Inside Drax

Drax Group plc
Annual report and accounts 2011

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 oriented power generation and retail business, driven by biomass innovation.

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 reliable 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 40,000 business sites. Our intention is to grow a significant retail business providing us with a valuable alternative to trading through the wholesale electricity market.

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Our business
We operate both a generation and a retail business in the UK electricity market. This report gives a detailed account of our operations during 2011.

07 More on: **Our key priorities**

36 49 More on: **Corporate and social responsibility**

Chairman's introduction

During 2011, we delivered strong operational performance across the business. Although we experienced a good deal of uncertainty in the power-related commodity markets, I am pleased to report earnings (EBITDA) for 2011 of £334 million (2010: £392 million) and an operating profit of £366 million (2010: £279 million). In accordance with our dividend policy, the Board proposes a final dividend in respect of 2011 of 11.8 pence per share, equivalent to £43 million. This would give a total dividend for the year of 27.8 pence per share (2010: 32.0 pence per share).

We continue to make progress in reducing our carbon footprint, something which is now well embedded in and central to our business strategy. In just a matter of weeks we will embark on the last stage of the largest steam turbine modernisation programme in UK history, which brings with it a carbon dioxide emissions saving of one million tonnes a year.

Haven Power Limited, our electricity retail company serving business customers, made good progress implementing its IT business platform which is critical to realising its growth ambitions. We are delighted with the growth achieved in 2011 and the real value that the Group is now deriving from the company's success. It complements well our existing trading capabilities and provides a credit efficient, direct sales channel for an increasing proportion of our power.

Electricity generation from sustainable biomass remains our focus and we continue to believe that this technology has considerable potential and an important role as a low carbon, cost effective, reliable and flexible source of renewable power for the UK. I am delighted to say that our view is being echoed by those in Government and elsewhere, which is encouraging.

We have continued to work with the Government throughout the year to advance the case for sustainable biomass and secure an appropriate level of support. We have welcomed the dialogue that we have been afforded and appreciate the extensive work undertaken by the Government on the biomass agenda.

Earnings demonstrate good business performance despite uncertainty in the power-related commodity markets

£334m

Earnings (EBITDA)*
2010: £392m

The UK's largest ever steam turbine modernisation programme nearing completion

* Profit before interest, tax, depreciation, amortisation, gains and losses on disposal of property, plant and equipment and unrealised gains and losses on derivative contracts

We have enhanced our technical and commercial expertise in the emerging biomass energy sector and we are ready to increase greatly our electricity generation from sustainable biomass. However, we will only do so if the regulatory regime, including the economics of the support offered, is attractive for our shareholders.

On more governance-related matters and in line with the guidance given in the UK Corporate Governance Code (the "Code"), I should like to comment on how the principles relating to the role and effectiveness of the Board have been applied.

There is a clear division of responsibilities between myself as Chairman and our Chief Executive, Dorothy Thompson. We have a clear statement on which matters are reserved for the Board and those which are delegated, and these are reviewed at least annually. Our non-executive directors play a major role in challenging constructively the Group's management, particularly on matters of strategy and its development.

In recent years through our formal, rigorous and transparent selection process, we have endeavoured to ensure that those appointed to the Board have complementary skills, experience and knowledge in order to improve the quality of the Board and its decision making. Following publication of the Davies Report, Women on Boards, in February 2011, the Board considered the recommendations of both the Davies Report and the Financial Reporting Council consultation on possible changes to the Code. Consequently, we established a policy to ensure that gender diversity is one of the factors taken into account when considering future appointments to the Board and other senior appointments.

Details of the Board, its function, performance and effectiveness can be found in the Corporate governance section of this report.

Throughout the business I believe we have made significant progress during 2011 and my sincere thanks go to all Group staff for their hard work and commitment, without which none of this year's achievements would have been possible.

Charles Berry
Chairman
20 February 2012

Haven Power has made good progress, implementing its IT business platform for growth

Electricity generation from sustainable biomass remains a key focus for the business

Staff continue to underpin the Group's achievements

Maximising the value of the Drax business

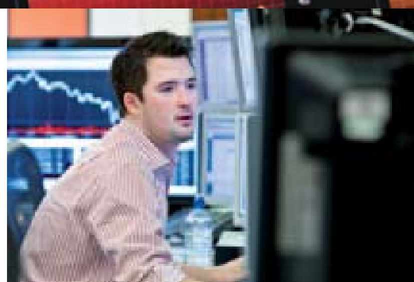
Our business model

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 both the difference between the price at which we sell our power and the cost of coal and carbon, known as the "dark green spread", and increasingly by the "bark spread" for co-firing, which is the difference between power price and renewable support and the cost of biomass.

From this starting point 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.

2



1

1 Fuel

We now make use of a range of fuels, including coal, biomass and others which are economically advantageous.

How we maximise value

For the last nine years we have burnt biomass in place of some of our coal, when economic to do so. 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 2011

- → 9.1 million tonnes of coal burnt
- → 1.3 million tonnes of biomass burnt
- → 0.7 million tonnes of economically advantageous fuels burnt

2 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.

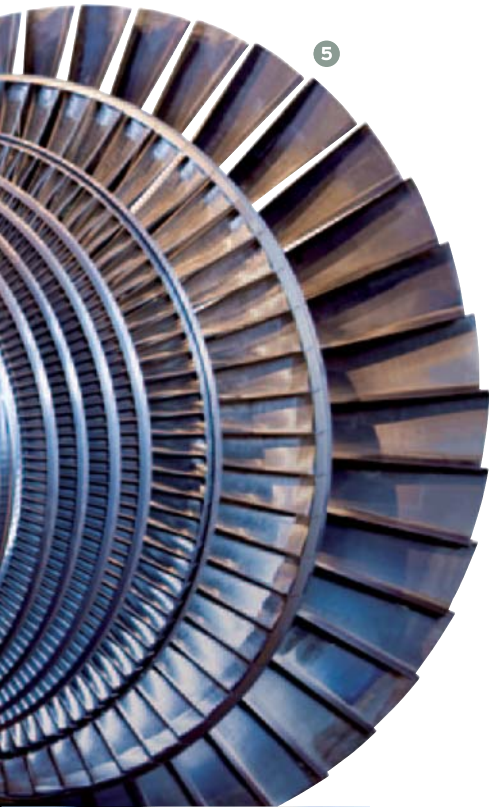
How we maximise value

As the largest power station in the UK we are able to utilise economies of scale through, for example, 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 2011

- → 26.4TWh net sales of power
- → 11.9 million tonnes of CO_2 emissions allowances purchased
- → 1.2 million Renewables Obligation Certificates sold for renewable power generated

Business review
Governance
Financials



5

3

4

3 Retail

Our retail 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. Our retail business increases the trading options available for the power output of the Group, providing us with an alternative and direct route to market.

Key facts for 2011

- 3.3TWh supplied
- >100% sales growth by volume
- 40,000+ business sites on supply at the end of the year

4 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, we are improving our overall efficiency through our turbine upgrade project which brings 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 2011

- 3,960MW connected capacity of Drax Power Station
- 88.4% plant availability
- 5.8% forced outage rate
- 6.2% planned outage rate

5 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 burning sustainable biomass and our turbine upgrade project 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 2011

- 2.0 million tonnes of CO_2 saved through co-firing sustainable biomass
- 1.2 million tonnes of ash sold
- 0.7 million tonnes of gypsum sold

Delivering results

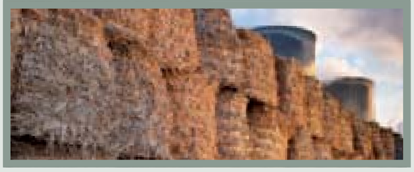
Our business is influenced by external factors, which we manage to the very best of our ability. Through focusing on our six key priorities we aim to achieve our vision and maximise shareholder value.

We have a clear intent...

Our vision for Drax is to be a bold, customer oriented power generation and retail business, driven by biomass innovation.

We have two strategic initiatives to enable us to achieve our vision, namely:

Our project to convert Drax Power Station into a predominantly biomass fuelled generating asset, subject to securing the necessary regulatory support



Our programme for the expansion of our retail business, Haven Power

Influenced by...

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
- → Electricity wholesale market risk
- → Biomass strategy risk
- → Plant operating risk
- → Regulatory and political risk

32 More on:
Principal risks and uncertainties

...delivered through our six key priorities...

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


10
Maintain operational excellence


09
Grow our retail customer base


13
Progress our biomass strategy[(1)]


16
Maximise profitability from our coal generation capacity


31
Maintain an optimal supporting capital structure

43
Deliver excellent people leadership across our operations

(1) Our turbine upgrade project will be completed in 2012. The other strand of our carbon abatement work is delivering our biomass strategy, which also encompasses influencing the regulatory framework. These two key priorities from 2010 have, therefore, been absorbed within 'progress our biomass strategy'.

...which in turn is delivering consistent, strong performance:

In 2011 we achieved:

Total revenue £1,836 million (2010: £1,648 million)	Gross profit £501 million (2010: £551 million)
EBITDA £334 million (2010: £392 million)	Underlying earnings 56 pence per share (2010: 64 pence per share)

22 More on:
Operational and financial performance

Some of our principal performance indicators for 2011 are:

Net cash £225 million (2010: £204 million)	Load factor 80% (2010: 80%)
Carbon dioxide emissions 760t/GWh (2010: 784t/GWh)	Total recordable injury rate 0.10 (2010: 0.26)

16 More on:
Principal performance indicators

Chief Executive's statement

Introduction

The business performed well in 2011 against a backdrop of volatile commodity markets and significant regulatory developments. In our generation and retail businesses, we maintained our focus on excellence in operations, tight cost control and disciplined capital project execution.

Preparation for our biomass expansion is now well advanced. We completed extensive combustion trials in 2011, and are now confident in our technical ability to be predominantly biomass fuelled. However, it is important to note that moving ahead with our plans remains dependent on securing appropriate regulatory support and a strong investment case.

Good financial results, the successful conclusion, in April, to the Group's Eurobond financing structure and the bank refinancing we completed in July, leave us with a strong balance sheet which provides a solid foundation for future investment in the business.

Strategy

Our vision for Drax is to be a bold, customer oriented power generation and retail business, driven by biomass innovation. We have two key strategic initiatives to enable us to achieve our vision, namely, our project to convert Drax Power Station into a predominantly biomass fuelled generating asset, subject to securing the necessary regulatory support, and our programme for the expansion of Haven Power Limited ("Haven Power").

Commodity markets

A number of significant global events in 2011 combined to create uncertainty in the commodity markets in which we operate.

The gas market continued to be the dominant factor in driving power prices. Both the unrest in North Africa and the Middle East and the incident at one of Japan's nuclear power stations which increased the country's demand for liquefied natural gas ("LNG"), contributed to increasing gas prices through the middle of the year. Thereafter, exceptionally mild weather in the fourth quarter saw gas prices come under pressure and begin to fall.

Coal prices moved within a relatively narrow range throughout the year.

Carbon prices reached their lowest point for two years amid fears for the Eurozone economies. Looking ahead, the introduction of the carbon price support mechanism by the UK Government from April 2013 is likely to erode the competitive position in the market of our coal-fired generation business, but at the same time it strengthens the case for biomass generation.

Overall, gas prices were resilient through much of the year and we saw improving dark green spreads, the difference between the price of power and the cost of coal and carbon, for coal-fired generators. In the last quarter of the year, however, spreads began to drift down as the unusually mild weather for the time of year continued.

Bark spreads for co-firing, the difference between power price and renewable support and the cost of biomass, remained weak, with most traded biomass commanding lower margins than coal.

Retail performance

Haven Power is meeting our growth expectations with over double the retail sales of 2010 during 2011. The growth has been driven largely by our progression in the industrial and commercial ("I&C") market, supported by the implementation of a new IT platform which is working well.

One of our key priorities:
Grow our retail customer base

Opening up routes to market

"We are pleased to report a doubling of our sales volumes over the last year, driven largely by our progression in the industrial and commercial market."

Peter Bennell
Chief Executive, Haven Power

1
IT processes
New IT platform implemented to support customer growth.

2
Customer service
Ranked No. 1 for customer satisfaction in SME market in 2011 Datamonitor Survey.

3
Trading
Some 20% of forward sales of our generation output are through Haven Power.

4
Customers
We have made real progress in growing our customer numbers during the year.

One of our key priorities:
Maintain operational excellence

Delivering industry-leading performance

"We work hard to maintain the reliability, availability and flexibility of the power station so that we can make a vital contribution to the nation's security of supply."

Peter Emery
Production Director

1

4

1
Health and safety
2011 was a record year for Drax, with our best ever performance on total recordable injury rate.

2
Waste management
All waste generated as part of the operation and maintenance of the power station is carefully managed.

3
Turbine upgrade
We are nearing the completion of our turbine upgrade programme which will deliver an overall efficiency improvement of 5%.

4
Industrial Emissions Directive
We are working on the options available to us for compliance with the Industrial Emissions Directive from 2016.

2

3

An excellent standard of customer service is central to our proposition for this business, and we were pleased to see recognition of that through being ranked No. 1 for customer satisfaction in the small and medium enterprise ("SME") market in the 2011 Datamonitor Survey.

Selling our output through Haven Power provides a credit efficient route to market for our power sales compared to the wholesale electricity market. These sales, when secured at a fixed price, provide a hedge against adverse power price movements. Currently, some 20% of our forward sales are through Haven Power.

Although Haven Power made a small loss in 2011, we remain on track with our target to break-even in this business from 2013.

Operating performance

Following a record year for operating performance in 2010, we continued to deliver industry-leading performance in 2011. As in previous years, our availability and reliability throughout 2011 meant that we were able to deliver value to the business through providing flexible generation output and balancing services to the System Operator, National Grid, in support of system stability and security.

The single unit outage for 2011 was completed in good time, especially given the complexity of some of the renewal work undertaken. Our safety statistics continue to be industry-leading, with the best performance on total recordable injury rate since we began using the measure in 2005.

For the year, our forced outage rate, which measures any reduction in plant availability excluding planned outages, is in line with our long-term target of 5%, which has been set through extensive benchmarking with UK and international coal-fired plant to determine the optimum balance between performance and cost. We delivered this operating performance whilst keeping a tight control on costs.

We continued to work on increasing our burn of fuels which have a higher margin or lower carbon footprint over the standard bituminous coal which we burn. These advantaged fuels (petcoke, pond fines and commercial biomass) accounted for 9% of the total fuel burnt during the year.

We are furthering our work on the options available to us for compliance with the more stringent emissions standards of the Industrial Emissions Directive ("IED") from 2016. The key factors in determining the optimal solution for compliance are plant flexibility, with some technologies such as selective catalytic reduction ("SCR") allowing more flexibility than others, and fuel mix. Accordingly, the level of biomass burn is an important consideration.

We currently estimate the cost of compliance with the IED, including SCR, to be in the order of £200 million (see Strategic capital investment plan).

Renewable output and research and development

Our biomass co-firing facility operated well during the year, but at less than full capacity. Unfortunately, due to the low level of renewable support available for co-firing, much of the biomass available for purchase was not economic to burn. This severely limited our commercial burn of biomass, with less than half of our co-firing capacity being used for commercial electricity generation.

During the year, we extended our research and development work with combustion trials of a wide variety of sustainable biomass materials at different throughputs and under varying operating conditions. We burnt significant volumes of uneconomic biomass to support our research and development, but the associated cost was necessary to support these critical trials.

The results of the trials to date have been encouraging and we have confidence in the technical capability to become predominantly biomass fuelled.

Chief Executive's statement

Through the trials we achieved high levels of biomass burn over sustained periods, during which time we were also able to demonstrate the plant's flexibility. We have an advanced understanding of the chemistry dynamics, and we have been working closely with third party experts to understand any longer term plant efficiency or capacity reduction implications.

We have also extended our research and development work to cover more fuels and further analysis of the likely emissions of nitrogen oxides, to help determine the optimal solution for IED compliance as described earlier. The final results of these trials are due in the second half of 2012.

The final support level under the regulatory framework is the main driving force which will determine the mix of sustainable biomass materials and supply contract tenors, which in turn determines the extent to which we co-fire and, therefore, the performance of the plant itself.

Further carbon abatement

In addition to the carbon dioxide ("CO_2") savings through burning biomass in place of coal, savings were made through efficiency improvements, with the progress of our turbine upgrade project making a key contribution. The low pressure and high pressure turbine modules of five of our six generating units have now been replaced and are operating as expected, which means we are approaching an overall efficiency for the power station of 40%.

With only three low pressure turbine modules to be replaced during the first of two unit outages in 2012 we are nearing completion of the project, which commenced in 2007. On completion, the improved efficiency of the power station will lead to a reduction in CO_2 emissions of one million tonnes a year.

In February 2011, in conjunction with Alstom UK Limited and National Grid Carbon Limited, we 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. Following consideration by the UK Government the project was one of seven put forward to the European Investment Bank in May 2011 for further consideration. In January 2012, industrial gases provider, BOC (a member of The Linde Group), joined the consortium, further strengthening the project. The outcome of the application for European funding will not be known until the second half of 2012.

Legislative and regulatory framework

In July 2011, the Electricity Market Reform ("EMR") White Paper was published. The White Paper represents a major change for the electricity sector. We do, however, believe that reform of the electricity market is essential to creating the right environment to stimulate the huge investment necessary to provide adequate, affordable and sustainable supplies of electricity into the 2020s and beyond.

In December, an EMR Technical Update was published, providing further detail on the Government's preferred options for market reform. The document confirmed the intention to implement a market-based capacity auction with the aim of ensuring capacity availability. A more detailed design of the mechanism will be developed during this year.

