(2009: 68%)

Carbon dioxide emissions
784 tonnes per GWh
(2009: 815 tonnes per GWh)

Total recordable injury rate
0.26
(2009: 0.17)

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 BUSINESS REVIEW

CHIEF EXECUTIVE'S STATEMENT

"A number of best ever performances at the power plant enhanced our profitability, which was underpinned by the strong contracted position we had in place at the start of the year."

Introduction

The highlight of 2010 was without doubt the delivery of excellent operational performance. A number of best ever performances at the power plant enhanced our profitability, which was underpinned by the strong contracted position we had in place at the start of the year. Delivering outstanding operational performance, whilst maintaining a close watch on costs, emphasises the value of sustained effort on investing in and improving our operations over a number of years.

Our electricity supply arm, Haven Power Limited ("Haven Power"), continues to provide us with a valuable alternative to trading through the wholesale market. We delivered our 2010 target for sales growth and remain convinced of the potential to grow a significant retail business through Haven Power.

We continued to make progress in our biomass operations, both through increasing our capability to burn biomass at Drax Power Station and our development work to build a dedicated biomass business in partnership with Siemens Project Ventures. In fact, in 2010, we believe Drax Power Station generated the highest renewable output from a single UK facility.

Commodity markets

The commodity markets in 2010 remained challenging. Dark green spreads, the difference between power price and the cost of coal and carbon, continued to deteriorate in the early part of 2010, and by April reached their lowest levels in 20 years. However, during the second quarter we experienced some improvement in market conditions followed by generally stable, although still relatively low, spreads through the second half of the year.

Demand for electricity stabilised in 2010 after the effects of the recession. Gas again proved to be the dominant factor in driving power prices, and therefore dark green spreads, throughout the year. Increasing gas prices fed into power prices due to the increased cost of gas-fired generation.

Coal prices started to increase in the last months of the year as a result of supply constraints in the Pacific market due to severe weather conditions, particularly in Australia, coupled with strong Asian demand. Despite not purchasing coal from Australia and sourcing around half of our coal from the UK, we feel the impact of constraints on the global market for coal, which puts pressure on international coal prices. However, our contracted position affords some protection from increasing prices.

Building on the working relationship already in place through the generation side of our business, we secured Associated British Ports as an electricity customer in 2010 and have been supplying all the ports and office buildings since 1 January 2011.

ABP ASSOCIATED BRITISH PORTS

Future growth potential

Haven Power provides us with an important alternative and direct route to market for our power, and is already demonstrating its ability to grow its customer base. We believe Haven Power has the potential to grow significantly in the future.

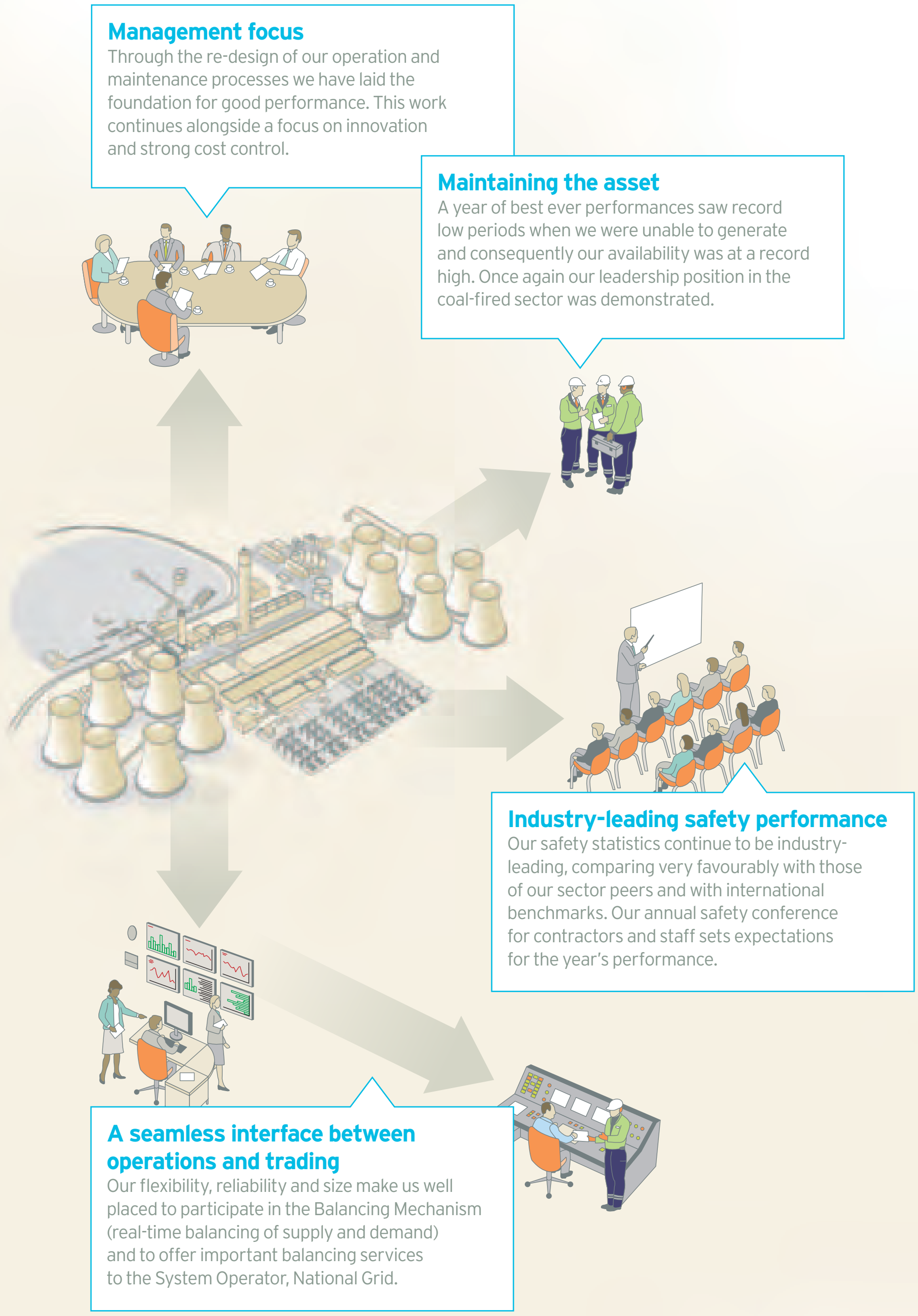
StanleyBlack&Decker was secured as an electricity customer in 2009 and we first started to supply all the sites in 2010. The business has since renewed its contract with us for a further term.

We secured Santander as an electricity customer in 2010, and from 1 January 2011 we started to supply the buildings that house the important back office support functions.

In 2010, we secured the University of Sussex as an electricity customer and started to supply the campus in the same year.

One of our key priorities:

GROW OUR RETAIL CUSTOMER BASE



One of our key priorities:

MAINTAIN OPERATIONAL EXCELLENCE

Operating performance

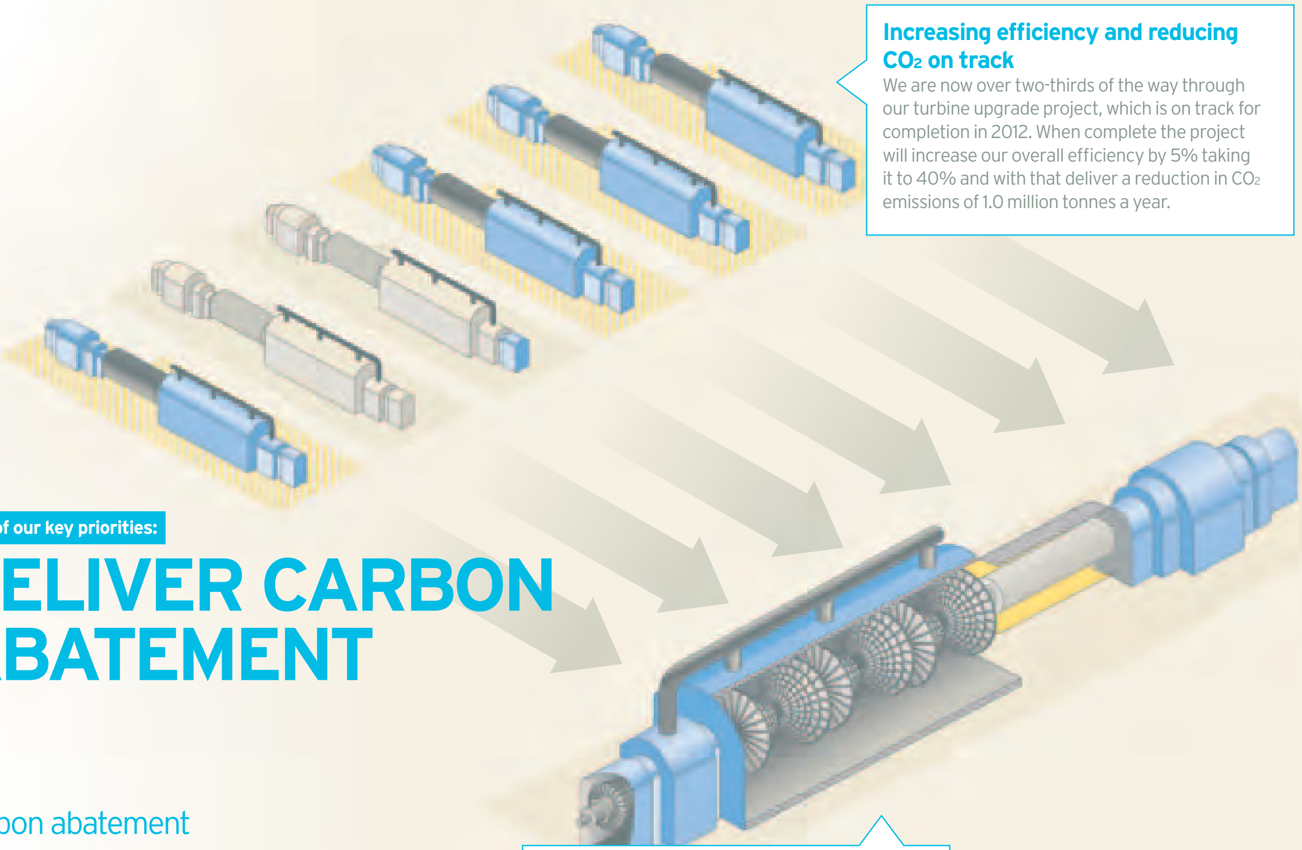
Our availability and reliability throughout the year meant that, once again, Drax was able to prove its worth, providing flexible generation output and balancing services in support of system stability and security.

The key operational performance indicators demonstrate excellent results for 2010. Our safety statistics continue to be industry-leading, and the periods when we were unable to generate were at record lows, which meant our availability was at a record high. For the year, our forced outage rate, which measures any reduction in plant availability excluding planned outages, was 3.4%, which compares very favourably to our long-term target of 5%. We delivered this operating performance whilst keeping a tight control on costs.

It is important to note that our long-term target has been set through extensive benchmarking with UK and international coal-fired plant to determine the optimum balance between performance and cost.

We continued to work on increasing our burn of fuels which have a financial advantage to the standard bituminous coal which we burn. Our alternative fuel burn, which includes biomass, and petcoke and other economically advantageous fuels, accounted for 12% of the total fuel burnt during the year.

The re-design of our operation and maintenance processes continues and is now becoming well embedded and provides the platform for delivering good performance, whilst implementing innovations on fuels and maintaining strong cost control.



Increasing efficiency and reducing CO_2 on track

We are now over two-thirds of the way through our turbine upgrade project, which is on track for completion in 2012. When complete the project will increase our overall efficiency by 5% taking it to 40% and with that deliver a reduction in CO_2 emissions of 1.0 million tonnes a year.

One of our key priorities:

DELIVER CARBON ABATEMENT

Upgrading 24 turbines

The project will see each of our high pressure and low pressure turbine modules upgraded. In total, that amounts to six high pressure turbines and 18 low pressure turbines.

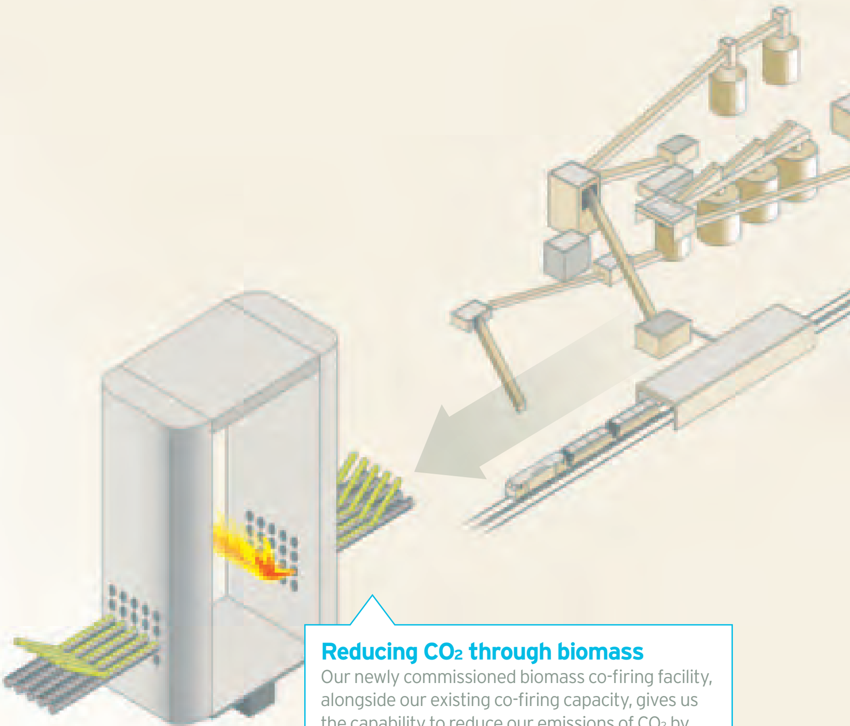
Carbon abatement

Carbon abatement remains central to our strategy. Our turbine upgrade project is now more than two-thirds complete, and on track for conclusion in 2012. The new modules are operating as expected, which means we are comfortably operating at an overall efficiency across the power station of above 39%. The resultant saving in emissions of carbon dioxide ("CO_2") amounts to over half a million tonnes a year.

In the Summer, we commissioned our new biomass co-firing facility which gives us the capability to produce one-eighth of our power from sustainable biomass, equivalent to the output of over 700 wind turbines. When running at full capacity, a saving of over 2.5 million tonnes of CO_2 will be possible each year.

In 2010, our biomass burn reached the record level of 907,000 tonnes, over double that of the year before. As a result, we estimate that Drax Power Station generated 7% of the UK's renewable power in 2010, which is more than twice as much as any other facility in the UK. This was despite not utilising our co-firing capability to the full because of insufficient regulatory support for biomass.

More recently in February 2011, we, in conjunction with Alstom UK Limited and National Grid Carbon Limited, lodged an application for European funding for a new, stand-alone 426MW oxy-fired carbon capture and storage demonstration project based at the Drax Power Station site.



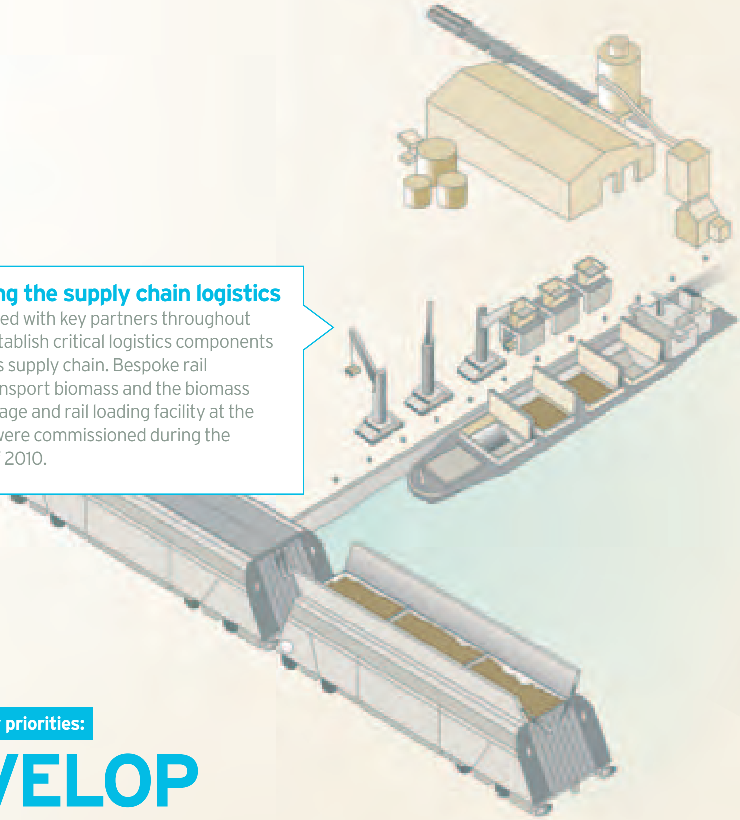
Reducing CO_2 through biomass

Our newly commissioned biomass co-firing facility, alongside our existing co-firing capacity, gives us the capability to reduce our emissions of CO_2 by over 2.5 million tonnes a year. We are well placed to increase the level of biomass we burn still further, but we require an appropriate level of regulatory support.

Progressing our biomass operations

It has become increasingly clear to us that biomass could and should play a far greater role in helping to meet the UK's challenging carbon reduction and renewables targets. Generating electricity from biomass is a relatively low cost renewable technology, which we believe has an important role to play in delivering these targets in a cost effective way for consumers. Further, as we move towards an energy mix with increasing penetration of intermittent generation capacity, the case for reliable and flexible renewable generation capacity becomes ever stronger.

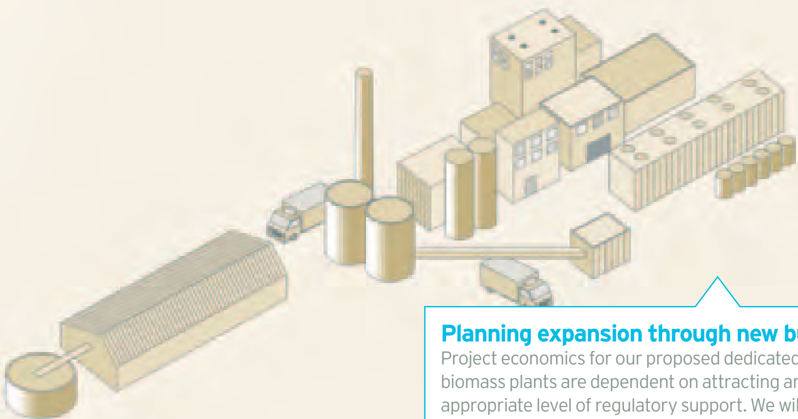
Through our work at the power station on biomass co-firing and our development work on dedicated biomass plants we are ready to expand our biomass operations. Critical components of this work and of delivering a biomass future for the Group are establishing the biomass supply chain logistics and procuring sustainable biomass against our robust sustainability policy. We made good progress on both these fronts during 2010.



Establishing the supply chain logistics
We have worked with key partners throughout the year to establish critical logistics components in the biomass supply chain. Bespoke rail wagons to transport biomass and the biomass handling, storage and rail loading facility at the Port of Tyne were commissioned during the second half of 2010.

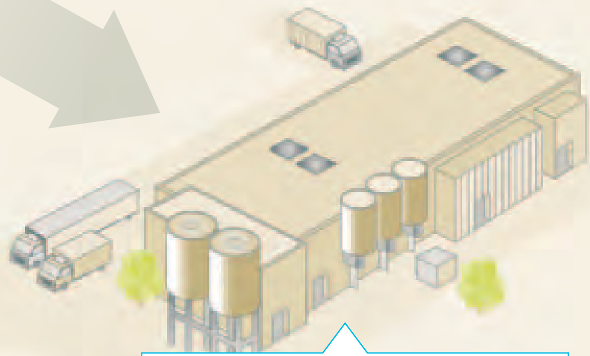
One of our key priorities:

DEVELOP OUR BIOMASS OPERATIONS

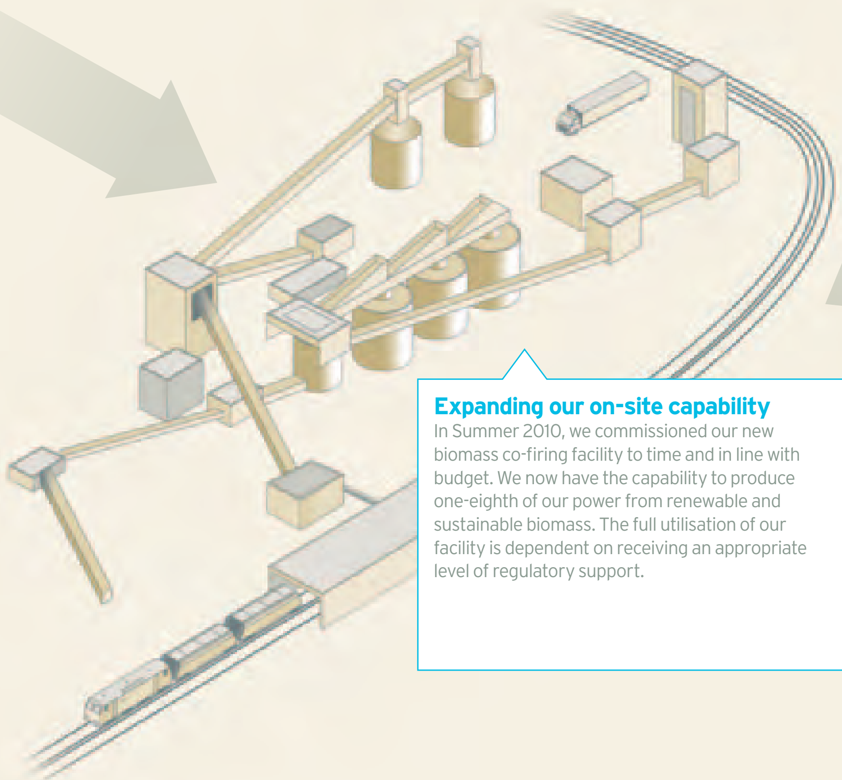


Planning expansion through new build
Project economics for our proposed dedicated biomass plants are dependent on attracting an appropriate level of regulatory support. We will continue to work with our partner, Siemens Project Ventures, to progress these developments where possible in the absence of regulatory clarity.

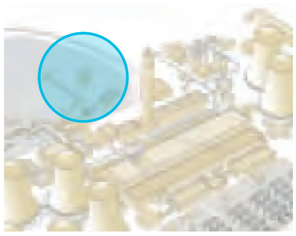
Securing sustainable supplies
Our biomass procurement programme is underpinned by a "field to furnace" service, offering support and advice every step of the way. All our contracts ensure that our biomass supplies are sustainable and through independent audit we are able to confirm each supplier's compliance with our robust sustainability policy.

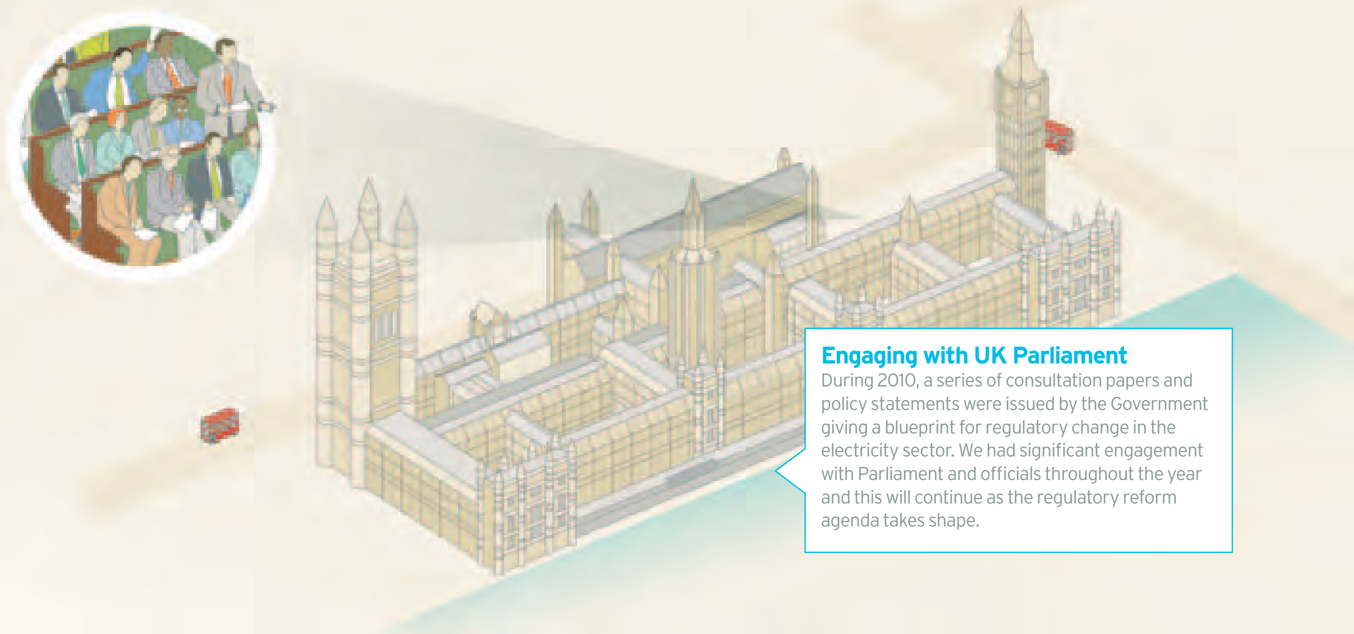


Securing domestic supplies
Our 100,000 tonnes per annum straw pellet plant is an example of the investment we have made in the biomass supply chain. The ability to process straw has created a new market for local farmers and helped to secure domestic supplies of biomass.



Expanding our on-site capability
In Summer 2010, we commissioned our new biomass co-firing facility to time and in line with budget. We now have the capability to produce one-eighth of our power from renewable and sustainable biomass. The full utilisation of our facility is dependent on receiving an appropriate level of regulatory support.





Engaging with UK Parliament

During 2010, a series of consultation papers and policy statements were issued by the Government giving a blueprint for regulatory change in the electricity sector. We had significant engagement with Parliament and officials throughout the year and this will continue as the regulatory reform agenda takes shape.

Regulatory outlook

The year saw a series of consultation exercises and policy statements lay out the Government's intentions for regulatory change. The three areas of greatest importance to us are the review of existing renewable generation support arrangements, electricity market reform and EU agreement on measures under the Industrial Emissions Directive.

In December, the Government committed to a faster review of support for renewables. We have long advocated the need for regulatory certainty in gaining investor confidence and securing investment. The timetable for clarity of the new support levels for renewable technologies to be implemented from April 2013 has been brought forward by around 12 months. This is a welcome move and is necessary to facilitate timely investment decisions.

Although the Government's position on burning biomass in existing coal-fired power plants is still evolving, we are encouraged that consideration is being given to introducing support for increased biomass burn at fossil fuel power stations. For example, through new bands for both higher levels of biomass co-firing and full conversion to biomass. We stand ready to increase our biomass burn to much higher levels, but will only do so with the appropriate level of support.

During 2010, the Government developed and consulted on sustainability standards for biomass used in the generation of electricity. As a proponent of sustainability standards for biomass, we were delighted with the Government's announcement in December that it will mandate compliance with a standard. Electricity generation from biomass has many important benefits, including that it can be sustainable. Our own sustainability policy, introduced in 2008, not only commits us to achieving reductions in greenhouse gas emissions, but to doing so while satisfying economic and social considerations.