Within the EMR, a new low carbon support mechanism, Feed-in Tariff with Contracts for Difference ("FiT CfD") has also been confirmed. This will replace the Renewables Obligation in 2017 for new renewable generation facilities, but not those already in operation. It is proposed that both the capacity mechanism and the FiT CfD arrangements will be run by a single central body, the System Operator.

3

1
Greenhouse gas saving
In 2011, the average greenhouse gas saving resulting from burning biomass in place of coal was 81%.

2
Sustainability
Assessment of the full life cycle carbon footprint of sustainable biomass is now well developed.

3
Pelleting facilities
In order to further enhance the security of supply, we are exploring direct investment in further biomass pellet plants.

4
Procurement
All of our biomass is procured against our own industry-leading, robust sustainability criteria.

One of our key priorities:
Progress our biomass strategy

Harvesting a sustainable resource

"Establishing the biomass supply chain logistics and procuring sustainable biomass are critical components of our biomass work."

Matthew Rivers
Director of Biomass Business

81%

Chief Executive's statement

The 2011 Budget confirmed the introduction of a carbon price support mechanism, as part of the EMR, which we are against. We believe there is potential for conflict with the existing EU Emissions Trading System ("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 price support will, in all likelihood, distort the wholesale market. Nevertheless, we have actively engaged with the Government on the detail and design of the mechanism.

In advance of the renewable support arrangements proposed under the EMR, the much awaited consultation on the future support levels for renewable technologies from 2013 was published by the Government in October. This will apply to all renewable generation facilities accredited before April 2017.

We were particularly pleased to see recognition in the consultation of the strategically important role that sustainably sourced biomass electricity can play in the future UK renewable energy mix. In seeking to maximise the deployment of the cheapest renewable technologies, specific support levels or bands have been proposed for the increased use of sustainable biomass in existing coal-fired power stations through enhanced co-firing and full conversion.

The new bands have been created in recognition of the greater capital investment that is required to either co-fire large volumes of biomass or convert existing coal-fired stations to burn solely biomass.

The proposed support level for enhanced co-firing will enable us to increase our sustainable biomass burn. However, to maximise our potential and secure our renewable output out to 2020 and beyond we require a moderate uplift on the proposed level of support. This would guarantee that this cost effective form of renewable generation will be available to help meet the UK's 2020 targets and will lead to lower electricity prices for the UK consumer, who will otherwise bear the cost of the more expensive alternatives.

In addition to our focus on sustainable biomass co-firing, we have been working with Siemens Project Ventures on our dedicated biomass developments. We expressed disappointment with the proposed level of support for this technology, which makes the investment case for independent generators highly challenging. The development planned for the Drax Power Station site has proved the most challenging for a number of reasons, including its inland location which increases logistics costs. Given the significant financial liability that we would face were we to delay our investment decision until we have certainty over the final support level for dedicated biomass we have decided to cancel the project.

We are exploring a number of options available to us for structuring the development planned for the Port of Immingham site so as to make it a viable proposition.

We participated fully during the Government's consultation process with a view to securing appropriate support to progress our biomass plans and now that the consultation has closed we await the Government's response, which we expect to be published in the Spring.

Biomass supply chain and sustainability

Establishing the biomass supply chain logistics and procuring sustainable biomass against our robust sustainability policy are critical components of our work to deliver a biomass future for the Group. Despite the immature and bespoke nature of the supply chain, we believe we will be able to secure sufficient sustainable biomass to meet our ambition to become a predominantly biomass fuelled generator.

There are four strands to our fuel contracting strategy. We are looking to secure term rights to sustainable biomass through both direct contracts for delivered biomass pellets and contracts for unprocessed fibre to provide greater security over the fibre source. In order to enhance the security of supply from such contracts we are also exploring direct investment in biomass pellet plants.

We will also engage in spot and shorter term opportunistic purchases, with the ability to cope with a wide fuel envelope being key to securing value in this market.

We will try to develop further UK sources of fuel. Although this is likely to remain a small proportion of our total fuel mix. Despite targeting various geographies and fibre sources, we expect to see an early concentration in North America.

All our biomass is procured against our own industry-leading, robust sustainability criteria, which include greenhouse gas emission reduction requirements, and habitats and biodiversity protection, as well as socio-economic considerations in the source areas. A programme of independent audits ensures all our suppliers comply with our sustainability criteria.

We firmly believe that robust, mandatory sustainability criteria are vital to maintain and enhance public acceptance, and ensure that sustainable practices are implemented. Assessment of the full life cycle carbon footprint of biomass, that is, from field to furnace, is now well developed, especially in the UK where a mandatory life cycle standard comes into effect in 2013.

We are now in our fifth year of calculating the life cycle carbon footprint of all the biomass we procure and we are confident that our sustainable biomass fuel sourcing strategy will meet the current mandatory standard which will ensure we continue to earn regulatory support from April 2013. Our calculations show that the range of sustainable biomass materials we have burnt over the last few years has a far lower carbon footprint than that of fossil fuel-fired generating plant. In 2011, the average greenhouse gas saving resulting from burning biomass in place of coal was 81%, compared to the EU fossil fuel comparator.

Strategic capital investment plan

As described above, the proposed support level for enhanced co-firing will enable us to increase our sustainable biomass burn. However, our existing co-firing capacity of 12.5% of our output is insufficient to meet the proposed threshold of 15% of output necessary to receive enhanced co-firing support. Therefore, to secure the full benefit from our existing co-firing facilities, we have committed to invest £50 million in 2012 in new biomass storage and other limited plant modifications to provide the capability to produce up to 20% of our output from co-firing sustainable biomass, so enabling qualification for the enhanced co-firing band. In doing so, we will only burn biomass which is economic, that is, which commands higher margins than coal.

We have also made good progress on the strategic capital investment plan for further biomass expansion. However, it is important to note again that further investment remains dependent on securing appropriate regulatory support and a strong investment case. The principal components of the plan are the further development of our biomass capability and IED compliance.

There are two phases to the development of our biomass capability. Phase 1 is the committed investment of £50 million to secure full benefit from our existing co-firing facilities as described above.

Phase 2 requires significant further investment in the range of £400–£450 million. Much of this investment will be in additional fuel storage and handling facilities at Drax Power Station as well as further investment in plant modifications. There may also be investment in the biomass supply chain to enhance security of supply for strategic fuel supplies.

As described in Operating performance above, we currently estimate the cost of IED compliance, including SCR, to be in the order of £200 million.

It is important to recognise that if we are in a position to progress our strategic investment plan, our strong balance sheet, with net cash of £225 million at year end, provides a good foundation for our funding requirements. Other important considerations for funding include working capital, our credit rating and our trading strategy. We expect that, with an appropriate level of support and a strong investment case, we would be able to finance our investment plans and begin the transformation of Drax into a predominantly biomass fuelled generator.

Our people

Our people are a key resource and we consider it a priority to deliver excellent people leadership across our operations. Throughout the Group we share the values of honesty, energy, achievement and team spirit. We have a responsibility to our people and we recognise that engaging and motivating them leads to better business performance. Our approach to looking after our people is described in more detail in the Corporate and social responsibility section on page 42.

Looking ahead

We enter 2012 with a strong hedge from forward power sales, which were secured at good margins. However, there is little visibility in our markets beyond 2013.

In addition, whereas for Phase II of the EU ETS (2008–2012) we have an allocation of 9.5 million tonnes of CO_2 emissions allowances per annum under the UK National Allocation Plan, we will not receive any allocation in Phase III (2013–2020). We will also have the increased cost impact of the introduction of the carbon price support mechanism from April 2013. Both of these influences are recognised in market forecasts.

We intend to continue our hard work to deliver leading operating and cost performance and to retain our focus on building options to burn advantaged fuel.

With a commitment to delivering value to our shareholders, we will continue our dialogue with the Government on the legislative and regulatory agenda. We will continue with our preparations to become predominantly biomass fuelled. However, our plans are dependent upon appropriate regulatory support and proving a strong investment case. With such, we are ready to make a significant, timely and cost effective contribution to reducing CO_2 emissions, whilst retaining reliable and flexible capacity on the system.

There is now recognition of the strategically important role that sustainable biomass has to play in the future renewable energy mix of the UK. We have long advocated the benefits of biomass as a source of renewable electricity, key amongst them being the ability to deliver cost effective and reliable low carbon electricity. Through transforming Drax into a predominantly renewable generator fuelled by sustainable biomass we will not only secure large volumes of cost effective renewable generation for the consumer, but also make a significant contribution to meeting the UK's 2020 climate change targets.

Dorothy Thompson
Chief Executive
20 February 2012

Principal performance indicators

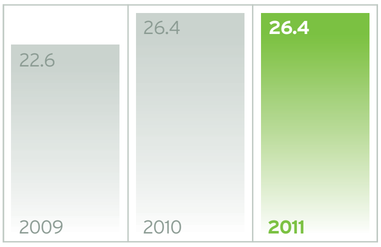
Our principal performance indicators provide a snapshot of how we are performing against our overriding objective to maximise shareholder value, and the progress we are making against our strategic initiatives and key priorities.

Maximise profitability from our coal generation capacity

Net sales

TWh

26.4TWh
(2010: 26.4TWh)



The aggregate of net merchant sales and net Balancing Mechanism activity

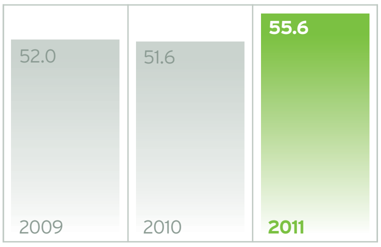
Why we measure
Net sales tracks the volume of power we can sell at positive margins.

Comment
The increase in power prices following the growth in demand for gas in the aftermath of the Japanese earthquake, made it economic for us to generate more volume in the Summer overnight periods, thereby sustaining the high levels of output seen in 2010.

Average achieved price of electricity

£/MWh

£55.6 per MWh
(2010: £51.6 per MWh)



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

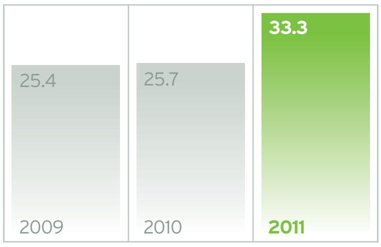
Why we measure
The average achieved price of electricity tracks the power price component of the dark green spread achieved.

Comment
The higher prices achieved in 2011 reflect the impact of world events on market prices for power, as well as our contracted position at the start of the year.

Average cost of fuel excluding carbon

£/MWh

£33.3 per MWh
(2010: £25.7 per MWh)



Fuel costs excluding carbon divided by volume of net sales

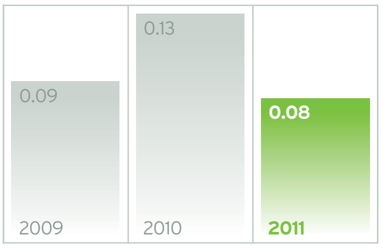
Why we measure
The average cost of fuel excluding carbon tracks the fuel cost component of the dark green spread achieved, and reflects the value captured from effective fuel procurement and diversified fuel sources.

Comment
Higher volumes of sustainable biomass burn and rising coal prices combined to increase our average cost of fuel in 2011.

Maintain operational excellence

Lost time injury rate ("LTIR")

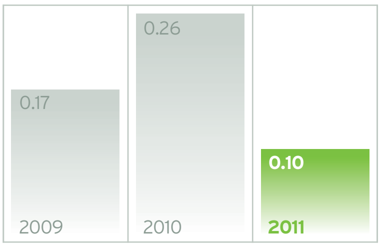
0.08
(2010: 0.13)



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

Total recordable injury rate ("TRIR")

0.10
(2010: 0.26)



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

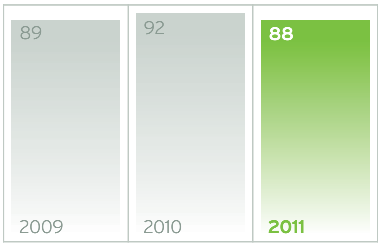
Why we measure
These injury rate metrics track our health and safety performance and enable us to maintain a positive health and safety culture.

Comment
The 2011 LTIR and TRIR represent a record year for health and safety performance at Drax. Our safety record continues to be industry-leading and was delivered alongside a significant amount of project activity. We need to retain focus on this area as we enter a year of double outage.

Plant availability

%

88%
(2010: 92%)



Average percentage of time the units were available for generation

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

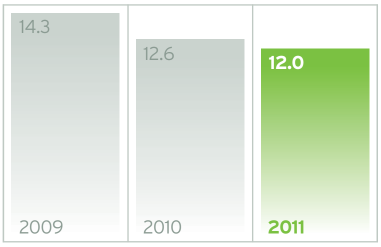
Comment
We continue to demonstrate our leadership position in the coal-fired generation sector, with the impact of enhanced co-firing trials marginally lowering 2011 availability.

Generation

Average cost of carbon

£/tonne

£12.0 per tonne
(2010: £12.6 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
A large proportion of our 2011 carbon contracts were locked in during 2010, when we sold the related power. Subsequently carbon prices have fallen significantly, thereby slightly reducing our average cost.

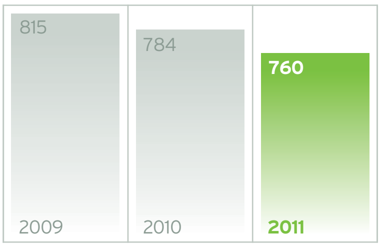
Progress our biomass strategy

Generation

Carbon dioxide emissions

t/GWh

760 tonnes per GWh
(2010: 784 tonnes per GWh)



CO_2 emissions rate per unit of output

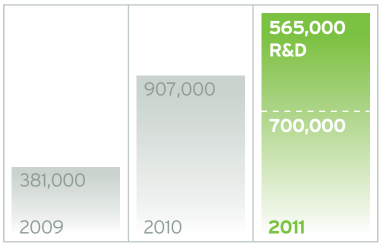
Why we measure
This measure of carbon emissions illustrates our progress in reducing the carbon footprint of Drax Power Station.

Comment
The higher levels of sustainable biomass burnt through our enhanced co-firing trials, saved 2 million tonnes of CO_2 in the year. Further savings were made through the efficiency improvements resulting from the turbine upgrade project.

Sustainable biomass burnt

tonnes

1,265,000 tonnes
(2010: 907,000 tonnes)



Tonnes of sustainable biomass fuel burnt during the year

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

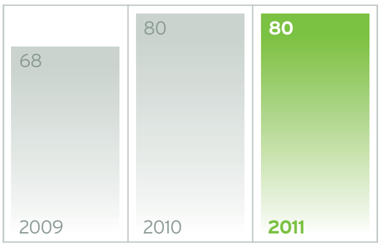
Comment
Low levels of support meant that our co-firing facility was not used to its full capacity. However, the trials undertaken for the research and development of enhanced co-firing during the year resulted in higher volumes of sustainable biomass burnt in 2011 than previous years.

Generation

Load factor

%

80%
(2010: 80%)



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
Stable generation output (net sales) across 2010 and 2011 resulted in a consistent load factor, and reflects our competitive position in the marketplace and continued high availability.

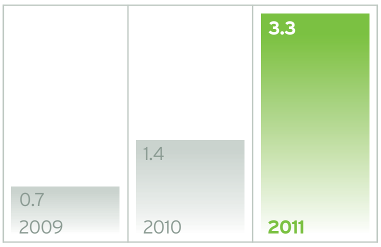
Grow our retail customer base

Retail

Retail customer volumes

TWh

3.3TWh
(2010: 1.4TWh)



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
The growth in retail volumes is driven by Haven Power's planned expansion in the industrial and commercial market, supported by stable growth in the small and medium enterprise customer base.

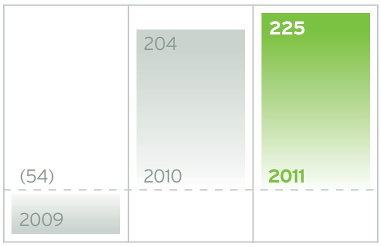
Maintain an optimal supporting capital structure

Group

Net cash/(debt)

£m

£225 million net cash
(2010: £204 million net cash)



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, alongside sufficient liquidity to manage our future obligations.

Comment
Despite an increase in working capital, the net cash generated exceeded that required to repay the term loan and meet dividend payments during the year, resulting in an overall increase in net cash.

Marketplace

From a nationalised, centrally planned system, the UK electricity sector has been transformed over the last 22 years.

Privatisation, liberalisation and energy policy have shaped the market and driven increasing consolidation and market reform.

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

The UK electricity market

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

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

In 2010 (the latest figures available), the generating capacity of the UK's major power producers was some 83,200MW. The final consumption of electricity in 2010 was approximately 330TWh.

The six large vertically integrated players have control, either through ownership or long-term contracts, of some 64% of the total generation capacity and have a combined interest of over 91% in the supply market, and over 99.5% in the domestic gas and electricity sector.

Drax has a 5% share in the generation capacity market and typically meets 7% of the UK's electricity needs. Through our retail arm, Haven Power, we serve over 40,000 business sites, together accounting for sales of 3.3TWh of power in 2011.

Our role in the supply chain

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

Generation

Drax Power Station meets 7% of the UK's electricity needs and is the largest single source of renewable power in the UK. There are two routes to market for our power.

Wholesale market

Various mechanisms exist to allow our power to be traded at the wholesale level in Great Britain.

- **Forward contract market** (several years before)
- **Short-term market** (24 hours before)
- **Balancing mechanism** (one hour before)

Retail

Haven Power is a retail company serving the electricity needs of business customers and providing an alternative route to market for our power.

- **SMEs** (Small and medium enterprises)
- **I&C** (Industrial and commercial businesses)

The wholesale electricity market

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

→ long-term forward and futures market allowing contracts to be struck up to several years ahead of delivery in response to market participants' requirements;

→ short-term bilateral market operated over power exchanges which gives market participants the opportunity to fine tune their contractual positions; and

→ Balancing Mechanism (real-time market) through which the System Operator accepts offers and bids for electricity to enable it to balance supply and demand on the system.

Wholesale prices

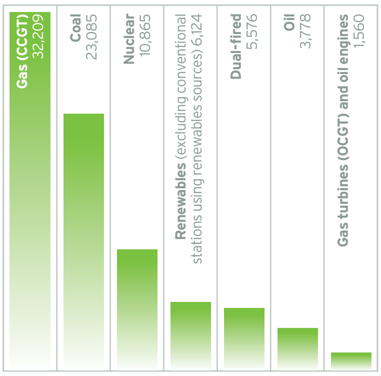
Power prices are driven by a number of factors, such as the underlying commodity prices, the availability of capacity on the system, and the physical positions taken by the individual market players.

The wholesale market operates on price and the relative prices of the fuel sources, for example, gas and coal will determine which plant, gas-fired generation or coal-fired generation, becomes the marginal plant. If gas prices are high then gas-fired plant operates at the margin.

With excellent reliability and availability, Drax Power Station is at the top of the merit order for UK coal-fired plant and so even when coal-fired plant is at the margin we will be the first of the coal-fired plants to be called on to generate.

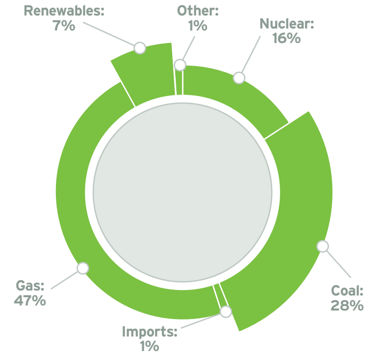
Generation capacity by fuel type, 2010*

MW



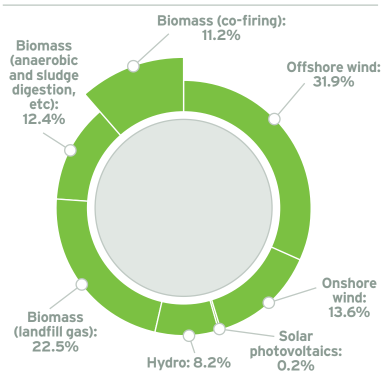
Net electricity supplied by fuel input, 2010*

%



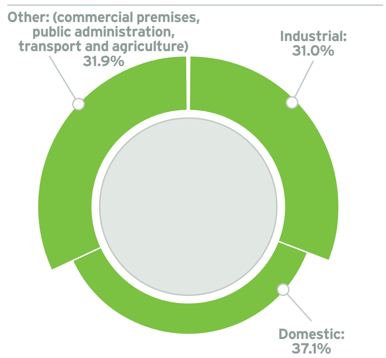
Electricity generated from renewable sources (Renewables Obligation basis), 2010*

%



Electricity consumption by end sector, 2010*

%



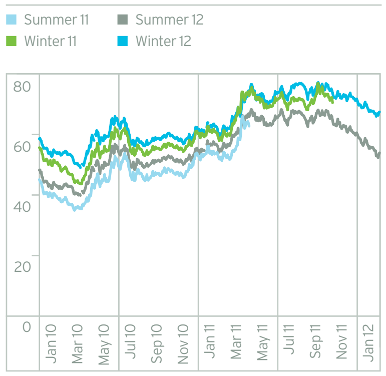
* Source: Digest of UK Energy Statistics 2011

Our trading capability

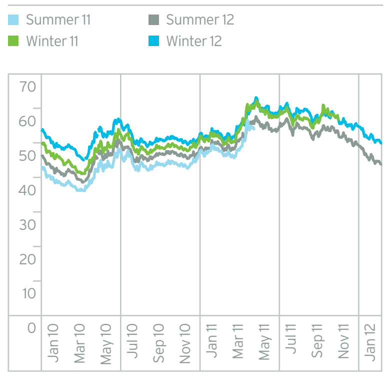
Our trading team has vast knowledge and experience of the markets within which we operate. Our trading capability and routes to market allow us to manage exposures to the commodities in which we deal.

Marketplace

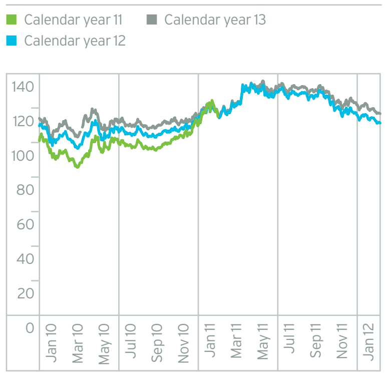
Forward gas price pence per therm



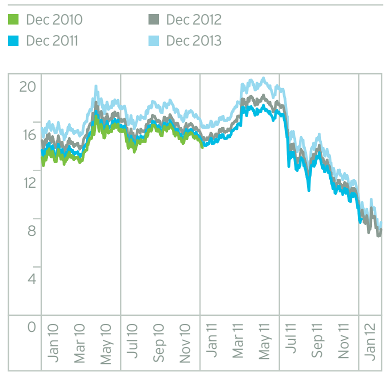
Forward power price £/MWh



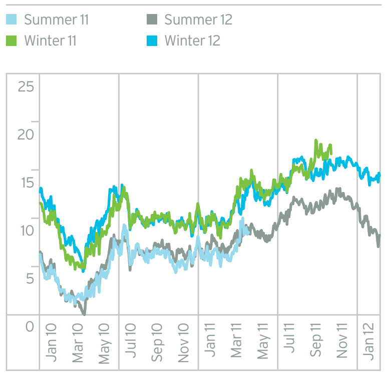
Forward coal price (API 2) $/tonne



Carbon price (Phase II EUA) €/tonne



Dark green spread £/MWh



Commodity markets

A number of significant global events during 2011 have impacted to increase uncertainty in the commodity markets in which we operate.

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

The trends in commodity prices witnessed in 2010 and 2011 are described further in the following paragraphs and are illustrated in the accompanying charts.

Gas

The unrest in North Africa and the Middle East during the first half of 2011 put upward pressure on oil markets despite fears of an economic downturn. This in turn drove up gas prices which were then further strengthened by the increase in demand following the Japanese earthquake, and Germany's decision to close its older nuclear plants. The Japanese earthquake reduced market perceptions of liquefied natural gas ("LNG") availability.

Gas prices held during the Summer, before softening during the final quarter of the year as demand was far lower than market expectation as a result of the mild winter experienced in the UK and Europe. This was compounded by the Eurozone crisis which further reduced gas demand.

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. Furthermore, demand for gas is rising rapidly so that even with the possibility of increased shale gas production, global markets may well remain strong.

Power

During 2010, power demand was relatively stable. 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 significant new gas-fired capacity came on line and there were some plant closures.

Power prices continued to be driven by the gas market during 2011, increasing over the first half of the year, before stabilising and then dropping in the final quarter as gas prices weakened.

Coal

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.

Asian demand continued to influence the global steam coal market during 2011. China is the most significant player in this market with current consumption estimates at 2 billion tonnes per annum. US exports to Europe were circa 150% higher year on year for the first half of 2011 due to increased German demand following the closure of its older nuclear plant, and relatively high gas prices across the continent. Prices reduced slightly towards the end of the year as a result of lower demand levels during the mild winter.

Carbon

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

Carbon prices remained fairly flat at the start of 2011 before rising in the immediate aftermath of the Japanese earthquake. Prices dropped sharply in the second half of 2011, reaching two year lows in late November amid fears for the Eurozone economies. 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 and the pace of economic recovery.

Biomass

Types of biomass

Biomass used in energy production comes in many different forms, but the important characteristics shared by the wide range of biomass fuels are that they can be renewable and can be sustainable and that they would often be discarded if not used to produce energy.

The three common types of biomass used to generate electricity are agricultural residues, forestry products and residues, and energy crops. Recovered materials offer another, very useful, source of biomass.

Agricultural residues

The by-products of food production, such as straw, oat husks, peanut husks, grape flour, cocoa shells, olive cake and many more, can all be used as biomass for energy production. Importantly, because they are by-products of food production they do not reduce the amount of land available for farming, and they are readily available. Residues from non-food crops, such as cork fines, can also be used. By placing a value on what may be an unwanted by-product of farming, the use of biomass to produce energy provides a new income stream for farmers and supports UK farming.

Forestry products and residues

Sustainably produced woody biomass can be produced from managed forests and forestry residues, such as bark, thinnings, tree tops and branches that are often discarded after trees are felled for timber.

Energy crops

These are crops that are planted specifically for the purpose of producing energy. Energy crops include short rotation coppice willow and miscanthus, commonly known as elephant grass. Since the start of the UK's Energy Crop Scheme in 2000, thousands of hectares of miscanthus and other short rotation coppice crops have been planted in the UK alone and there is the potential to increase this.

Recovered materials

Recovered wood is an example of a material that could be used as a biomass fuel. The construction and demolition sectors are very large producers of recoverable wood.

Availability of biomass

Biomass is a diverse, readily available and plentiful fuel source. According to the International Energy Agency, biomass is the fourth largest energy resource in the world after oil, coal and gas. It estimates that by 2050, sustainable sources of biomass could be enough to supply the world with 10%-20% of its primary energy requirements.

The EU has indicated that the use of biomass will double over the next few years, and be responsible for around a half of the total effort in reaching the EU's 20% renewable energy target by 2020. In the UK, AEA Technology has estimated that by 2020 sustainable biomass could meet 20% of our primary energy demand and by 2030 this could more than double or even treble.

Biomass procurement

Our biomass is procured against our industry-leading sustainability policy which is independently audited. We are in our fifth year of monitoring the carbon footprint of all the biomass we burn.

Operational and financial performance

Introduction

EBITDA was £334 million for the year ended 31 December 2011 compared to £392 million in 2010 and underlying basic earnings per share were 56 pence compared to 64 pence last year.

Our 2011 profit is in line with expectations, which increased during the year with an improvement in the trading environment, although commodity prices did soften towards the end of the period. Earnings were below 2010 levels, which benefited from the accelerated hedge which we put in place during 2008 when wholesale margins were higher. We have continued to exercise tight control over our cost base and our spend on capital projects. 2011 was a record year for health and safety performance at Drax and we have been supported by strong operational performance.

Our retail business, Haven Power Limited ("Haven Power"), is meeting our growth expectations, with sales of 3.3TWh compared to 1.4TWh in 2010, largely as a result of the planned growth in its industrial and commercial ("I&C") customer base, along with a continued increase in the volumes sold to the small and medium enterprise market ("SME").

In April, we were pleased to report that we had reached agreement with HMRC over the Eurobond tax position, resulting in cash tax relief of £180 million. This has enabled us to release £148 million of cash to the business so far, with a further £32 million to follow over the coming years as we utilise the remaining losses.

In July, we completed the refinancing of our letter of credit, working capital and term loan facilities, which were due to mature in December 2012. These facilities were replaced by a £310 million revolving credit facility, maturing in April 2014, with the term loan repaid in full out of cash on hand.

At the upcoming Annual General Meeting, the Board will recommend a final dividend for 2011 of 11.8 pence per share, taking total dividends for the year to 27.8 pence per share, or £101 million.

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

16 More on:
Principal performance indicators

Results of business

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Total revenue	**1,835.9**	1,648.4
Fuel costs in respect of generation[1]	**(1,020.8)**	(840.9)
Cost of power purchases[2]	**(172.3)**	(165.8)
Grid charges[3]	**(117.6)**	(82.2)
Other retail costs[4]	**(24.4)**	(9.0)
Total cost of sales	**(1,335.1)**	(1,097.9)
Gross profit	**500.8**	550.5
Other operating and administrative expenses excluding depreciation, amortisation and unrealised gains/(losses) on derivative contracts[5]	**(167.2)**	(158.6)
EBITDA[6]	**333.6**	391.9
Depreciation, amortisation and loss on disposal of property, plant and equipment	**(57.2)**	(52.2)
Unrealised gains/(losses) on derivative contracts	**89.8**	(60.5)
Operating profit	**366.2**	279.2
Net finance costs	**(28.1)**	(24.3)
Profit before tax	**338.1**	254.9
Tax credit/(charge)		
– Before exceptional items and impact of corporation tax rate change	**(87.5)**	(74.1)
– Impact of change in rate of corporation tax on deferred tax	**16.1**	7.6
– Exceptional items	**197.9**	–
Tax credit/(charge)	**126.5**	(66.5)
Profit for the year attributable to equity shareholders	**464.6**	188.4
Earnings per share	**pence per share**	pence per share
– Statutory basic	**127**	52
– Statutory diluted	**126**	52
– Underlying basic[7]	**56**	64
– Underlying diluted[7]	**55**	64

All results relate to continuing operations.

Notes:

(1) Fuel costs in respect of generation predominantly comprise coal, sustainable biomass and carbon dioxide ("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, metering and LECs.

(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.

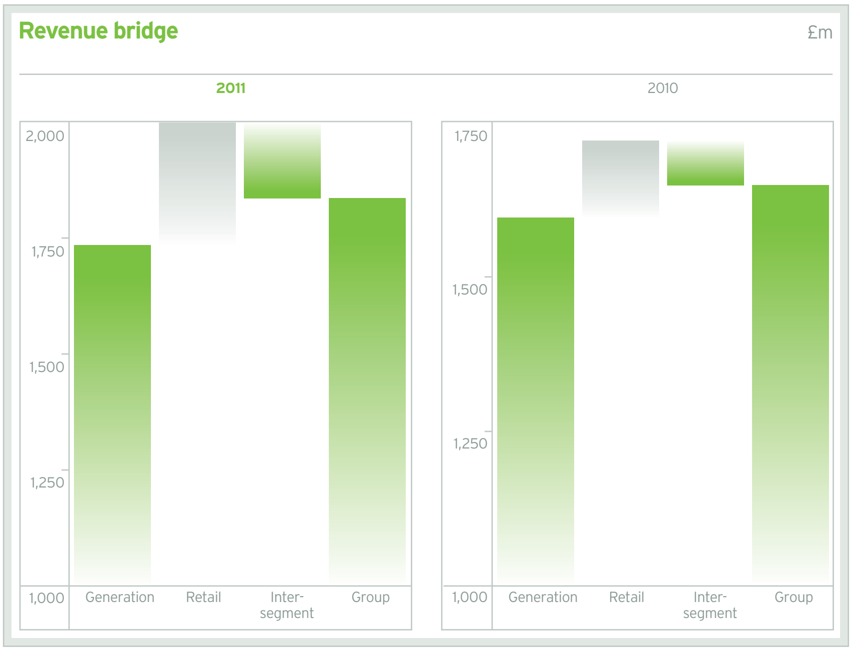
(6) EBITDA is defined as profit before interest, tax, depreciation, amortisation, gains and losses on disposal of property, plant and equipment and unrealised gains and losses on derivative contracts.

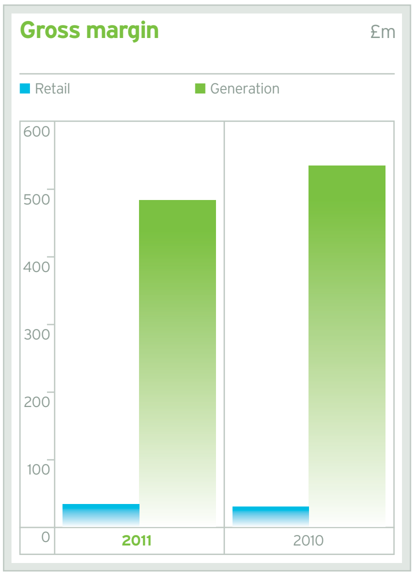
(7) Calculated using underlying earnings, being profit attributable to equity shareholders adjusted to exclude the after tax impact of unrealised gains and losses on derivative contracts, and exceptional items.

Operational and financial performance

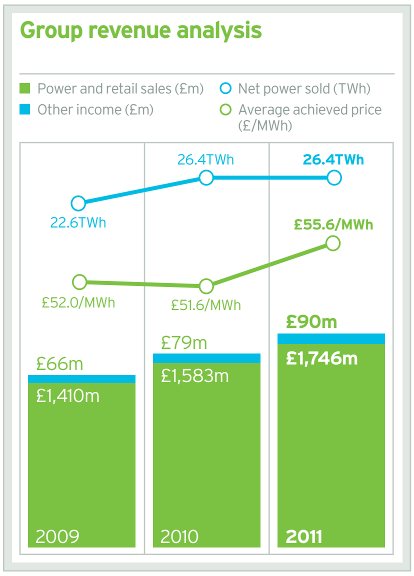
Segmental information

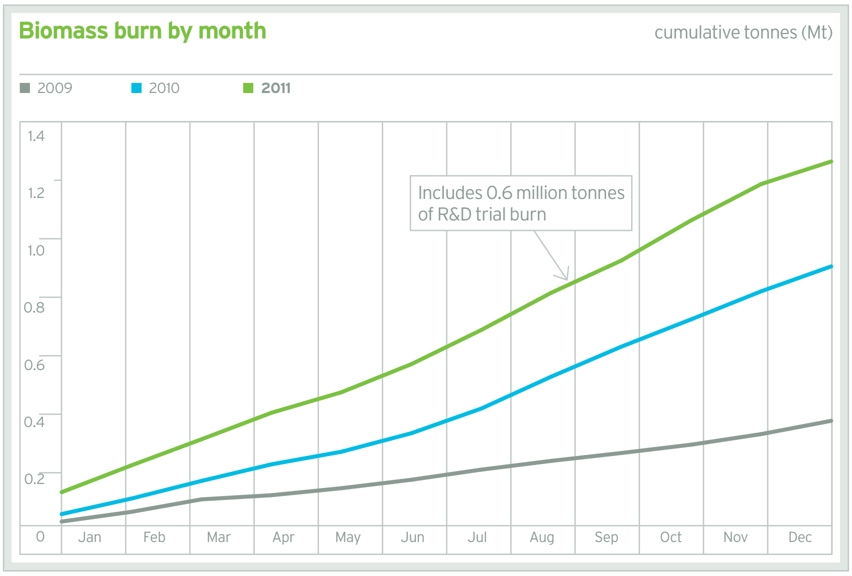
	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Power sales	**1,641.0**	1,528.2
ROC and LEC sales	**69.2**	25.1
Ancillary services income	**17.4**	34.6
Other income	**7.6**	8.1
Total generation revenue	**1,735.2**	1,596.0
Retail revenue	**275.5**	124.3
Inter-segment sales	**(174.8)**	(71.9)
Total Group revenue	**1,835.9**	1,648.4
Gross Margin		
Generation gross margin	**484.4**	535.8
Retail gross margin	**16.4**	14.7
Total Group gross margin	**500.8**	550.5
EBITDA		
Generation EBITDA	**336.1**	393.4
Retail EBITDA	**(2.5)**	(1.5)
Total Group EBITDA	**333.6**	391.9





(1) Retail sales based on volume at Notional Balancing Point





Generation results

Revenue

Total generation revenue for the year ended 31 December 2011 was £1,735 million compared to £1,596 million in 2010. Total generation revenue in 2011 includes power sales of £1,641 million (2010: £1,528 million), ROC and LEC sales of £69 million (2010: £25 million), ancillary services income of £17 million (2010: £35 million) and other income of £8 million (2010: £8 million).