Following the publication of proposals by the Government in December, consultations on a package of measures to reform the electricity market are now underway. The measures represent the single biggest change to the electricity sector in two decades, and whereas the proposals are challenging for coal they do reinforce our commitment to electricity generation from biomass.

Proposals to change the support mechanism for renewables and the introduction of a capacity mechanism and carbon floor price are included in the package.

We are supportive of the Government's proposal to reform the support for renewables through the introduction of a feed-in tariff. We believe that the proposals will create a more level playing field for investment in renewables by new entrants and independents like Drax.

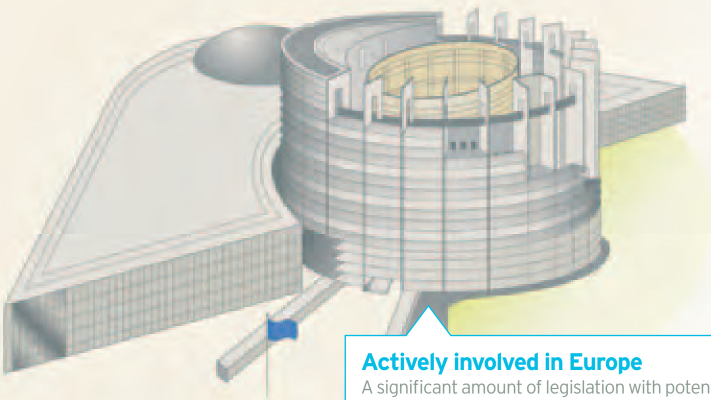
We are pleased that the Government recognises the need for reform of the electricity market through the introduction of a capacity mechanism, but believe that the specific proposals are too narrow to provide the desired security of supply. We are particularly concerned that the Government's lead proposal does not address the importance of flexibility to security of supply.

The proposals for carbon price support are, we believe, unnecessary. There is potential for conflict with the existing EU Emissions Trading Scheme ("EU ETS") and given the cap and trade nature of the EU ETS, the floor price will have no impact on overall CO_2 emissions, since any reduction in the UK's emissions will simply result in higher emissions elsewhere in the EU. We also believe that the introduction of a floor price which supports specific technologies would, in all likelihood, distort the wholesale market.

Finally, on the Industrial Emissions Directive, we now have a greater understanding of the window within which compliance with more stringent emissions standards must be met. We are working on the options available to us for compliance, but with expected fuel mix integral to optimising the solution for Drax, the appropriate level of support for biomass is again on the critical path.

One of our key priorities:

INFLUENCE THE REGULATORY FRAMEWORK



Actively involved in Europe

A significant amount of legislation with potential implications for our business emanates from the EU institutions in Brussels. We are actively involved in influencing EU legislation through our own representations and those of our trade associations and UK Government itself.

Looking ahead

Commodity markets remain challenging for all fossil fuel generators. We enter 2011 with support from forward power sales of 18TWh, a significant portion of which were executed on more attractive terms than we could capture in today's market. We intend to work hard to continue to deliver leading operating and cost performance and to retain our focus on building options to burn economically advantageous fuel. However, markets recognise that profitability is likely to be lower in 2011, unless there is a significant improvement in spreads.

With a commitment to delivering value to our shareholders, we will continue our dialogue with the Government as regulatory reform takes shape. We believe that positive progress on the reform agenda is central to our success. With the right policy framework and support for electricity generation from biomass, we stand ready to make a significant, timely and cost effective contribution to reducing carbon emissions, whilst retaining reliable and flexible capacity on the system.

We will continue our research and development work around increasing the level of biomass burnt at Drax Power Station, both through exploring higher levels of co-firing and full unit conversion. Our work will be focused on design and costing solutions for logistics, storage, materials handling and engineering. We will also continue working with Siemens Project Ventures to progress our dedicated biomass developments, but in each case, further significant investment is dependent upon appropriate regulatory support.

We see biomass as a critical component to resolving the energy policy trilemma of tackling climate change sustainably, affordably and without jeopardising security of supply. Through significantly expanding our biomass burn, Drax can continue to be as reliable, flexible and cost effective as it is today well into the future but, importantly, as a low carbon business.

Dorothy Thompson
Chief Executive
21 February 2011

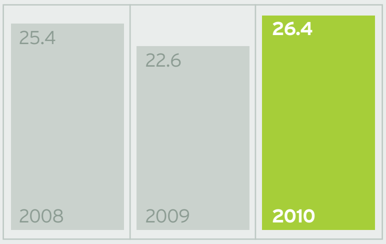
BUSINESS REVIEW
HOW WE ARE PERFORMING

We entered 2010 with a strong hedged position affording us a good level of protection against dark green spreads which, in April 2010, reached their lowest levels since privatisation. The combination of our hedged position and excellent operational performance enabled us to deliver earnings slightly ahead of market expectations. Our principal performance indicators provide a snapshot of how we are performing against our overriding objective to maximise shareholder value, and against our key priorities.

MAXIMISING THE VALUE OF THE DRAX BUSINESS

Net sales
TWh

26.4TWh
(2009: 22.6TWh)



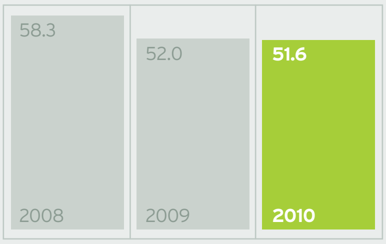
The aggregate of net merchant sales and net Balancing Mechanism activity

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

Comment
Unseasonably cold weather in the first and fourth quarters increased demand and our excellent operational performance meant we were well placed to provide additional output.

Average achieved price of electricity
£/MWh

£51.6 per MWh
(2009: £52.0 per MWh)



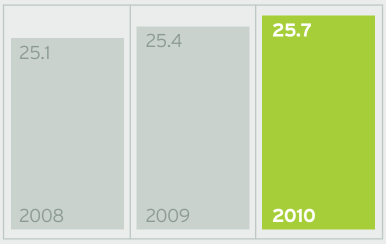
Power revenues divided by volume of net sales (includes imbalance charges)

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

Comment
The higher prices achieved through our strong hedged position at the start of the year were offset, in part, by the additional sales volume at lower prices for trades placed in 2010.

Average cost of fuel excluding carbon
£/MWh

£25.7 per MWh
(2009: £25.4 per MWh)



Fuel costs excluding carbon divided by volume of net sales

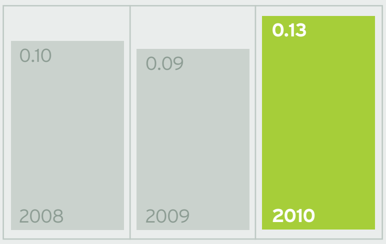
Why we measure
The average cost of fuel excluding carbon tracks the fuel cost component of the dark green spread achieved, and reflects the value captured from effective fuel procurement and diversified fuel sources.

Comment
The small increase in average fuel prices was driven by fuel mix and commodity price movements.

MAINTAIN OPERATIONAL EXCELLENCE

Lost time injury rate ("LTIR")

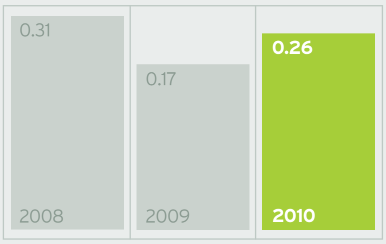
0.13
(2009: 0.09)



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

Total recordable injury rate ("TRIR")

0.26
(2009: 0.17)



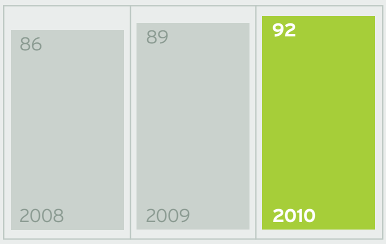
The frequency rate is calculated on the following basis: (lost time injuries + worse than first aid injuries)/hours worked x 100,000

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

Comment
Our safety record continues to be industry-leading and was delivered alongside a significant amount of project activity. The small increase in LTIR and TRIR demonstrates the importance of retaining a key focus on health and safety.

Plant availability
%

92%
(2009: 89%)



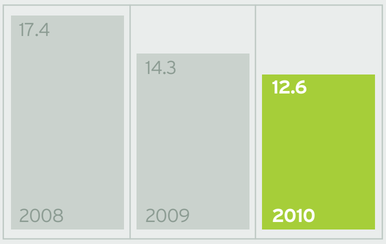
Average percentage of time the units were available for generation

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

Comment
The periods when we were unable to generate due to outages were at a record low, which meant our availability was at a record high.

Average cost of carbon £/tonne

£12.6 per tonne
(2009: £14.3 per tonne)



Carbon costs divided by volume of allowances purchased

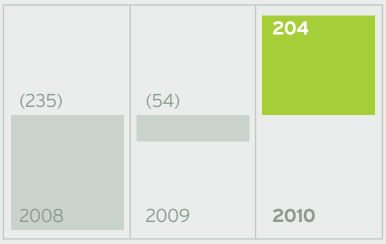
Why we measure
The average cost of carbon tracks the carbon cost component of the dark green spread achieved.

Comment
Average cost in 2010 resulted from both our existing term contracts and our strategy to hedge power sales with purchases of coal and carbon, hence we locked into carbon contracts to cover our 2010 liability during 2009 when market prices were low.

MAINTAIN AN OPTIMAL SUPPORTING CAPITAL STRUCTURE

Net cash/(debt) £m

£204 million net cash
(2009: £54 million net debt)



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

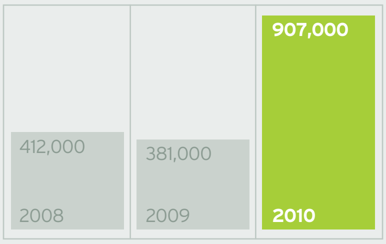
Why we measure
Monitoring net cash/(debt) ensures an efficient capital structure is maintained to support our business model, alongside sufficient liquidity to manage our future obligations.

Comment
The increase in net cash is largely due to a significant working capital release from coal stocks, resulting from higher generation output.

DEVELOP OUR BIOMASS OPERATIONS

Biomass burnt tonnes

907,000 tonnes
(2009: 381,000 tonnes)



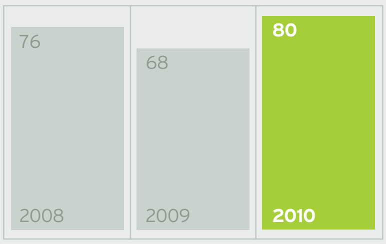
Tonnes of biomass fuel burnt during the year

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

Comment
We have more than doubled our biomass burn following the commissioning of our new co-firing facility in 2010. As a result, Drax is now the largest renewable power generation facility in the UK.

Load factor %

80%
(2009: 68%)



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

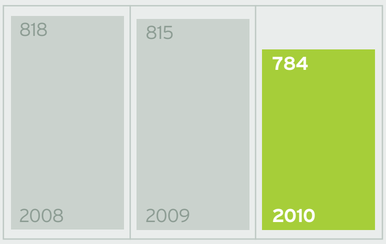
Why we measure
Load factor tracks our operating performance and the competitiveness of Drax Power Station.

Comment
The increase arises following an increase in generation output (net power sales), as a result of our competitive position in the marketplace, high availability and unseasonably cold weather.

DELIVER CARBON ABATEMENT

Carbon dioxide emissions t/GWh

784 tonnes per GWh
(2009: 815 tonnes per GWh)



CO_2 emissions rate per unit of output

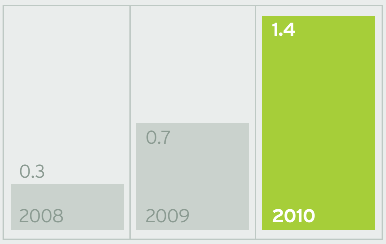
Why we measure
This measure of carbon emissions illustrates our progress in reducing the carbon footprint of Drax Power Station.

Comment
The performance data of the upgraded turbines shows that we are operating at an overall efficiency of above 39%, saving over half a million tonnes of CO_2 per annum. Record levels of biomass burnt saved an additional 1.5 million tonnes of CO_2 in the year.

GROW OUR RETAIL CUSTOMER BASE

Retail customer volumes TWh

1.4TWh
(2009: 0.7TWh)



Net sales distributed through our retail supply arm, Haven Power

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

Comment
This reflects planned growth in Haven Power's business, particularly in the industrial and commercial market. Haven Power provides a valuable alternative to trading through the wholesale market.
Drax acquired Haven Power in March 2009.

MARKETPLACE

Commodity markets

After facing challenging commodity market conditions throughout 2009, we had to contend with dark green spreads that continued to deteriorate in the early part of 2010, and which by April reached their lowest levels since privatisation of the industry 20 years ago. However, during the second quarter we experienced some improvement in market conditions, followed by a period of generally stable, although still relatively low, spreads through the remainder of the year. Throughout, the gas market continued to be the dominant factor in driving UK power prices and dark green spreads.

These trends witnessed in 2009 and 2010 are described further in the following paragraphs and are illustrated in the accompanying charts.

Gas

During 2009, reducing demand and increased Liquefied Natural Gas ("LNG") supply led to a global gas surplus, and as there is only storage for a finite volume, the UK with its open market became the consumer of last resort. Plentiful supply consequently drove gas prices down.

Gas prices recovered in the second quarter of 2010, reflecting lower LNG supply into the UK, following higher than anticipated demand from Asia, and lower production in Qatar. In addition, there were some signs of a recovery in continental European gas demand, with higher exports from the UK to Europe through the interconnector. Following a period of stability during the third quarter, gas prices increased towards the end of the year, with cold temperatures driving high demand in November and December.

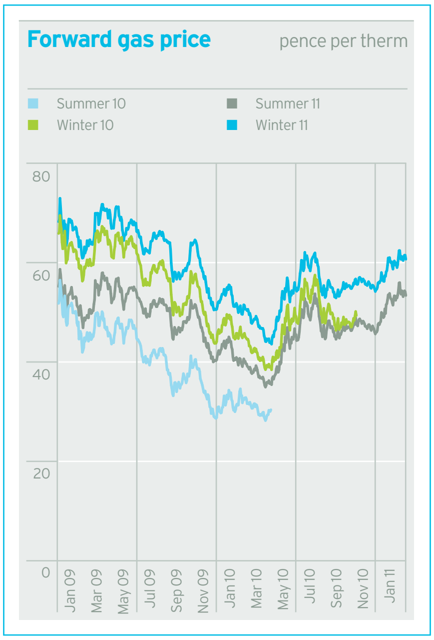
LNG and shale gas remain key drivers of the long-term gas markets. Shale gas is largely a US phenomenon in the near-term. Horizontal drilling technology has advanced, but research papers remain divided on the marginal cost and available volumes at the lower end of the cost scale. However, the US has significant reserves that could enable it to become relatively self sufficient. This could reduce its LNG requirements, freeing up more volume for the Asian and European markets depending on their relative market price. In the longer term, other countries such as China may also exploit potentially large shale gas reserves. However, developments outside the US are in their infancy and will, therefore, have little impact in the short- to medium-term.

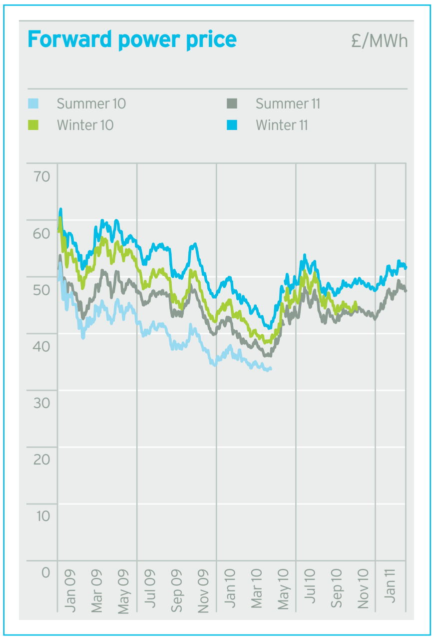
Power

Power prices during the period under review generally followed the trends in gas prices described above. In addition, during 2009, high availability of UK generating capacity, as well as a reduction of more than 3% in electricity demand caused by the economic downturn, put further pressure on power prices.

During 2010, power demand appeared to stabilise. There was a small increase in demand in the first quarter of the year, and demand reached record levels in December, although on both occasions this was most likely a result of the unseasonably cold weather. To balance this, on the supply side we are now seeing significant new gas-fired capacity coming on line.

"Following the lowest dark green spreads experienced for two decades, market conditions did improve and spreads were generally stable, but still relatively low, for the rest of the year."





Coal

Following a sharp fall and recovery early in 2009, coal prices were relatively stable for the rest of the year. There was downward pressure in the near-term, resulting from recession induced weaker demand, causing over supply and higher stock levels, particularly in Europe. Upward pressure in the medium- to long-term reflected continued demand growth in China and anticipation of global economic recovery.

Following a continued period of price stability through the first half of 2010, coal prices increased significantly in the final months of the year. This reflected tightening in the Pacific market with severe weather causing constraints on production in Australia, Indonesia and Colombia. In addition, strong Asian demand for Atlantic coal, particularly from China, continued to support EU prices. With current annual steam coal consumption of around 2 billion tonnes, there is enormous potential for China to impact the global market. Over the course of the last few years, China has switched from an exporter to an importer of steam coal, with net imports of around 80 million tonnes in 2010, representing more than 10% of the traded steam coal market.

Carbon allowances

Carbon price trends were similar to coal in 2009, with a sharp fall and recovery early in the year, followed by a period of relative stability.

Carbon prices continued to trade in a fairly narrow range throughout 2010, with a small increase experienced in the second half of the year.

It appears that the carbon market predominantly continues to reflect sentiment around EU policy. With any Phase II surplus bankable into Phase III, pricing seems largely driven by political and macroeconomic factors, such as the renewable generation build rate, the pace of economic recovery, and the possible increase in UK carbon dioxide ("CO_2") reduction targets (from 20% to 30%).

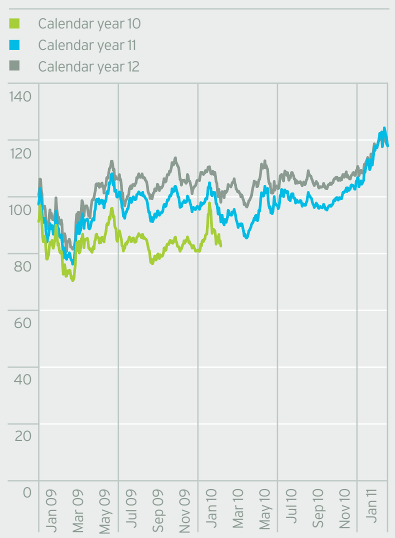
Dark green spread

Overall during 2010, increased gas prices pushed power prices higher, and with coal and carbon prices also increasing, but to a lesser extent, we have experienced some improvement in dark green spreads across the forward curve compared to a year ago. However, compared to historical averages, spreads still remain relatively low and the outlook remains challenging.

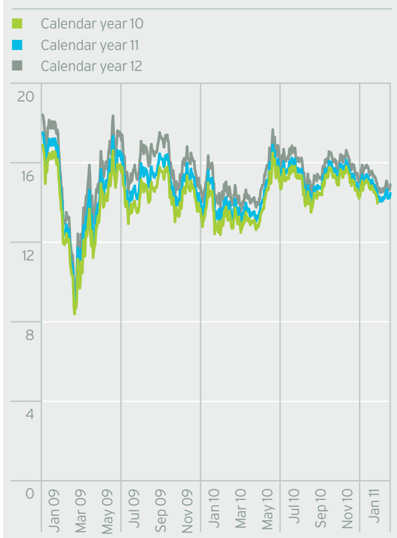
"Carbon allowances traded within a narrow price range throughout 2010, although a small increase was experienced in the second half of the year."

"Coal prices were stable during the first half of 2010, but increased significantly in the final months of the year."

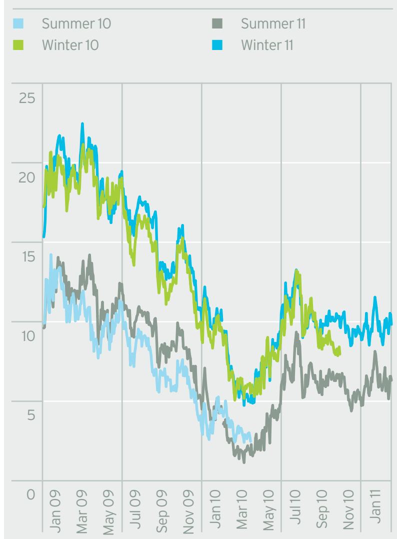
Forward coal price (API 2) $/tonne



Carbon price (Phase II EUA) €/tonne



Dark green spread £/MWh



OPERATIONAL AND FINANCIAL PERFORMANCE

"Increased profits in 2010 were underpinned by the strong hedged position we entered the year with, and enhanced by our excellent operational performance."

Introduction

The Group's principal performance indicators are highlighted on pages 16 and 17.

EBITDA was £391 million for the year ended 31 December 2010 compared to £355 million in 2009 and underlying earnings per share were 64 pence compared to 58 pence last year, both representing increases of 10%.

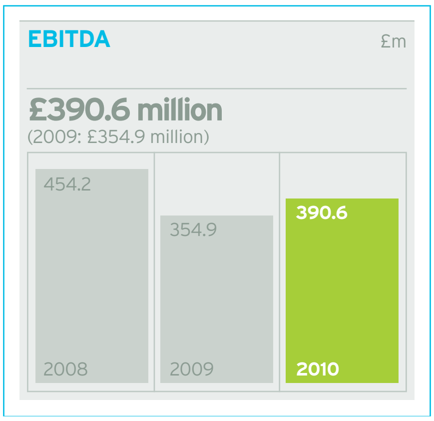
We entered the year with a strong hedged position, which locked in higher average margins than for 2009. Our profitability was further enhanced by an excellent operational performance, which enabled us to capture incremental volume during some of the coldest months on record at the beginning and end of the year. In addition, we continued our drive on cash management and achieved our targeted cost efficiencies and capital expenditure reductions. In fact, underlying earnings per share have increased by more than 20%, excluding a gain of £31 million recognised in 2009 on the close out of a number of in-the-money foreign exchange contracts.

Our retail business, Haven Power Limited ("Haven Power"), delivered a second year of very strong sales growth.

Earlier in the year we took steps to underpin our financing arrangements, by executing a new £135 million trading facility. We ended the year with a strong balance sheet, including net cash of over £200 million, helped by a significant working capital release from coal stocks. This balance includes the ring-fenced cash taxes of £117 million saved as a result of unwinding the Eurobond structure.

In summary, 2010 was a year characterised by strong financial results and excellent operational performance. At the upcoming Annual General Meeting, the Board will recommend a final dividend for 2010 of 17.9 pence per share, taking total dividends for the year to 32.0 pence per share, or £117 million, and more than twice the total dividend for 2009 (£50 million).

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



Results of business

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Total revenue	**1,648.4**	1,475.8
Fuel costs in respect of generation[1]	**(840.9)**	(691.0)
Cost of power purchases[2]	**(165.8)**	(209.5)
Grid charges[3]	**(82.2)**	(68.0)
Other retail costs[4]	**(9.0)**	(4.4)
Total cost of sales	**(1,097.9)**	(972.9)
Gross profit	**550.5**	502.9
Other operating and administrative expenses excluding depreciation, amortisation and unrealised losses on derivative contracts[5]	**(159.9)**	(148.0)
EBITDA[6]	**390.6**	354.9
Depreciation, amortisation and loss on disposal of property, plant and equipment	**(52.2)**	(52.0)
Unrealised losses on derivative contracts	**(60.5)**	(129.7)
Operating profit	**277.9**	173.2
Net finance costs	**(23.0)**	(15.4)
Profit before tax	**254.9**	157.8
Tax charge		
– Before changes in tax legislation	**(74.1)**	(46.9)
– Impact of change in rate of corporation tax on deferred tax	**7.6**	–
Total tax	**(66.5)**	(46.9)
Profit for the year attributable to equity shareholders	**188.4**	110.9

Earnings per share	**pence per share**	pence per share
– Basic and diluted	**52**	31
– Underlying basic and diluted[7]	**64**	58

All results relate to continuing operations.

Notes:

(1) Fuel costs in respect of generation predominantly comprise coal, biomass and CO_2 emissions allowances, together with petcoke and oil.

(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 retail costs include broker fees, ROCs and metering.

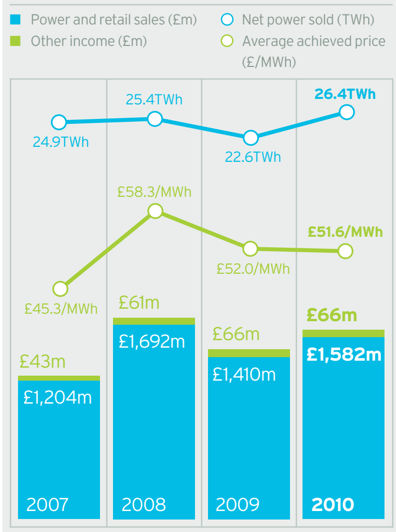
(5) Other operating and administrative expenses excluding depreciation, amortisation and unrealised gains and losses on derivative contracts include salaries, maintenance costs and other administrative expenses.

(6) EBITDA is defined as profit before interest, tax, depreciation, amortisation, gains and losses on disposal of property, plant and equipment and unrealised gains and losses on derivative contracts.

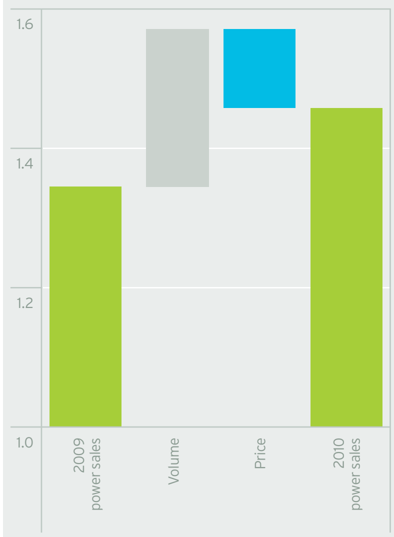
(7) Calculated using underlying earnings, being profit attributable to equity shareholders adjusted to exclude the after tax impact of unrealised gains and losses on derivative contracts.

OPERATIONAL AND FINANCIAL PERFORMANCE

Revenue analysis



Power sales



Revenue

Total revenue for the year ended 31 December 2010 was £1,648 million compared to £1,476 million in 2009. Total revenue in 2010 includes power sales of £1,458 million (2009: £1,345 million), retail sales of £124 million (2009: £65 million) and other income of £66 million (2009: £66 million).

Higher power sales resulted from an increase in net power sold to 26.4TWh, compared to 22.6TWh in 2009. This was driven largely by the unseasonably cold weather during the first and fourth quarters and our excellent operating performance. Whilst margins captured on this incremental sales volume were low, the additional generation resulted in a reduction of 1.6 million tonnes in our coal stocks and consequent improvement in our cash balances (see Analysis of cash flows).

Average wholesale achieved electricity price for the year ended 31 December 2010 of £51.6 per MWh is broadly in line with 2009 (£52.0 per MWh), and resulted from a blend of locking in higher prices through our strong hedge, offset in part by the additional sales volume at lower prices for trades placed in 2010.

Retail sales volumes have increased from 0.7TWh in the 12 months to 31 December 2009 (Drax acquired Haven Power in March of 2009) to 1.4TWh in 2010. This reflects planned growth in Haven Power's business.

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. These revenues were £66 million in both years.