Higher power sales in 2011 resulted from an increase in the average wholesale achieved electricity price for the year ended 31 December 2011 to £55.6 per MWh, compared to £51.6 per MWh in 2010. Our average achieved price of electricity reflects our contracted position, as well as higher power prices on average during the year as a whole, but particularly in the first half when markets felt the impact of the Japanese earthquake and the unrest in North Africa and the Middle East. Net power sold was 26.4TWh in both 2011 and 2010.

ROC and LEC sales have increased from £25 million in 2010 to £69 million in 2011 as a result of an increase in sustainable biomass burn during 2010, which increased the number of ROCs available for sale during 2011. In addition, we have sold a number of current compliance period ROCs, thereby benefiting earlier than usual from sustainable biomass burnt during 2011.

Ancillary services income includes revenue from the Firm Frequency Response contracts in place with National Grid during 2010. Whilst these contracts gave us certainty of income and more predictable despatch during the Summer months in 2010, their benefit was somewhat offset by the fact that we had less potential to profit from the Balancing Mechanism, where we add value through the plant's flexibility and reliability. For 2011, whilst we had no contract in place with National Grid, we have continued to play a key role supporting the system, and earning appropriate margins from these activities.

Other income includes the sale of by-products (ash and gypsum).

Fuel costs (coal, sustainable biomass and other fuels)

Fuel costs were £1,021 million in 2011, compared to £841 million in 2010.

The average cost of fuel per MWh (excluding CO_2 emissions allowances) was £33.3 for the year ended 31 December 2011, compared to £25.7 in 2010. The increase in average fuel prices was driven by fuel mix, in particular higher sustainable biomass burn following the research and development work described in the Chief Executive's statement and by commodity price movements, especially coal.

We burnt approximately 9.1 million tonnes of coal in the year ended 31 December 2011, compared to approximately 9.4 million tonnes in 2010. 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 87% of total fuel burnt (by heat content) in 2011 and 88% in 2010.

In 2011, we burnt 1.3 million tonnes of sustainable biomass (2010: 0.9 million tonnes) representing 9% of total fuel burnt by heat content (2010: 6%). This increase is a result of the research and development work described in the Chief Executive's statement. We also burnt 0.1 million tonnes of petcoke (2010: 0.2 million tonnes) and 0.6 million tonnes of pond fines (2010: 0.4 million tonnes).

Our petcoke burn volume is driven by its pricing relative to coal. Pond fines is a coal mining residue, which trades at a significant discount to coal, and requires specific blending and handling techniques to burn in large volumes.

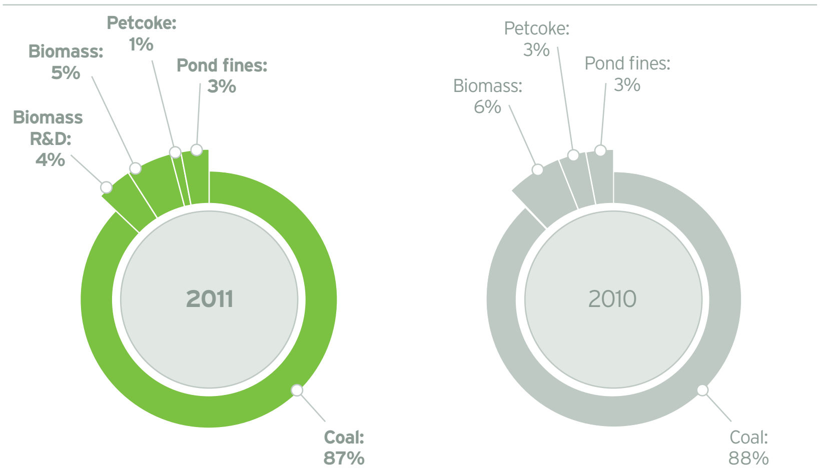
The increases in our sustainable biomass and pond fines burn in 2011, demonstrate further improvements in our ability to manage a wider fuel mix.

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 2011, in excess of those allocated under the UK NAP, was approximately 11.9 million tonnes compared to approximately 12.9 million tonnes in 2010. This was a result of plant efficiency improvements and higher levels of sustainable biomass burn than in 2010, to achieve the same level of generation.

Fuel burn composition (heat)



Operational and financial performance

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 2011 was £12.0 per tonne compared to £12.6 per tonne in 2010. The majority of our 2011 carbon requirement was contracted during 2010 and the first half of 2011 when prices were higher than in the second half of 2011 (see Commodity markets). This is in line with our hedging strategy to purchase carbon when we sell the related power.

Cost of power purchases

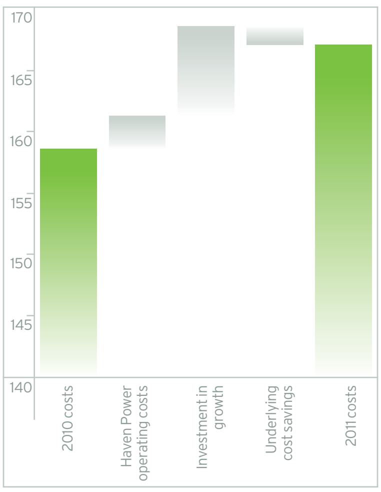
We purchase power in the market when the cost of power in the market is below our marginal cost of production in respect of power previously contracted for generation and delivery by us, and to cover any shortfall in generation. For the year ended 31 December 2011, the cost of purchased power for the generation business was £172 million, compared to £165 million incurred in 2010, as a result of the higher power prices in 2011 as described in Commodity markets.

Grid charges

Grid charges for generation for the year ended 31 December 2011 were £58 million, compared to £54 million in the year ended 31 December 2010. The slight increase resulted from an increase in the £/MWh charged by National Grid reflecting the impact of additional variable generation, such as wind turbines, on their costs to balance the system.

Group operating and administrative expenses

£m



Biomass research and development work

The biomass research and development work described in the Chief Executive's statement cost around £19 million in 2011. This includes £11 million within generation gross margin (the impact of burning uneconomic biomass principally), operating costs of £3 million (e.g. expert technical advice in relation to biomass combustion and chemistry) and capital investment of £5 million (new conveyors and fuel handling infrastructure).

We believe this work has placed Drax in the best possible position to deliver a step change as quickly and efficiently as possible in the volumes of sustainable biomass we burn, if support is at an appropriate level.

As a result of these factors, generation gross profit for the year ended 31 December 2011 was £484 million compared to £536 million in 2010.

Operating and administrative expenses

Generation other operating and administrative expenses before depreciation and amortisation were £148 million for the year ended 31 December 2011, compared to £143 million in 2010. The cost increase of £5 million largely reflects the biomass investment in research and development work described above.

Generation EBITDA for the year ended 31 December 2011 was, therefore, £336 million compared to £393 million in 2010.

Retail results

Revenue

Retail revenue of £276 million for the year ended 31 December 2011 was 123% higher than the revenue of £124 million for the year ended 31 December 2010. This substantial growth is in line with our strategy to grow Haven Power, with retail sales being a credit efficient alternative to selling power in the wholesale market. The growth in sales has been secured at satisfactory margins and good credit quality.

Retail sales volumes have increased from 1.4TWh in the year ended 31 December 2010 to 3.3TWh in 2011 following planned growth in the I&C customer base and continued growth in SME customer volumes.

Cost of power purchases

Retail cost of power purchases were £171 million for the year ended 31 December 2011 compared to £71 million for the year ended 31 December 2010. Haven Power purchases power in the wholesale market for delivery to its retail customers. The vast majority of these purchases are from Drax Power Limited and are eliminated on a group basis. The increase in retail cost of power purchases is a result of the significant increase in sales volumes and power prices.

Grid charges

Haven Power incurred £60 million of grid charges during the year ended 31 December 2011 and £28 million during the year ended 31 December 2010. Charges have increased as a result of higher sales volumes together with substantial increases in the rates charged by the distribution network operators.

Other retail costs

Other retail costs include broker fees, ROCs, LECs and metering and were £29 million in the year ended 31 December 2011, compared to £11 million in 2010. In addition to higher volumes, costs have increased in 2011 due to the much larger than expected uptake of the subsidy for solar photovoltaic panels, which has resulted in very large increases to the FiT levelisation costs being charged to suppliers.

Retail gross profit for the year ended 31 December 2011 was £16 million compared to £15 million in 2010. Although sales volumes have increased significantly, margins within the I&C market remain relatively low.

Operating and administrative expenses

Retail operating and administrative expenses excluding depreciation and amortisation were £19 million for the year ended 31 December 2011, £3 million higher than for 2010. The increase largely relates to staff costs following the growth in the business and certain entry costs into the I&C market.

As a result, retail EBITDA for both the years ended 31 December 2011 and 2010 was a loss of £2 million.

We remain on track to achieve our target of break even EBITDA for this business from 2013.

Central costs

Depreciation and amortisation

Depreciation and amortisation was £57 million for the year ended 31 December 2011 and £52 million for the year ended 31 December 2010. 2011 includes a full year of depreciation for the co-firing facility, which was commissioned part-way through 2010.

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 shows the movements in unrealised gains and losses and where they are recorded in our financial statements.

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Net unrealised (losses)/gains in the balance sheet at 1 January	**(61.0)**	234.1
Unrealised gains/(losses) recognised in the income statement	**89.8**	(60.5)
Fair value gains/(losses) recognised in the hedge reserve (a component of equity)	**2.6**	(232.6)
Premium on options sold	**(0.7)**	(2.0)
Net unrealised gains/(losses) in the balance sheet at 31 December	**30.7**	(61.0)

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

During 2010, power prices increased, such that the difference between power that had been contracted but had yet to be delivered and the market price had narrowed considerably at 31 December 2010, reducing the unrealised gain in the balance sheet. In addition, following a period of coal price stability during the first half of 2010, prices increased significantly in the final months of the year, driving an increase in the unrealised losses on our financial coal contracts, which expose us to floating prices. Together these factors resulted in an unrealised loss in the balance sheet of £61 million at 31 December 2010.

During 2011, power prices fell significantly in the final quarter. As a result, the average price of power that had been contracted but had yet to be delivered at 31 December 2011 was higher than market prices, driving an increase in the unrealised gain in the balance sheet. Coal prices also continued to rise during the first quarter of 2011, before stabilising over the remainder of the year. A number of the financial coal contracts in place at 31 December 2010 unwound during the year as the contracts matured, thereby reducing the unrealised losses at 31 December 2011.

This combination of factors drove the recognition of an unrealised gain of £31 million in the balance sheet at 31 December 2011.

The unrealised gains recognised in the income statement of £90 million for the year ended 31 December 2011 and unrealised losses of £61 million in 2010 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 gain recognised through the hedge reserve in the year ended 31 December 2011 was £3 million, compared to net unrealised losses of £233 million in 2010.

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 gains and losses on derivative contracts, depreciation and amortisation, operating profit for the year ended 31 December 2011 was £366 million compared to £279 million in 2010.

Interest

Net finance costs for the year ended 31 December 2011 were £28 million compared with £24 million in 2010. The unwind of deferred finance costs in relation to our previous bank facilities was accelerated to reflect their reduced term following the refinancing (see Capital resources and refinancing). This resulted in a one-time interest charge of £3 million in the year to 31 December 2011.

Tax

The tax charge before exceptional items for the year ended 31 December 2011 was £71 million (an effective rate of 21%), compared to £67 million in 2010 (an effective rate of 26%). Tax for 2011 includes the impact of the reduction in corporation tax rate from April 2011 on current and deferred tax liabilities and of the reduction in corporation tax rate from April 2012 on deferred tax liabilities.

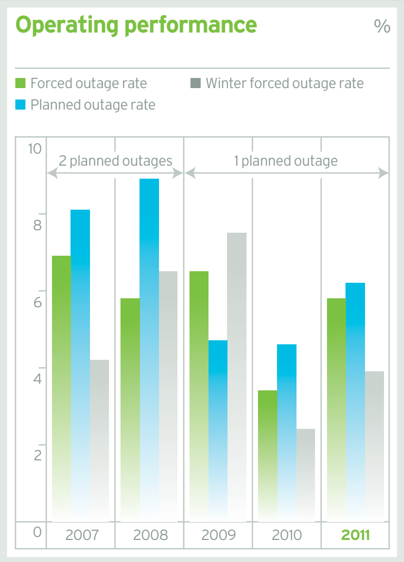
Under the Group's previous financing structure, a subsidiary company was partially funded by a Eurobond payable to another group company, which was unwound in 2008, potentially accelerating additional tax losses with a cash tax benefit of up to £220 million. The Group began utilising these potential losses in 2008, with cash saved notionally ring-fenced, and no benefit recognised prior to agreement with HMRC.

In April 2011, we reached agreement with HMRC over the Eurobond tax position which will result in the release of £180 million cash tax relief. As at 31 December 2011, we had released £148 million of cash saved to date to the business and will release a further £32 million over the coming years as we utilise the remaining losses.

The exceptional tax credit of £198 million includes full recognition of the Eurobond settlement of £180 million and a further £18 million in relation to other legacy issues, being the release of historic tax provisions no longer required following settlement of these issues.

As a result of the above factors, profit attributable to equity shareholders for the year ended 31 December 2011 was £465 million compared to £188 million in 2010, and basic and diluted earnings per share were 127 pence and 126 pence respectively, compared to 52 pence in 2010.

Operational and financial performance



Underlying profit attributable to equity shareholders (that is profit excluding the after tax impact of unrealised gains and losses on derivative contracts, and exceptional items) was £202 million for the year ended 31 December 2011, compared to £233 million in 2010. Underlying basic and diluted earnings per share were 56 pence and 55 pence respectively in 2011, compared to 64 pence in 2010.

Other key factors affecting the business

Outages and plant utilisation levels

	Year ended 31 December 2011	Year ended 31 December 2010
Electrical output (net sales) (TWh)	**26.4**	26.4
Load factor (%)	**79.7**	79.7
Availability (%)	**88.4**	92.1
Winter forced outage rate (%)	**3.9**	2.4
Forced outage rate (%)	**5.8**	3.4
Planned outage rate (%)	**6.2**	4.6
Total outage rate[1] (%)	**11.6**	7.9

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.

The load factor and electrical output were 79.7% and 26.4TWh respectively for both years ended 31 December 2011 and 2010. We continued to demonstrate our leadership position in the coal-fired generation sector with plant availability of 88.4% for the year ended 31 December 2011, compared to 92.1% in 2010.

The forced outage and Winter forced outage rates for the year ended 31 December 2011 were 5.8% and 3.9% respectively, compared to 3.4% and 2.4% in 2010 which was a record year. 2011 forced outage rate remains consistent with our long-term target of circa 5%.

The planned outage rate achieved for the year ended 31 December 2011 was 6.2%, compared to 4.6% in 2010, 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. Two units will undergo a major planned outage in 2012.

Health and safety

2011 was a record year for Drax in terms of our health and safety performance. Our lost time injury rate and total recordable injury rate were 0.08 and 0.10 respectively for the year ended 31 December 2011 compared to 0.13 and 0.26 respectively in 2010. 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 £225 million as at 31 December 2011, compared to £204 million at 31 December 2010, following the refinancing in July 2011, and the repayment of £135 million of borrowings (see Capital resources and refinancing). Cash and short-term deposits were £233 million as at 31 December 2011, compared to £331 million at 31 December 2010. An analysis of cash flows for both years is set out in the following table.

Analysis of cash flows

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Cash generated from operations	**281.9**	484.7
Income taxes paid	**(67.7)**	(56.1)
Other gains	**0.7**	2.0
Net interest paid	**(16.4)**	(19.5)
Net cash from operating activities	**198.5**	411.1
Cash flows from investing activities		
Purchases of property, plant and equipment	**(43.8)**	(62.3)
Short-term investments	**65.0**	(40.0)
Net cash generated from/(used in) investing activities	**21.2**	(102.3)
Cash flows from financing activities		
Equity dividends paid	**(123.7)**	(86.5)
Repayment of borrowings	**(135.4)**	(65.2)
New borrowings	**10.0**	–
Other financing costs paid	**(3.8)**	(1.5)
Net cash used in financing activities	**(252.9)**	(153.2)
Net (decrease)/increase in cash and cash equivalents	**(33.2)**	155.6
Cash at 1 January	**236.0**	80.4
Cash at 31 December	**202.8**	236.0
Short-term investments at 31 December	**30.0**	95.0
Borrowings at 31 December	**(7.6)**	(127.0)
Net cash at 31 December	**225.2**	204.0

Cash generated from operations was £282 million in the year ended 31 December 2011, compared to £485 million in 2010. The decrease was largely the result of a fall of £58 million in EBITDA and a working capital outflow of £51 million in 2011, compared to an inflow of £115 million in 2010.

The working capital outflow of £51 million in 2011 includes an increase of £24 million in the value of coal stocks, resulting from an additional 0.2 million tonnes of stock held at the end of 2011, and higher coal prices during the period (see Fuel costs – coal, sustainable biomass and other fuels). The remaining net outflow includes a lower carbon creditor (£21 million), reflecting the timings of payments with respect to our 2011 liability and a fall in the cost of carbon over the year (see Fuel costs – CO_2 emissions allowances). The working capital inflow in 2010 largely reflects a decrease in coal stocks of 1.6 million tonnes (£84 million), resulting from higher than expected generation over the corresponding period.

Income taxes paid were £68 million in the year ended 31 December 2011, compared to £56 million in 2010. 2011 payments include settlement of the 2010 liability, as well as payments on account for 2011.

Net cash flows from investing activities includes payments in respect of capital expenditure of £44 million for the year ended 31 December 2011 and £62 million in 2010 (see Capital expenditure). 2011 includes a reduction in short-term investments of £65 million (2010: additional £40 million), comprising short-term deposits with a maturity of more than three months at inception.

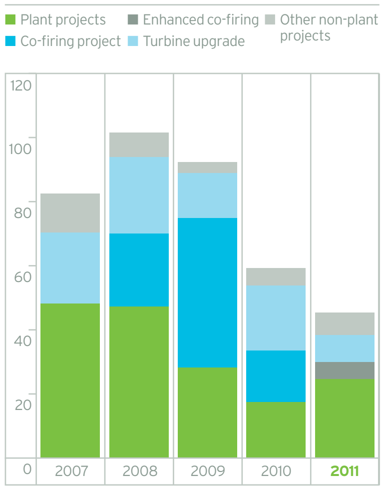
Net cash used in financing activities was £253 million in the year ended 31 December 2011, compared to £153 million in 2010. The 2011 amount includes equity dividends paid of £124 million and term loan repayments of £135 million, net of new borrowings of £10 million drawn down against the revolving credit facility. The 2010 amount includes equity dividends paid of £87 million and term loan repayments of £65 million (see Capital resources and refinancing).

The decrease in cash and cash equivalents was therefore £33 million in the year ended 31 December 2011, compared to an increase of £156 million in 2010. The Group's policy is to invest available cash in short-term bank, building society or other low risk deposits.

Capital resources and refinancing

In July 2011, we completed the refinancing of our letter of credit, working capital and term loan facilities, which were due to mature in December 2012. These facilities were replaced with a £310 million revolving credit facility which matures in April 2014, and which can be used for both letters of credit and working capital purposes. The margin over LIBOR on our new facility has reduced from 3.5% to 2%.

Capital investment £m



Scheduled debt repayments of £34 million were made at 30 June 2011 and the remaining term loan balance of £101 million was repaid in full upon refinancing. During 2010 scheduled debt repayments were £65 million.

The unwind of the deferred finance costs in relation to the previous banking facilities has been accelerated to reflect their reduced term, resulting in a one-time interest charge of £3 million in the year to 31 December 2011.

£10 million has been drawn down against the new revolving credit facility during the year and remained in place at 31 December 2011.

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

Seasonality of borrowing

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

Accordingly, cash flow during the Summer months is materially reduced due to the combined effect of lower prices and output, while maintenance expenditures are increased during this period due to major planned outages.

The Group's £310 million revolving credit facility assists in managing the cash low points in the cycle where required. See Capital resources and refinancing.

Capital expenditure

Fixed asset additions were £45 million in the year ended 31 December 2011, compared to £59 million in 2010. This includes expenditure of £8 million (£20 million in 2010) on our major strategic carbon abatement project, the turbine upgrade, and £5 million of expenditure on new conveyors and fuel handling infrastructure in support of our biomass research and development work (2010: £nil).

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, Tackling climate change). With a double unit outage scheduled for 2012, the turbine upgrade programme will be completed. Expenditure remains in line with budget.

We will continue to evaluate other investment opportunities which may result in additional capital expenditure (see Chief Executive's statement Strategic capital investment plan).

Creditor payment policy and practice

Terms of payment are agreed with suppliers when negotiating each transaction and the Group's 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 parent company of the Group, has no trade creditors. In respect of Group activities, the amounts due to trade creditors at 31 December 2011 represented approximately 22 days of average daily purchases through the year (2010: 21 days). The figure is based upon the ratio of amounts owed to trade creditors against the amounts the Group was invoiced by suppliers during the financial year.

Operational and financial performance

Future developments

Strategic capital investment plan

The Chief Executive's statement describes how preparation for our biomass expansion is now well advanced. Whilst moving ahead with our plans remains dependent on securing appropriate regulatory support and on proving a strong investment case, we have also made good progress with the work to scope out the capital investment plan for the project. The principal components of the plan include potential investments in development of the Drax site biomass capacity, the biomass supply chain, and in Industrial Emissions Directive ("IED") compliance.

	£m
Committed investment:	
Biomass capacity development (Phase 1)	
– secure full benefit from existing co-firing facilities	£50m
Dependent on appropriate ROC support and strong investment case:	
Biomass capacity development (Phase 2)	
– increase Drax site capacity to predominantly biomass	c. £250m
– pellet plants to provide fuel security	£150m–£200m
IED compliance	
– estimate of plant retrofit cost	c. £200m
Net cash at December 2011	£225m

More information on the various components of the capital investment plan can be found in the Chief Executive's statement.

It is important to recognise that if we are in a position to progress, our strong balance sheet, with net cash of £225 million at year end, provides a good foundation for our funding requirements.

Positions under contract for 2012, 2013 and 2014

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 15 February 2012, the positions under contract for 2012, 2013 and 2014 were as follows:

	2012	2013	2014
Power sales (TWh) comprising:	22.0	9.1	3.0
– Fixed price power sales (TWh) at an average achieved price (per MWh)	15.1 at £54.5	6.5 at £52.7	0.4 at £57.6
– Fixed margin and structured power sales (TWh)	6.9	2.6	2.6
CO_2 emissions allowances hedged, including UK NAP allocation, market purchases, structured contracts, and benefit of biomass co-firing (TWh equivalent)	21.8	9.1	3.1
Solid fuel at fixed price/hedged, including structured contracts (TWh equivalent)	22.6	11.0	11.1

Fixed price power sales include approximately 1.0TWh supplied in the period 1 January 2012 to 15 February 2012 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 6.9TWh in 2012, and 2.6TWh both in 2013 and 2014 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 2012, and approximately 2.4 million tonnes in both 2013 and 2014.

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

Subject to the provisions of the Companies Act, the Group 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 Group, in the opinion of the Board, justifies the payment.

The Board has previously committed to 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, and exceptional items) in each year. Underlying earnings per share were 56 pence on this basis for the year ended 31 December 2011.

Dividends paid

On 21 February 2011, the Board resolved, subject to approval by shareholders at the Annual General Meeting ("AGM") on 13 April 2011, to pay a final dividend for the year ended 31 December 2010 of 17.9 pence per share (£65 million). The final dividend was subsequently paid on 13 May 2011.

On 1 August 2011, the Board resolved to pay an interim dividend for the six months ended 30 June 2011 of 16.0 pence per share (£58 million), representing 50% of underlying earnings for the period. The interim dividend was subsequently paid on 14 October 2011.

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 2011 of 11.8 pence per share (£43 million), payable on or before 11 May 2012. Shares will be marked ex-dividend on 25 April 2012.

This Business review was approved by the Board on 20 February 2012.

Tony Quinlan
Finance Director

One of our key priorities:
Maintain an optimal supporting capital structure

Foundation for future growth

"The refinancing and conclusion of the Eurobond tax structure have both given us a strong platform on which to grow the business. We had net cash of £225 million at the end of 2011."

Michael Scott
Head of Investor Relations

£225m

Refinancing
In July 2011, we completed the refinancing of our bank facilities. These were replaced by a £310 million revolving credit facility which matures in April 2014.

Eurobond
In April 2011, we reached agreement with HMRC over the Eurobond tax position, which resulted in cash tax relief of £180 million.

Capital investment plan
We've made good progress on the strategic capital investment plan for our biomass expansion. Further investment remains dependent on securing appropriate regulatory support and a strong investment case.

Biomass capability development
To secure the full benefit from our existing co-firing investment, we have committed to invest £50 million in 2012 in new biomass storage and other limited plant modification.

Principal risks and uncertainties

The effective management of risks within the Group underpins the delivery of our key priorities. The Group has a comprehensive structure of governance controls in place to manage risks. Policies have been established in key areas of the business such as trading, treasury, production and health and safety to ensure that these risks are managed in a controlled manner and in accordance with the Board's appetite for risk.

Philip Hudson
Director of Corporate Affairs and Company Secretary

Internal control and risk management

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. A process has been established for identifying, evaluating 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 2011 Annual report and accounts. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, not absolute, assurance against material misstatement or loss.

Risk management committees

There are five risk management committees:

1. Treasury and commodity risk management committee
2. Safety, health, environmental and production integrity committee
3. New business risk management committee
4. Corporate risk management committee
5. Haven Power risk management committee

Each Committee is responsible for ensuring that all risks associated with their specific area of the business are identified, analysed and managed systematically and appropriately. Each Committee has terms of reference that requires it to ensure that systems and controls are approved, implemented and monitored to ensure that activities are commensurate with the risk appetite established by the Board, are adequately resourced and comply with applicable legal and regulatory requirements. Each risk committee contains at least one member of the Executive Committee.

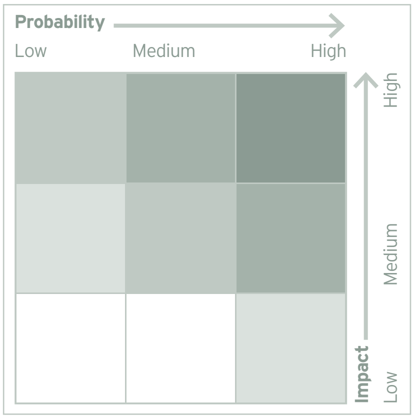
Risk management process

The key elements of the risk management process are as follows:

Risk identification – risks faced by the Group are identified during the formulation of the Business Plan. Senior management and risk owners, with the assistance of the risk management committees, periodically review the risks to ensure that the risk management processes and controls in their area are appropriate and effective, and that new risks are identified.

Risk analysis – the basic causes of each risk are considered, and the impact and likelihood of its materialising is assessed. Risk registers are used to document the risks identified, level of severity and probability, ownership and mitigation measures for each risk. The risk registers are reviewed by the risk management committees on a quarterly basis.

Risks are then logged with reference to impact and probability as follows:



Risk appetite is identified by reference to the same criteria. The analysis enables decisions to be taken as to how that risk should be managed by applying mitigation measures to align the risk with the identified risk appetite.

Risk monitoring and assurance – the Board is ultimately responsible for this system of risk management and internal control. The Audit Committee reviews financial information and the suitability of internal controls on behalf of the Board. Risk management committees assist the executive directors in the operation and implementation of the risk management process, and provide a source of assurance to the Audit Committee that the process is operating effectively.

Internal control

In addition, the Group has comprehensive and well defined control policies with clear structures, delegated authority levels and accountabilities.

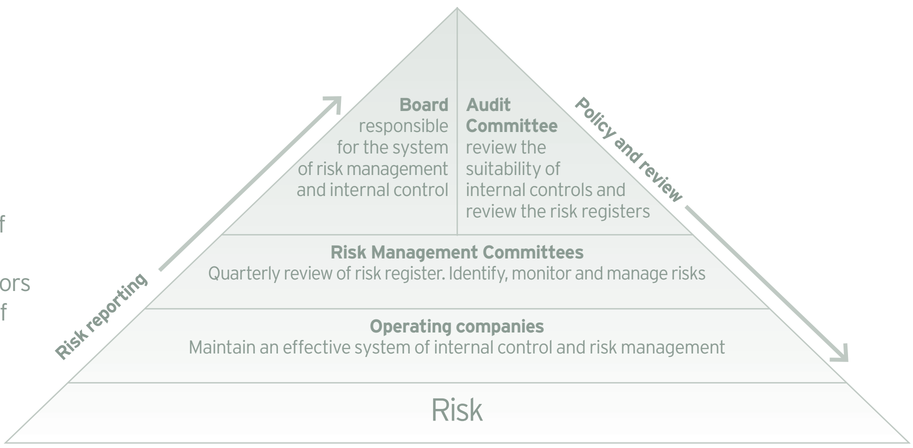
The Group has a system of planning and monitoring, which incorporates Board approval of a rolling five year Business Plan and approval, towards the end of each year, of operating and capital expenditure budgets for the year ahead. Performance against the budget is subsequently monitored and reported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

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

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

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

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



Principal risks and uncertainties

Commodity market risk

Context

We experienced a great deal of uncertainty in power-related commodity markets during 2011

Risk

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

Potential impact

→ Volatility in financial results.

Associated objective and key priorities

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

→ **Maximise profitability from our coal generation capacity.**

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.

Change

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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

→ **Maximise 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.

Change

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Ratings risk

Context

Our business model currently has investment grade debt although we could operate as sub-investment grade with actions that have been implemented

Risk

→ Our investment grade debt rating currently underpins our ability to deliver optimal value from our existing trading strategy. A downgrade of our debt rating to sub-investment grade would require a modified trading strategy.

Potential impact

→ Requirement to post collateral for trading positions.

→ Additional restrictions within facilities agreements.

Associated objective and key priorities

→ **Maintain an optimal supporting capital structure (which can be either investment or sub-investment grade debt with appropriate trading strategy).**

Examples of mitigating activities

→ 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.

Change

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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.**

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

→ **Maximise profitability from our coal generation capacity.**

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.

Change

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Biomass strategy risk

Context

Sustainable 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 sustainable biomass.
- From April 2013, in order for the sustainable biomass we burn to qualify for support under the Government's renewables support mechanism, we will have to demonstrate that it meets pre-determined sustainability standards. Those sustainability standards may be tightened over time, and there is a risk that we may sign long-term supply contracts which meet the current standard but fail to meet a future standard.
- Most of the sustainable biomass that we can procure is priced in foreign currency which increases our exposure to fluctuations against sterling and poses a risk to profitability.
- There are relatively few sustainable biomass suppliers in the market leading to concentration of supply risk. A supply disruption from one could impact on our generation capacity.
- We could fail to secure sustainable biomass supplies and logistics arrangements which meet our hurdle return rates and sustainability criteria.

Potential impact

- Inability to progress the biomass growth strategy.

Associated objective and key priorities

- **Progress our biomass strategy.**

Examples of mitigating activities

- Engage with Government to obtain the right framework and grandfathered support from April 2013 including the grandfathering of fuel supply contracts.
- Hedge currency exposures or secure contracts in sterling to the extent that its appropriate.
- Advanced discussions with several large creditworthy suppliers, building new relationships and exploring new green field projects.
- Contract with suppliers where a robust operational plant and logistics infrastructure is already in place; work with new suppliers to help develop such infrastructure.

Change

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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.

Change

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Regulatory and political risk

Context

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

Risk

- The Government's Energy Market Reform package, including the Carbon Price Support mechanism which will be introduced by HM Treasury from April 2013, will result in coal generation becoming progressively and relatively less economic than other major forms of generation like gas, nuclear and renewables.
- The EU, UK and local environmental and health and safety laws and regulations cover many aspects of our operations including limits on emissions to air and water, noise, soil/groundwater contamination, waste, and health and safety standards.

Potential impact

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

Associated objective and key priorities

- **Progress our biomass strategy.**
- **Maintain operational excellence.**

Examples of mitigating activities

- Deliver our biomass strategy.
- Briefing, representation and engagement at EU and UK level.
- Development of abatement and alternative generation options.
- Regular third party assurance over system effectiveness.
- Strong safety culture and related training.

Change

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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 business conduct, and our environmental, 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 2011, 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.

Engaging with our stakeholders

Shareholders:
- Road shows
- Face-to-face meetings
- Reports and announcements
- Website
- Visit programmes

Employees:
- Open Forum
- Briefing sessions
- Staff newsletter

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

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

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

Local government:
- Liaison meetings
- Annual consultative committee meeting
- Exhibitions
- Newsletters

Trading counterparties:
- Face-to-face meetings
- Industry events

Local community:
- Sponsorship
- Fund raising events
- Themed campaigns
- Visitor programme
- Exhibitions
- Newsletters

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

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

Suppliers and customers:
- Face-to-face meetings
- Contractor briefings
- Contractor safety conference

Media:
- Press releases
- Face-to-face meetings
- Visit programme

Business conduct

Our commitment to integrity

We have 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 mandatory 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. Our employees should always consider the appropriateness of offering or receiving gifts or hospitality. We have 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

We require our employees, wherever they are in the world, to apply the highest standards of behaviour and to be accountable for upholding the requirements of our Code of Business Ethics.