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
ROC and LEC sales	**23.1**	38.5
Ancillary services income	**34.6**	19.9
Other income	**8.1**	7.3
	65.8	65.7

Although our ROC sales fell from £39 million in 2009 to £23 million in 2010, the ROC inventory held on our balance sheet increased by £21 million through the year, and we expect to sell most of these ROCs in 2011. Lower ROC sales in 2010 reflect the reduction in the rate of ROCs earned from co-firing non-energy crop biomass with coal, which from April 2009 has only earned half a ROC for each MWh of electricity generated (previously one ROC), therefore producing a lower volume of ROCs available for sale. Additional 2010 ancillary services income benefited from the Firm Frequency Response contracts secured with National Grid.

"An increase in generation output led to a reduction in our coal stock, with a consequent improvement in our cash balances."

Fuel costs (coal, biomass and other fuels)

Fuel costs were £841 million, compared to £722 million in 2009 (excluding a £31 million gain on the early close out of a number of in-the-money foreign exchange contracts). The increase was primarily due to higher generation.

We burnt approximately 9.4 million tonnes of coal in the year ended 31 December 2010, compared to approximately 8.2 million tonnes in 2009. This coal was purchased from a variety of domestic and international sources under either fixed or variable priced contracts with different maturities. Coal represented around 88% of total fuel burnt (by heat content) both in 2010 and 2009.

In 2010, we burnt 0.9 million tonnes of biomass (2009: 0.4 million tonnes) representing 6% of total fuel burnt by heat content (2009: 3%). This is a result of the commissioning and early operation of our new co-firing facility (see Capital expenditure). We also burnt 0.2 million tonnes of petcoke (2009: 0.5 million tonnes) and 0.4 million tonnes of pond fines (2009: 0.1 million tonnes). Our petcoke burn volume is driven by its pricing relative to coal. Pond fines are a coal mining residue, which trades at a significant discount to coal, and requires specific blending and handling techniques to burn in large volumes. We have developed these techniques over the last two years. The increases in our biomass and pond fines burn in 2010, demonstrate further improvements in our fuel flexibility.

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 and of fuel mix. The average cost of fuel per MWh (excluding CO_2 emissions allowances) was £25.7 for the year ended 31 December 2010, compared to £25.4 in 2009. The small increase in average fuel prices was driven by fuel mix and commodity price movements. Costs per MWh for 2009 are adjusted to exclude the £31 million foreign exchange gain described above.

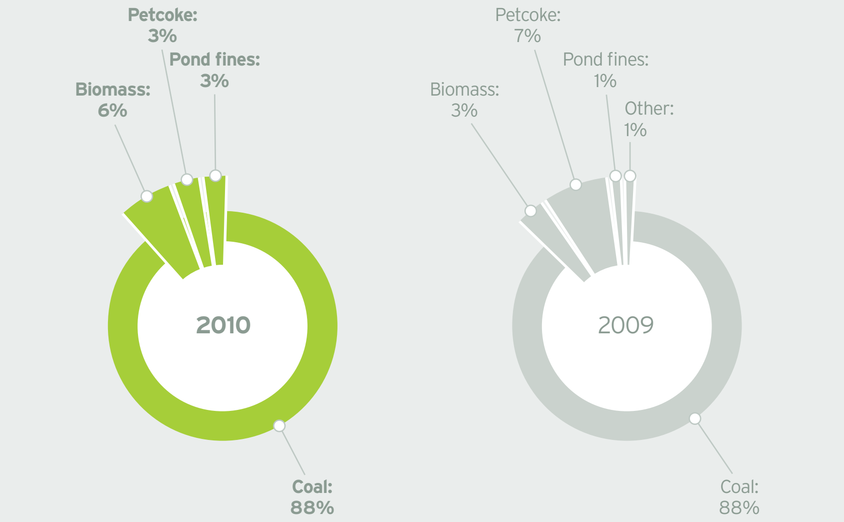
Fuel costs (CO_2 emissions allowances)

For Phase II of the EU ETS (2008–2012), Drax has an allocation of 9.5 million tonnes of CO_2 emissions allowances per annum under the UK NAP. We purchase CO_2 emissions allowances under fixed price contracts with different maturity dates from a variety of domestic and international sources.

Our CO_2 emissions allowances requirement for the year ended 31 December 2010, in excess of those allocated under the UK NAP, was approximately 12.9 million tonnes compared to approximately 10.3 million tonnes in 2009. This was a result of higher generation, partially offset by plant efficiency improvements and higher levels of biomass burn.

Fuel burn composition (heat)

GJ



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 expensed for purchased CO_2 emissions allowances during the year ended 31 December 2010 was £12.6 per tonne compared to £14.3 per tonne in 2009, reflecting the fact that we locked into carbon contracts to cover our 2010 liability during 2009 when we sold the related power. Similarly, the 2009 carbon cost reflects contract prices which were largely locked in during 2008. Average market prices for carbon were higher in 2008 than in 2009.

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. In addition, Haven Power purchases power in the wholesale market for delivery to its retail customers. For the year ended 31 December 2010, the cost of purchased power was £166 million, compared to £210 million incurred in 2009. Haven Power's cost of power purchases amounted to £71 million, compared to £40 million in 2009, including the cost of power purchased directly from Drax Power Station.

Grid charges

Grid charges for the year ended 31 December 2010 were £82 million, compared to £68 million in 2009. Grid charges in 2010 include costs of £28 million incurred at Haven Power compared to £12 million in 2009, reflecting the increase in retail volumes sold.

Other retail costs

Other retail costs include broker fees, ROCs and metering at Haven Power and were £9 million in the year ended 31 December 2010, compared to £4 million in 2009.

As a result of these factors, gross profit for the year ended 31 December 2010 was £551 million compared to £503 million in 2009.

OPERATIONAL AND FINANCIAL PERFORMANCE

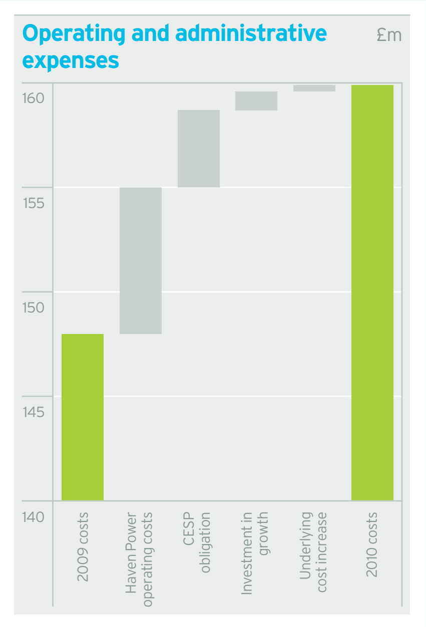
Operating and administrative expenses

Other operating and administrative expenses before depreciation and amortisation were £160 million for the year ended 31 December 2010, compared to £148 million in 2009. Underlying costs were held level through our continued focus on business efficiencies and process re-engineering. The cost increase of £12 million reflects investment in growth (Haven Power and biomass) as well as our first full year's obligation for the Community Energy Saving Programme ("CESP").

Despite only a slight recovery in dark green spreads in the year, we have delivered EBITDA ahead of expectations. Key to this was entering the year with a strong hedged position and our excellent operational performance during the year, which ensured high levels of availability at times of increased demand.

EBITDA for the year ended 31 December 2010 was, therefore, £391 million compared to £355 million in 2009 representing an increase of 10%, or 21% excluding foreign exchange gains of £31 million recognised last year described above.

Depreciation and amortisation was £52 million for both the years ended 31 December 2010 and 31 December 2009.



Unrealised gains and losses on derivative contracts

The Group recognises unrealised gains and losses on forward contracts which meet the definition of derivatives under IFRSs. 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 and biomass contracts.

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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Net unrealised gains/(losses) in the balance sheet at 1 January	**234.1**	(15.7)
Unrealised losses recognised in the income statement	**(60.5)**	(129.7)
Fair value (losses)/gains recognised in the hedge reserve (a component of equity)	**(232.6)**	375.5
Derivative financial instrument recognised on acquisition of Haven Power	**-**	4.0
Premium on options sold	**(2.0)**	-
Net unrealised (losses)/gains in the balance sheet at 31 December	**(61.0)**	234.1

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

During 2009, power prices fell, 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. During 2010, power prices increased such that by 31 December this difference was much smaller, driving the movement to a net unrealised loss of £61 million.

The unrealised losses recognised in the income statement of £60.5 million for the year ended 31 December 2010 and £130 million in 2009 arise from mark-to-market movements on our derivative contracts which do not qualify for hedge accounting; largely financial coal and foreign exchange.

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 loss recognised through the hedge reserve in the year ended 31 December 2010 was £233 million, compared to a net unrealised gain of £376 million in 2009, with 2010 largely reflecting the unwind of mark-to-market positions on power delivered in the period and 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 on derivative contracts, depreciation and amortisation, operating profit for the year ended 31 December 2010 was £278 million compared to £173 million in 2009.

Interest

Net finance costs for the year ended 31 December 2010 were £23 million compared with £15 million in 2009. The increase of £8 million includes arrangement fees and other charges associated with a new £135 million trading facility (see Liquidity and capital resources). It also includes higher funding costs now applied to our term loan and working capital facilities following the refinancing completed in August 2009.

Tax

The tax charge for the year ended 31 December 2010 was £67 million (an effective rate of 26%), compared to £47 million in 2009 (an effective rate of 30%). Tax for 2010 includes the impact of the 1% reduction in corporation tax rate from April 2011 on deferred tax liabilities.

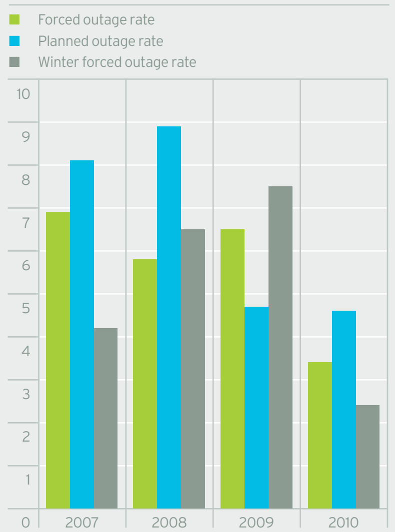
Under the Group's previous financing structure, a subsidiary company was partially funded by a Eurobond payable to another group company, which was unwound in 2008, potentially accelerating additional tax losses with a cash tax benefit of up to £220 million. As at 31 December 2010, we had utilised in the region of £117 million of these potential tax losses, which is reflected in our cash position. However, we have ring-fenced this cash and will not reflect any benefit of the £117 million, or further utilisation of the remaining losses in our income statement until our position with HMRC is certain.

We have continued our dialogue with HMRC over this tax position. However, whilst we still believe we have a strong and robust case, we are no clearer as to whether ultimately we will be successful.

As a result of the above factors, profit attributable to equity shareholders for the year ended 31 December 2010 was £188 million compared to £111 million in 2009, and basic and diluted earnings per share were 52 pence compared to 31 pence in 2009.

Underlying profit attributable to equity shareholders (that is profit excluding the after tax impact of unrealised losses on derivative contracts) was £233 million for the year ended 31 December 2010, compared to £204 million in 2009. Underlying basic and diluted earnings per share were 64 pence in 2010, compared to 58 pence in 2009, representing an increase of 10% or 24% excluding the foreign exchange gain of £31 million in 2009 described above.

Operating performance %



"Once again our high availability demonstrated our leadership position in the coal-fired generation sector."

Other key factors affecting the business

Outages and plant utilisation levels

	Year ended 31 December 2010	Year ended 31 December 2009
Electrical output (net sales) (TWh)	**26.4**	22.6
Load factor (%)	**79.7**	68.2
Availability (%)	**92.1**	89.1
Winter forced outage rate (%)	**2.4**	7.5
Forced outage rate (%)	**3.4**	6.5
Planned outage rate (%)	**4.6**	4.7
Total outage rate[(1)] (%)	**7.9**	10.9

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.

2010 was a record year for Drax in terms of our operational performance with best ever forced outage rate, Winter forced outage rate and availability results for the power station.

The load factor for the year ended 31 December 2010 was 79.7%, compared to 68.2% in 2009. The increase arises following an increase in electrical output (net power sales) to 26.4TWh in 2010, compared with 22.6TWh in 2009 as described in Revenue above. We continued to demonstrate our leadership position in the coal-fired generation sector with plant availability of 92.1% for the year ended 31 December 2010, compared to 89.1% in 2009.

The forced outage and Winter forced outage rates for the year ended 31 December 2010 were 3.4% and 2.4% respectively, compared to 6.5% and 7.5% in 2009. The significantly higher forced outage rates in 2009 reflect a one-off incident in the first quarter which was confined to a single generating unit. Excluding the impact of this outage, the forced outage rate and Winter forced outage rate were 4.9% and 4.5% respectively. The improved 2010 forced outage rate compares favourably with our long-term annual target of 5%.

The planned outage rate achieved for the year ended 31 December 2010 was 4.6%, compared to 4.7% in 2009, with one major planned outage completed in both years. Our maintenance regime includes a major planned outage for each of our six units once every four years. Consequently, there is an irregular pattern to planned outages and associated expenditure, since in two of the four years two units will each undergo a major planned outage. One unit will undergo a major planned outage in 2011.

Health and safety

Our lost time injury rate and total recordable injury rate were 0.13 and 0.26 respectively for the year ended 31 December 2010 compared to 0.09 and 0.17 respectively in 2009. Our safety record continues to be industry-leading and was delivered alongside a significant amount of project activity. We continue with our commitment to deliver a positive health and safety culture.

Liquidity and capital resources

Net cash was £204 million as at 31 December 2010, compared to net debt of £54 million at 31 December 2009. Cash and short-term deposits were £331 million as at 31 December 2010, compared to £135 million at 31 December 2009. These balances include the ring-fenced cash taxes saved as a result of unwinding the Eurobond structure of £117 million at 31 December 2010 (2009: £100 million). An analysis of cash flows for both years is set out in the following table.

Analysis of cash flows

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Cash generated from operations	**484.7**	321.4
Income taxes (paid)/refunded	**(56.1)**	19.4
Other gains	**2.0**	–
Net interest paid	**(19.5)**	(12.7)
Net cash from operating activities	**411.1**	328.1
Cash flows from investing activities		
Purchases of property, plant and equipment	**(62.3)**	(93.1)
Acquisition of a subsidiary	**–**	(11.7)
Short-term investments	**(40.0)**	(55.0)
Net cash used in investing activities	**(102.3)**	(159.8)
Cash flows from financing activities		
Equity dividends paid	**(86.5)**	(145.0)
Proceeds on issue of share capital	**–**	105.5
Repayment of borrowings	**(65.2)**	(170.1)
Other financing costs paid	**(1.5)**	(7.0)
Purchase of own shares held by employee trust	**–**	(1.5)
Net cash used in financing activities	**(153.2)**	(218.1)
Net increase/(decrease) in cash and cash equivalents	**155.6**	(49.8)

Cash generated from operations was £485 million in the year ended 31 December 2010, compared to £321 million in 2009. The increase was largely the result of an increase of £36 million in EBITDA, a working capital inflow of £115 million in 2010, compared to an outflow of £43 million in 2009, offset by an increase in ROCs held for sale of £21 million (2009: decrease of £10 million).

The working capital inflow of £115 million in 2010 includes a decrease in coal stocks of 1.6 million tonnes over the year (£84 million), resulting from higher generation (see Revenue). The remaining net inflow includes a higher carbon creditor (£24 million) reflecting the timing of payments with respect to our 2010 carbon liability. The working capital outflow in 2009 largely reflects an increase in coal stocks of 0.7 million tonnes (£21 million), resulting from lower than expected generation over the corresponding period.

Income taxes paid were £56 million in the year ended 31 December 2010, compared to taxes refunded of £19 million in 2009. Unwinding the Eurobond funding structure in December 2008 potentially reduced the 2008 tax liability to £nil, subject to HMRC agreement, resulting in a refund received in 2009 (see note 6 to the consolidated financial statements).

Net cash used in investing activities includes payments in respect of capital expenditure of £62 million for the year ended 31 December 2010 and £93 million in 2009 (see Capital expenditure). 2010 includes additional short-term investments of £40 million (2009: additional £55 million), comprising short-term deposits with a maturity of more than three months at inception. 2009 includes the net acquisition costs of Haven Power of £12 million.

Net cash used in financing activities was £153 million in the year ended 31 December 2010, compared to £218 million in 2009. The 2010 amount includes equity dividends paid of £87 million and term loan repayments of £65 million. 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 (see Capital resources and refinancing).

The increase in cash and cash equivalents was therefore £156 million in the year ended 31 December 2010, compared to a decrease of £50 million in 2009. Drax's policy is to invest available cash in short-term bank, building society or other low risk deposits.

Capital resources and refinancing

Following scheduled debt repayments of £65 million during the year, senior secured debt was £135 million at 31 December 2010 (before deferred finance costs). Scheduled debt repayments are £67.5 million in each of 2011 and 2012, after which point the term loan will be repaid in full.

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 was extended to December 2012 to coincide with the maturity of the £200 million letter of credit facility. The margin over LIBOR on our facilities is 3.5%.

To further underpin the strength of our financing arrangements, in May 2010, we put in place a new trading facility, which may be used to trade without collateral triggers up to a limit of £135 million. We incurred additional fees and charges of £5 million in connection with the new facility during the year.

Going concern

The Group's business activities, together with the factors likely to affect future developments, performance and position including principal risks and uncertainties are set out in this Business review. Our cash flows and borrowing facilities are described above. In addition, note 18 to the consolidated financial statements includes our approach to capital risk management, details on financial instruments and hedging activities, and exposure to credit, counterparty and liquidity risk.

We have significant headroom in our banking facilities, and a recent history of cash generation, strong covenant compliance, and good visibility in medium-term forecasts, due to our progressive hedging strategy. Our Business Plan, taking account of reasonably possible changes in trading performance, shows that we should be able to operate within the level of our current banking facilities.

Accordingly, we believe the Group has adequate resources to continue in operational existence for the foreseeable future, and 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 2010 and has a final maturity date of December 2012.

Capital expenditure

Fixed asset additions were £59 million in the year ended 31 December 2010 compared to £92 million in 2009. This includes expenditure of £37 million (£59 million in 2009) on our two major strategic carbon abatement projects – the turbine upgrade and our biomass co-firing facility.

In relation to the turbine upgrade project, we expect to invest up to £100 million to upgrade the high pressure and low pressure turbine modules on all six generating units to improve efficiency (see Corporate and social responsibility, page 32). With a single unit outage scheduled for 2011, the final turbine upgrade will be undertaken in 2012. Expenditure remains in line with budget.

Commissioning of our new £80 million biomass co-firing facility was completed during the Summer, to schedule and in line with budget (see Corporate and social responsibility, page 32). The current economics of co-firing, however, mean that under the existing ROC regime we are under-utilising the facility.

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 Industrial Emissions Directive.

"We achieved a lot through working with key partners on the logistics of the biomass supply chain."

Future developments

Progressing our biomass operations

We continued to make progress in our biomass operations in 2010. In addition to commissioning the co-firing facility at Drax Power Station, we have worked with key partners to design rail wagons specifically to transport biomass, and to develop a biomass handling, storage and rail loading facility at the Port of Tyne. In addition, our straw pellet plant helped to secure domestic supplies of biomass.

We have conducted research into increasing the level of biomass burn at Drax Power Station, and have continued to progress our dedicated biomass projects with Siemens Project Ventures. As a result of these investments, we stand ready to expand our biomass business significantly, but will only do so with appropriate regulatory support (see Chief Executive's statement).

Positions under contract for 2011, 2012 and 2013

We continue to follow our stated trading strategy of making steady forward power sales with corresponding purchases of CO_2 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 14 February 2011, the positions under contract for 2011, 2012 and 2013 were as follows:

	2011	2012	2013
Power sales (TWh) comprising:	18.1	10.3	3.0
– Fixed price power sales (TWh) at an average achieved price (per MWh)	11.3 @ 55.4	2.4 @ 58.2	0.4 @ 53.5
– Fixed margin and structured power sales (TWh)	6.8	7.9	2.6
CO_2 emissions allowances hedged, including UK NAP allocation, market purchases, structured contracts, and benefit of biomass co-firing (TWh equivalent)	18.0	20.8	4.1
Solid fuel at fixed price/hedged, including structured contracts (TWh equivalent)	18.1	10.9	6.2

Fixed price power sales include approximately 1.0TWh supplied in the period 1 January 2011 to 14 February 2011 under the five and a quarter year baseload contract which commenced on 1 October 2007 and the five year 300MW baseload contract which commenced on 1 October 2010, both with Centrica.

Fixed margin power sales include approximately 6.8TWh in 2011, 7.9TWh in 2012 and 2.6TWh in 2013 in connection with the above contracts.

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_2 emissions allowances amounting in aggregate to approximately 7.2 million tonnes in 2011, approximately 7.2 million tonnes in 2012 and approximately 2.4 million tonnes in 2013. 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 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. 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 after tax impact of unrealised gains and losses on derivative contracts) in each year. Underlying earnings per share were 64 pence on this basis for the year ended 31 December 2010.

Dividends paid

On 22 February 2010, the Board resolved, subject to approval by shareholders at the Annual General Meeting ("AGM") on 21 April 2010, to pay a final dividend for the year ended 31 December 2009 of 9.6 pence per share (£35 million). The final dividend was subsequently paid on 14 May 2010.

On 2 August 2010, the Board resolved to pay an interim dividend for the six months ended 30 June 2010 of 14.1 pence per share (£52 million), representing 50% of underlying earnings for the period. The interim dividend was subsequently paid on 15 October 2010.

Dividends proposed

At the forthcoming AGM the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2010 of 17.9 pence per share (£65 million), payable on or before 13 May 2011. Shares will be marked ex-dividend on 27 April 2011.

This Business review was approved by the Board on 21 February 2011.

Tony Quinlan
Finance Director

 BUSINESS REVIEW

PRINCIPAL RISKS AND UNCERTAINTIES

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

COMMODITY MARKET RISK

Context

Commodity markets in 2010 remained challenging

Risk

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

Potential impact

→ Volatility in financial results.

Associated objective and key priorities

→ **Maximising the value of the Drax business.**

Examples of mitigating activities

→ Well understood progressive hedging strategy: forward power sales with corresponding purchases of fuel and CO_2 emissions allowances when profitable to do so.

COUNTERPARTY RISK

Context

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

Risk

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

→ We enter into fixed price and fixed margin contracts for the sale of electricity to a number of counterparties, so are exposed to the risk of failure of one or more of these counterparties.

Potential impact

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

→ Failure to secure coal from other suppliers resulting in limitation of operations.

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

Associated objective and key priorities

→ **Maximising the value of the Drax business.**

Examples of mitigating activities

→ Diversified coal supply in terms of source and counterparties.

→ Good portion of purchases at market indexed prices (no mark-to-market exposure).

→ Diversified logistics routes.

→ Target to optimise holding of coal stocks.

→ Close monitoring and reporting of concentration risk in suppliers.

→ Full suite of power counterparties with strong credit ratings.

→ Close monitoring and reporting of concentration risk in power counterparties.

→ Trading contracts generally include provisions that force counterparties to post collateral if they drop below investment grade.

RATINGS RISK

Context

Our business model currently assumes investment grade debt

Risk

→ 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.

Potential impact

→ Requirement to post collateral for current and future trading positions.

→ Additional restrictions within facilities agreements.

Associated objective and key priorities

→ **Maintain an optimal supporting capital structure.**

Examples of mitigating activities

→ Strengthened capital structure through share placing and subsequent refinancing in 2009.

→ Refinement to trading strategy to trade on credit-efficient terms.

→ Grow direct sales through Haven Power, our electricity supply business.

→ Additional access to collateral through the £135 million trading facility signed in 2010.

→ Maintain relatively low levels of debt.

ENVIRONMENTAL AND HEALTH AND SAFETY RISK

Context

Laws and regulations are complex, frequently changing and becoming ever more stringent

Risk

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

Potential impact

→ Increased compliance costs.

→ Additional capital expenditure.

→ Fines, penalties, civil or criminal liability.

→ Limitation or suspension of operations.

Associated objective and key priorities

→ **Maintain operational excellence.**

→ **Deliver carbon abatement.**

Examples of mitigating activities

→ Robust systems to ensure compliance and improve performance.

→ Regular third party assurance over system effectiveness.

→ Strong safety culture and related training.

ELECTRICITY WHOLESALE MARKET RISK

Context

Liquidity in the market for wholesale electricity is dependent on there being a sufficient number of counterparties willing to trade actively

Risk

→ 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.

Potential impact

→ Inability to hedge short- to medium-term exposure to electricity prices through wholesale market trading.

→ Increased exposure to short-term market volatility.

→ Inability to sell all of our output.

→ Lower revenues and increased costs to achieve trading objectives.

Associated objective and key priorities

→ **Grow our retail customer base.**

→ **Maximising the value of the Drax business.**

→ **Influence the regulatory framework.**

Examples of mitigating activities

→ Grow direct sales through Haven Power, our electricity supply business.

→ Initiatives to be active, responsive and provide good credit towards counterparties make Drax an attractive business partner.

→ Oppose structural changes that impact our market access, such as clearing and margining.

→ Work with other independent generators (via Independent Generators Group) to achieve positive market and regulatory changes to improve liquidity.

BIOMASS STRATEGY RISK

Context
Biomass is well placed to provide the UK with low cost and flexible renewable power, and contribute to meeting carbon reduction targets

Risk
- → We may not secure an appropriate regulatory framework and specific support mechanisms from Government, which underpin the economics of biomass.
- → We could fail to secure biomass supplies and logistics arrangements which meet our hurdle return rates, sustainability criteria and banking requirements.
- → Technical and cost uncertainty exists over our ability to burn significantly enhanced volumes of biomass in the existing coal plant.
- → We may fail to find an appropriate commercial structure that would secure the necessary equity and/or debt to fund our biomass strategy.
- → We may not be able to secure planning permits, or contract for the engineering design and construction ("EPC") of the dedicated biomass-fired plants at prices which meet our hurdle return rates.

Potential impact
- → Inability to progress the biomass growth strategy.

Associated objective and key priorities
- → **Develop our biomass operations.**
- → **Influence the regulatory framework.**

Examples of mitigating activities
- → Engage with Government through the 2011 Banding Review process to obtain the right framework and grandfathered support from April 2013.
- → Advanced discussions with large creditworthy feedstock suppliers.
- → Focus on maximising UK term contract sources including energy crop volumes and active in global markets identifying diverse fuel sourcing opportunities.
- → Significant knowledge gained building existing co-firing capability.
- → Continuation of research and development work in 2011.
- → Development of commercial structures to manage price exposures that enable pursuit of multiple sources of debt and equity.
- → Planning applications for two sites already submitted and robust contracting strategy well advanced and currently in the process of finalising EPC costs and commercial terms.

PLANT OPERATING RISK

Context
Forced outages impact on our ability to generate electricity

Risk
- → Forced outages may be caused by the underperformance or outright failure of our power generation plant, or transmission assets 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.

Potential impact
- → Lower revenues.
- → Increased costs and contractual penalties.
- → Adverse effect on financial results.

Associated objective and key priorities
- → **Maintain operational excellence.**

Examples of mitigating activities
- → Comprehensive risk-based plant investment and maintenance programme.
- → Target to optimise holding of spare components for use in the event of plant failure particularly long lead time items.
- → Business continuity plan for IT systems.