Poor choices could have potentially damaging consequences including financial penalties and imprisonment and would be damaging to our reputation. During 2011, the Code of Business Ethics was refreshed and updated, and ensures compliance with the Bribery Act 2010 through the adoption of a zero tolerance policy towards bribery. In addition, our commitment to integrity has been reiterated by issuing to all our colleagues a booklet giving specific and clear guidance on the various policies and procedures in place to ensure that the highest standards of ethical behaviour are maintained.

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 the high standards we expect.

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 that they may have witnessed or are concerned about.

Climate change and the environment

Tackling climate change

We believe we have an important role to play in the transition of the UK towards a low carbon economy whilst maintaining secure and affordable supplies of electricity. For us, a sustainable business principally implies retaining and, where possible, enhancing our commitment to sustainable biomass co-firing and increased thermal efficiency as the major, strategic carbon abatement initiatives.

The centre of our improved thermal efficiency programme at the power station is the £100 million upgrade of the high and low pressure steam turbines of each of our six generating units. During the major planned outage of 2011, the penultimate year of the upgrade programme, the installation of a high pressure and three low pressure turbine modules to a further unit was completed.

In 2012, we will see the completion of the programme, which will result in an improvement at full load of 5% in our overall thermal efficiency and an annual saving of around one million tonnes of carbon dioxide ("CO_2") emissions.

Through co-firing sustainable biomass we reduced our reliance on coal and saved 2.0 million tonnes of CO_2 during the year. The investment in co-firing of biomass since 2008, including building the world's largest co-firing facility has avoided the release of 4.7 million tonnes of CO_2 and shows our continuing commitment to the transition to a low carbon economy for the UK.

Our experience and commitment to sustainable biomass from source to combustion has provided us with strong roots from which a future in biomass can be grown. This will only come with further regulatory certainty and appropriate support, both of which are critical to us realising our ambition to become, over time, a predominantly biomass fuelled generator. In the meantime, we continue to further our research and development work on biomass while awaiting further developments in the regulatory framework.

In addition to our thermal efficiency and co-firing work, during the year, in partnership with Alstom UK Limited and National Grid Carbon Limited, we applied to the European Union for partial funding to build a 426MW oxy-fired carbon capture and storage demonstration plant at the Drax Power Station site. In January 2012, we were joined by industrial gas provider, BOC (a member of The Linde Group) as a co-sponsor of the project.

Environmental performance and compliance

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

Environmental policies and activities at both Drax Power Station and Haven Power are discussed and supported at Board level.

Corporate and social responsibility

Our Drax Power Station and associated landfill site manages environmental compliance through an environmental management system ("EMS"). This system is externally certified to the international standard ISO 14001 and is subject to external audit twice a year.

We freely discuss our environmental performance and activities with our stakeholders and are sensitive to their views and concerns. This includes colleagues, business partners and contractors and we ensure that they understand how they can affect our environmental performance by identifying the environmental aspects of their activities and by working in a responsible manner.

We are pleased to report that there were no major breaches of our environmental consents during 2011.

Emissions to air

We manage all our emissions effectively and have maintained high levels of investment in flue gas desulphurisation and combustion control systems to ensure compliance with environmental limits. Work continues to develop an investment programme to optimise compliance with the anticipated emission limits which will be in place beyond 2016.

Total emissions (kt)	2011	2010	2009
Sulphur dioxide	32.1	27.3	26.9
Nitrogen oxides	38.9	40.4	38.2
Dust	0.6	0.6	0.5

Discharges to water

Water is a key resource to Drax Power Station with the great majority of the cooling water abstracted from the River Ouse. Other minor sources include the Sherwood Sandstone Aquifer and the town's mains.

Water abstraction (Mt)	2011	2010	2009
River Ouse water	57.7	64.8	58.2
Mains water	0.2	0.2	0.2
Borehole water	2.1	1.8	1.9

Procedures are in place to manage and monitor the drainage and water systems on-site to ensure all discharge consent limits are met. Last year we returned 51% of extracted water back to the River Ouse. Our water use in 2011 was 1.0 tonnes per GWh of electricity generated.

Disposals to land

We have continued to invest in site infrastructure to maximise the sale of ash products into the construction industry and to reduce the disposal of surplus ash to landfill. In 2011, ash was sold in conformance with European construction product standards and in compliance with the Waste Recycling Action Programme ("WRAP") quality protocol.

This has helped us to sell 77% of the 1.5 million tonnes of ash produced in 2011 as replacement for virgin aggregates and as a cement replacement product.

In August, we entered into an agreement to lease some of our land to Lytag Ltd ("Lytag"), a company based in Escrick, North Yorkshire, which manufactures lightweight aggregate from pulverised fuel ash ("PFA"). PFA generated by the power station will be processed in the Lytag plant, providing another route to reducing the amount of ash we send to landfill.

Any unsold ash is sent to the power station's ash disposal site, Barlow Mound. The completed area of the site has been fully restored for use as farm land and woodland.

We pay landfill tax on the ash disposed of to the site. Through the Landfill Communities Fund, we are able to claim a tax credit 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 2011, we contributed £68,800 towards local community-based projects designed to bring about sustainable environmental benefits and contribute to the social and economic regeneration of the area.

During the year, we worked with Biffa Group Limited to introduce a new general and dry mixed recycling waste collection service to assist in recycling waste items such as food packaging, bottles, cans, paper and card. We have removed individual waste bins at desks in order to change people's behaviour when it comes to recycling. The results speak for themselves with an additional 64 tonnes of waste from these sources collected in the 250 big red bins now installed across our site and recycled in 2011.

The other wastes generated as part of the operation and maintenance of the power station are managed to ensure they are processed or disposed of at the highest point on the waste hierarchy. This has resulted in 84% of our waste diverted from landfill. This year's operations have also reduced the total production of waste by around 624 tonnes.

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 and sustainable biomass materials. The choice of fuels has to be balanced with availability and flexibility of supply.

The use of petcoke is now routine and our monitoring indicates that there is no impact on the local community. In line with our policy on openness and transparency all data are discussed with the Environment Agency and local councils.

Good procurement practice

Sustainability is an essential element of good procurement practice and takes account of wider social, economic and environmental factors in addition to the conventional criteria of price, quality and service.

Supply chain

Non-fuel procurement

In 2011, performance measurement of our procurement supply chain was increased and improved. The system has been improved to include contingency planning and true supply chain mapping to encompass more elements in the existing process. This has helped to develop strategies to identify and mitigate risks in our supply base.

We undertook a series of exercises to map out our vulnerable supply markets and suppliers. Contingency plans have been developed to take into account the ease of transference of work, potential new suppliers, risks involved with these selections and timescales for changeover, if necessary. We also undertook training to enable us to recognise signs of suppliers in distress and as a result we have enhanced our risk register, allowing supply markets or suppliers to be logged and monitored.

This additional diligence has proved invaluable, allowing us to mitigate the impact of a supplier that did go into administration. Through implementing the contingency plan for this particular service, disruption to services and contractor personnel were successfully minimised.

Overall, we like to take a balanced approach to our supply chain and we look to use suppliers and working partners from diverse backgrounds, in particular, small and medium suppliers in the local community.

Sustainability is an essential element of good procurement practice and takes account of wider social, economic and environmental factors in addition to the conventional criteria of price, quality and service. Moving into 2012, by applying these wider principles we will create procurement practices that go beyond meeting simple tender requirements and will include safeguarding our brand reputation and delivering improved value and real cost savings throughout the supply chain.

Coal procurement

We purchase around 8 to 9 million tonnes of steam coal each year. We buy from a range of sources with the objective of managing our commercial exposures, environmental obligations and diversity of supply. We continue to purchase around half of the coal from UK deep and surface mines with the remainder coming from major supply basins around the world, including USA, Colombia and Russia.

As a responsible procurer we work within a strong corporate compliance framework. The suitability of each of our suppliers is checked through our counterparty approval, "know your customer" processes and ongoing liaison with counterparties. 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.

Corporate and social responsibility

Biomass sustainability and procurement

Biomass use is a high priority, but it is a prerequisite that it must be from a sustainable source. To ensure this we have implemented comprehensive criteria into our procurement activities with the aim of assuring both the availability and sustainability of the supply. The backbone of our criteria is a high level set of principles committing us to progressively improve 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, 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 originally designed in the absence of national or international legislation, to meet or exceed any likely emerging standards across the whole sustainability spectrum. Our system is continuously improving as our experience and legislation develops. In 2011, these criteria secured our leadership position in the utilities sector of the Forest Footprint Disclosure scheme.

From April 2013, generators of over 1MW capacity will have to comply with a set of sustainability requirements on greenhouse gas savings and land use developed by the Department of Energy and Climate Change ("DECC") in order to receive Renewables Obligation Certificates. We are confident that our existing policy will be sufficient to ensure compliance.

To assist us in continually improving our systems and the performance of our suppliers and to ensure compliance with our sustainability policy we use an experienced third party to rigorously audit our biomass supply chain.

In 2011, our third party auditors carried out a range of audits on key existing and potential suppliers to confirm that they are embracing our policy and are improving their performance against our criteria. Auditors also undertook an ISAE 3000 audit of our overall biomass procurement, logistics and combustion in order to provide early experience of the 2013 requirements.

We have adopted the target for life cycle greenhouse gas emissions which DECC has established for 2013 and beyond, this being similar to our previous internal benchmark. We have also used the DECC model for calculating these emissions, which compares emissions from biomass to the EU fossil fuel comparator and shows that average emissions savings across the range of biomass materials we burnt in 2011 were of the order of 81%, but with a wide range in savings for individual biomass materials. This provides reassurance that our current procurement practices and suppliers are robust.

Procuring sustainable biomass

We have implemented comprehensive criteria into our procurement activities with the aim of assuring both the availability and sustainability of our biomass supplies.

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

	2011	2010	2009
Fatality	**0**	0	0
Time Losing Injuries	**3**	4	3
Restricted Work Injuries	**1**	0	3
Medical Treatment Injuries	**0**	5	0
First Aid Injuries	**207**	148	154
RIDDOR[1] reportable	**5**	6	4

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

Attaining leading performance

The lost time injury rate and total recordable injury rate for 2011 at 0.08 and 0.10 respectively, remain industry-leading, with the latter a record breaking achievement at the power station since the measure was first recorded in 2005. 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 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 delivering sustained levels of performance.

We have been successful in retaining certification of our Health and Safety Management System to the internationally recognised Occupational Health and Safety standard, OHSAS 18001, at the Drax Power Station site and we have attained certification for the our straw pellet plant, based at Goole in the East Riding of Yorkshire. Drax Power Station is 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, we were delighted, once again, to be awarded the RoSPA Gold Medal Award having achieved Gold Award standards for seven 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":

- → Task Risk Assessment ("TRA")
- → "Safety Kick-Off" start of shift safety briefing
- → Dynamic Point of Work Risk Assessment ("POWRA")
- → 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 we and our 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

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

The annual Safety Conference for contractors and staff continues to be a focal point. In 2011, 84 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. A Corporate HESAC group also exists. 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.

Corporate and social responsibility

Employees

Employment

The Group employed 1,150 people at the year end. Most of our employees work full-time and are on permanent contracts.

Our opinion surveys consistently show that our employees are proud to work for the Group, and other measures of engagement are also very high. For example, at Drax Power Station the annual resignation rate is only 1.6%, the average length of service is just under 15 years and 37% of the workforce has been with the Group for 20 years or more. This high level of retention is positive, as our power generation business requires levels of skill and experience which are difficult to source externally. Absence rates are consistently low, at around 2% per annum.

The annual resignation rate at Haven Power is over 30%, reflecting the nature of the business. This is an improving figure and Haven Power management has recently established a working group which is focused on potential actions to reduce staff turnover.

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

Employee relations

At Drax Power Station, 529 people (68% 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 other than managers and senior engineers. The pay deal extends to 31 December 2012, providing a platform for continuing stable employee relations in the year 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 equip all our people with the technical skills, management and leadership competencies, and personal behaviours needed to achieve our Business Plan. All employees receive annual performance and career development reviews. Individual targets 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.

In 2011, we introduced a supervisor development programme to develop a pipeline of potential supervisors to fill succession gaps at Drax Power Station. Seven participants completed the programme, sponsored and accredited by Coventry University. The group developed their leadership skills through a series of workshops, an action learning project and a 12 week secondment into a supervisory position. Most of the participants have already secured a supervisor position and work is now underway to run a second programme during 2012.

For approved external training programmes, our employees receive financial support, for example, course fees and expenses. The Group also supports those staff who, as members of professional institutions or associations, are required to undertake continued professional development.

Each year we recruit for our sponsored four year apprentice training programme covering power station operations and engineering maintenance. We currently have 18 apprentices at different stages of the programme, with plans to recruit up to ten new apprentices in 2012.

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

At Haven Power, there are a number of leadership programmes in place for the operations management team, all team managers and all new team leaders. This year Haven Power has also introduced a "Learning to Lead" programme focused on equipping potential team leaders with the skills to progress into supervisory roles.

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. In our 2011 Employee Survey, 96% of respondents said they understood the direction the Group is taking.

At Drax Power Station, Open Forums provide 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. We use a variety of media at the Open Forums, including DVDs featuring colleagues across the business. This face-to-face communication channel is much valued by employees.

One of our key priorities:
Deliver excellent people leadership across our operations

Nurturing our talent

"Our people are a key resource and we consider it a priority to deliver excellent people leadership across our operations."

Richard Neville
Head of Human Resources

2

3

1

1,150

4

1
Apprenticeships
Each year we recruit for our sponsored four year apprentice training programme.

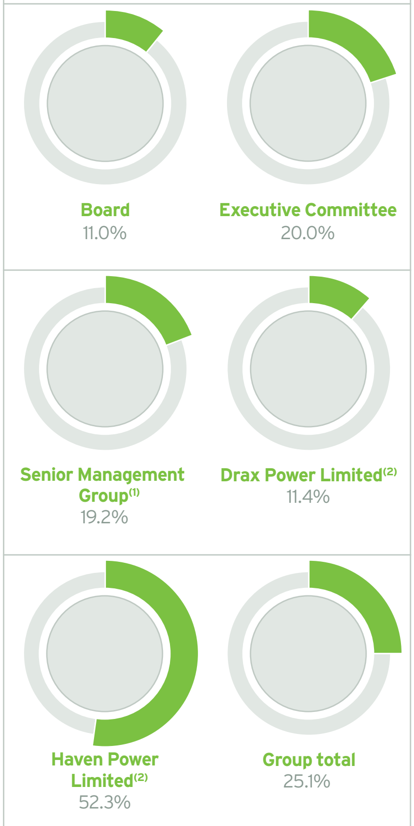
2
Our values
Throughout the Group we share the values of honesty, energy, achievement and team spirit.

3
Diversity and equality
Our policies on diversity and equality, and dignity at work have been updated in line with the Equality Act 2010.

4
Number of employees
The Group employed 1,150 employees at the year end.

Corporate and social responsibility

The proportion of women employed within the Group



Notes:
(1) This excludes the Board and Executive Committee.
(2) This excludes the Board, Executive Committee and Senior Management Group.

In addition, our all-employee communication methods include monthly team briefs and e-mail and intranet communications.

At Haven Power there is a framework of individual one-to-one discussions, team meetings and staff forums. This year Haven Power has introduced a weekly communications cascade and targeted communications events focused on particular initiatives. The intranet is widely used.

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.

Diversity and equality

We are committed to attracting a broad spectrum of candidates, as we believe that we are more likely to find the best available people if we look in the widest possible talent pool. Our aim is to maintain an inclusive work environment where difference is respected.

We have established a policy to ensure that gender diversity is one of the factors taken into account when considering future appointments to the Board and other senior appointments, and in line with the Equality Act 2010, we have updated our diversity and equality policy and our dignity at work policy.

We give full and fair consideration to suitable applications for employment from people with disabilities having regard to their particular aptitudes and abilities. Through a voluntary diversity monitoring data collection process, 6% of colleagues who responded recorded that they have a disability, amounting to 3.5% of the workforce. Where a colleague becomes disabled whilst employed by the Group, we make reasonable adjustments, with the assistance of advice from the occupational health team and other specialists, to help them remain in work.

Through monitoring and encouraging feedback, the Group is committed to ensuring that none of the protected characteristics, such as age, race and religion, which underpin the Equality Act are barriers to working for us.

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 in the organisation 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.

All core benefits, including pension, permanent ill-health insurance, free or discounted private healthcare, life insurance, maternity/paternity leave, and the Savings-Related Share Option Plan are provided to both full and part-time, as well as temporary, employees.

Recognition

The achievements of our staff have been recognised through a number of awards and shortlistings for awards from external bodies during 2011.

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

This year staff at Haven Power helped the company to achieve the accolade of No. 1 for customer satisfaction in the small and medium enterprise ("SME") market in the external 2011 Datamonitor Survey.

We were shortlisted for the Company Award, given to the company that has done the most to advance UK renewables, of the British Renewable Energy Awards 2011. Our work on introducing sustainability standards to the biomass supply chain ahead of legislation was recognised and shortlisted in the Renewable Energy category of the Green Business Awards 2011.

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 2011, where we were shortlisted for the "Best sustainability and stakeholder disclosure – FTSE250" award and the "Best remuneration disclosure – FTSE250" award for our 2010 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.

On appointment to a role in the Group, each new employee completes a medical questionnaire or examination to identify any pre-existing medical conditions and previous environmental exposure, or to identify where any reasonable adjustments are needed in cases where an employee has a disability.

We have published occupational health policies which address industrial disease risks, and our occupational health team undertakes regular programmes to screen colleagues who are in contact with, for example, high noise levels or dust. Everyone working in operational areas has a general medical every three years.

Some categories of worker are exposed to materials which may pose a risk to health, such as chemicals and coal dust. In these cases, more specific health surveillance, such as lung function tests, hearing tests and eyesight tests are undertaken through an ongoing programme managed in accordance with risk, exposure and Health and Safety Executive requirements. Driving and driver training support programmes are in place for those travelling on business on a frequent basis.

Each year we have a planned programme of health promotion. Promotions in 2011 included a healthy heart campaign for all employees at Drax Power Station, run by the charity Heart Research UK and funded by us, and a prostate and ovarian cancer awareness campaign.

Haven Power had a full week aimed at greater promotion of staff benefits and facilities. During the week Haven Power's occupational health partners visited both the Ipswich and Chelmsford sites and provided health advice on areas such as keeping fit at work and stress management.

All the Drax Power Station workforce is represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes. The committees have senior management representation, with trade union or employee representatives.

Pension provision and retirement

There are 378 employees who are members of the Drax Power Group of the Electricity Supply Pension Scheme, which was closed to new entrants in 2002. All other employees are eligible to join the Group Personal Pension Plan or the Haven Power Personal Pension Plan, which are both actively promoted to new recruits. Any employee aged 55 or over is eligible to take their accrued retirement benefits, in line with the statutory minimum age for receipt of an occupational pension.

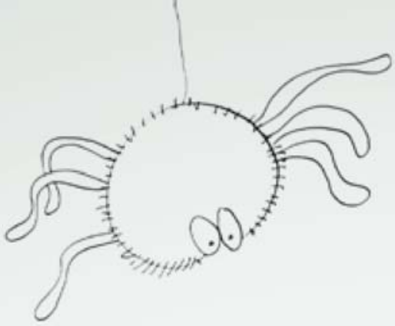
In 2011, we removed the default retirement age and we now have a number of employees working beyond the age of 65. We have also introduced a phased retirement policy so that any employee aged 55 or over may apply to take accrued retirement benefits and continue to work part-time for Drax Power Limited, subject to operational requirements.

From our Human Resources information systems we produce reports to assist managers with retirement and succession planning and for employees approaching their chosen retirement age 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.



Caring for the community

"We are committed to being a good neighbour and our "caring for the community" philosophy involves being part of our local and regional communities."

Rachael Hudson
External Affairs Officer

3

1

£136,813

4

1
Financial support
During 2011, the Group gave financial support of £136,813 across a range of charitable and non-charitable causes.

2
Skylark Centre
At the heart of our nature reserve, the Skylark Centre is equipped with facilities to help schoolchildren understand more about the natural habitat and ecology of the area.

3
Cricket in the community
Our cricket initiative continues to be popular amongst local schools. In 2011, we staged the fifth Drax Cup competition for boys and girls aged under nine across the region.

4
Art in the Community
Our Summer Art Schools and annual art competition were well supported during the year helping us to promote art learning within the National Curriculum.

2

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 this Corporate and social responsibility section; below we touch on other aspects of our stakeholder engagement commitments, from investor relations to community relations.

Investor relations

We are committed to delivering shareholder value. We communicate our results and prospects to our shareholders in an accurate and timely manner using a variety of channels. In addition to the Annual General Meeting, we communicate through our Annual report and accounts, Half year report and Interim Management Statements. All of these documents are made available on our website at www.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 2011, 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, Canada 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.

Corporate and social responsibility

External relations

As in previous years, we maintained our engagement with public affairs audiences on issues with implications for our business. With energy policy still high on the political agenda we had significant engagement with Parliamentarians and officials at all levels on issues including forthcoming environmental legislation, renewables policy and market reform issues.

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

No political donations were made in the UK or elsewhere during 2011 (2010: nil), and the Group's contact with those active in the political arena has been and will continue to be aimed solely at the promotion of the Group's business interests.

The definitions of EU political expenditure are broad and there is 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 Company wishes to avoid any inadvertent infringement of the legislation and each year, though a resolution at the Annual General Meeting, seeks the authority of shareholders to incur expenditure for the Company and its subsidiaries for such purposes of £100,000.

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 2011, the Group gave financial support of £136,813 (2010: £131,450) in total across a range of charitable and non-charitable community causes. Of that total, charitable donations amounted to £93,878 (2010: £87,384).

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.

One of the good causes supported through the sponsorship team in 2011 was the Children's Heart Surgery Fund Charity, at the Leeds General Infirmary, which supports valuable equipment, resources and research for the treatment of children with heart defects, whilst providing a support service both for the children and their families.

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 2011, just over £40,000 of the total donations made were through this scheme.

Now in its seventh year, the outage charity scheme raised £7,000 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. Added to this was a further £400 through an initiative to collect used ear plugs during the outage. As in previous years the money was divided equally between two local charities chosen by Drax staff and our contractors: Willow's Wish, helping a 7 year old girl with cerebral palsy travel to America for a potentially lifesaving operation; and The Steve Prescott Foundation, which raises money for people suffering with cancer.

For the fifth year running we held a charity corporate golf tournament at Fulford Golf Club, York. The event raised £14,520 for the Yorkshire Air Ambulance, which provides a crucial emergency service for the region. A further £750 was donated following a fund raising event held at the Drax annual Safety Conference for contractors and staff.

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 sanctuary for over 100 species of wildlife. It is specially designed to help schoolchildren understand more about the natural habitat and ecology of the area.

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. During the year, 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 fifth year we ran the Drax Cup, a cricket competition for teams of girls and boys under the age of nine. Around 340 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 four area final winners – English Martyrs' RC Primary School from York, Wickersley Northfield Primary School from Rotherham, Snaith Primary School near Goole and Alwoodley Primary School from Leeds – met in the semi-finals and final day at Headingley Carnegie Stadium, the home of Yorkshire CCC and a long-standing venue for test matches and one-day internationals. This year, for the second year running, the winning school was Alwoodley Primary School.

Under the "Art in the Community" banner, we held our fifth art competition for primary and secondary schools. Some 20 schools participated and the winners received prizes of top art supplies and their schools shared in prize money totalling over £2,800.

Our Summer Art Schools, designed to encourage and develop art appreciation as part of our support for education and to promote art learning within the National Curriculum, entered their fourth year in 2011. Children aged 7 to 10 learnt how to make creatures from bugs to birds and animals in an arts and crafts class using a variety of materials along with t-shirt printing and painting, while a master class for 11 to 14 year olds helped them get to grips with more advanced arts and digital technology.

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 local and professional associations. During 2011, we played host to some 7,300 visitors.

On Easter Sunday, we held an event to provide fun and games for local families and also raise money for The Sobriety Project, a charity based at the Yorkshire Waterways Museum in Goole, which helps disadvantaged young people and vulnerable groups in the local community. Hundreds of children took part in the activities, which included a hunt for huge Easter eggs, mask-making and face-painting.

For three Sundays in the run-up to Christmas, we converted the Skylark Centre into Santa's Grotto. The attraction proved popular with local residents, over 1,200 people came to visit the grotto and through their generosity and other Christmas initiatives some £2,500 was raised for Selby Hands of Hope, a charity helping to fund groups and activities in the local area.

Corporate governance

What good corporate governance means at Drax

"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 that the business is well governed."

Charles Berry
Chairman

Chairman's letter

I am pleased to present Drax's Corporate governance report for 2011 on behalf of our Board. This report is intended to provide you with a clear and meaningful explanation of what governance means to us and how it will guide our decision making in the future.

Good governance at all levels is taken seriously at Drax and it is for the Board to set the tone and take the lead. Good governance should be second nature to everyone at Drax as they go about their day-to-day business and is not simply a set of policies and processes. The Board believes that good practice should flow throughout the Group, which in turn should guide the decisions taken on a daily basis. If we achieve this, then we can be sure that we are taking the right actions for the benefit of all our stakeholders.

It is important that we continue to develop our board structures, processes and procedures to ensure that our governance remains relevant and focused on improving our business and driving our strategic priorities. During 2011, we continued to strengthen our internal control and risk management processes to ensure that they are embedded in business operations across the Group.

I believe the drive for transparent reporting has continued to improve business conduct in recent years. Recently the Financial Reporting Council has built into the UK Corporate Governance Code an emphasis for organisations to actively consider the make up and diversity of their boards. Drax has established a policy to ensure that gender diversity is one of the factors taken into account when considering future appointments to the Board and other senior appointments.

This year we are required to report against the UK Corporate Governance Code, which replaces the Combined Code. I am pleased to report that the Board has reviewed the new code and we comply with it. We intend to continue to observe it, to ensure ongoing good governance is maintained.

A more detailed report on our corporate governance arrangements is set out on the following pages.

Charles Berry
Chairman

Directors' report

The directors present their report for Drax Group plc, which should be taken to incorporate the Business review section of the annual report, the Corporate governance review and the consolidated financial review for the year ended 31 December 2011.

Corporate governance

The Group is committed to high standards of corporate governance, details of which are given in this Corporate governance report and the Audit, Nominations and Remuneration Committee reports set out on pages 62 to 80.

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

Compliance with the UK Corporate Governance Code

It is the Board's view that throughout the period commencing on 1 January 2011, there has been full compliance with the provisions of the UK Corporate Governance Code.

The Board of directors

As at 20 February 2011, the Board consisted of the non-executive Chairman, four independent non-executive directors and four executive directors. The current directors are Tim Barker, Charles Berry, Tim Cobbold, Peter Emery, David Lindsell, Tony Quinlan, Paul Taylor, Dorothy Thompson and Tony Thorne. Biographical notes of the directors appear below.

Charles Berry
Chairman

Appointment to the Board:	15 December 2005 and was appointed Chairman on 17 April 2008.
Committee membership:	Nominations (Chairman) and Remuneration.
External appointments:	A non-executive director and Chairman-designate of Senior plc, 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 Chairman of Eaga plc and of THUS Group plc.
Qualifications:	BSc (Hons) in Electrical Engineering and MSc in Management.
Responsibilities and skills:	As Chairman, Charles is responsible for the leadership of an effective Board ensuring cohesion between the executive and non-executive directors. He liaises closely with the Chief Executive in order to fully understand the business challenges facing the executive directors and the senior management team and in turn he ensures that matters laid before the non-executive directors are challenged and tested in a robust manner.

Dorothy Thompson
Chief Executive

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.
Responsibilities and skills:	As Chief Executive, Dorothy is responsible for all aspects of the stewardship of the Group and its business, including developing an appropriate business strategy for Board approval and securing its timely and effective implementation. She provides leadership to the executive team and takes responsibility for the important external relationships with customers, suppliers, regulatory agencies and Government bodies. 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
Finance Director

Appointment to the Board:	1 September 2008.
Committee membership:	Executive.
External appointments:	A non-executive director of the Port of London Authority.
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).
Responsibilities and skills:	As Finance Director, Tony is responsible for the financial management of the Group, and for relationships with the Group's bankers. In addition, he has the Investor Relations, Risk Management, IT, Facilities, and Procurement functions reporting to him. Tony also has responsibility for the development of the enhanced co-firing facilities at Drax.

Corporate governance

Peter Emery
Production Director

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 and a member of The Energy Research Partnership.
Previous experience:	Peter joined Esso Petroleum upon leaving university and held a number of analyst and managerial roles in the UK before moving to Esso's parent, Exxon in the US to co-ordinate its downstream marketing and distribution investments outside North America and Canada. Peter returned to Esso's Fawley Oil Refinery in 1992 as plant technical services manager. In 1997, he became refinery maintenance manager and in 2002, he was appointed operations manager with full management and operational responsibility for Fawley Oil Refinery, the UK's largest refinery. He was also a member of ExxonMobil's European leadership team for refining.
Qualifications:	BSc (Hons) in Mining Engineering, FIMMM and completed the Advanced Management Programme at INSEAD in 2007.
Responsibilities and skills:	As Production Director, Peter is responsible for the operation of the Group's plant and equipment. This includes all aspects of safety management, plant integrity, engineering support and design, maintenance and plant design. Peter also has responsibility for leading the Company's carbon capture and storage activity.

Paul Taylor
Retail and Trading Director

Appointment to the Board:	1 September 2011, having joined Drax in July 2004.
Committee membership:	Executive. Paul is also Chairman of the Group's retail subsidiary, Haven Power Limited.
External appointments:	None.
Previous experience:	Paul has more than 15 years experience in energy trading previously working for TXU Europe and Powergen/E.ON UK. At TXU Europe Paul led the UK electricity trading function responsible for trading a combined portfolio of over 7GW of power plant and a retail position of more than 50TWh. Before energy trading Paul worked in operational research.
Qualifications:	BSc (Hons) in Business Operation and Control.
Responsibilities and skills:	As Retail and Trading Director, Paul has responsibility for the trading of power and other associated commodities. He is also responsible for the retail division, Haven Power, which sells electricity to customers in the industrial and commercial and small and medium enterprises markets.

Tim Barker
Senior independent non-executive director

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 the European subsidiary of the Investment Bank Jeffries Group Inc. and Chairman of an early stage company developing a new energy storage technology.
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 (Hons) in Economics.
Responsibilities and skills:	As the Senior Independent Director, Tim's counsel is of great importance to the Board and its Committees. His knowledge and experience of financial markets provides the Board with added insight.

Tim Cobbold
Independent non-executive director

Appointment to the Board:	27 September 2010.
Committee membership:	Audit, Nominations and Remuneration.
External appointments:	Chief Executive and an executive director of De La Rue Plc.
Previous experience:	Tim was previously the Chief Executive Officer of Chloride Group plc, the leading international provider of secure power solutions having joined them in 2007 as Chief Operating Officer. Following Emerson Electric's takeover of Chloride he held a senior position in Emerson, responsible for the Chloride Group of companies. He trained as a Mechanical Engineer and qualified as a Chartered Accountant in 1987 and joined Smiths Group plc (formerly TI Group plc) in 1989 where he held a number of senior financial and operational management positions over an 18 year period.
Qualifications:	BSc (Hons) in Mechanical Engineering and a Fellow of the Institute of Chartered Accountants in England and Wales (FCA).
Responsibilities and skills:	Tim's blend of financial and engineering experience means that he is well placed to contribute significantly to the Board and its Committees. His role as an active chief executive in a different sector adds a different dimension to his contribution.

David Lindsell
Independent non-executive director

Appointment to the Board:	1 December 2008.
Committee membership:	Audit (Chairman), Nominations and Remuneration.
External appointments:	A non-executive director of Premier Oil plc, and 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. David is a former non-executive director of Gartmore Group Limited.
Qualifications:	Fellow of the Institute of Chartered Accountants in England and Wales (FCA).
Responsibilities and skills:	David's recent and relevant experience in the areas of finance and audit are a significant asset to the Board and his role as Chairman of the Audit Committee.

Tony Thorne
Independent non-executive director

Appointment to the Board:	29 June 2010.
Committee membership:	Audit, Nominations and Remuneration.
External appointments:	Chairman of the South East Coast Ambulance Service.
Previous experience:	Tony was Chief Executive of DS Smith plc, the international packaging and office products group, from 2001 until his retirement from the Board in May 2010. Previously he was President of SCA's corrugated packaging business. Prior to this he spent 20 years with Shell International, working throughout the world in senior management roles, including strategic planning and President of the Shell companies in Mexico.
Qualifications:	BSc (Hons) in Agricultural Economics.
Responsibilities and skills:	Tony's geographical experience is of great importance as Drax considers expansions into global markets. The fact that Tony is also a recently retired chief executive also adds a different dimension to his contribution.

Each of the independent non-executive directors detailed above served the Group throughout the year ended 31 December 2011. Mike Grasby served the Group as an independent non-executive director for only part of the year. He retired as a director at the conclusion of the Annual General Meeting ("AGM") on 13 April 2011.

No person, other than those mentioned above, served as a director or as an alternate director at any time during the year.

Corporate governance

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.

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

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

Selection, appointment, review and re-election

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.

Notwithstanding the provisions of the Articles, and in accordance with the UK Corporate Governance Code, the Company will continue to propose all directors for annual re-election. Accordingly each of Tim Barker, Charles Berry, Tim Cobbold, Peter Emery, David Lindsell, Tony Quinlan, Dorothy Thompson and Tony Thorne will retire at the forthcoming AGM and, being eligible, offer themselves for re-election.

The Articles require that, following appointment to the Board, directors submit themselves for election by shareholders at the first AGM following their appointment. Paul Taylor was appointed to the Board after the last AGM and, therefore, will retire and offer himself for election by shareholders at the AGM to be held on 18 April 2012.

The evaluation of the Board described on page 55 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 in their particular role and perform effectively.

The election or re-election of each director is recommended by the Board. Details of the service contracts for the executive directors and letters of appointment for the non-executive directors are set out in a table on page 76.

It is the Board's policy that each non-executive director will be appointed for a term of three years which, subject to the Board being satisfied as to the director's performance and commitment and a resolution to re-elect at the appropriate AGM, may be renewed by mutual agreement. However, it is the Board's policy not to extend the aggregate period of service of any independent non-executive director beyond nine years and, any proposal made to extend a non-executive director's aggregate period of office beyond six years is the subject of a rigorous review. Such reviews in cases where a director remains in office after six years, will be conducted annually, as part of the evaluation of the Board.

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

How the Board functions

The Board has seven scheduled meetings each year, and arranges additional meetings if the need arises. There are also three scheduled business updates for the Board by telephone conference call. In addition, the Board meets at least annually to consider strategy.

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 schedule of delegated authorities 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 has adopted a policy whereby directors may, in the furtherance of their duties, seek independent professional advice at the Company's expense. During 2011, no director sought independent legal advice pursuant to the policy.

The Company Secretary is responsible for advising the Board on all governance matters, ensuring good information flows within the Board, its committees and senior management, and ensuring that Board processes are complied with. He is also responsible for compliance with the Companies Act, the Listing, Prospectus and Disclosure and Transparency Rules. In his role as Director of Corporate Affairs, he is also responsible for advising the Board on legal matters and has responsibility for the Company Secretarial, Environmental, External Affairs, Group Legal, Human Resources, and Regulatory and Policy functions, and for the management of the Group's internal control and risk management framework and processes.