REGULATORY AND POLITICAL RISK

Context
The Government's market reform agenda is driven predominantly by the need to deliver a low carbon economy and security of supply over the longer term

Risk
- → The recent DECC Electricity Market Reform publication together with the HM Treasury consultation on the introduction of a carbon floor price represent the biggest change to the electricity sector since privatisation of the industry in 1990. The changes implemented are likely to result in coal generation becoming progressively and relatively less economic than other major forms of generation.

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

Associated objective and key priorities
- → **Influence the regulatory framework.**
- → **Develop our biomass operations.**
- → **Deliver carbon abatement.**

Examples of mitigating activities
- → Integration of strategic and near-term investment planning.
- → Progress our biomass strategy.
- → Briefing, representation and engagement at EU and UK level.
- → Development of abatement and alternative generation options.

TAX RISK

Context
Previous financing structure unwind currently being agreed with HMRC

Risk
- → 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.

Potential impact
- → Adverse effect on cash flow arising from successful HMRC challenge to historic interest deductions claimed under the structure.
- → Failure to realise significant tax asset if HMRC disallows interest deductions arising as a result of unwinding the structure.

Associated objective and key priorities
- → **Maintain an optimal supporting capital structure.**

Examples of mitigating activities
- → Structure unwound in December 2008 following proposed changes to tax legislation.
- → Active engagement and dialogue with HMRC over structure and subsequent unwind.

"We aim to be alert to all the identified principal risks and uncertainties facing the business, and manage them to the very best of our ability."

CORPORATE AND SOCIAL RESPONSIBILITY

Our approach to corporate and social responsibility

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 and social 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, such as our Code of Business Ethics (see panel opposite), and our environmental and health and safety programmes. The Board's policies are implemented by dedicated specialists who make sure effective processes and procedures are in place to assure compliance and to identify and to report on risks and opportunities.

As in previous years we have continued to invest, not only to comply with environmental and health and safety requirements, but, where practicable, to go further. In 2010, 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.

During the year, we took the decision to improve the measurement and reporting of our economic, environmental and social performance. The Global Reporting Initiative ("GRI") Framework provides principles and performance indicators which can usefully be used to demonstrate our commitment to sustainable development, compare our performance over time, and to measure our performance against other standards and norms. Although only at the level of partial disclosure against the GRI Framework for 2010, we commit to improve on this over time as we move towards full disclosure.

BUSINESS CONDUCT

Our commitment to integrity

Drax has a commitment to high ethical standards and to conduct our business with honesty, integrity and in accordance with applicable laws and regulations.

Our reputation for acting with integrity plays a critical role in our success. Integrity not only underpins how we do business, but how we expect our suppliers, agents, partners, contractors and consultants to do business whether in the UK or beyond. Compliance with the laws and regulations of the countries in which we do business is a "must" for us. Drax is committed to preventing bribery and corruption and takes responsibility for maintaining a culture within the Group in which bribery is never acceptable.

As a business we refuse to offer, give or receive bribes or any other form of improper payments and we will never knowingly participate in any form of corrupt activity. Consideration should always be given by our employees when offering or receiving gifts or hospitality. Drax has a policy whereby gifts and hospitality offered or received may only be of minimal value.

If faced with a situation of compromising our integrity or losing the associated business, we would forego the business.

Code of Business Ethics

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

What is expected of our employees

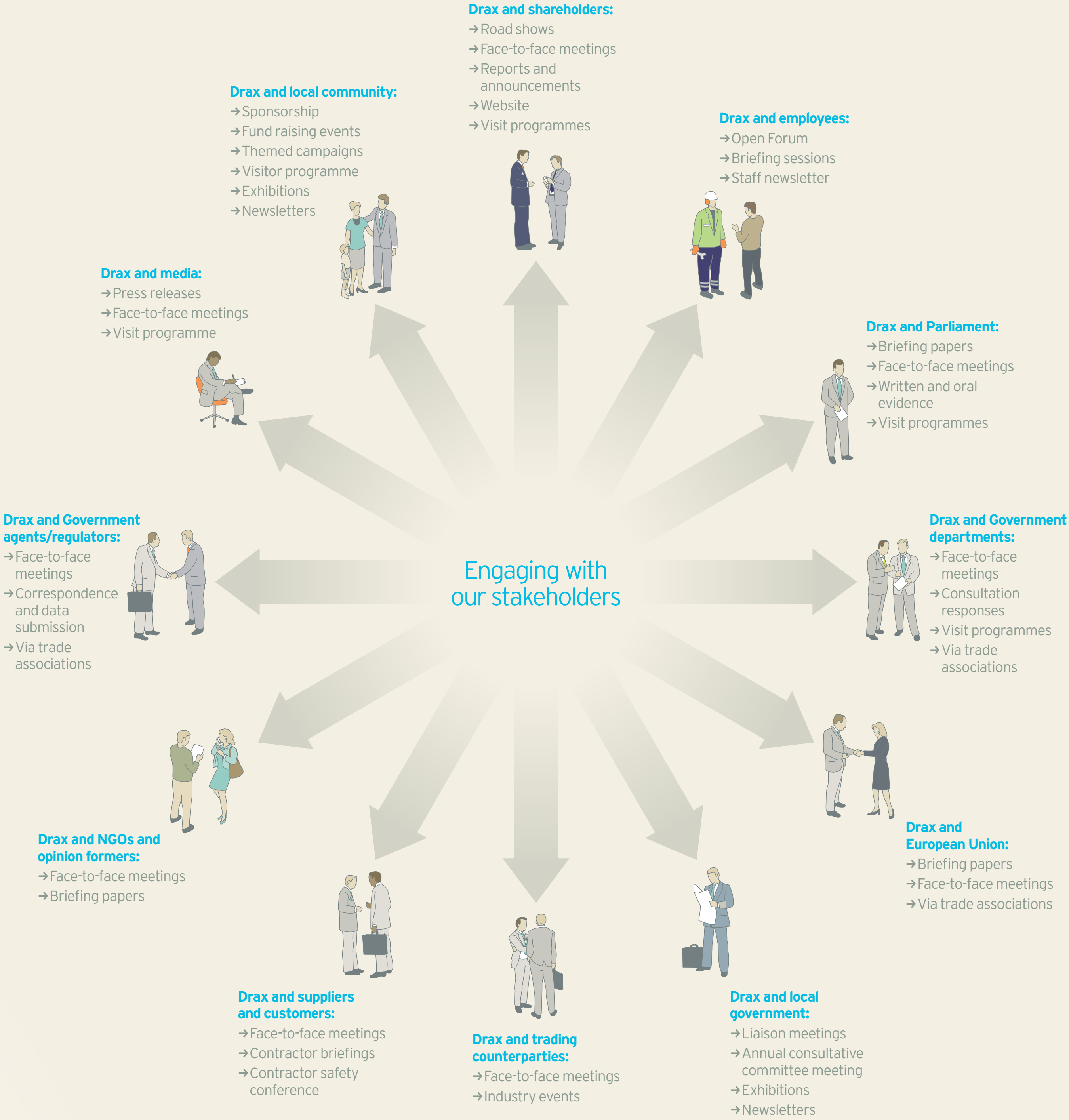
Ensuring that the reputation and good standing of the Group continues to be maintained requires our employees to act with the highest standards of behaviour and to be accountable for upholding the requirements of Drax's Code of Business Ethics, wherever they are in the world.

Poor choices can have potentially damaging consequences, not only to Drax's reputation, but financial penalties and imprisonment are also a reality for "getting it wrong".

Whilst it is often obvious what is right and wrong, our employees may, on occasion, face an ethical dilemma. If it feels wrong, it often is. By encouraging our employees to apply good judgement and common sense within the framework of the Code of Business Ethics they can contribute to maintaining our reputation.

Whistleblowing

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


Engaging with our stakeholders

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

Drax and employees:
→Open Forum
→Briefing sessions
→Staff newsletter

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

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

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

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

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

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

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

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

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

Drax and local community:
→Sponsorship
→Fund raising events
→Themed campaigns
→Visitor programme
→Exhibitions
→Newsletters

CORPORATE AND SOCIAL RESPONSIBILITY

"We manage our environmental compliance under an Environmental Management system, which in 2010 was recertified to ISO 14001."

"Burning 907,000 tonnes of biomass in 2010 was a record for Drax, and saved 1.5 million tonnes of CO_2 emissions during the year."

"Our new biomass co-firing facility, the largest of its kind in the world, was commissioned in the Summer."

Climate change and 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. The single biggest challenge facing coal-fired generators today is environmental, and in particular, carbon. Against that backdrop and with an eye on future-proofing the business, Drax identified biomass co-firing and increased thermal efficiency as the major strategic carbon abatement initiatives to undertake.

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 2010 we installed one high pressure and three low pressure turbine modules to one unit. Together with the installation of similar modules during 2007, 2008 and 2009, this means that we are now more than two-thirds of the way through the upgrade project. As a result we are comfortably operating at above 39% overall efficiency at full load and we are already saving over half a million tonnes of carbon dioxide ("CO_2") emissions a year. On completion of the upgrade in 2012 we will see an improvement in our overall baseload efficiency at full load of 5%, taking it to 40%, and an annual saving of one million tonnes of CO_2 emissions.

Biomass co-firing is a recognised renewable technology. Through displacing coal and taking into account the carbon neutral status of biomass emissions at the point of combustion, emissions of CO_2 can be significantly reduced. Our new 400MW biomass co-firing facility, the largest of its kind in the world, was commissioned in the Summer of 2010. Alongside our existing 100MW co-firing capacity, we now have the capability to produce 12.5% of our output from renewable and sustainable biomass. This is equivalent to the output of over 700 wind turbines, and has the potential to save over 2.5 million tonnes of CO_2 emissions a year. The new facility considerably aided our ability to burn biomass and 2010 saw the highest level yet of biomass burned at the power station. With a record burn of 907,000 tonnes of biomass, our coal throughput was reduced and we saved 1.5 million tonnes of CO_2 emissions during the year.

We fully recognise the challenge that we and other fossil fuel-fired power stations face in tackling carbon emissions and these two projects are giving us the capability to reduce our emissions of CO_2 by over 3.5 million tonnes a year, or 17.5% by the end of 2011.

Our focus on all aspects of biomass, from the upstream supply chain to combustion performance, makes us well placed to pursue a biomass future for the Group, whether through increasing the level of biomass burnt at the power station or through progressing our intention to develop dedicated biomass power plants. However, regulatory certainty and appropriate support are critical to realising our ambitions and we continue to further our research and development work on biomass ahead of receiving the Government's pronouncements on the regulatory and market framework.

Environmental performance and compliance

We recognise our responsibilities to society and the environment and are committed to furthering the environmental leadership position we hold in the coal-fired sector. We have environmental policies in operation at both Drax Power Station and Haven Power Limited ("Haven Power").

At Drax Power Station, we manage our environmental compliance under an Environmental Management System ("EMS"). During 2010, our EMS was externally audited and we were successful in being recertified 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 major breaches of our environmental consents during the year.

Emissions to air

We maintain investment in our emissions abatement equipment and consider this to be a high priority. Our current equipment, namely the flue gas desulphurisation facility and combustion systems to reduce emissions of nitrogen oxides ("NO_x"), ensure compliance with environmental limits to 2016. We have a programme in place to identify the optimum means of compliance beyond that date.

Discharges to water

The availability of water is key to the operations of the power station and it is important that it is managed sustainably. There are three sources of water supplying the station – river, aquifer and mains.

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. Approximately half of the water is returned to the River Ouse a few degrees warmer than the river at the discharge point.

In 2010, 0.83 tonnes of water per GWh of electricity generated was used by the power station, continuing the year-on-year reduction since 2005.

Disposals to land

The Group has invested in infrastructure, including rail loading facilities, to maximise sales of the ash products to avoid the use of landfill. This has enabled 66% of the 1.5 million tonnes of ash produced in 2010 to be sold to the construction industry as a replacement for virgin aggregates, fillers and cement.

When ash is unable to be sold it is sent to the power station's ash disposal site. The site is managed responsibly with completed areas restored to use as farmland and high biodiversity woodland, which is home to over a hundred species of wildlife in total. The careful planting and management of the restored areas has seen the number of UN red list species on the site increase from seven in 2007 to the nine found at the last survey.

We pay landfill tax on the ash 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 2010, we contributed £80,500 towards local community-based projects designed to bring about sustainable environmental benefits and contribute to the social and economic regeneration of the area. This brings the total amount provided by Drax to the Fund since 2001 to over £1 million.

Other wastes generated as part of the operation and maintenance of the power station are managed to maximise recycling and minimise the use of landfill in their disposal. This has resulted in 84% of the 4,306 tonnes of waste generated on site being diverted from landfill, with 3,531 tonnes of the diversion coming from recycling or composting.

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 210,000 tonnes.

"We tightly manage the wastes produced on site to maximise recycling and minimise landfill."

Supply chain

Non-fuel procurement

We have in place a rigorous set of checks and measures to ensure that our suppliers meet certain pre-determined standards. As part of our tender process, information is sought from prospective suppliers on health and safety, environmental and quality standards, which is taken into account during the assessment and selection process. At times, this may prompt further requests for information. Financial reviews of supply companies are also undertaken.

Compliance with current and foreseeable legislation is mandatory. 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 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.

We work hard to develop and maintain an open dialogue with suppliers. We have found site visits to key suppliers and prospective key suppliers to be useful in encouraging that dialogue and also as part of the assessment and selection process. During 2010, ten such visits were completed.

In 2010, we initiated performance meetings with suppliers. Seven key suppliers were targeted and we were able to undertake a thorough review of their overall performance, covering aspects such as spend, safety, environmental and quality performance, productivity and areas for improvement or innovation.

"We have implemented comprehensive sustainability criteria within our biomass procurement activities."

Although we encourage local and national companies to bid for contracts to supply the many goods and services required by the Group, we recognise that meeting some of our business needs demands specialist skills and these are sought accordingly.

Biomass sustainability and procurement

We regard biomass use as a high priority not only to reduce the carbon footprint of the Group, but to reduce the carbon footprint of UK electricity generation and increase the proportion of the UK's energy coming from renewable and sustainable sources. We believe it is a prerequisite that any biomass used for energy should be sustainable. This makes sense from a business perspective, providing longevity of feedstock. It is also essential for environmental, economic and social reasons.

We have implemented comprehensive sustainability criteria into our biomass procurement activities with the aim of assuring both the availability and sustainability of biomass supplies. These include a high level set of principles committing the Group to progressively improving the sustainability performance of our suppliers.

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 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.

These criteria were designed in the absence of national or international legislation, to meet or exceed any likely emerging standards across the whole sustainability spectrum of life cycle, social and environmental issues. We note that the sector is continually changing and our management systems and procurement policies will have to be structured to address legislation which is emerging as biomass production attracts an even higher profile amongst Government and other stakeholders.

Although the anticipated development of credible international sustainability schemes for bioliquids and biomass has been slow, our initiative has been extremely valuable since our policy stands up well against the legislative proposals from the Department of Energy and Climate Change. These require that, from April 2011, generators will have to report on greenhouse gas savings and whether they meet certain criteria on land use. From April 2013, generators over 1MW capacity will have to comply with those standards in order to receive Renewables Obligation Certificates.

Recognising that formal, mandatory international standards will, in time, be derived it is evident that the experience gained by our suppliers through implementing our policy will be beneficial to them as clarity in the eventual definition of sustainability standards and associated methodologies is developed. To aid this process, and to ensure compliance with future legislation, we have engaged qualified third parties to develop and implement a rigorous audit of our biomass supply chains to ensure compliance with our principles.

We have adopted the target of a minimum annual saving of 70% in greenhouse gas emissions for the biomass materials burnt at Drax Power Station. Our calculations show that substantial benefits of the order of 70%–90% savings were generally achieved across the range of biomass materials burnt in 2010. This provides good reassurance that the current suppliers and procurement practices are robust.

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

During 2010, we met with five key non-governmental organisations in order to discuss our biomass sustainability work. The meetings allowed open and honest discussion about our policy and practice, and were generally positive, with our sustainability and life cycle analysis model and our "industry-leading" approach welcomed.

Coal procurement

We purchase around 8-9 million tonnes of steam coal each year. We buy from a range of sources with the objective of managing our commercial exposures and environmental obligations. Around half of the coal we purchase is from UK deep and surface mines and the remainder from mines around the world, including USA, Colombia and Russia.

As responsible procurers we work within a strong corporate compliance framework. The suitability of each of our suppliers is checked through our counterparty approval and "know your customer" processes. In addition, when buying from overseas we have introduced a process of documenting, in our contracts, the minimum standards we expect from our suppliers in respect of compliance with legislation, human rights, labour relations, health and safety arrangements and business ethics.

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

	2010	2009	2008	2007
Fatality	**0**	0	0	1
Time Losing Injuries	**4**	3	4	10
Restricted Work Injuries	**0**	3	1	2
Medical Treatment Injuries	**5**	0	7	3
First Aid Injuries	**148**	154	273	267
RIDDOR[1] reportable	**6**	4	7	13

Notes:

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

Attaining leading performance

The lost time injury rate and total recordable injury rate for 2010 at 0.13 and 0.26 respectively remain industry-leading. Maintaining this level of performance is commendable given the significant construction work that took place during the year and number of man-hours worked, which at the Drax Power Station site totalled some 3.2 million. Our safety record continues to compare very favourably with that of our sector peers and international benchmarks. Amongst global comparator coal-fired power stations we are ahead of the European and World Pacesetter group for total recordable injury rate, which is a clear indication that the safety management system implemented in the last few years is now delivering sustained levels of performance.

The Group has been successful in retaining certification of its Health and Safety Management System to the internationally recognised Occupational Health and Safety standard, OHSAS 18001, at the Drax Power Station site and has recently attained certification for the Group's straw pellet plant, based at Goole in the East Riding of Yorkshire. 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 Group was delighted, once again, to be awarded the RoSPA Gold Medal Award having achieved Gold Award standards for six consecutive years.

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 briefing
3. Dynamic point of work risk assessment ("POWRA")
4. Weekly Safety Meeting

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

Specific processes and procedures are also in place to clarify the general health and safety responsibilities for the effective supervision, control and monitoring of contractors in accordance with current legislation and regulations. The arrangements are built around an understanding that the Group and its contractors have a responsibility to protect each other, their respective workforces and others, such as visitors. An internal audit process is used to ensure compliance.

More generally, compulsory health and safety induction courses are tailored to suit a range of individuals and their on-site activities. In total, six courses have been introduced covering, at one end of the spectrum, accompanied visitors, right through to those employees or contractors working on large scale operational projects.

Safety leadership and recognition

The Group is constantly striving to improve the critical safety leadership contribution required from first line supervisors. The expectations of both management and supervisors continue to be reaffirmed in the Safety Leadership Charter.

The annual Safety Conference for contractors and staff continues to be a focal point. In 2010, 110 people attended. Held early in the year, the conference sets expectations for the coming year's performance.

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 and our performance record, and to recognise achievements. Active engagement in the safety briefing process is a job requirement.

A Health and Safety Advisory Committee ("HESAC"), which brings together a range of employees, including trade union representatives, safety representatives, occupational health and management team members, continues to play a vital role in facilitating staff consultation on health and safety issues, and driving standards upwards. During 2010, the Corporate HESAC Group was launched. Focusing on engagement with corporate staff, the group has a unique set of targets and a reporting line back to HESAC on a quarterly basis.

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

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.

Employees

Employment

The Group employed 1,080 people at the year end. Most of our employees work full-time and are on permanent contracts.

Our quarterly employee Opinion Survey, conducted at Drax Power Station and Goole Straw Pellet Plant, shows that 80% of our employees are proud to work for Drax, and other measures of engagement are also high. For example, the annual resignation rate at Drax Power Station is only 1%, and over 40% of the workforce has been with the Group for 20 years or more. This high level of retention is positive for Drax, as our power generation business requires levels of skill and experience which are difficult to source externally. Absence rates are also very low at around 2%.

Staff turnover at Haven Power is higher, reflecting the nature of the business, averaging 27% 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.

"The apprenticeship is a four year programme, with the time split between Drax Power Station and engineering academy training centres."

Employee relations

At Drax Power Station, 530 people (70% of the workforce) are covered by collective bargaining arrangements. Formal negotiation and consultation takes place through the Company Committee – a joint management and union body that meets regularly to discuss working practices and terms and conditions of employment for production employees, and to receive updates on the Group's strategy.

In 2010, we agreed a long-term pay deal for all employees in the collective bargaining unit, that is, all production employees up to and including technical grades. The pay deal extends to 31 December 2012, providing a platform for continuing stable employee relations ahead.

All employees in corporate functions, Haven Power and senior production staff are employed on personal contracts, which are not covered by collective bargaining. Formal information and consultation arrangements are in place for these groups of staff, so that any proposals for change can be discussed openly and with sufficient time to build in revisions arising out of the consultation.

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. Every employee has a personal appraisal and development plan, including targets which are reviewed and assessed formally through interim and final appraisal discussions with their manager. Personal development plans include both technical training and behavioural development, which are delivered through a rolling programme of internal and external learning events.

For approved external training programmes, our employees receive financial support, for example, course fees and expenses. Each year we recruit up to six new employees for a fully sponsored four year advanced modern apprenticeship in power station operations and engineering maintenance. We currently have 18 apprentices at different stages of the programme.

We accommodate work experience requests and support local schools and colleges with their career events, as well as supporting Drax employees to be school governors.

At Haven Power, 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.

Internal communications

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

Our "flagship" communication channel at Drax Power Station is Open Forum, a 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. This year we have used a variety of media at the Open Forum, including DVDs featuring colleagues across the business. Feedback about the Open Forums is very positive, as reflected in our opinion survey scores.

In addition, our all-employee communication methods include monthly team briefs, a twice yearly in-house magazine, and e-mail and intranet communications.

At Haven Power 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 Power Board meeting, members of the senior management 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 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.

Recognition

The achievements of our staff have been rightly recognised through a number of awards from external bodies during 2010. Our biomass co-firing project was awarded first place in the Environment category of the Utility Industry Achievement Awards. These prestigious awards recognise the outstanding achievements of the utility and energy industry and reflect innovation, outstanding service, efficiency and quality. We also received "highly commended" in the Supply Chain Excellence category, for success in introducing sustainability standards to the biomass supply chain.

The Forest Footprint Disclosure Project is an innovative initiative assisting businesses in assessing their impact on the world's forests. For the second year running, Drax was ranked as the leader in the utilities sector based on the comprehensive sustainability criteria in our business procurement activities.

Our straw pellet plant won the East Riding of Yorkshire Council Chairman's Business Award for businesses with under 50 employees. The awards are presented annually by the Council to individuals, companies and organisations within the East Riding of Yorkshire in recognition of their achievements towards enhancing the area in which they work and live.

In addition to receiving recognition for our project work, we were also delighted to be acknowledged for upholding good governance and professional standards at the ICSA (Institute of Chartered Secretaries and Administrators) Hermes Transparency in Governance Awards, where we received the "Best sustainability and stakeholder disclosure – FTSE250" award for our 2009 Annual report and accounts.

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 requirements.

Pension provision and retired employees

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

We offer paid pre-retirement leave and pre-retirement courses to help people transition smoothly from working life to their new life.

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 the Group.

Sports and Social Club

Employees can join the Drax Sports and Social Club for a nominal monthly subscription through the payroll. The Sports and Social Club, which is also open to public subscription, offers an extensive range of facilities.

"We use a variety of communication channels to keep colleagues informed of developments and to provide an opportunity for feedback."

Stakeholder engagement and community relations

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, regulators, opinion formers and the media. Communication with all our stakeholders is considered to be an essential part of our business and we aim to be open and transparent in all that we do. Reference has been already made to specific stakeholder engagement practice and exercises throughout the Corporate and social responsibility review; below we touch on other aspects of our stakeholder engagement commitments, from investor relations to community relations.

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. Significant matters relating to trading and the development of the business are disseminated to the market by way of announcements via a regulatory information service and those announcements appear as soon as practicable on our website.

Announcements are frequently followed up with either conference calls or presentations to provide further detail and greater understanding. In addition, face-to-face meetings are held with our major institutional shareholders, 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 2010, 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. With a General Election during the year and energy policy still high on the political agenda, we had significant engagement with Parliamentarians and officials at all levels on issues including forthcoming environmental legislation, renewables policy, and market reform issues.

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

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.

We maintained a programme of engagement with local stakeholders within the vicinities of the planned developments of dedicated biomass power stations. Through the use of exhibitions, newsletters, press releases, information on our website and a freephone line we aimed to ensure that local people had the opportunity to study our proposals and discuss issues with members of the project team.

No political donations were made in the UK or elsewhere during 2010, and the Group's contact with those active in the political arena has been and will continue to be aimed solely at the promotion of the Group's business interests.

Community relations

We are committed to being a good neighbour to our local community and our "caring for the community" philosophy involves being part of local and regional communities. Our involvement takes the form of sponsoring a variety of local charities and 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 and fundraising

During 2010, we gave financial support of £131,450 (2009: £138,930) in total across a range of charitable and non-charitable community causes. Of that total, charitable donations amounted to £87,384 (2009: £88,041).

Some £18,000 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. Examples of the good causes supported through the sponsorship team in 2010 are donations to Camblesforth Community Primary School to enhance their existing music lessons through the provision of tuition to develop instrumental skills and to Vixen Radio to soundproof the radio station's new studio.

Drax also operates a "£ for £" and Give As You Earn matching scheme, under which we match any monies raised for, or donated to, charity by employees. During 2010, approximately £46,700 of the total donations made were through this scheme.

“Each month the sponsorship team meets to consider requests received for donations and sponsorship.”

Now in its sixth year, the outage charity scheme raised £4,500 during the year’s single outage. Through the scheme £500 is donated for every seven days that goes by without an injury requiring more than first aid treatment. As in previous years the money was divided equally between charities chosen by Drax staff and our contractors. Candlelighters, a Yorkshire-based charity providing services and support to children with cancer and their families, and Goole Drop-in, a drop-in centre for young people between the age of 16 and 25 were the nominated charities.

Through two schemes focused on safety performance, the Yorkshire Air Ambulance, which provides a crucial emergency service for the region, received a total donation of £5,000. Of the total, £4,000 was raised through staff and contractors delivering zero recordable injuries during part of the construction of the new biomass co-firing facility. This was boosted with a further £1,000 from a similar scheme applied to the whole Drax site.

For the fourth year running we held a charity corporate golf tournament at the championship course at Fulford, York. The event raised a further £9,205 for the Yorkshire Air Ambulance.

Education in the community

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

Combined with a tour of the power station students 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 our ash disposal site. 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 bugs and grubs 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 fourth 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 Alwoodley Primary School, Leeds.

Under the “Art in the Community” banner, we held our fourth art competition for primary and secondary schools. Some 16 schools participated and the winners and their schools shared in prize money totalling over £2,500.

We also held a two-day art masterclass run by David Anderson, a designer, illustrator and watercolourist, and a Fellow of the Royal Society of Arts. David provided expert advice and guidance to the young artists, all aged seven to 13, who were able to try out various techniques and explore the world of art and illustration, from caricature and collage to watercolour and mixed media. Over the two days, the aspiring artists each produced a segment of a panoramic image of the power station, using a variety of media which, when pieced together, will measure 3m x 1.5m and be on display at Drax Power Station.

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 2010, we played host to some 7,500 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 900 people came to visit the grotto and through their generosity £500 was raised for Selby Hands of Hope, a charity helping to fund groups and activities in the local area. We donated an additional £1,000 to the charity in lieu of purchasing corporate Christmas cards.

BOARD OF DIRECTORS

1 Dorothy Thompson
Chief Executive
Age 50

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

Committee Membership:
Executive.

External Appointments:
A non-executive director of Johnson Matthey plc.

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

Qualifications:
BSc (Hons) and MSc in Economics.

2 Tony Quinlan
Finance Director
Age 45

Appointment to the Board:
1 September 2008.

Committee Membership:
Executive.

External Appointments:
None.

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

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

3 Peter Emery
Production Director
Age 48

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

Committee Membership:
Executive.

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 ExxonMobil's European leadership team for refining.

Qualifications:
BSc (Hons) in Mining Engineering, FIMMM and completed the Advanced Management Programme at INSEAD in 2007.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4 Charles Berry

Chairman
Age 58

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 MSc in Management.

5 Tim Barker

Senior independent non-executive director
Age 70

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 and the UK subsidiary of a US investment bank.

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.

6 Tim Cobbold

Independent non-executive director
Age 48

Appointment to the Board:
27 September 2010.

Committee Membership:
Audit, Nominations and Remuneration.

External Appointments:
Chief Executive and an executive director of De La Rue Plc.

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

Qualifications:
BSc (Hons) in Mechanical Engineering and an Associate of the Institute of Chartered Accountants in England and Wales (ACA).

7 Mike Grasby

Independent non-executive director
Age 67

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

Committee Membership:
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 CEGB 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.

8 David Lindsell

Independent non-executive director
Age 63

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).

9 Tony Thorne

Independent non-executive director
Age 60

Appointment to the Board:
29 June 2010.

Committee Membership:
Audit, Nominations and Remuneration.

External Appointments:
A non-executive director and Chairman designate of WSP Group plc.

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

Qualifications:
BSc (Hons) in Agricultural Economics.

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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 2010.

Annual General Meeting

The Annual General Meeting ("AGM") of the Company will be held on 13 April 2011, at The City Presentation Centre, 4 Chiswell Street, London EC1Y 4UP at 11.30am. 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 48 to 72.

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 2010, 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 Business review on pages 2 to 39. The Business review incorporates the Chairman's introduction, Maximising the value of the Drax business, Delivering results, Chief Executive's statement, How we are performing, Marketplace, Operational and financial performance, Principal risks and uncertainties and the Corporate and social 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. The Group also has an electricity supply business, Haven Power Limited ("Haven Power"), which serves business customers. Haven Power is a direct subsidiary of the Group's principal trading subsidiary, Drax Power Limited.

Results

The Group results for the year are shown in the Consolidated income statement on page 74.

Going concern

The Group's business activities, financial position, and principal risks and uncertainties are set out in the Business review as referenced above. In addition note 18 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 26. 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 is set out on page 52, risk assessment and management is set on pages 28 and 29 and the use of financial instruments is contained in note 18, as is the identification and assessment of financial risk.

Dividends and distributions

Subject to the provisions of the Companies Act, 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:

	2010 £m	2009 £m
Interim and final dividends		
Interim dividend paid on 15 October 2010 of 14.1 pence per share (7 October 2009: 4.1 pence per share)	**51.5**	15.0
Proposed final dividend to be paid on 13 May 2011[(1)] of 17.9 pence per share (14 May 2010: 9.6 pence per share)	**65.3**	35.0

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 restrictions on the voting rights of the ordinary shares.

At 1 January 2010, 364,853,890 ordinary shares of $11\frac{16}{29}$ pence each in the Company were in issue and at 31 December 2010, 364,859,988 ordinary shares of $11\frac{16}{29}$ pence each in the Company were in issue. The following paragraphs detail 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 to any resolution of the Company in a General Meeting, all unissued shares of the Company shall be at the disposal of the directors and they may allot (with or without conferring a right of renunciation), grant options over or otherwise dispose of them to such persons, at such times and on such terms as they think proper.

On 1 September 2010, a total of 6,098 ordinary shares of $11\frac{16}{29}$ pence each in the Company were issued in satisfaction of shares vesting in accordance with the rules of the Group's Bonus Matching Plan to six individuals whose employment with the Group had terminated due to retirement. The shares issued represented 0.002% of the Company's issued ordinary share capital prior to those shares being issued. No other ordinary shares were issued during the year.

Authority to purchase own shares

At the Annual General Meeting of the Company held on 21 April 2010, shareholders resolved to authorise the Company to make market purchases of up to 10% of the issued ordinary share capital. At the forthcoming AGM, shareholders will be asked to renew this authority. Details are contained in the Notice of the AGM.

The Company did not purchase any of its own shares during 2010 and the Company held no Treasury shares during 2010.

Details of the share capital as at 31 December 2010, and shares issued during the year, are given in note 21 on page 96.

Rights and obligations attaching to shares

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

Variation of rights

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

Transfer of shares

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

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

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

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

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

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

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

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

Shares in uncertificated form

Directors may determine that any class of shares may be held in uncertificated form and title to such shares may be transferred by means of a relevant system or that shares of any class should cease to be held and transferred. Subject to the provisions of the Companies Act, the CREST Regulations and every other statute, statutory instrument, regulation or order for the time being in force concerning companies and affecting the Company, the 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 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 21 February 2011, 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 TR1 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	01.03.2010	–	108,072,751	108,072,751	29.62%
Black Rock Inc.	22.07.2010	–	19,066,106	19,066,106	5.23%
AXA S.A.	17.12.2009	1,704,050	14,952,477	16,656,527	4.57%
Legal & General Group Plc	19.07.2010	14,478,741	–	14,478,741	3.96%
Orbis Holdings Limited	25.08.2010	–	11,221,474	11,221,474	3.08%
Total shares held by substantial shareholders		**16,182,791**	**153,312,808**	**169,495,599**	**46.46%**

Directors

The current directors are Tim Barker, Charles Berry, Tim Cobbold, Peter Emery, Mike Grasby, David Lindsell, Tony Quinlan, Dorothy Thompson and Tony Thorne. Biographical notes of the directors appear on pages 40 and 41.

Jamie Dundas retired as a director at the conclusion of the AGM on 21 April 2010, due to other work commitments. Tony Thorne and Tim Cobbold were appointed to the Board on 29 June 2010 and 27 September 2010 respectively pursuant to Article 79 of the Company's Articles of Association.

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

The Articles require that, following appointment to the Board, directors submit themselves for election by shareholders at the first AGM following their appointment. Tony Thorne and Tim Cobbold were appointed to the Board after the last AGM and, therefore, both will retire and offer themselves for election by shareholders at the AGM to be held on 13 April 2011.

The UK Corporate Governance Code provides for the annual re-election of all directors and whilst the relevant provision of the Code is intended to apply to financial years commencing on or after 29 June 2010, the Board has determined that it will adopt this provision with immediate effect and therefore each of Tim Barker, Charles Berry, Peter Emery, David Lindsell, Tony Quinlan and Dorothy Thompson will retire at the forthcoming AGM and, being eligible, offer themselves for re-election. The evaluation of the Board described on page 50 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 69.

Mike Grasby has stated that he intends to step down from the Board having joined Drax in December 2003 and therefore will not be seeking re-election. He will retire as a director at the conclusion of the AGM on 13 April 2011.

The rules relating to the appointment or replacement of directors and the powers of directors are highlighted in the Corporate governance report on page 49.

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 72.

Directors' interests, indemnity arrangements and other significant agreements

Other than a deed of indemnity between each director, the Company and each of its subsidiaries in respect of claims made and personal liability incurred as a result of the bona fide discharge of the directors' responsibilities 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 59 to 72.

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 a £200 million letter of credit facility agreement dated 27 October 2005, as amended on 6 December 2005 and further amended and restated on 3 August 2009, and amended on 5 May 2010, between, amongst others, Drax Power Limited and Barclays Bank PLC (as facility agent), on a change of control, if any lender requires, it may, by giving notice to Drax Power Limited and the facility agent within 30 days of receiving notice from Drax Power Limited that a change of control has occurred, cancel its commitments and require the 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, as amended on 18 January 2011 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 the payment of its share of any outstanding amounts within three business days of such cancellation notice being given.

Under a trading agreement dated 5 May 2010, between, amongst others, Drax Power Limited and Barclays Bank PLC, Drax Power Limited may have uncollateralised trading positions up to a threshold of £135 million. On a change of control, Barclays Bank PLC, may by giving notice to Drax Power Limited within 30 days of receiving notice from Drax Power Limited that a change of control has occurred, withdraw the uncollateralised trading line and require all trading positions to be collateralised.

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.

Employees

A commentary on employee involvement and the Group's commitment to its employees is set out within the Corporate and social responsibility review on pages 30 to 39 and details of employee involvement through share participation are contained in the Remuneration Committee report on pages 59 to 72. 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 Group. For example, team briefings are held once a month where wide-ranging information is communicated throughout the organisation. In addition, Open Forums are held three times a year 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 "Employees" section of the report on Corporate and social responsibility on pages 36 to 37.

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 and social responsibility

Details of the Group's Corporate and social responsibility policies and operations are set out on pages 30 to 39.

There are Group policies in place for environment, health and safety and human resources as well as a Code of Business Ethics. This includes processes designed to comply with the Bribery Act 2010 when it comes into force.

The internal control processes described on page 52, take 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 £87,384 (2009: £88,041). More information on the charitable donations made is contained within the Corporate and social responsibility review on pages 30 to 39.

Political donations

No political donations were made in the UK or elsewhere during the year (2009: £nil). It is the Board's policy not to make donations to political organisations or for political causes.

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 £100,000 during the next 12 months. A resolution to that effect is contained within the Notice of the Annual General Meeting. 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 2010 represented approximately 21 days of average daily purchases through the year (2009: 23 days). The figure is essentially based upon the ratio of amounts owed to trade creditors against the amounts Drax was invoiced by suppliers during the financial year.

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 55 to 57.

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.

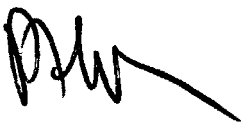
Under the Companies Act, members are entitled to appoint a proxy, who need not be a member of the Company, to exercise all or any of their rights to attend and to speak and vote on their behalf at a General Meeting or class meeting. A member may appoint more than one proxy in relation to a General Meeting 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.

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 than 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
21 February 2011

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

CORPORATE GOVERNANCE

"Good corporate governance is one of the cornerstones of the success of the organisation and I believe that the systems, procedures, processes and controls that Drax has in place provide assurance to the Board and its stakeholders of a well governed business."

Charles Berry
Chairman

Compliance with the Combined Code

It is the Board's view that throughout the period commencing on 1 January 2010, there has been full compliance with the provisions of Section 1 of the Combined Code 2008. The Combined Code is available at: www.frc.org.uk/corporate/ukcgcode.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.

Board of directors

Chief Executive

Executive Committee

Board Committees

Audit

Nominations

Remuneration

The Board of directors

As at 21 February 2011, the Board consisted of the non-executive Chairman, five independent non-executive directors and three executive directors. The directors are named in the Directors' report on page 45 and their principal commitments outside the Group are described within their biographical notes on pages 40 and 41. 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.

Chairman

Non-executive directors

Executive directors

Charles Berry is the Chairman, having been appointed on 17 April 2008, and having served as an independent non-executive director of the Company since December 2005. He had no material business or other relationship with the Company, and there were no other matters that were likely to affect his independence of character and judgement. The Board therefore considered that Charles Berry was independent on appointment as Chairman. Charles Berry is also Chairman of Eaga plc ("Eaga"). On 7 January 2010, the Group announced that it had entered into a contract with Eaga to outsource the provision of services in fulfilment of the Group's carbon emissions reduction obligation under the Community Energy Saving Programme, which came into effect on 1 September 2009 and runs until 31 December 2012. Further detail is contained on page 105 under Related party transactions.

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.

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.

Tim Barker is the Senior Independent Director.

Tim Barker, Mike Grasby and David Lindsell have served the Group as independent non-executive directors throughout the year ended 31 December 2010. Tim Cobbold, Jamie Dundas and Tony Thorne, served the Group as independent non-executive directors for only part of the year ended 31 December 2010.

Jamie Dundas retired as a director on 21 April 2010. Tony Thorne and Tim Cobbold were appointed as directors by the Board in accordance with Article 79 of the Articles of Association on 29 June 2010 and 27 September 2010 respectively.

The Board has reviewed the independence of each non-executive director. Mike Grasby was the manager of Drax Power Station between 1991 and 1995, whilst the power station was owned by National Power plc. He has never been an employee of the Company or the Group. The Board considered that at the time he was appointed as a non-executive director, sufficient time had elapsed from his previous association with Drax Power Station such that it did not affect his independence of character and judgement. Mike is to retire as a director at the conclusion of the Annual General Meeting ("AGM") on 13 April 2011.

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

The Articles provide that one-third of directors, not including directors appointed by the Board, (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 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 15 February 2011, following the completion of the Board evaluation process. The Nominations Committee also noted that the UK Corporate Governance Code provides for the annual re-election of all directors and whilst the provision of that Code is intended to apply in respect of financial years commencing on or after 29 June 2010, the Nominations Committee and the Board have determined that it will adopt this provision with immediate effect. Accordingly each of Tim Barker, Charles Berry, Peter Emery, David Lindsell, Tony Quinlan and Dorothy Thompson will retire at the forthcoming AGM and, being eligible, offer themselves for re-election. Tony Thorne and Tim Cobbold will each retire at the forthcoming AGM and offer themselves for election. The evaluation of the Board described on page 50 concluded that the directors offering themselves for election or re-election (in line with the provisions contained in the Articles) continue to demonstrate commitment, management and industry expertise to their particular role and perform effectively.

The election and re-election of each director is recommended by the Board. Details of the relevant terms of appointment and service agreements appear on page 69.

Mike Grasby has stated that he intends to step down from the Board having joined Drax in December 2003 and therefore will not be seeking re-election. He will retire as a director at the conclusion of the AGM on 13 April 2011.

Details of the service contracts for the executive directors and letters of appointment for the non-executive directors are set out in a table on page 69.

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.

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. The Board determines: the Group's strategy; the Group's appetite for risk; the internal control and risk management policies; the business plan and principal performance indicators; acquisitions and disposals and other transactions outside delegated limits; material changes to accounting policies or practices; significant financial decisions; capital structure and dividend policy; shareholder communications; prosecution, defence or settlement of material litigation; Group remuneration policy; the terms of reference and membership of Board Committees; and the Board structure, composition and succession. Matters which are not specifically reserved to the Board and its committees under their terms of reference, or to shareholders in General Meeting, are delegated to the Chief Executive or otherwise delegated in accordance with a 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 2010 no director sought independent legal advice pursuant to the policy.

The 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 Articles 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 Articles provide for some situations in which disclosure is not required where knowledge can be presumed and disclosure is unlikely to be necessary. The Articles also allow the Board to exercise voting rights in group companies without restriction (e.g. so as to appoint a director to the board of a group company without this counting as a conflict requiring authorisation).

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

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 evaluate the performance of the Board, its committees and individual directors. This was performed by Independent Audit Limited ("Independent Audit"), an independent strategic governance consultancy that has no other connection with the Company.

Independent Audit conducted individual interviews with each director, the Company Secretary and members of the senior management group. A written report was presented to the Board, and Independent Audit attended a Board meeting to present and discuss the conclusions of the report. In addition, Independent Audit met separately with the Chairman to discuss the findings of the review generally, and with the Senior Independent Director to discuss the performance of the Chairman.

The main conclusions of Independent Audit's review were that the Board was strong and appears well equipped to meet the challenges ahead. In particular, the composition and mix of the Board were appropriate with a strong cadre of non-executive directors with a broad range of relevant experience. In addition, the Board benefits from a management team that is receptive to and recognises the value of challenge. The report made a number of recommendations which would enhance Board effectiveness, all of which the Board is taking account as part of the process of continuing improvement. The Board intends to improve the process for reviewing past decisions and lessons learnt and maintain regular visits by the non-executive directors to the different Group locations.

During the year, the Chairman held meetings with the non-executive directors in the absence of the executive directors, and the Senior Independent Director held meetings with the non-executive directors without the Chairman being present, 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 being provided with information about the Group and their responsibilities, meetings with key managers and visits to the Group's sites. In addition, each non-executive director visits operational sites and meets with senior management to be briefed on the Group's business at least annually, and 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
Audit Committee	David Lindsell (as Chairman), Tim Barker, Tim Cobbold and Tony Thorne.
Nominations Committee	Charles Berry (as Chairman), Tim Barker, Tim Cobbold, Mike Grasby, David Lindsell and Tony Thorne.
Remuneration Committee	Tim Barker (as Chairman), Charles Berry, Tim Cobbold, Mike Grasby, David Lindsell and Tony Thorne.

Notes:

(1) Jamie Dundas was a member of Audit, Nominations and Remuneration Committees until he retired from the Board at the conclusion of AGM on 21 April 2010.

(2) Tim Cobbold and Tony Thorne joined each of the Audit, Nominations and Remuneration Committees on the same date that they were appointed to the Board, namely 27 September 2010 and 29 June 2010 respectively.

Details of the work of the Audit, Nominations and Remuneration Committees are given in the reports of those Committees on pages 55 to 72. The terms of reference for these Committees are reviewed annually by each Committee and then by the Board. The terms of reference of each Committee are available on the Group's website at www.draxgroup.plc.uk.

The Board attaches particular importance to its scrutiny of health and safety performance, systems and procedures. The section headed Internal control on page 52 makes reference to steps taken by the Board to strengthen the Group's system of internal control during the year. One such step is an increase in the level of independent scrutiny of health and safety controls. Prior to the adoption of the Risk Management Policy, this was carried out by the Health and Safety Committee which included one non-executive director and two executive directors. Following the adoption of the Risk Management Policy, the Health and Safety Committee has been discontinued and the Safety, Health, Environmental and Production Integrity Committee ("SHEPIC") has been established with responsibility to assist the Production Director in the operation and implementation of risk management and internal control processes. Its activities are reviewed by the Audit Committee, which provides assurance to the Board on the effectiveness of the health and safety controls. In addition, the SHEPIC reports directly to the Board at least annually.

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

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 2010.

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

	Time on the Board (years/months)	Time with Drax(1) (years/months)	Board(2)	Audit Committee	Nominations Committee	Remuneration Committee	Health and Safety Committee
Tim Barker	5/2	6/6	7 (7)	4 (4)	3 (3)	3 (3)	–
Charles Berry	5/0	5/0	7 (7)	–	3 (3)	3 (3)	–
Tim Cobbold	0/3	0/3	2 (2)	1 (1)	1 (1)	1 (1)	–
Jamie Dundas	4/0	4/0	3 (3)	2 (2)	2 (2)	2 (2)	–
Peter Emery	5/2	6/6	7 (7)	–	–	–	2 (2)
Mike Grasby	5/2	7/0	7 (7)	–	3 (3)	3 (3)	2 (2)
David Lindsell	2/0	2/0	7 (7)	4 (4)	3 (3)	3 (3)	–
Tony Quinlan	2/4	2/4	7 (7)	–	–	–	–
Dorothy Thompson	5/2	5/3	7 (7)	–	–	–	1 (2)
Tony Thorne	0/6	0/6	4 (4)	2 (2)	1 (1)	1 (1)	–

Notes:

(1) This includes both the time spent on the Board of Drax Group plc and also the effective predecessor companies Drax Group Limited and Drax Power Limited, up to 31 December 2010.

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

Governance

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 2010. 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.

During the year, the Board strengthened the Group's system of internal control through the adoption of a new Risk Management Policy which is the principal document governing the objectives and requirements of the Group's internal control and risk management processes. The policy stipulates the structure by which identification and analysis of risks and clear designation of accountability, together with effective risk management processes, ensure that risk management is embedded within the Group. Risk Management Committees assist the business directors in the operation and implementation of the risk management process in all areas of the Group's business, and provide a source of assurance to the Audit Committee that the process is operating effectively.

There are now five Risk Management Committees, which are as follows: the Corporate Risk Management Committee; the Haven Risk Management Committee; the New Business Risk Management Committee; the Safety, Health, Environmental and Production Integrity Committee; and the Treasury and Commodity Risk Management Committee. The Board has also adopted the practice of receiving annual reports from each Risk Management Committee, and receives monthly reports on particular risk areas including health and safety and commodity trading.

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 risk register is used by management and by the Risk Management Committees to ensure that risks are identified, analysed and managed systematically and appropriately. It lists all of the significant risks faced by the Group, records the level of severity and probability, ownership and mitigation measures for each risk. In addition, 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 Group performance against a Balanced Corporate Scorecard ("BCS") 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.

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

Through the Audit Committee the Board has implemented a programme of internal audit reviews of different aspects of the Group's activities. The programme, which is reviewed and updated annually, is designed so that, over time, all facets of the business are reviewed to ensure appropriate systems of control are in place and are working effectively or, where they are not, deficiencies are rectified by timely and appropriate action. In agreeing the actions to be taken in response to each report, the aim is always to embed internal controls, including measures intended effectively to identify and manage risk, within each area of the Group's operations. In parallel with its work in relation to internal audit, the Audit Committee also satisfies itself that an action plan for dealing with points raised by the external 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, AGMs 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 (www,draxgroup.plc.uk). Less formal processes include contacts with institutional shareholders by the Chairman and other directors.

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

The Board also reviews and discusses the investor feedback from post-results investor meetings conducted by the Chief Executive and the Finance Director in the UK, Europe and the USA. These took place following both the preliminary and half year results announcements in 2010. The Group has also engaged Makinson Cowell Limited, an independent capital markets consultancy firm, to advise and assist in relation to communications with shareholders.

The Company's private registered shareholders hold, in aggregate, 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 AGM. Questions asked at other times will normally receive a written response. Shareholders attending the AGM will have an opportunity to meet informally with the directors immediately after the meeting.

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

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 Business review, see pages 2 to 39, provides 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 consolidated financial statements under International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The consolidated 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;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

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 the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; 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
21 February 2011

Tony Quinlan
Finance Director
21 February 2011

AUDIT COMMITTEE REPORT

"The steps Drax has taken in 2010 in revising and refining its risk and governance framework should provide stakeholders with greater comfort that it is a well run business."

David Lindsell
Chairman of the Audit Committee

Membership and process

The Audit Committee (the "Committee") consisted of David Lindsell (as Chairman), Tim Barker (Senior Independent Director), Tim Cobbold (from 27 September 2010), Jamie Dundas (until 21 April 2010) and Tony Thorne (from 29 June 2010) all of whom are independent non-executive directors.

Whilst the Committee consisted of two independent non-executive directors in the period from 22 April 2010 to 28 June 2010, all four meetings of the Committee held during the year were properly constituted with at least three independent non-executive directors in attendance.

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 2010, and the members' attendance record is set out on page 51. 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), 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. The terms of reference are available on the Group's website at www.draxgroup.plc.uk.

Attendance at meetings

The Chairman of the Board, the Chief Executive, the Finance Director, the Group 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.

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 2010, 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 2011, the Committee continues to focus on specifically identified strategic risk areas, as well as ensuring the provision of a core compliance assurance service;

Attendance at meetings (continued)

- in April 2010, 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 2010, the Committee reviewed the Company's risk register and in November 2010 it undertook a review of the effectiveness of the system of internal controls;
- in July 2010, 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 2011;
- 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 of the Committee. Nothing was subject to this procedure in the course of the year; and
- from October 2010, the revised risk and governance framework came into being and each of the Risk Management Committees met. The Committee was presented with the key risks from each management committee in November 2010.

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 the Group determine appropriate actuarial assumptions for its 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 external 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 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 Group;
  - 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;
  - the balance between the fees paid to the external auditors for audit and non-audit work is monitored by the Committee; and
- a policy on the employment by the Group of former employees of the external 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.

Details of the amounts paid to the external auditors during the year for audit and other services are set out in note 4 to the consolidated financial statements on page 84.

The external auditors are required to rotate the audit partner responsible for the Group audit every five years and the current audit partner, Carl Hughes, has been in place for two years.

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

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 2010 included: dedicated biomass project; tax strategy; non-fuel stock; Haven Power key controls; risk management and other sources of assurance; and operations and safety sources of assurance.

External auditors

Deloitte LLP were appointed auditors of the Group 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 21 February 2011.

David Lindsell
Chairman of the Audit Committee

NOMINATIONS COMMITTEE REPORT

The Nominations Committee (the "Committee") consisted of Charles Berry (as Chairman), Tim Barker (Senior Independent Director), Tim Cobbold (from 27 September 2010), Jamie Dundas (until 21 April 2010), Mike Grasby, David Lindsell and Tony Thorne (from 29 June 2010). 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. The terms of reference are available on the Group's website at www.draxgroup.plc.uk.

The Committee met on three occasions in 2010, and the members' attendance record is set out on page 51.

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, its committees and individual directors is reported in the Corporate governance report on page 50.

During the course of the year, the Committee conducted an external search with the assistance of an executive search consultancy for a suitable candidate to replace Jamie Dundas, who retired from the Board and the committees on which he served on 21 April 2010. Following the recommendation of the Committee, the Board decided to appoint both Tony Thorne and Tim Cobbold on 29 June 2010 and 27 September 2010 respectively. The Board considered that their skills and experience would benefit the Board and complement the existing skill set and meet the objective of the planned progression in refreshing the Board.

As is noted on page 49, the Committee met on 15 February 2011, following the completion of the Board evaluation process, and determined that each of Tim Barker, Charles Berry, Peter Emery, David Lindsell, Tony Quinlan and Dorothy Thompson will retire at the forthcoming AGM and, being eligible, offer themselves for re-election. The evaluation of the Board described on page 50 concluded that the directors offering themselves for re-election continue to demonstrate commitment to their particular role and perform effectively.

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

This report was reviewed and approved by the Board on 21 February 2011.

Charles Berry
Chairman of the Nominations Committee

REMUNERATION COMMITTEE REPORT

"The Committee has sought to ensure that the variable elements of management remuneration achieve an appropriate balance between short-term financial and operational performance, progress towards the Group's strategic objectives and alignment with the returns to shareholders."

Tim Barker
Chairman of the Remuneration Committee

Introduction

The spreads between power price and the cost of generation during 2010 have been at the lowest levels since the electricity industry was privatised in 1990. The Remuneration Committee ("the Committee") is acutely aware that it is these spreads that primarily determine the returns to our shareholders in the short term. This is a critical component in the Committee's determination of the remuneration packages of executive directors and senior staff. The Committee also recognises that true alignment with the interests of our shareholders requires management to make judgements to ensure that the business is managed effectively through challenging market conditions and take action to develop an enduring, sustainable business which is less reliant on the spreads available from coal-fired power generation.

The strong contracted power sales position which was put in place by management in 2009 provided a substantial hedge against the low spreads and gave more certainty over our earnings. Operationally, 2010 was an exceptional year with a number of measures at best ever performances levels for the power station. The resulting high availability and high output, allowed the Group to benefit from the power station's ability to provide critical support to the electricity system in some unusually cold weather over the winter. These factors, combined with strong cost control, resulted in an improved profit position compared to the prior year.

There has also been progress in the strategic development of the biomass operation and the continuing growth of the retail business, Haven Power Limited ("Haven Power").

Collectively, these are important steps in positioning the Group for its long-term development, and have been taken against a background of significant regulatory uncertainty.

The Committee has striven to maintain a fair remuneration package. It needs to reflect the current economic context and the returns to shareholders, whilst also providing the right rewards and incentives to encourage the management of Drax's transition to become a sustainable, low carbon business.

The Committee has considered the environmental, social and governance implications of the remuneration arrangements and is satisfied that they will not lead to irresponsible behaviours.

This Remuneration Committee report has been prepared on behalf of the Board by the Committee. The Committee has adopted the principles of good governance as set out in the Combined Code 2008 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 ("the Regulations").

These Regulations require the Company's auditors to report on the "Audited information" in the Remuneration Committee 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 Committee report is subject to shareholder approval at the Annual General Meeting ("AGM") on 13 April 2011.

Part 1 – Unaudited information

The Committee

During the year, the Committee consisted of Tim Barker (as Chairman), Tim Cobbold (from 27 September 2010), Mike Grasby, David Lindsell and Tony Thorne (from 29 June 2010), all of whom are independent non-executive directors, together with Charles Berry, Chairman of the Company. Jamie Dundas was a member of the Committee until he retired from the Board on 21 April 2010. The Company Secretary acts as Secretary to the Committee.

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

The Committee met on three occasions during the year and its members' attendance record is set out on page 51. In addition to its formal meetings, the Committee met to review the appointment of its principal remuneration adviser and receive presentations from prospective advisers.

Advice to the Committee

Adviser	Services provided to the Committee	Other services provided to the Group
Kepler Associates LLP ("Kepler")	Independent adviser, appointed by the Committee, until October 2010 to advise on market practice and remuneration of executive and non-executive directors.	Kepler provided no other services to the Group.
PricewaterhouseCoopers LLP ("PwC")	Independent adviser appointed by the Committee, from October 2010, to advise on market practice and remuneration of executive and non-executive directors.	From time to time the Group engages PwC to provide financial, taxation and related advice on specific matters. The Committee will continue to monitor such engagements in order to be satisfied that they do not affect PwC's independence as an adviser to the Committee.
Norton Rose LLP	Appointed by the Board, with the agreement of the Committee, to provide legal advice on long-term incentives and directors' service contracts.	The Group 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.
Philip Hudson	Philip has attended meetings as Secretary to the Committee and has provided assistance on Human Resources ("HR") matters to the Committee as he also has overall responsibility for HR.	Philip is Director of Corporate Affairs and Company Secretary for the Group and therefore provides advice and assistance to the Board, Board Committee and other companies within the Group.

As the Group's auditor, Deloitte LLP ("Deloitte") undertakes an audit annually of Part 2 of the Remuneration Committee report. Deloitte provided no advice to the Committee during the year.

Principal responsibilities

The Committee has formal terms of reference, in accordance with which its 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 arrangements 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 personal 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.

Agenda

Each year the Committee agrees an annual work schedule. The regular scheduled matters considered by the Committee in 2010 were:

- review of the performance of the Group by reference to the 2009 Balanced Corporate Scorecard ("BCS"), including the application of the Committee's discretionary factor;
- ratification of the measures and weightings of the 2010 BCS;
- 2009 annual bonus awards to directors and senior managers by reference to the BCS and individual performance against personal objectives;
- agreeing personal objectives for directors and senior managers for 2010;
- review of base salary and overall remuneration packages for executive directors and senior managers;
- review of the Chairman's remuneration;
- granting of awards under executive and all employee share plans;
- consideration of vesting of awards under executive share plans (no such awards vested during 2010); and
- review of fees paid to advisers.

In addition, with the assistance of its advisers PwC, the Committee reviewed long-term incentive arrangements of the Group. Further details of the review and of the adjustments to the performance conditions made as a result of the review are included in the section of this report headed "Conditional share awards under the Bonus Matching Plan" on page 65. The Committee also reviewed the rules of the Annual Bonus Plan, which it considered to remain appropriate. It considered that the opportunity under the Annual Bonus Plan is consistent with market practice and the mix of performance measures applied via the BCS and further personal objectives provide suitably challenging targets.

Remuneration policy

The core principles of the remuneration policy are to:

- manage salaries and benefits around market levels, taking into account remuneration in relevant comparator groups;
- 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 ("TSR") and to the delivery of Business Plan targets with a particular emphasis on the achievement of strategic objectives.

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 was made up of:

Fixed	Variable
Base salary	Annual performance bonus (A mix of cash and deferred shares)
Pension	Long-term incentive comprising conditional shares under the Bonus Matching Plan (BMP) (Performance over three years)
Benefits in Kind ("BiK") (Car allowance, private medical etc)	All employee share plans

The table on page 62 shows the mix of remuneration that applied in 2010 for executive directors between variable and fixed, and short-term and long-term remuneration.

During 2010, the Committee appointed PwC as its independent adviser, in place of Kepler Associates who had held that appointment for more than five years. Following PwC's appointment in October 2010, the Committee reviewed the remuneration arrangements for its executive directors and senior management. The Committee was particularly concerned to ensure that these provided the right incentive and retention elements to ensure alignment with the steps needed to manage the business effectively and to develop a sustainable business relying less on coal generation, increasing its generation from biomass and developing its supply business.

The review concluded that base salary levels (effective from 1 April 2010 as detailed on page 67), benefits and annual bonus performance structures were appropriate and aligned with the market. It was considered, however that there was an opportunity to improve the long-term incentive arrangements provided through the Bonus Matching Plan ("BMP"), the vesting of awards under which was determined wholly by relative TSR, which, because of its close correlation with commodity markets, is a measure over which management has limited influence. The Committee considered that it was appropriate to retain a significant element of relative TSR in the long-term incentive performance condition in order to align directly with the interests of shareholders, but also to include measures relating to the operational and strategic objectives of the Company. The Committee therefore consulted with the Company's largest shareholders on proposals to adjust the performance conditions of the BMP to include additional performance measures. Shareholders who were consulted were generally supportive of the proposed adjustments and the Committee took account of comments made by shareholders in implementing the proposals. Further details of the BMP are included on page 65. The Committee believes that the current remuneration arrangements, including the adjusted performance conditions of the long-term incentive, are appropriate and fit for purpose taking account of the particular nature of Drax's business.

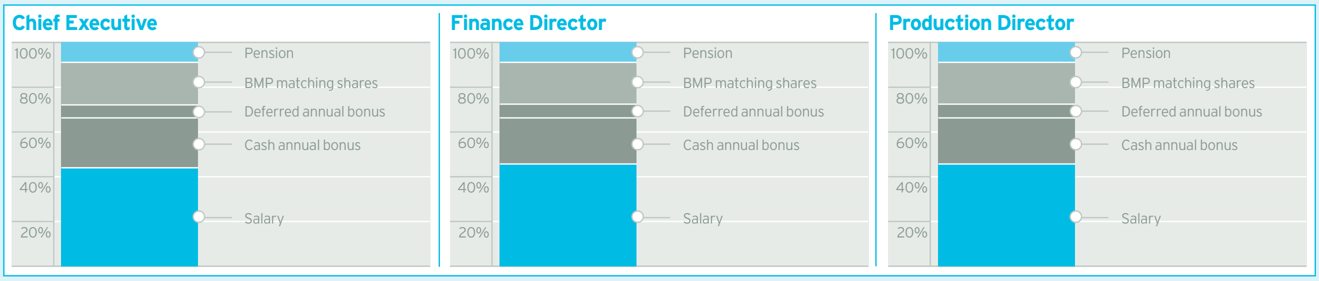
Components of remuneration

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

		Chief Executive	Finance Director	Production Director
Salary – Salaries were benchmarked in 2010 against comparator groups of utilities, power generators and selected other industrial and commercial companies with comparable market capitalisation, turnover and employee numbers.				
Annual bonus (% of salary)	Target	65%	60%	60%
	Maximum	130%	120%	120%
– 25% of any bonus is settled in shares deferred for three years. Bonuses are based on Group and individual performance against objectives.				
Bonus match (maximum match as a multiple of annual bonus award) – An award of conditional shares which vests based as to half on Drax three year TSR compared to that of the FTSE 51-150 and half on achievement of operational and strategic objectives over a three year period. (For awards made under the BMP in 2011 onwards).		1.5x	1.5x	1.5x
Employer's pension contribution (% of salary)		20%	20%	20%

Drax executive director – pay mix

% of total remuneration



The chart values the annual bonus at target with a 5.0% 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 4.5% 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.

In March 2010, Kepler presented a report to the Committee in which executive director salaries were benchmarked against two relevant comparator groups. Firstly, an industry sector group of 20 companies comprising companies in the electricity, oil and gas, engineering and utilities sectors. Secondly, a comparator group comprising 20 companies of comparable size to Drax in terms of market capitalisation, turnover and employee numbers from a variety of industry sectors. By way of an additional comparator, the report reviewed reported remuneration at International Power plc, which was considered to be the company with characteristics most similar to that of Drax. The report indicated that the remuneration of the Company's executive directors was, in all cases, in the lower quartile of the comparator group by reference to salary, cash and total remuneration.

The Committee also took account of the fact that no increase in salary had been awarded to the executive directors in the pay review year ending on 31 March 2010, and also of the level of general pay increases within the Company. The pay increase agreed on behalf of staff covered by collective bargaining arrangements was 2.7% to be effective on 1 April 2010, with further increases of RPI plus 0.3% on 1 January 2011 and 1 January 2012. The collective settlement for 2009 had been 3.5%. It was therefore noted that, on an annualised basis, general increase in salaries in the Company had been in excess of 7% over a two year period. The RPI based increase for the collective bargaining group as at 1 January 2011 was 4.9%.

In light of the benchmarking exercise and the other factors considered, the Committee agreed that with effect from 1 April 2010:

– the Chief Executive's base salary should be increased from £450,000 to £500,000;

– the Finance Director's base salary should be increased from £300,000 to £340,000; and

– the Production Director's base salary should be increased from £255,000 to £280,000.

Following the increases, each of the executive directors' salary, cash and total remuneration remained below median by reference to the comparator group. The Committee consider this salary level to be appropriate taking into account all of the factors set out. The Committee has determined that executive directors' salaries shall be increased by 2% with effect from 1 April 2011.

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 and are designed to reward short-term performance.

The Committee determines Group performance measures using a BCS for which the Board sets challenging performance targets as part of the Business Plan approval process. Each element of the scorecard has a low, target and stretch target measure and is given a percentage weighting. No score is attributed if performance is below the low target and maximum score is attributed to stretch target performance. In 2010 the scorecard had the following elements and weightings:

	Elements	Weighting
Financial targets	Underlying earnings per share; and	20%
	Cash(1) and controllable costs.	10%
Production targets	Safety and Plant and operational performance.	20%
Strategic and Business Plan objectives	Trading and commercial;	10%
	Commissioning of co-firing plant;	5%
	Alternative and advantaged fuel combustion;	2.5%
	Biomass plant project development;	10%
	Supply business customer and volume growth; and	12.5%
	Other business plan objectives.	10%

Notes:

(1) Cash flow for the year excluding the impact of short-term investments prior to payment of equity dividends.

In setting these measures and weightings, the Committee recognises that the short-term financial performance of the Group is substantially determined by commodity prices, and especially the dark green spread, over which management has limited control.

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.

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, leading to an overall percentage score.

Following the process, the Committee assessed the corporate score for 2010 at 150%. A summary of the assessment is set out in the following table:

	Elements
Financial targets	Stretch target achieved for: – underlying earnings per share; – cash(1) and controllable costs.
Production targets	Between target and stretch target for safety; and Stretch target achieved for plant and operational performance.
Strategic and Business Plan objectives	Between target and stretch target for: – trading and commercial; – commissioning of co-firing plant; and – supply business customer and volume growth. Stretch target achieved for: – Alternative and advantaged fuel combustion. Below target for: Biomass plant project development.

Notes:

(1) Cash flow for the year excluding the impact of short-term investments prior to payment of equity dividends.

The Board determines personal performance objectives for each executive director. The Committee assesses performance against these objectives and applies an individual performance multiplier of between zero and 1.5.

To determine the actual bonus awarded to each executive director, the target bonus is multiplied by the corporate score and by the personal score, subject to a cap of two times the target bonus.

For bonus awards in 2010, 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 are forfeited if the executive leaves the Group other than as a "good leaver" before the shares vest.

The target and maximum bonus percentages for 2011 for the Chief Executive and the other executive directors are the same as in 2010, and bonus measures and targets have been set using a similar process to that used previously. The corporate scorecard weightings are, as for 2010, 30% financial, 20% production and 50% strategic and Business Plan. The weightings are set out in the following table:

KPI	Target weighting
Financial performance	
Group underlying earnings per share[(1)]	20%
Cash[(2)] and controllable costs	10%
Total financial	**30%**
Production	
Safety and production targets	20%
Total production	**20%**
Strategic and Business Plan	
Regulatory	10%
Biomass development	15%
Retail development	10%
Trading added value	5%
Alternative/advantaged fuel burn	5%
Other	5%
Total strategic and Business Plan	**50%**
Total weighting	**100%**

Notes:

(1) Calculated using underlying earnings, being profit attributable to equity shareholders adjusted to exclude the after tax impact of unrealised gains and losses on derivative contracts (see note 8 to the consolidated financial statements).

(2) Cash flow for the year excluding the impact of short-term investments prior to payment of equity dividends

Conditional share awards under the Bonus Matching Plan

The Group operates a Bonus Matching Plan ("BMP") as a long-term performance share plan. Awards under the BMP have been made in 2009 and 2010.

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.

In respect of existing awards, 33% of awards granted to those members of senior management who are not members of the Executive Committee 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 awards granted to other members of senior management 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 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 companies comprising the FTSE 51–150 (the Comparator Group).

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.

Adjustment to performance conditions for 2011 and subsequent awards

As mentioned above, the Committee, assisted by its independent advisers PwC, conducted a review of its long-term remuneration arrangements. This concluded that:

- the basic construct of the BMP remains appropriate for Drax;
- the maximum incentive opportunity under the BMP remains competitive and appropriate;
- relative TSR should remain a significant part of the performance measure for the BMP; and
- the performance measures on half of the matching shares under the BMP should be aligned more directly to short-term and operational performance and to the achievement of long-term strategic objectives.

The current BCS used to measure performance in respect of the annual bonus arrangements has been developed over a number of years and is a key tool for aligning reward to both business performance and strategy. The Committee has therefore concluded that the BCS should be adapted so that it can be used for both short-term performance measurement for the assessment of annual bonus payments and as a building block in the three year assessment of performance under the BMP.

Accordingly, the following amendments will be made to the performance measures for awards made under the BMP to executives in 2011 (the BMP award):

- 50% of the BMP award will vest based on TSR relative to the FTSE 51–150 in line with the current performance condition (the TSR award); and
- 50% of the BMP award will vest by reference to the Company's performance against the average outcome from the BCS over the three year performance period (the Scorecard award).

The TSR performance condition will continue to measure TSR performance relative to companies in the FTSE 51–150 over the three-year performance period measured from the start of the financial year in which the BMP award is made. It will also continue to be leveraged such that 0% of the TSR award will vest if Drax's TSR ranking against the FTSE 51–150 at the end of the performance period is less than Median, 15% of the TSR award (i.e. 7.5% of the total BMP award) will vest upon achieving Median and 100% of the TSR award (i.e. 50% of the total BMP award) will vest upon achieving a ranking at least equal to upper quartile.

The Scorecard award will vest by reference to the average (mean) of the outputs of the BCS for each of the three years reported on during the performance period, commencing at the start of the financial year in which the BMP award is made. The averaging calculation is capped although the annual result on which the three year calculation will be made will not, for this purpose, be so capped.

It is then proposed that the Scorecard award will vest at the end of the three year performance period as follows:

Average BCS outcome	% of Scorecard Award vesting
<1	0%
1	15% (7.5% of total BMP award)*
1.5	100% (50% of total BMP award)*

* Straight-line vesting between 15% and 100% for average result between 1 and 1.5.

In addition, at the end of the three year performance period the Remuneration Committee will ratify each of the annual results going into the average BCS calculation and will have the discretion to adjust the final outcome based on events over the period to ensure an outcome that is consistent with the underlying performance progression of the business. In exercising their discretion the Committee will pay particular regard to progress against the strategic objectives incorporated in the BCS including sustainable development of biomass generation and the development of the Haven Power supply business.

For awards made to executives who are not members of the Executive Committee, one-third of the award will continue to vest on the third anniversary of the award subject to continued service, one-third will vest by reference to TSR relative to the FTSE 51-150 and one-third will vest by reference to the average BCS output on the basis described above.

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)

Car allowance	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.
Life assurance	Life assurance (in a sum assured of four times base salary) is provided for the executive directors and senior managers.
Private medical cover	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.
Relocation expenses and second base expenses	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 2007 ESIP Award was due to mature on 19 April 2010. Over the three-year performance period, Drax's TSR was below that of the index. As a result, all awards under the 2007 ESIP award have lapsed and no shares have been transferred to participants. It is anticipated that the 2008 ESIP Award will lapse on 14 April 2011, if the trend during the relative performance period continues.

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 current directors:

	Annual salary £000	Annual fees[1] £000	Annual bonus[2] £000	Annual benefits[3] £000	Annual cash pension[4] £000
Tim Barker	–	63	–	–	–
Charles Berry	–	200	–	–	–
Tim Cobbold	–	53	–	–	–
Peter Emery	280	–	168	12	56
Mike Grasby	–	53	–	–	–
David Lindsell	–	63	–	–	–
Tony Quinlan	340	–	204	78	68
Dorothy Thompson	500	–	325	84	100
Tony Thorne	–	53	–	–	–

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. The plans are the main vehicles for aligning staff with TSR.

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. The plan was operated in 2006 and again in 2010, 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 in both 2006 and 2010 were granted at the permitted discount of 20% to the prevailing share price (determined in accordance with the plan rules) resulting in option prices of 636 pence per share and 310.5 pence per share respectively and may be exercised upon successful completion of the three year or five year savings contract to which they are linked.

The five year contracts under the 2006 Plan are due to mature on 1 July 2011. The closing mid-market price of the Drax Group plc shares on 31 December 2010 was 368.3 pence per share, which is materially below the option price of 636 pence per share.

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

The Committee agreed that invitations to the SAYE be made again in 2011, immediately following the preliminary results announcement. The 20% discount to the market price is applied and participants will be able to take out SAYE contracts over three and five years and contribute in total no more than £250 per month.

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 Matching Shares for each Partnership Share); and
- allow the investment in shares of dividends received in respect of SIP shares.

The table below details how the SIP has been operated between 2006 and 2009:

	2006	2007	2008	2009
SIP Free Share Award[1]	Participants received £2,000 worth of shares.	Participants received £2,500 worth of shares in each year.		Participants received £1,000 worth of shares.
Partnership Shares	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.			
Matching Share Award[1]	Partnership shares matched on a one-for-one 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 decided not to operate the SIP in 2010 or 2011.

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.

No shares have vested since the introduction of the relevant performance share plan.

Service contracts

Executive directors' service agreements are of indefinite duration, 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 2010, 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
Tim Cobbold	27 September 2010	3 years	1	1
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
Tony Thorne	29 June 2010	3 years	1	1

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 10.30am 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 Group. 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 £48,750 in fees for that appointment during 2010.

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 the Chairman's and 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 67. The Committee determined that the Chairman would not receive any increase in his remuneration in the review year ending on 31 March 2011.

Other non-executive directors

The fees for non-executive directors were determined in April 2009 as shown below:

Basic fee	£52,500 per annum
Senior Independent Director (to include chair of a committee other than the Audit Committee)	£10,000 per annum
Audit Committee Chairmanship	£10,000 per annum
Other committee Chairmanship	£7,500 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, in recent years, the Company has been a member of both the FTSE100 and FTSE250 indices. The graph reflects the TSR (determined according to usual market practice) for the Company and each of the indices referred to on a cumulative basis over the period from 15 December 2005 to 31 December 2010.

TSR performance since listing – Drax versus FTSE100 and FTSE250

as at 31 December 2010

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 2010.

Directors' emoluments

The emoluments payable in respect of 2010 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 2010 £000	Benefits £000	Pension[1] £000	**Total 2010 £000**	Total 2009 £000
Tim Barker	–	61	–	–	–	**61**	58
Charles Berry	–	200	–	–	–	**200**	200
Tim Cobbold[(2)]	–	14	–	–	–	**14**	–
Jamie Dundas[(3)]	–	16	–	–	–	**16**	51
Peter Emery	274	–	252	17	55	**598**	488
Mike Grasby	–	55	–	–	–	**55**	58
David Lindsell	–	61	–	–	–	**61**	54
Tony Quinlan	330	–	306	78	66	**780**	602
Dorothy Thompson	487	–	488	83	97	**1,155**	903
Tony Thorne[(4)]	–	27	–	–	–	**27**	–

Notes:

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

(2) Tim Cobbold joined the Board on 27 September 2010 and therefore his emoluments are for only part of the year.

(3) Jamie Dundas retired from the Board on 21 April 2010 and therefore his emoluments are for only part of the year.

(4) Tony Thorne joined the Board on 29 June 2010 and therefore his emoluments are for only part of the year.

The average pensionable pay of an executive director is nine times the average of pensionable pay for employees within the collective bargaining unit.

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 2010 (number)	Awards made during the year (number)	Awards vesting during the year (number)	Awards lapsing during the year (number)	**As at 31 December 2010 (number)**	Market value at the date of award (pence)
Peter Emery						
2009 Matching Award	69,489	–	–	–	**69,489**	495.40
2009 Deferred Award	11,581	–	–	–	**11,581**	495.40
2010 Matching Award	–	85,171	–	–	**85,171**	388.02
2010 Deferred Award	–	14,195	–	–	**14,195**	388.02
Tony Quinlan						
2009 Matching Award	81,752	–	–	–	**81,752**	495.40
2009 Deferred Award	4,716	–	–	–	**4,716**	495.40
2010 Matching Award	–	103,541	–	–	**103,541**	388.02
2010 Deferred Award	–	17,257	–	–	**17,257**	388.02
Dorothy Thompson						
2009 Matching Award	138,382	–	–	–	**138,382**	495.40
2009 Deferred Award	23,063	–	–	–	**23,063**	495.40
2010 Matching Award	–	175,039	–	–	**175,039**	388.02
2010 Deferred Award	–	29,173	–	–	**29,173**	388.02

Details of the conditions subject to which the above awards will vest are given on page 65.

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 2010 (number)	Awards made during the year (number)	Awards vesting during the year (number)	Awards lapsing during the year (number)	**As at 31 December 2010 (number)**	Market value at the date of award (pence)
Peter Emery						
2007 Award	25,718	–	–	25,718	**–**	797.1
2008 Award	39,861	–	–	–	**39,861**	577.0
Dorothy Thompson						
2007 Award	46,104	–	–	46,104	**–**	797.1
2008 Award	71,057	–	–	–	**71,057**	577.0

Details of the conditions subject to which the above awards will vest are given on page 63.

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 2010 (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 2010 (number)**
Tony Quinlan							
2010 Plan	–	2,922	–	–	310.5	1 May 2013 to 31 October 2013	**2,922**
Dorothy Thompson							
2006 Plan	2,531	–	–	2,531	636.0	1 July 2011 to 31 December 2011	**–**
2010 Plan	–	2,922	–	–	310.5	1 May 2013 to 31 October 2013	**2,922**

The middle market closing quotation for an ordinary share of the Company on 31 December 2010, was 368.3 pence and the daily middle market closing quotations during the financial year ranged from 326.3 pence to 444.0 pence.

Directors' interests in Drax Group plc 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 2010					As at 1 January 2010				
	Ordinary shares	**SIP shares(1)**	**SAYE option shares(2)**	**ESIP share awards**	**BMP share awards(3)**	Ordinary shares	SIP shares(1)	SAYE option shares(2)	ESIP share awards	BMP share awards(3)
Tim Barker	**3,462**	**–**	**–**	**–**	**–**	3,462	–	–	–	–
Charles Berry	**1,730**	**–**	**–**	**–**	**–**	1,730	–	–	–	–
Tim Cobbold	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Peter Emery	**30,551**	**2,616**	**–**	**39,861**	**180,436**	30,551	2,616	–	65,579	81,070
Mike Grasby	**1,730**	**–**	**–**	**–**	**–**	1,730	–	–	–	–
David Lindsell	**7,500**	**–**	**–**	**–**	**–**	–	–	–	–	–
Tony Quinlan	**2,500**	**803**	**2,922**	**–**	**207,266**	2,500	803	–	–	86,468
Dorothy Thompson	**63,569**	**2,616**	**2,922**	**71,057**	**365,657**	63,569	2,616	2,531	117,161	161,445
Tony Thorne	**7,500**	**–**	**–**	**–**	**–**	–	–	–	–	–

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.

(3) Includes both the Matching and Deferred elements of BMP.

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 2010 and the date upon which this report was approved by the Board.

This report was reviewed and approved by the Board on 21 February 2011.

Tim Barker
Chairman of the Remuneration Committee

GROUP – INDEPENDENT AUDITOR'S 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 2010 which comprise the Consolidated income statement, the 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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 and express an opinion on 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 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 2010 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;

– 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; and

– certain elements of the report to shareholders by the Board on directors' remuneration.

Other matters

We have reported separately on the parent company financial statements of Drax Group plc for the year ended 31 December 2010 and on the information in the Directors' remuneration report that is described as having been audited.

C.R.D. Hughes

Carl D Hughes MA FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

21 February 2011

CONSOLIDATED INCOME STATEMENT

	Notes	Years ended 31 December 2010 £m	2009 £m
Revenue		**1,648.4**	1,475.8
Fuel costs in respect of generation		**(840.9)**	(691.0)
Cost of power purchases		**(165.8)**	(209.5)
Grid charges		**(82.2)**	(68.0)
Other retail costs		**(9.0)**	(4.4)
Total cost of sales		**(1,097.9)**	(972.9)
Gross profit		**550.5**	502.9
Other operating and administrative expenses	4	**(212.1)**	(200.0)
Unrealised losses on derivative contracts	18	**(60.5)**	(129.7)
Operating profit		**277.9**	173.2
Interest payable and similar charges	5	**(25.2)**	(17.3)
Interest receivable	5	**2.2**	1.9
Profit before tax		**254.9**	157.8
Tax charge	6	**(66.5)**	(46.9)
Profit for the year attributable to equity holders		**188.4**	110.9

Earnings per share		**pence per share**	pence per share
– Basic and diluted	8	**52**	31

All results relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Years ended 31 December 2010 £m	2009 £m
Profit for the year		**188.4**	110.9
Actuarial losses on defined benefit pension scheme	29	**(6.2)**	(15.1)
Deferred tax on actuarial losses on defined benefit pension scheme	6	**1.7**	4.2
Fair value (losses)/gains on cash flow hedges	24	**(232.6)**	375.5
Deferred tax on cash flow hedges before corporation tax rate change	6	**65.1**	(105.1)
Impact of corporation tax rate change on deferred tax on cash flow hedges	6	**0.6**	–
Other comprehensive (expense)/income		**(171.4)**	259.5
Total comprehensive income for the year attributable to equity holders		**17.0**	370.4

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2010 £m	2009 £m
Assets			
Non-current assets			
Intangible assets – goodwill	9	**10.7**	10.7
Property, plant and equipment	10	**1,184.2**	1,177.2
Derivative financial instruments	18	**25.8**	112.5
		1,220.7	1,300.4
Current assets			
Inventories	11	**116.6**	194.2
Intangible assets – ROCs held for sale	12	**33.1**	11.7
Trade and other receivables	13	**233.0**	208.9
Derivative financial instruments	18	**112.6**	308.8
Short-term investments	14	**95.0**	55.0
Cash and cash equivalents	15	**236.0**	80.4
		826.3	859.0
Liabilities			
Current liabilities			
Trade and other payables	16	**285.0**	227.3
Current tax liabilities		**189.7**	157.8
Borrowings	17	**61.7**	62.9
Derivative financial instruments	18	**197.9**	178.3
		734.3	626.3
Net current assets		**92.0**	232.7
Non-current liabilities			
Borrowings	17	**65.3**	126.9
Derivative financial instruments	18	**1.5**	8.9
Provisions	19	**6.4**	5.9
Deferred tax liabilities	20	**244.2**	333.6
Retirement benefit obligations	29	**37.3**	33.1
		354.7	508.4
Net assets		**958.0**	1,024.7
Shareholders' equity			
Issued equity	21	**42.1**	42.1
Capital redemption reserve	23	**1.5**	1.5
Share premium	23	**420.7**	420.7
Merger reserve	23	**710.8**	710.8
Hedge reserve	24	**59.5**	226.4
Accumulated losses	25	**(276.6)**	(376.8)
Total shareholders' equity		**958.0**	1,024.7

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 21 February 2011.

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	Accumulated losses £m	Total £m
At 1 January 2009	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/(expense)	–	–	–	–	270.4	(10.9)	259.5
Total comprehensive income for the year	–	–	–	–	270.4	100.0	370.4
Issue of share capital (note 21)	2.9	–	–	–	–	102.6	105.5
Equity dividends paid (note 7)	–	–	–	–	–	(145.0)	(145.0)
Movement in equity associated with share-based payments (note 22)	–	–	–	–	–	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)
At 1 January 2010	42.1	1.5	420.7	710.8	226.4	(376.8)	1,024.7
Profit for the year	–	–	–	–	–	188.4	`188.4
Other comprehensive expense	–	–	–	–	(166.9)	(4.5)	(171.4)
Total comprehensive (expense)/income for the year	–	–	–	–	(166.9)	183.9	17.0
Equity dividends paid (note 7)	–	–	–	–	–	(86.5)	(86.5)
Movement in equity associated with share-based payments (note 22)	–	–	–	–	–	2.8	2.8
At 31 December 2010	**42.1**	**1.5**	**420.7**	**710.8**	**59.5**	**(276.6)**	**958.0**

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Years ended 31 December 2010 £m	2009 £m
Cash generated from operations	26	**484.7**	321.4
Income taxes (paid)/refunded		**(56.1)**	19.4
Other gains		**2.0**	–
Interest paid		**(23.0)**	(13.4)
Interest received		**3.5**	0.7
Net cash from operating activities		**411.1**	328.1
Cash flows from investing activities			
Purchases of property, plant and equipment		**(62.3)**	(93.1)
Acquisition of a subsidiary		**–**	(11.7)
Short-term investments		**(40.0)**	(55.0)
Net cash used in investing activities		**(102.3)**	(159.8)
Cash flows from financing activities			
Equity dividends paid	7	**(86.5)**	(145.0)
Proceeds on issue of share capital	21	**–**	105.5
Repayment of borrowings	17	**(65.2)**	(170.1)
Other financing costs paid		**(1.5)**	(7.0)
Purchase of own shares held by employee trust		**–**	(1.5)
Net cash used in financing activities		**(153.2)**	(218.1)
Net increase/(decrease) in cash and cash equivalents		**155.6**	(49.8)
Cash and cash equivalents at 1 January		**80.4**	130.2
Cash and cash equivalents at 31 December	15	**236.0**	80.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Drax Group plc (the "Company") is incorporated in England and Wales under the Companies Act. The Company and its subsidiaries (together the "Group") operate in the electricity generation and supply industry within the UK. The address of the Company's registered office and principal establishment is Drax Power Station, Selby, North Yorkshire YO8 8PH, United Kingdom. The operating companies of the Group are disclosed in note 3 to 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"). Also, the financial statements have been prepared in accordance with IFRSs adopted by the European Union and therefore the consolidated financial statements comply with Article 4 of the EU IAS Regulations.

The financial statements have been prepared on a going concern basis, as set out in the Directors' report on page 42, and on the historical cost basis, except for certain financial assets and liabilities that have been measured at fair value.

Management has performed a review of the presentation of certain items in the income statement and balance sheet. As Drax increases the amounts of biomass burnt at the power station, the value of Renewables Obligation Certificates ("ROCs") in the balance sheet is likely to become more significant. Accordingly, management has concluded that ROCs should be separately presented in the balance sheet. £33.1 million (2009: £11.7 million) has been reclassified from "inventories" to "intangible assets – ROCs held for sale".

Additionally, management felt that metering charges, broker fees and ROC costs incurred at Haven Power Limited ("Haven Power") should be separately disclosed under "other retail costs" within the income statement in order to provide better information to users of the Annual report and accounts, as the retail business continues to grow. Accordingly £2.9 million of costs included in other operating and administrative expenses and £1.5 million of costs included in fuel costs has been reclassified to other retail costs in the 2009 comparative figures.

These are presentational changes only and have no net impact on operating profit or net assets for either of the financial years disclosed.

Adoption of new and revised accounting standards

In 2010, several new, revised and amended standards became effective. These are IFRS 3 (revised) "Business combinations", IAS 27 (revised) "Consolidated and separate financial statements", IAS 28 "Investments in associates", IAS 31 "Interests in joint ventures", IFRS 2 "Share-based payment" (amendment), IAS 39 (revised) "Financial instruments: recognition and measurement – eligible hedged items", IFRIC 18 "Transfers of assets from customers" and IFRIC 17 "Distribution of non-cash assets to owners". The adoption of these standards and interpretations has not had a material impact on the financial statements of the Group. In future periods, IFRS 3 is expected to impact the accounting for business combinations, with any future acquisition costs being expensed in the income statement.

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 14 "Prepayments of a minimum funding requirement" – effective for accounting periods beginning on or after 1 January 2011.
- IAS 24 (revised) "Related party disclosures" – effective for accounting periods beginning on or after 1 January 2011.
- IAS 32 (amendment) "Financial instruments: Presentation on classification of rights issues" – revision effective for accounting periods beginning on or after 1 February 2010.
- IFRIC 19 "Extinguishing financial liabilities with equity instruments" – effective for accounting periods beginning on or after 1 July 2010.
- IFRS 7 (amendment) "Financial instruments: Disclosures on derecognition" – amendment effective for accounting periods beginning on or after 1 July 2011.
- IFRS 9 "Financial instruments – Classification and measurement" – effective for accounting periods beginning on or after 1 January 2013.
- IAS 12 (amendment) "Deferred tax: Recovery of underlying assets" – effective for accounting periods beginning on or after 1 January 2012.
- IFRS 1 (amendment) "Severe hyperinflation and removal of fixed dates for first-time adopters" – effective for accounting periods beginning on or after 1 July 2011.
- Improvements to IFRS 2010 – effective for accounting periods beginning on or after 1 January 2011, with certain aspects on or after 1 July 2010.

The adoption of these standards in future periods is not expected to have a material impact on the financial statements of the Group.

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.

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

Impairment – The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3 (F). The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates (see note 9).

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, taking into account the nature of the losses, and the certainty of the relevant offsetting income streams.

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 group companies.

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

Revenues from sales of ROCs 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 Power 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 of the generation and sale of electricity at the Drax Power Station, along with the sale of electricity direct to customers through our retail business, Haven Power. The retail segment currently falls below the threshold of separate reportable segments under IFRS 8 "Operating Segments" and as such we only present one operating segment.

(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 2010, costs directly attributable to the business combination are not 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.

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

(K) Intangible assets – ROCs held for sale

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 the sale of ROCs and the Group recognises revenue 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, limited to the recoverable amount expected to be realised, is included within current intangible assets in respect of ROCs earned but not yet sold.

(L) CO_2 emissions allowances

The Group recognises its free emissions allowances received under the UK NAP at £nil cost allocated to each financial year on a straight line basis. 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 allocated to the financial year, and the market price at the balance sheet date.

(M) 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 have been substantively enacted at the balance sheet date and 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.

(N) 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 interest cost of the pension charge are deducted in arriving at operating profit in other operating and administrative 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.

(O) 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.

(P) 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.

(Q) 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.

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.

Short-term investments – Short-term investments includes cash held on deposits with financial institutions, with a maturity of greater than three months at inception.

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.

4. Operating profit

	Years ended 31 December	
	2010 £m	2009 £m
The following charges have been included in arriving at operating profit:		
Staff costs (note 28)	**67.3**	57.6
Depreciation of property, plant and equipment (note 10)	**52.2**	51.7
Repairs and maintenance expenditure on property, plant and equipment	**36.4**	39.3
Other operating and administrative expenses	**56.2**	51.4
Total other operating and administrative expenses	**212.1**	200.0

Total other operating and administrative expenses for 2010 includes £17.3 million incurred at Haven Power (2009: £9.8 million).

Auditors' remuneration

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

	Years ended 31 December	
	2010 £000	2009 £000
Audit fees:		
Fees payable for the audit of the Group's consolidated financial statements	**251**	251
Fees payable for the audit of the Company's subsidiaries pursuant to legislation	**39**	39
	290	290
Other fees:		
Pursuant to legislation – interim review	**59**	59
Other services	**13**	22
Total audit related fees	**362**	371
Taxation services	**70**	45
Other advisory services	**8**	52
Total non-audit fees	**78**	97
Total auditors' remuneration	**440**	468

5. Net finance costs

	Years ended 31 December	
	2010 £m	2009 £m
Interest payable and similar charges:		
Interest payable on bank borrowings	**(17.5)**	(14.0)
Other financing charges	**(4.9)**	–
Unwinding of discount on provisions (note 19)	**(0.5)**	(0.5)
Amortisation of deferred finance costs	**(2.3)**	(2.8)
Total interest payable and similar charges	**(25.2)**	(17.3)
Interest receivable:		
Interest income on bank deposits	**2.2**	1.9
Total interest receivable	**2.2**	1.9

6. Taxation

The income tax expense reflects the estimated effective tax rate on profit before tax for the Group for the year ended 31 December 2010 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the income statement.

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 with 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.

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. We have continued our dialogue with HMRC over this tax position. However, whilst we still believe we have a strong and robust case, we are no clearer as to whether we will ultimately be successful.

Changes in the rate of tax

On 28 June 2010, the Finance Bill 2010-11 was presented to Parliament. The Bill proposed four annual reductions in the rate of corporation tax from 28% to 24% by 2014-15. At the balance sheet date, the reduction in the corporation tax rate to 27% from April 2011 had been enacted. The resulting net reduction in the deferred tax liability has been reflected in the balance sheet at 31 December 2010 and gave rise to a credit to the income statement for the year ended 31 December 2010 of £8 million. It is currently expected that each future Finance Bill enacted will reduce the corporation tax rate by 1% until the rate of 24% is reached.

	Years ended 31 December	
	2010 £m	2009 £m
Tax charge comprises:		
Current tax	**88.5**	89.1
Deferred tax:		
– Before impact of corporation tax rate change	**(14.4)**	(42.2)
– Impact of corporation tax rate change	**(7.6)**	–
Tax charge	**66.5**	46.9

	Years ended 31 December	
	2010 £m	2009 £m
Tax on items (credited)/charged to equity:		
Deferred tax on actuarial losses on defined benefit pension scheme (note 20)	**(1.7)**	(4.2)
Deferred tax on cash flow hedges (note 20)	**(65.1)**	105.1
Impact of corporation tax rate change on deferred tax on cash flow hedges (note 20)	**(0.6)**	–
	(67.4)	100.9

The tax differs from the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are explained below:

	Years ended 31 December	
	2010 £m	2009 £m
Profit before tax	**254.9**	157.8
Profit before tax multiplied by the rate of corporation tax in the UK of 28% (2009: 28%)	**71.4**	44.2
Effects of:		
Adjustments in respect of prior periods	**(0.5)**	–
Expenses not deductible for tax purposes	**1.5**	1.4
Other	**1.7**	1.3
Change to corporation tax rate	**(7.6)**	–
Total tax charge	**66.5**	46.9

7. Dividends

	Years ended 31 December 2010 £m	2009 £m
Amounts recognised as distributions to equity holders in the year (based on the number of shares in issue at the record date):		
Interim dividend for the year ended 31 December 2010 of 14.1 pence per share paid on 15 October 2010 (2009: 4.1 pence per share paid on 7 October 2009)	**51.5**	15.0
Final dividend for the year ended 31 December 2009 of 9.6 pence per share paid on 14 May 2010 (2009: 38.3 pence per share paid on 22 May 2009)	**35.0**	130.0
	86.5	145.0

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 2010 of 17.9 pence per share (equivalent to approximately £65.3 million) payable on or before 13 May 2011. The final dividend has not been included as a liability as at 31 December 2010.

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 Approved 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"). The underlying earnings per share has been calculated after excluding the after tax impact of marking to market derivative contracts which are not hedged.

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

	Years ended 31 December 2010 £m	2009 £m
Earnings:		
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	**188.4**	110.9
After tax impact of unrealised losses on derivative contracts	**44.6**	93.4
Underlying earnings attributable to equity holders of the Company	**233.0**	204.3

	Years ended 31 December 2010	2009
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**364.9**	352.7
Effect of dilutive potential ordinary shares under share plans	**0.7**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	**365.6**	352.7
Earnings per share – basic and diluted (pence)	**52**	31
Underlying earnings per share – basic and diluted (pence)	**64**	58

9. Intangible assets – goodwill

	£m
Cost and carrying amount:	
At 1 January 2009, 31 December 2009 and 31 December 2010	**10.7**

Goodwill arising on the Haven Power acquisition has been allocated to the Haven cash-generating unit (Haven Power Limited, or Haven Power). At 31 December 2010, the fair value of goodwill was significantly in excess of its book value; accordingly a sensitivity analysis has not been disclosed.

The recoverable amount of Haven Power was calculated based on a value in use calculation. The key assumptions used in these calculations are those regarding the discount rates and future cash flows. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business. The first five years of cash flows are based upon the five year Business Plan approved by the Board. Future cash flows have been taken in perpetuity, assuming no growth rate is applied to the final year of the Business Plan. The pre-tax rate used to discount the forecast cash flows from Haven Power is 12% reflecting a reasonable assumption of the applicable cost of capital.

10. Property, plant and equipment

	Freehold land and buildings £m	Plant and equipment £m	Plant spare parts £m	Total £m
Cost:				
At 1 January 2009	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)
At 1 January 2010	158.2	1,358.5	37.9	1,554.6
Additions at cost	1.2	53.4	4.6	59.2
Disposals	–	(10.2)	–	(10.2)
Issues	–	6.5	(6.5)	–
Transfers	11.5	(21.5)	10.0	–
At 31 December 2010	**170.9**	**1,386.7**	**46.0**	**1,603.6**
Accumulated depreciation:				
At 1 January 2009	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)
At 1 January 2010	36.4	331.9	9.1	377.4
Charge for the year	3.5	47.6	1.1	52.2
Disposals	–	(10.2)	–	(10.2)
At 31 December 2010	**39.9**	**369.3**	**10.2**	**419.4**
Net book amount at 31 December 2009	121.8	1,026.6	28.8	1,177.2
Net book amount at 31 December 2010	**131.0**	**1,017.4**	**35.8**	**1,184.2**

Assets in the course of construction amounted to £30.4 million at 31 December 2010 (2009: £113.3 million).

Plant and equipment includes assets held under finance lease agreements with a carrying value at 31 December 2010 of £0.7 million (2009: £0.7 million).

11. Inventories

	As at 31 December	
	2010 £m	2009 £m
Coal	**79.2**	163.4
Biomass	**21.9**	14.2
Other fuels and consumables	**15.5**	16.6
	116.6	194.2

The cost of inventories recognised as an expense in the year ended 31 December 2010 was £658.3 million (2009: £581.4 million).

12. Intangible assets – ROCs held for sale

	ROCs £m
Cost:	
At 1 January 2009	22.1
Generated	28.3
Utilised	(0.5)
Sold	(38.2)
At 1 January 2010	11.7
Generated	42.4
Utilised	(1.3)
Sold	(19.7)
At 31 December 2010	**33.1**

13. Trade and other receivables

	As at 31 December	
	2010 £m	2009 £m
Amounts falling due within one year:		
Trade receivables	**195.4**	173.8
Accrued income	**32.8**	29.0
Prepayments and other receivables	**4.8**	6.1
	233.0	208.9

Trade receivables principally represent sales of electricity to a number of counterparties. At 31 December 2010, the Group had amounts receivable from three (2009: four) significant counterparties, representing 75% (2009: 73%) 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 18.

Total revenue for the year ended 31 December 2010 includes amounts of £307.0 million, £295.6 million and £159.1 million (2009: £222.9 million and £221.8 million) derived from three customers (2009: two customers), each representing 10% or more of the Group's revenue for the year.

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 £2.6 million (2009: £1.2 million).
This allowance has been determined by reference to past default experience, and includes £2.6 million in relation to Haven Power (2009: £1.1 million).

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

	Years ended 31 December	
	2010 £m	2009 £m
At 1 January	**1.2**	-
Acquisition of subsidiary	**-**	0.1
Receivables written off	**(1.0)**	(1.2)
Provision for receivables impairment	**2.4**	2.3
At 31 December	**2.6**	1.2

14. Short-term investments

	As at 31 December	
	2010 £m	2009 £m
Short-term investments	**95.0**	55.0

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

15. Cash and cash equivalents

	As at 31 December	
	2010 £m	2009 £m
Cash and cash equivalents	**236.0**	80.4

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

16. Trade and other payables

	As at 31 December	
	2010 £m	2009 £m
Amounts falling due within one year:		
Trade payables	**13.4**	26.4
Accruals	**239.4**	180.4
Other payables	**32.2**	20.5
	285.0	227.3

Accruals at 31 December 2010 include £146.7million (2009: £113.6 million) with respect to the Group's estimated net liability to deliver CO_2 emissions allowances.

17. Borrowings

	As at 31 December	
	2010 £m	2009 £m
Current:		
Term loans	**61.6**	62.8
Finance lease liabilities	**0.1**	0.1
	61.7	62.9

	As at 31 December	
	2010 £m	2009 £m
Non-current:		
Term loans	**64.9**	126.4
Finance lease liabilities	**0.4**	0.5
	65.3	126.9

Scheduled term loan repayments of £32.5 million were made on 30 June and 31 December in 2010 and 2009. These repayments were made in line with the target repayment profile as a result of the levels of cash available for debt service.

On 3 August 2009, the Group completed the refinancing 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. Future scheduled debt repayments are £67.5 million in each of 2011 and 2012, after which point the term loan will have been repaid in full.

17. Borrowings (continued)

Analysis of borrowings

Borrowings at 31 December 2010 and 31 December 2009 consisted principally of bank loans held by the Company's subsidiary Drax Finance Limited as follows:

	As at 31 December 2010		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Term loans	**135.0**	**(8.5)**	**126.5**
Finance lease liabilities	**0.5**	**–**	**0.5**
Total borrowings	**135.5**	**(8.5)**	**127.0**
Less current portion	**(67.6)**	**5.9**	**(61.7)**
Non-current borrowings	**67.9**	**(2.6)**	**65.3**

	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
Total borrowings	200.6	(10.8)	189.8
Less current portion	(65.1)	2.2	(62.9)
Non-current borrowings	135.5	(8.6)	126.9

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 2010 the Group's contingent liability in respect of these guarantees amounted to £134.3 million (2009: £141.3 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.

18. 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_2 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 2010 and 31 December 2009 were as follows:

	As at 31 December 2010		As at 31 December 2009	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Commodity contracts:				
Less than one year	**87.8**	**(167.5)**	286.1	(141.3)
More than one year but not more than two years	**19.3**	**(0.3)**	89.4	(5.7)
More than two years	**6.1**	**(0.3)**	23.1	(0.3)
Interest rate swaps:				
Less than one year	**–**	**(4.6)**	–	(4.4)
More than one year but not more than two years	**–**	**–**	–	(2.1)
More than two years	**–**	**–**	–	(0.8)
Forward foreign currency exchange contracts:				
Less than one year	**24.8**	**(25.8)**	22.7	(32.6)
More than one year but not more than two years	**0.3**	**(0.5)**	–	–
More than two years	**0.1**	**(0.4)**	–	–
Total	**138.4**	**(199.4)**	421.3	(187.2)
Less: non-current portion				
Commodity contracts	**(25.4)**	**0.6**	(112.5)	6.0
Interest rate swaps	**–**	**–**	–	2.9
Forward foreign currency exchange contracts	**(0.4)**	**0.9**	–	–
Total non-current portion	**(25.8)**	**1.5**	(112.5)	8.9
Current portion	**112.6**	**(197.9)**	308.8	(178.3)

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

	Years ended 31 December	
	2010 £m	2009 £m
Unrealised losses on derivative contracts recognised in arriving at operating profit	**(60.5)**	(129.7)

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

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 commenced 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.

18. Financial instruments (continued)

- **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.

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

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

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

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

The fair value of 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, counterparty risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of commodity and financial markets and seeks to manage potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by the Risk Management Committees as detailed in Corporate governance (page 52) 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, biomass and other fuels, and the price of CO_2 emissions allowances. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so.

The Group has a policy of making forward power sales with corresponding purchases of fuel and CO_2 emissions allowances when profitable to do so. All commitments to sell power under fixed price contracts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from fluctuations in the price of electricity.

The Group purchases coal, biomass and other fuels under either fixed or variable priced contracts with different maturities from a variety of domestic and international sources. All international physical coal purchase contracts transacted at a fixed price and financial coal contracts exchanging floating price coal for fixed price amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from fluctuations in the price of coal. All physical biomass purchase contracts are currently entered into and held for the purpose of the Group's own purchase, sale or usage requirements and are therefore designated as own use.

The Group purchases CO_2 emissions allowances under fixed price contracts with different maturity dates from a range of domestic and international sources. All commitments to purchase CO_2 emissions allowances under fixed price contracts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from fluctuations in the price of CO_2 emissions allowances.

Commodity price sensitivity

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

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

- profit after tax for the year ended 31 December 2010 would decrease/increase by £17.3 million (2009: decrease/increase by £16.1 million). This is mainly attributable to the Group's exposure to financial coal derivatives; and

– other equity reserves would decrease/increase by £9.3 million (2009: decrease/increase by £30.3 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 17.

Following the refinancing of the term loan in 2009, new interest rate swaps were taken out which do not meet the required hedge criteria and hence movements in the fair value of the new swaps are recognised in the income statement. The fair value of the previous swaps was frozen on refinancing and has been unwound over the period to December 2010.

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 and net assets for the year ended 31 December 2010 would increase/decrease by £0.2 million (2009: profit after tax would decrease/increase by £0.8 million, other equity reserves would increase/decrease by £1.2 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 euros, and CO_2 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 for the year ended 31 December 2010 would increase/decrease by £6.1 million (2009: increase/decrease by £1.1 million). This is mainly attributable to the Group's exposure to foreign currency exchange contracts for the purposes of meeting commitments under financial coal contracts; and

– other equity reserves would decrease/increase by £0.9 million (2009: net assets would increase/decrease by £1.1 million) as a result of the changes in the fair value of hedged foreign currency exchange contracts.

Liquidity risk

The treasury function is responsible for liquidity, funding and settlement management under policies approved by the Board of directors. Liquidity needs are monitored using regular forecasting of operational cash flows and financing commitments. The Group maintains a mixture of cash and cash equivalents, long-term debt and committed facilities in order to ensure sufficient funding for business requirements.

The following tables set out details of the expected contractual maturity of non-derivative financial liabilities. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date.

	As at 31 December 2010			
	Within 3 months £m	3 months–1 year £m	1–5 years £m	Total £m
Term loans, gross value	–	67.5	67.5	135.0
Finance lease liabilities, carrying value	–	0.1	0.4	0.5
Add interest payments	–	8.9	4.0	12.9
Borrowings, contractual maturity	–	76.5	71.9	148.4
Trade and other payables	232.2	52.8	–	285.0
	232.2	129.3	71.9	433.4

18. Financial instruments (continued)

	As at 31 December 2009			
	Within 3 months £m	3 months–1 year £m	1-5 years £m	Total £m
Term loans, gross value	–	65.0	135.0	200.0
Finance lease liabilities, carrying value	–	0.1	0.5	0.6
Add interest payments	–	10.5	13.5	24.0
Borrowings, contractual maturity	–	75.6	149.0	224.6
Trade and other payables	147.5	79.8	–	227.3
	147.5	155.4	149.0	451.9

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	
	2010 % p.a.	2009 % p.a.
Term loans	**7.45**	5.93

The following tables set out details of the expected contractual maturity of derivative financial instruments which are marked-to-market based on the undiscounted net cash inflows/(outflows). Where the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to projected commodity prices, 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 2010			
	Within 1 year £m	**1-2 years £m**	**>2 years £m**	**Total £m**
Commodity contracts, net	**186.2**	**45.0**	**(14.6)**	**216.6**
Interest rate swaps	**(3.2)**	**(1.4)**	**-**	**(4.6)**
Forward foreign currency exchange contracts, net	**148.0**	**87.4**	**50.1**	**285.5**
	331.0	**131.0**	**35.5**	**497.5**

	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

Counterparty risk

As the Group relies on third party suppliers for the delivery of coal, biomass 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.

The Group is also exposed to the risk of collateral calls against its trading contracts should the Group's creditworthiness deteriorate and its counterparties demand collateral to protect their exposure to the Group. In order to mitigate this risk the Group has undertaken a number of actions – refining its trading strategy to concentrate on more credit-efficient structures and to transact more fixed margin contracts which are less exposed to commodity price movements; and increasing the volume of business traded through its supply company, Haven Power, which is less exposed to collateral calls. In addition, the Group entered into a trading agreement with Barclays Bank PLC on 5 May 2010, which enables it to enter into trading contracts without the requirement to post collateral up to a fixed amount of £135 million, irrespective of the Group's underlying credit rating.

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	
	2010 £m	2009 £m
Financial assets:		
Cash and cash equivalents	**236.0**	80.4
Short-term investments	**95.0**	55.0
Trade and other receivables	**235.6**	210.1
Derivative financial instruments	**138.4**	421.3
	705.0	766.8

Trade and other receivables are stated gross of the provision for doubtful debts of £2.6 million (2009: £1.2 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 management

The Group manages its capital to ensure it is able to continue as a going concern, and maintain its credit rating while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of shareholders' equity excluding the hedge reserve, together with net debt or, when the Group has net cash, shareholders' equity excluding the hedge reserve less net cash. Net debt/cash comprises borrowings disclosed in note 17, cash and cash equivalents in note 15 and short-term investments in note 14. Equity attributable to the shareholders of the Company comprises issued capital, capital reserves and accumulated losses, excluding the hedge reserve, (see Consolidated statement of changes in equity). Maintaining an optimal supporting capital structure is one of the Group's key priorities, and as such, our performance is detailed on page 16 of the Business review. The capital structure of the Group is as follows:

	As at 31 December	
	2010 £m	2009 £m
Borrowings	**(127.0)**	(189.8)
Cash and cash equivalents	**236.0**	80.4
Short-term investments	**95.0**	55.0
Net cash/(debt)	**204.0**	(54.4)
Total shareholders' equity, excluding hedge reserve	**898.5**	798.3

19. Provisions

	Reinstatement £m
At 1 January 2009	2.6
Additional provision	2.8
Unwinding of discount	0.5
At 1 January 2010	5.9
Unwinding of discount	0.5
At 31 December 2010	**6.4**

The provision for reinstatement 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 property, plant and equipment and is being depreciated over the useful lives of the related assets. The unwinding of the discount is included in finance costs (note 5).

The provision is estimated using the assumption that the reinstatement will take place between 2039 and 2045, and has been estimated using existing technology at current prices. 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.

20. Deferred tax

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
At 1 January 2009	(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)
Credited to equity in respect of actuarial losses	–	–	–	(4.2)	(4.2)
Charged to equity in respect of cash flow hedges	105.1	–	–	–	105.1
At 1 January 2010	65.5	262.1	17.6	(11.6)	333.6
(Credited)/charged to the income statement	(15.9)	(7.5)	–	1.4	(22.0)
Credited to equity in respect of actuarial losses	–	–	–	(1.7)	(1.7)
Credited to equity in respect of cash flow hedges	(65.7)	–	–	–	(65.7)
At 31 December 2010	**(16.1)**	**254.6**	**17.6**	**(11.9)**	**244.2**

Deferred tax assets are recognised to the extent that the realisation of the related tax benefit through future associated taxable profits is probable (note 3 (B)).

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 estimated at £3.2 million at 31 December 2010 (2009: £3.7 million) in respect of trading losses that can be carried forward against future taxable income.

21. Issued equity

	As at 31 December	
	2010 £m	2009 £m
Authorised:		
865,238,823 ordinary shares of 11 16/29 pence each	**100.0**	100.0
Issued and fully paid:		
2009 – 364,853,890 ordinary shares of 11 16/29 pence each	**–**	42.1
2010 – 364,859,988 ordinary shares of 11 16/29 pence each	**42.1**	–
	42.1	42.1

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

	Years ended 31 December	
	2010 number	2009 number
At 1 January	**364,853,890**	339,398,968
Issue of share capital	**–**	25,454,922
Issued under employee share schemes	**6,098**	–
At 31 December	**364,859,988**	364,853,890

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 were credited as fully paid and rank equally in all respects with the existing ordinary shares of 11 16/29 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 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 accumulated losses in the year ended 31 December 2009.

Issued under employee share schemes
On 1 September 2010, a total of 6,098 ordinary shares of $11^{16}/_{29}$ pence each in the Company were issued in satisfaction of shares vesting in accordance with the rules of the Group's Bonus Matching Plan to six individuals whose employment with the Group had terminated due to retirement. There were no such issues in 2009.

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

22. Share-based payments

Costs recognised in the income statement in relation to share-based payments are as follows:

	Years ended 31 December	
	2010 £m	2009 £m
SIP	**0.2**	1.3
ESIP	**0.4**	0.4
BMP	**2.0**	0.3
SAYE	**0.2**	–
	2.8	2.0

Share Incentive Plan ("SIP")
Under the 2009 SIP Free share award, the Company's employee benefit trust purchased shares to be held on behalf of qualifying employees equating to a cash value of approximately £1,000 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. There were no SIP Free shares awarded in 2010.

Between 2007 and 2009, qualifying employees could buy up to £1,500 worth of Partnership shares in any one tax year. Matching shares were awarded to employees to match any Partnership shares they bought, in a ratio of one-to-one, with the cost of Matching shares borne by the Group. The fair value of Matching shares awarded in the year to 31 December 2009 of £0.5 million was charged to the income statement on a straight-line basis over a one year vesting period now ended. There were no awards under the SIP Partnership and Matching share plan in 2010.

Shares in the Company held under trust and under the Company's control as a result of the SIP were as follows:

	Shares held at 1 January 2010 number	Shares acquired during year number	Shares transferred during year number	**Shares held at 31 December 2010 number**	**Cost at 31 December 2010 £000**	**Nominal value at 31 December 2010 £000**	**Market value at 31 December 2010 £000**
SIP	381,096	28,561	(24,068)	**385,589**	**2,465**	**45**	**1,420**

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 Total Shareholder Return ("TSR") matches or outperforms an index (determined in accordance with the scheme rules) over three years. The fair value of the 2008, 2007 and 2006 ESIP awards, of £1.2 million, £0.9 million and £1.9 million respectively are or have been charged to the income statement on a straight-line basis over the corresponding three year vesting periods.

22. Share-based payments (continued)

Bonus Matching Plan ("BMP")

The BMP was introduced in 2009 to replace the ESIP. Under the BMP, annual awards of performance and service related 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 2010 BMP awards of £3.0 million (2009: £2.8 million) is being charged to the income statement on a straight-line basis over the three year vesting period to April 2013 (2009: April 2012).

Movements in the number of share options outstanding for the ESIP and BMP awards are as follows:

	2010		2009	
	ESIP number	BMP number	ESIP number	BMP number
At 1 January	**754,925**	**981,932**	1,272,877	–
Granted	**–**	**1,404,989**	–	1,010,332
Forfeited	**(36,180)**	**(101,967)**	(234,710)	(28,400)
Exercised	**–**	**(6,098)**	–	–
Expired	**(275,946)**	**–**	(283,242)	–
At 31 December	**442,799**	**2,278,856**	754,925	981,932

Savings-Related Share Option Plan ("SAYE Plan")

In April 2010, participation in the SAYE Plan was offered to all qualifying employees. Options were granted for employees to acquire shares at a price of 310.5 pence (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 2010 options granted in connection with the SAYE Plan of £0.6 million is being charged to the income statement over the life of the respective contracts. The only previous grant under the SAYE Plan, in July 2006 at an exercise price of 636 pence, resulted in a fair value of £0.5 million being charged to the income statement over the life of the respective contracts.

Movements in the number of share options outstanding for the SAYE plans are as follows:

	2010		2009	
	SAYE 3 Year number	SAYE 5 Year number	SAYE 3 Year number	SAYE 5 Year number
At 1 January	**–**	**464,449**	223,959	530,905
Granted	**701,877**	**730,811**	–	–
Forfeited	**(33,356)**	**(288,917)**	(490)	(66,456)
Expired	**–**	**–**	(223,469)	–
At 31 December	**668,521**	**906,343**	–	464,449

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.

23. Other reserves

	Capital redemption reserve		Share premium		Merger reserve	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
At 1 January and 31 December	**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.

24. Hedge reserve

	Years ended 31 December	
	2010 £m	2009 £m
At 1 January	**226.4**	(44.0)
(Losses)/gains recognised:		
– Commodity contracts	**(68.3)**	327.0
– Forward foreign currency exchange contracts	**(1.0)**	–
Released from equity:		
– Commodity contracts	**(167.2)**	47.3
– Interest rate swaps	**3.9**	1.2
Related deferred tax, net (note 20)	**65.7**	(105.1)
At 31 December	**59.5**	226.4

The Group's cash flow hedges relate to commodity contracts (principally commitments to sell power), forward foreign currency exchange contracts 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 18.

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

	As at 31 December 2010			
	Within 1 year £m	**1–2 years £m**	**>2 years £m**	**Total £m**
Commodity contracts	**42.0**	**13.8**	**4.3**	**60.1**
Forward foreign currency exchange contracts	**(0.3)**	**(0.1)**	**(0.2)**	**(0.6)**
Interest rate swaps	**–**	**–**	**–**	**–**
	41.7	**13.7**	**4.1**	**59.5**

	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

25. Accumulated losses

	Years ended 31 December	
	2010 £m	2009 £m
At 1 January	**(376.8)**	(434.9)
Profit for the year	**188.4**	110.9
Actuarial losses on defined benefit pension scheme (note 29)	**(6.2)**	(15.1)
Deferred tax on actuarial losses on defined benefit pension scheme (note 20)	**1.7**	4.2
Issue of share capital (note 21)	**-**	102.6
Equity dividends paid (note 7)	**(86.5)**	(145.0)
Net movements in equity associated with share-based payments	**2.8**	0.5
At 31 December	**(276.6)**	(376.8)

26. Cash generated from operations

	Years ended 31 December	
	2010 £m	2009 £m
Profit for the year	**188.4**	110.9
Adjustments for:		
Interest payable and similar charges	**25.2**	17.3
Interest receivable	**(2.2)**	(1.9)
Tax charge	**66.5**	46.9
Depreciation and loss on disposal of property, plant and equipment	**52.2**	52.0
Unrealised losses on derivative contracts	**60.5**	129.7
Defined benefit pension scheme charge	**5.6**	5.1
Non-cash charge for share-based payments	**2.8**	2.0
Operating cash flows before movement in working capital	**399.0**	362.0
Changes in working capital		
Decrease/(increase) in inventories	**77.6**	(27.4)
(Increase)/decrease in receivables	**(25.4)**	61.8
Increase/(decrease) in payables	**62.5**	(77.7)
Total decrease/(increase) in working capital	**114.7**	(43.3)
(Increase)/decrease in intangible assets – ROCs held for sale	**(21.4)**	10.4
Defined benefit pension scheme contributions	**(7.6)**	(7.7)
Cash generated from operations	**484.7**	321.4

27. Reconciliation of net cash/(debt)

	Years ended 31 December	
	2010 £m	2009 £m
Net debt at 1 January	**(54.4)**	(234.7)
Increase/(decrease) in net cash	**155.6**	(49.8)
Increase in short-term investments	**40.0**	55.0
Decrease in borrowings	**62.8**	175.1
Net cash/(debt) at 31 December	**204.0**	(54.4)

28. Employees and directors

Staff costs (including executive directors)

	Years ended 31 December	
	2010 £m	2009 £m
Included in other operating and administrative expenses (note 4):		
Wages and salaries	**52.7**	45.2
Social security costs	**4.3**	3.7
Other pension costs (note 29)	**7.5**	6.7
Share-based payments (note 22)	**2.8**	2.0
	67.3	57.6

Average monthly number of people employed (including executive directors)

	Years ended 31 December	
	2010 number	2009 number
Operations	**593**	591
Retail services	**298**	153
Business services	**153**	156
	1,044	900

The average number of people employed for 2010 includes 298 at Haven Power (2009: 153).

29. Retirement benefit obligations

The Group operates an approved defined benefit scheme on behalf of the Drax Power Group ("DPG") of the Electricity Supply Pension Scheme ("ESPS"). This scheme was closed to new members as from 1 January 2002 unless they qualify through being existing members of another part of the ESPS. The Group also operates a defined contribution scheme.

Defined benefit scheme

As at the year end, the most recent actuarial valuation of the DPG ESPS was 31 March 2007. This has been updated as at 31 December 2010 to reflect relevant changes in assumptions. The principal assumptions were as follows:

	As at 31 December	
	2010 % p.a.	2009 % p.a.
Discount rate	**5.3**	5.7
Inflation	**3.5**	3.6
Rate of increase in pensions in payment and deferred pensions	**3.3**	3.4
Rate of increase in pensionable salaries	**4.5**	5.1
Expected return on plan assets	**5.9**	6.1

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retired in 2010 at age 60 will live on average for a further 26 years (2009: 25 years) after retirement if they are male, and for a further 28 years (2009: 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 29 years respectively (2009: 27 years and 28 years respectively).

The amounts recognised in the balance sheet are determined as follows:

	As at 31 December	
	2010 £m	2009 £m
Defined benefit obligation	**167.2**	146.5
Fair value of plan assets	**(129.9)**	(113.4)
Net liability recognised in the balance sheet	**37.3**	33.1

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

	Years ended 31 December	
	2010 £m	2009 £m
Current service cost	**4.3**	3.3
Interest cost	**8.4**	7.0
Expected return on plan assets	**(7.1)**	(5.2)
Total included in staff costs (note 28)	**5.6**	5.1

The actual return on plan assets was a gain of £10.5 million (2009: gain of £13.2 million).

The amounts recognised in the statement of comprehensive income are as follows:

	Years ended 31 December	
	2010 £m	2009 £m
Cumulative actuarial losses on defined benefit pension scheme at 1 January	**(53.7)**	(38.6)
Actuarial losses on defined benefit pension scheme recognised in the year	**(6.2)**	(15.1)
Cumulative losses recognised in the statement of comprehensive income at 31 December	**(59.9)**	(53.7)

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

	Years ended 31 December 2010 £m	2009 £m
Defined benefit obligation at 1 January	**146.5**	114.4
Current service cost	**4.3**	3.3
Employee contributions	**1.0**	1.0
Interest cost	**8.4**	7.0
Actuarial losses	**9.6**	23.1
Benefits paid	**(2.6)**	(2.3)
Defined benefit obligation at 31 December	**167.2**	146.5

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

	Years ended 31 December 2010 £m	2009 £m
Fair value of plan assets at 1 January	**113.4**	93.8
Expected return on plan assets	**7.1**	5.2
Actuarial gains	**3.4**	8.0
Employer contributions	**7.6**	7.7
Employee contributions	**1.0**	1.0
Benefits paid	**(2.6)**	(2.3)
Fair value of plan assets at 31 December	**129.9**	113.4

Employer contributions included payments to reduce the actuarial deficit of £3.7 million (2009: £3.7 million).

The major categories of plan assets as a percentage of total plan assets were as follows:

	As at 31 December 2010 %	2009 %
Equities	**40.5**	40.2
Fixed interest bonds	**42.4**	39.8
Hedge funds	**13.0**	14.5
Cash	**4.1**	5.5

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 £15 million (2009: £14 million) and a decrease of 0.5% in the discount rate would increase the net liability recognised in the balance sheet by £17 million (2009: £16 million).

29. Retirement benefit obligations (continued)

The history of experience adjustments is as follows:

	As at 31 December				
	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Defined benefit obligation	**(167.2)**	(146.5)	(114.4)	(118.6)	(109.4)
Fair value of plan assets	**129.9**	113.4	93.8	105.1	96.9
Deficit	**(37.3)**	**(33.1)**	**(20.6)**	**(13.5)**	**(12.5)**
Experience adjustments on plan liabilities	**(9.6)**	(23.1)	13.2	(1.1)	5.3
Experience adjustments on plan assets	**3.4**	8.0	(26.1)	(2.2)	3.3

Defined contribution scheme

Pension costs for the defined contribution scheme are as follows:

	Years ended 31 December	
	2010 £m	2009 £m
Total included in staff costs (note 28)	**1.9**	1.6

The Group expects to contribute £12.3 million to its pension plans during the 12 months ended 31 December 2011.

In February 2011, the pension trustees and the Company agreed the 2010 triennial valuation. The agreed assumptions were adopted in the 2010 year end valuation. The Company intends to fund the deficit over a period of eight years.

30. Capital and other financial commitments

	As at 31 December	
	2010 £m	2009 £m
Contracts placed for future capital expenditure not provided in the financial statements	**72.7**	103.6
Future support contracts not provided in the financial statements	**39.7**	77.3
Future commitments to purchase fuel under fixed and variable priced contracts	**1,345.7**	1,369.8

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

	As at 31 December	
	2010 £m	2009 £m
Within one year	**0.4**	0.4
Within two to five years	**1.5**	1.5
After five years	**3.8**	4.3
	5.7	6.2

31. 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 70 to 72.

	Years ended 31 December	
	2010 £000	2009 £000
Salaries and short-term benefits	2,749	2,213
Aggregate amounts receivable under share-based incentive schemes	595	248
Company contributions to money purchase pension schemes	218	201
	3,562	2,662

Amounts receivable under incentive schemes represents the expenses arising from share-based payments included in the income statement, determined based on the fair value of the related awards at the date of grant (note 22).

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. 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. During the year ended 31 December 2010 services purchased from Eaga plc totalled £5.0 million (2009: £1.3 million), of which £6.0 million was outstanding at 31 December 2010 (2009: £1.3 million); no security or guarantee was provided.

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

COMPANY – INDEPENDENT AUDITOR'S 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 2010 which comprise the parent Company balance sheet and the related notes 1 to 7. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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 and express an opinion on 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 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 2010;
- 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 2010.

Carl D Hughes MA FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

21 February 2011

COMPANY BALANCE SHEET

	Notes	As at 31 December 2010 £000	2009 £000
Fixed assets			
Investment in subsidiaries	3	**466,096**	463,459
Current assets			
Amounts due from other Group companies		**10,564**	92,785
Other debtors		**-**	4
Cash at bank and in hand		**66**	8,810
		10,630	101,599
Current liabilities			
Amounts due to other Group companies		**(2,338)**	(7,258)
Net current assets		**8,292**	94,341
Net assets		**474,388**	557,800
Capital and reserves			
Called-up share capital	4	**42,148**	42,147
Capital redemption reserve	5	**1,502**	1,502
Share premium account	5	**420,688**	420,688
Profit and loss account	5	**10,050**	93,463
Total equity shareholders' funds	5	**474,388**	557,800

These financial statements were approved by the Board of directors on 21 February 2011.

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 21 February 2011. Drax Group plc reported a profit for the year ended 31 December 2010 of £0.5 million (2009: £135.1 million, or £1.1 million before dividends received from other Group companies).

The Company has no employees other than the directors, whose remuneration was paid by a subsidiary undertaking and a proportion was re-charged to the Company. The amount re-charged during the year was £578,000 (2009: £506,000).

The auditors' remuneration for audit services provided to the Company for the year ended 31 December 2010 was £20,000 (2009: £20,000).

3. Fixed asset investments

	Subsidiary undertakings £000
Carrying amount:	
At 1 January 2010	463,459
Capital contribution	2,637
At 31 December 2010	**466,096**

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 22 to the consolidated financial statements.

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) (1)	England and Wales	– (3)	100%
Drax Group Limited (holding company) (1)	Cayman Islands	Ordinary	100%
Drax Intermediate Holdings Limited (holding company) (1)	Cayman Islands	Ordinary	100%
Drax Holdings Limited (holding company) (1)(2)	Cayman Islands	Ordinary	100%
Drax Electric Limited (in members' voluntary liquidation) (dormant company) (1)	Cayman Islands	Ordinary	100%
Drax Limited (holding company) (1)	Cayman Islands	Ordinary	100%
Drax Power Limited (trading company, power generation) (1)	England and Wales	Ordinary	100%
Drax Ouse (dormant company) (1)	England and Wales	Ordinary	100%
Drax Investments Limited (investment company) (1)	England and Wales	Ordinary	100%
Drax Biomass Developments Limited (holding company)	England and Wales	Ordinary	100%
Drax Biomass (Selby) Limited (non-trading company) (1)	England and Wales	Ordinary	100%
Drax Biomass (Immingham) Limited (non-trading company) (1)	England and Wales	Ordinary	100%
Drax Biomass (Tyneside) Limited (non-trading company, formerly Mid Suffolk Power Limited) (1)	England and Wales	Ordinary	100%
BondPower Limited (non-trading company)	Jersey	Ordinary	100%
Haven Power Limited (trading company, power retail) (1)	England and Wales	Ordinary	100%
Haven Power Nominees Limited (non-trading company, formerly Haven Trustee Limited)*	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.

During the year, InPower Limited and InPower 2 Limited were dissolved. Although not subsidiaries of Drax Group plc, they were previously included in the consolidated financial statements (prepared under IFRSs) in accordance with SIC 12 "Consolidation – special purpose entities".

4. Called-up share capital

	As at 31 December	
	2010 £000	2009 £000
Authorised		
865,238,823 ordinary shares of $11^{16}/_{29}$ pence each	**99,950**	99,950
Issued and fully paid		
2009 – 364,853,890 ordinary shares of $11^{16}/_{29}$ pence each	**–**	42,147
2010 – 364,859,988 ordinary shares of $11^{16}/_{29}$ pence each	**42,148**	–
	42,148	42,147

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

	Years ended 31 December	
	2010 number	2009 number
At 1 January	**364,853,890**	339,398,968
Issue of share capital	**–**	25,454,922
Issued under employee share schemes	**6,098**	–
At 31 December	**364,859,988**	364,853,890

Issue of shares

On 23 June 2009, the Group announced the placing of approximately 25.5 million new ordinary shares, details of which are disclosed in note 21 to the consolidated financial statements.

Issued under employee share schemes

On 1 September 2010, a total of 6,098 ordinary shares of $11^{16}/_{29}$ pence each in the Company were issued in satisfaction of shares vesting in accordance with the rules of the Group's Bonus Matching Plan to six individuals whose employment with the Group had terminated due to retirement. There were no such issues in 2009.

The Company has only one class of shares, which are ordinary shares, carrying 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
At 1 January 2009	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)
At 1 January 2010	42,147	1,502	420,688	93,463	557,800
Share capital issued (note 4)	1	–	–	(1)	–
Retained profit for the year	–	–	–	534	534
Credited to equity for share-based payments	–	–	–	2,525	2,525
Equity dividends paid (note 6)	–	–	–	(86,471)	(86,471)
At 31 December 2010	**42,148**	**1,502**	**420,688**	**10,050**	**474,388**

6. Dividends

	Years ended 31 December	
	2010 £000	2009 £000
Amounts recognised as distributions to shareholders in the year (based on the number of shares in issue at the record date):		
Interim dividend for the year ended 31 December 2010 of 14.1 pence per share paid on 15 October 2010 (2009: 4.1 pence per share paid on 7 October 2009)	**51,445**	14,959
Final dividend for the year ended 31 December 2009 of 9.6 pence per share paid on 14 May 2010 (2009: 38.3 pence per share paid on 22 May 2009)	**35,026**	129,990
	86,471	144,949

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 2010 of 17.9 pence per share (equivalent to approximately £65.3 million) payable on or before 13 May 2011. The final dividend has not been included as a liability as at 31 December 2010.

7. Contingent liabilities

The Company has provided unsecured guarantees to third parties in respect of contracts held by a subsidiary company. The guarantees have been issued for £nil consideration and the Company has not charged the subsidiary for the guarantees.

The Company has granted a charge over the shares in its subsidiary, Drax Finance Limited, in respect of the Group's debt (detailed in note 17 to the consolidated financial statements), which is guaranteed and secured directly by each of the principal subsidiary undertakings of the Company. The Company itself is not a guarantor of the Group's debt.

SHAREHOLDER INFORMATION

Key dates for 2011

At the date of publication of this document, the following are the proposed key dates in the 2011 financial calendar:

Annual General Meeting	13 April
Ordinary shares marked ex-dividend[1]	27 April
Record Date for entitlement to the final dividend[1]	3 May
Interim Management Statement	12 May
Payment of final dividend[1]	13 May
Financial half year end	30 June
Announcement of half year results	2 August
Interim Management Statement	15 November
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. 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.

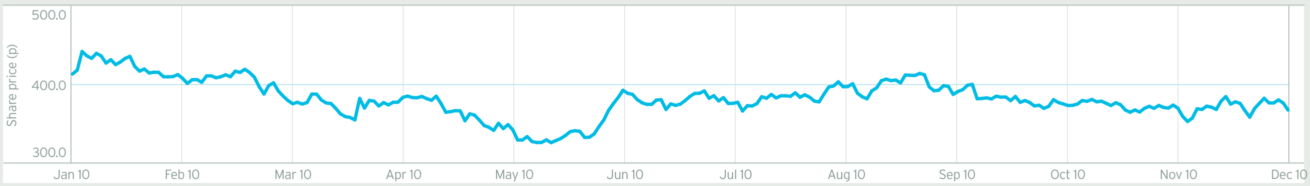
The table below provides an indication of fluctuations in the Drax Group plc share price during the course of 2010, and the graph provides an indication of the trend of the share price throughout the year.

Closing price on 31 December 2009	High during the year (5 January 2010)	Low during the year (26 May 2010)	**Closing price on 31 December 2010**
414.80 pence	444.00 pence	326.30 pence	**368.30 pence**

Notes:

(1) The share prices given are the middle market closing prices as derived from the London Stock Exchange Daily Official List.

Share price graph
as at 31 December 2010



Market capitalisation

The market capitalisation, based on shares in issue and closing middle market price at 31 December 2010, was approximately £1.34 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 this number cost 8 pence per minute from a BT landline, other providers' costs may vary. Lines are open from 8.30am to 5.30pm, Monday to Friday – excluding Bank Holidays); 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.

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 profile

The categories of ordinary shareholders and the ranges and size of shareholdings are set out below:

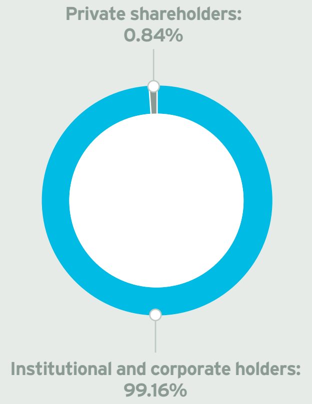
Analysis of shareholders	Number of shareholders	%	Number of shares[1]	%
	As at 31 December 2010			
Private shareholders	1,552	48.47%	3,079,851	0.84%
Institutional and corporate holders	1,650	51.53%	361,780,137	99.16%
Total	3,202	100.00%	364,859,988	100.00%

Range	Number of shareholders	%	Number of shares[1]	%
	As at 31 December 2010			
1-100	107	3.34%	5,909	0.00%
101-200	164	5.12%	26,139	0.01%
201-500	555	17.33%	204,631	0.06%
501-1,000	696	21.74%	576,075	0.16%
1,001-5,000	1,074	33.54%	2,434,975	0.67%
5,001-10,000	136	4.25%	1,010,101	0.28%
10,001-100,000	264	8.24%	9,665,711	2.65%
100,001-500,000	127	3.97%	28,269,811	7.75%
500,001-5,000,000	67	2.09%	105,741,032	28.98%
5,000,001 and above	12	0.37%	216,925,604	59.45%
Total	3,202	100.00%	364,859,988	100.00%

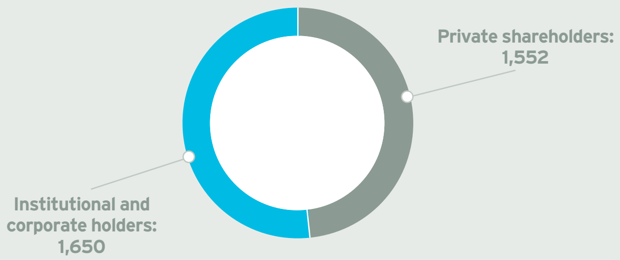
Notes:

(1) Ordinary shares of 11 16/29 pence each.

Shareholders by percentage ownership
as at 31 December 2010



Shareholders by number
as at 31 December 2010



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.

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

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

Average capture price
Revenue derived from bilateral contracts divided by volume of net merchant sales.

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.

Baseload
Running 24 hours per day, seven days per week remaining permanently synchronised to the system.

Bilateral contracts
Contracts with counterparties and power exchange trades.

BMP
The Drax Group plc Bonus Matching Plan.

Company
Drax Group plc.

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_2 emissions allowances).

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.

EBITDA
Profit before interest, tax, depreciation and amortisation, gain/(loss) on disposal of fixed assets and unrealised gains/(losses) on derivative contracts.

ESIP
The Drax Group plc Restricted Share Plan, also known as the Drax Group plc Executive Share Incentive Plan.

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

Forced outage
Any reduction in plant availability excluding planned outages.

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

Frequency response service
Services purchased by National Grid to maintain system frequency.

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

Group
Drax Group plc and its subsidiaries.

IASs
International Accounting Standards.

IFRSs
International Financial Reporting Standards.

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

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

Lost time injury rate
The frequency rate is calculated on the following basis: (lost time injuries 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.

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

Net merchant sales
Net volumes attributable to bilateral contracts and power exchange trades.

Net sales
The aggregate of net merchant sales and net Balancing Mechanism.

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.

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

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

Pond fines
Coal dust and waste coal from the cleaning and screening process which can be used for coal-fired power generation.

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

Power revenues
The aggregate of bilateral contracts and Balancing Mechanism income/expense.

ROCs
Renewables Obligation Certificates.

SAYE Plan
The Drax Group plc Approved Savings-Related Share Option Plan.

SIP
The Drax Group plc Approved Share Incentive Plan.

Summer
The calendar months April to September.

Technical availability
Total availability after planned and forced outages.

Through-the-mill co-firing
Is a process whereby biomass passes first through the pulverising mills before going to the burners situated in the boiler walls.

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

UK NAP
UK National Allocation Plan.

Underlying earnings per share
Calculated as profit attributable to equity shareholders, adjusted to exclude the after tax impact of unrealised gains and losses on derivative contracts, divided by the weighted average number of ordinary shares outstanding during the year.

Winter
The calendar months October to March.

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