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. 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 2010, 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.

The 2010 review involved individual interviews with each director, the Company Secretary and members of the senior management group, and concluded that the Board was strong and appeared well equipped to meet the challenges ahead. In particular, the composition and mix of the Board were considered to be appropriate with a strong cadre of non-executive directors with a broad range of relevant experience. The report made a number of recommendations to enhance Board effectiveness, all of which the Board acted upon as part of the process of continuing improvement. During 2011, the Board commissioned Independent Audit to conduct a follow up review, which was carried out through a questionnaire based process. The findings of the review were presented to the Board. The review did not disclose any areas of concern and found that good progress had been made on the areas for improvement identified by the 2010 review. The review suggested that there would be benefit in the Board reviewing certain of its past decisions. The Board will act on this suggestion and, as an example, will consider whether its decision taken in 2010 to change the manner in which it scrutinises and receives assurance in respect of health and safety management has resulted in a more effective process.

During the year, the Chairman held a meeting with the non-executive directors in the absence of the executive directors, and the Senior Independent Director held meetings with the non-executive directors without the Chairman being present, as required by provision A.4.2 of the UK Corporate Governance Code.

The Board is committed to the development of all employees and directors and has reviewed and will periodically continue to review each 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.

Corporate governance

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[(1)]	Charles Berry (as Chairman), Tim Barker, Tim Cobbold, David Lindsell and Tony Thorne.
Remuneration Committee[(1)]	Tim Barker (as Chairman), Charles Berry, Tim Cobbold, David Lindsell and Tony Thorne.

Notes:
(1) Mike Grasby was a member of the Nominations and Remuneration Committees until he retired from the Board at the conclusion of the AGM on 13 April 2011.

Details of the work of each of the Committees are given in the respective reports of those Committees on pages 62 to 80.

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.

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), Peter Emery (Production Director), Philip Hudson (Director of Corporate Affairs and Company Secretary), Tony Quinlan (Finance Director) and Paul Taylor (Retail and Trading Director). 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 and Remuneration Committees of Drax Group plc during 2011.

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

	Time on the Board (years/months)	Time with Drax[(1)] (years/months)	Board[(2)]	Audit Committee	Nominations Committee	Remuneration Committee
Tim Barker	6/2	7/6	7(7)	4(4)	3(3)	4(4)
Charles Berry	6/0	6/0	7(7)		3(3)	4(4)
Tim Cobbold	1/3	1/3	7(7)	4(4)	3(3)	4(4)
Peter Emery	6/2	7/6	7(7)			
Mike Grasby[(3)]	5/6	7/4	3(3)		2(2)	3(3)
David Lindsell	3/0	3/0	7(7)	4(4)	3(3)	4(4)
Tony Quinlan	3/4	3/4	7(7)			
Paul Taylor[(4)]	0/4	7/6	2(2)			
Dorothy Thompson	6/2	6/3	7(7)			
Tony Thorne	1/6	1/6	7(7)	4(4)	3(3)	4(4)

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 2011.
(2) In addition to the Board meetings identified above, there have also been three teleconference calls to discuss various matters and there was one meeting held to specifically consider strategy.
(3) Mike Grasby retired as a director on 13 April 2011.
(4) Paul Taylor was appointed as a director on 1 September 2011.

Under the terms of his letter of appointment, the Chairman is expected to commit between 50 and 70 full days a year to fulfil his role.

Under the non-executive's letters of appointment, the time commitment each is expected to give in respect of membership of the Board, is 12 to 15 full days a year. That includes attendance at Board meetings, the AGM, one annual Board strategy day and at least one site visit per year. In addition, they are expected to devote appropriate preparation time ahead of each meeting. The time commitment expected in respect of their membership of committees of the Board, notably the Audit, Nominations and Remuneration Committees, is an additional three to four full days a year in each case.

Internal control

Details of the Group's system of internal control and risk management are contained in the Principal risks and uncertainties section on pages 32 to 35 together with the Directors' responsibilities statement in accordance with the UK Corporate Governance Code.

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 2011. 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 0.8% 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, on pages 2 to 49, 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.

Additional Information

Annual General Meeting

The Annual General Meeting ("AGM") of the Company will be held on 18 April 2012, at The Armourer's Hall, 81 Coleman Street, London EC2R 5BJ at 11.30am. A separate document contains the notice convening the AGM and a description of the business to be conducted.

Other significant agreements

Under a £310 million revolving credit facility agreement dated 22 July 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 requires, it may by giving notice to Drax Finance Limited and the facility agent within 30 days of receiving notice from Drax Finance Limited that a change of control has occurred, cancel its commitments and require the repayment of its share of any outstanding amounts within three business days of such cancellation notice being given.

Under a trading agreement dated 5 May 2010, as amended on 22 July 2011 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 two 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.

Corporate governance

Auditors and the disclosure of information to the auditor

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

In accordance with Section 489 of the Companies Act, a resolution is to be proposed at the AGM for the reappointment of Deloitte LLP as the auditor of the Company. A resolution will also be proposed authorising the directors to determine the auditor's remuneration. The Audit Committee reviews the appointment of the auditor, the auditor's effectiveness and relationship with the Group, including the level of audit and non-audit fees paid to the auditor. Further details on the work of the auditor and the Audit Committee are set out in the Audit Committee report on pages 62 to 64.

Share capital

The Company has only one class of equity shares, which are ordinary shares of 11 16⁄29 pence each. There are no restrictions on the voting rights of the ordinary shares.

At 1 January 2011, 364,859,988 shares were in issue and at 31 December 2011, 364,862,718 shares were in issue. As at 20 February 2012, 364,864,494 shares were in issue.

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 April 2011, a total of 2,456 shares were issued in satisfaction of shares vesting in accordance with the rules of the Group's Bonus Matching Plan to an individual who had retired from the Group. On 28 September 2011, a total of 274 shares were issued in satisfaction of share options exercised in accordance with the rules of the Group's Savings-Related Share Option Plan to an individual who had their employment with the Group terminated due to redundancy. The shares issued represented a negligible percentage of the Company's issued ordinary share capital prior to those shares being issued. No other ordinary shares were issued during the year.

On 10 February 2012, a total of 1,776 shares were issued in satisfaction of share options exercised in accordance with the rules of the Group's Savings-Related Share Option Plan to an individual who had retired from the Group.

Substantial shareholdings

As at 20 February 2012, 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	Number of voting rights in qualifying financial instruments	Total number of shares held	% of the issued share capital held
Invesco plc	1.3.2010	–	108,072,751	–	108,072,751	29.62%
Black Rock Inc.	27.4.2011	–	30,870,078	5,516,236	36,386,314	9.97%
Schroders plc	20.01.2012	–	20,668,302	15,643	20,683,945	5.66%
AXA S.A	17.12.2009	1,704,050	14,952,477	–	16,656,527	4.57%
Legal & General Group Plc	15.7.2010	14,478,741	–	–	14,478,741	3.96%
Orbis Holdings Limited	3.02.2012	–	13,447,250	–	13,447,250	3.69%
Total shares held by substantial shareholders		**16,182,791**	**188,010,858**	**5,531,879**	**209,725,528**	**57.47%**

Authority to purchase own shares

At the AGM held on 13 April 2011, 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 2011 and the Company held no Treasury shares during 2011.

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.

Corporate governance

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

20 February 2012

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

Directors' responsibilities statement

The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, 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

20 February 2012

Tony Quinlan
Finance Director

20 February 2012

Audit Committee report

"The steps Drax has taken in 2011 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, and Tony Thorne all of whom are independent non-executive directors.

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 2011, and the members' attendance record is set out on page 56. 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 auditor 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 auditor 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 2011, 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 auditor identifying accounting or judgemental issues requiring its attention and also satisfied itself of the independence and objectivity of the external auditor;
- 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 continues to focus on specifically identified strategic risk areas, as well as ensuring the provision of a core compliance assurance service. No significant weaknesses were identified in any of the internal audit reports although certain improvements in processes and procedures were made as a result of reviews;
- in July 2011, 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 April 2011, the Committee undertook a detailed review of the management letter covering the external auditor's findings in respect of the prior financial year and also reviewed the performance of the external auditor;
- at meetings in April and November 2011, the Committee reviewed the Company's risk register and in February and November 2011, it undertook a review of the effectiveness of the system of internal controls and consideration of fraud;
- during 2011, PricewaterhouseCoopers LLP ("PwC") conducted a further phase on the effectiveness of controls applicable to Drax Power Limited's commodity trading activities. In July 2011, the results of this further phase were presented to the Committee. The report did not identify any significant weaknesses in the controls;
- during the year, the Committee met three times in the absence of management with each of the external and internal auditor. No matters of concern were drawn to the Committee's attention at any of these meetings. The Committee's understanding with both the external and internal auditor is that, if they should at any time become aware of any matters occasioning them material concern, they will immediately draw it to the Committee's attention via the Chairman of the Committee. Nothing was subject to this procedure in the course of the year; and
- strategic reviews of tax (July 2011), treasury and the finance team (both November 2011), were undertaken and presented to the Committee and in addition, policy reviews covering auditor independence and whistleblowing were put to, and approved by, the Committee in April 2011.

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.

Independence of the external audit

In April 2011, 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 auditor is, 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 auditor to conduct non-audit work under which:
  - the auditor may not be engaged to provide certain categories of work, including those where they may be required to audit their own work or make management decisions, or where the auditor would act in an advocacy role for the Group;
  - there is a clear process of approval for engaging the auditor to conduct other categories of non-audit work, subject to financial limits;
  - all engagements of the auditor to conduct non-audit work are reported to the next meeting of the Committee;
  - the balance between the fees paid to the external auditor for audit and non-audit work is monitored by the Committee; and
- a policy on the employment by the Group of former employees of the external auditor, the essence of which is to require a period of two years to elapse between the cessation of an individual's association with the auditor and appointment to any financial reporting oversight role within the Group.

Details of the amounts paid to the external auditor during the year for audit and other services are set out in note 5 to the consolidated financial statements on page 93. The external auditor is required to rotate the audit partner responsible for the Group audit every five years and the current audit partner, Carl Hughes, has been in place for three years.

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

Audit Committee report

Internal audit

Under an outsourcing arrangement, Grant Thornton UK LLP undertakes the Group's internal audit function. Regular reports are provided to the Audit Committee regarding the audit programme and reviews undertaken. Recommendations are made to management for process improvements as appropriate. Topics dealt with by internal audit reports reviewed by the Committee during 2011 included: Senior Accounting Officer compliance; Human Resources strategy; Bribery Act compliance; payroll, Drax cyclical key financial controls; Haven key financial controls; Drax IT key controls and strategy; Haven IT key controls and strategy; and group wide risk management.

External auditor

Deloitte LLP was appointed auditor of the Group in 2005 and have been reappointed at each subsequent Annual General Meeting. They previously acted as auditor 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 auditor at the forthcoming AGM and a resolution to that effect appears in the notice of the AGM.

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

This report was reviewed and approved by the Board on 20 February 2012.

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, Mike Grasby (until 13 April 2011), David Lindsell and Tony Thorne. 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.

The Company's Articles provide that directors retire by rotation. However, the UK Corporate Governance Code provides that all directors should be subject to annual re-election. The Company adopted the provisions of the UK Corporate Governance Code on the annual re-election of all directors at the beginning of 2011.

The terms of reference for the Committee are reviewed annually by the Committee and then by the Board. They are available on the Group's website at www.draxgroup.plc.uk.

The Committee met on three occasions in 2011, and the members' attendance record is set out on page 56.

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.

In September 2011, 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 55.

During the course of the year, the Committee considered the composition of the Board and concluded that it was an appropriate time to appoint a commercial director. The succession planning process had already established that Paul Taylor was capable of stepping into an executive director role, when the time was right for the Company. Paul Taylor was subsequently appointed the Retail and Trading Director on 1 September 2011. He will retire and offer himself for election by shareholders at the AGM to be held on 18 April 2012.

The Board has considered the recommendations of the Report by Lord Davies, Women on Boards, and welcomes initiatives aimed at increasing diversity generally, including gender diversity. We believe, however, that an over prescriptive approach through setting targets or announcing aspirational goals is not desirable. It is possible that in setting out attributes for new appointments, without specific consideration of gender diversity, the Board could unintentionally limit the available talent pool. However, it is equally possible that setting out gender diversity targets may also have a limiting effect. The Board has established a policy to ensure that the proportion of women on the Board will be one of the considerations for future Board and senior management appointments. We believe that proper account of the benefits of gender diversity can be taken without establishing specific aims and without giving undue weight to gender diversity. The Nominations Committee will implement this policy in relation to future appointments to the Board.

Further details of gender diversity in the Group are included in the Corporate and social responsibility section of the Annual report and accounts.

The Committee met on 14 February 2012, following the completion of the Board evaluation process, and determined that all of the directors who are the subject of annual re-election will retire at the forthcoming AGM and, being eligible, offer themselves for re-election. The evaluation of the Board described on page 55 concluded that the directors offering themselves for re-election continue to demonstrate commitment to their particular role and perform effectively.

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

This report was reviewed and approved by the Board on 20 February 2012.

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 debate in respect of executive remuneration and in particular the transparency of reporting has continued in earnest during 2011. The Remuneration Committee ("the Committee") has welcomed this and has actively contributed.

We recognise the need to build trust in the remuneration process through transparency and accountability and we are therefore supportive of many of the proposals currently being suggested by the Government following the Department for Business, Innovation and Skills reviews of narrative reporting and executive remuneration.

In particular we welcome proposals that promote clear and concise reporting as evidenced by our nomination for "Best Remuneration Disclosure" in the ICSA Hermes Transparency in Governance Awards 2011. We are also considering implementing further measures to promote greater transparency within the Group.

Some disclosures, particularly if they are overly prescriptive, may have unintended consequences or be subject to invalid comparisons between companies. We therefore think that it is essential to give companies flexibility to present information in a way that is relevant to their business and compensation structures.

The Committee strongly supports proposals that enhance the link between performance and executive remuneration and also improve the clarity of reporting of the same. We believe that the measures of performance to which executive reward is linked should be based on the specific company's circumstances and also individual contribution, so cannot be measured solely in terms of share price or earnings growth. This is particularly so in challenging market conditions and in companies such as Drax, where shareholders recognise that earnings volatility is inescapable.

The Committee further developed this approach during the last remuneration review whereby performance measures applicable to the Bonus Matching Plan ("BMP") for executives and senior management were adjusted to include both operational and strategic measures. Our aim was to align more closely remuneration with key strategic goals specific to Drax, in particular the development of a much more sustainable business with reduced reliance on coal, a greater focus on biomass and increased retail sales. A relative Total Shareholder Return ("TSR") measure was also retained to ensure continued alignment of executive reward with the interests of shareholders.

All participants in the BMP are subject to the share ownership guidelines as set out on page 75.

The Committee has striven to maintain a balanced remuneration structure which recognises both short-term performance and the achievement of long-term strategic objectives. Financial and operational performance continue to be critical components in the Committee's determination of remuneration for executive directors and senior staff as it is these factors that primarily determine the returns to shareholders in the short-term. Indeed, the business performed well in both of these areas during 2011 against a backdrop of volatile commodity markets.

Remuneration for executives also takes into account progress in the Group's two key strategic initiatives; to convert Drax Power Station into a predominantly biomass fuelled generating asset, subject to securing the necessary regulatory support, and the programme for the expansion of Haven Power Limited. The Committee's assessment was that excellent progress was made during 2011 in achieving these objectives.

The Committee is satisfied that remuneration incentives are compatible with the Group's risk policies and systems, including those relating environmental, social and governance risks.

This Remuneration Committee report has been prepared by the Committee on behalf of the Board which has adopted the principles of good governance as set out in the UK Corporate Governance Code and it 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 auditor 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 18 April 2012.

Part 1 – Unaudited information

The Committee

During the year, the Committee consisted of Tim Barker (as Chairman), Tim Cobbold, Mike Grasby (until 13 April 2011), David Lindsell and Tony Thorne, all of whom are independent non-executive directors, together with Charles Berry, Chairman of the Company. 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 four occasions during the year and its members' attendance record is set out on page 56.

Advice to the Committee

PricewaterhouseCoopers LLP ("PwC")	Independent adviser appointed by the Committee, in 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 Committees 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.

Remuneration Committee report

Agenda

Each year the Committee agrees an annual work schedule. The regular scheduled matters considered by the Committee in 2011 were:

- review of the performance of the Group by reference to the 2010 Balanced Corporate Scorecard ("Scorecard"), including the application of the discretionary factor;
- ratification of the measures and weightings of the 2011 Scorecard;
- 2010 annual bonus awards to directors and senior managers by reference to the Scorecard and individual performance against personal objectives;
- agreeing personal objectives for directors and senior managers for 2011;
- 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 2011); and
- review of advisers and the fees paid to them.

In addition, with the assistance of its advisers, the Committee considered current trends in executive remuneration with particular reference to consultation on executive remuneration by the Department of Business, Innovation and Skills. The Committee considered the Company's own remuneration policy and practices in that context. It concluded that the structure and level of executive remuneration in the Company continued to be appropriate.

The Committee also considered the provision of pension benefits to executive directors in the light of changes in personal taxation. It decided not to make any change to the provision of pension benefit, save to give executives the option to be paid in cash in lieu of pension contributions for amounts in excess of the annual personal allowance of £50,000.

Remuneration policy

During the year the Committee reviewed and updated its terms of reference to ensure that they were sufficiently flexible and appropriate to meet the different requirements necessary to motivate and retain senior managers in all Group companies.

The objectives of the remuneration policy are:

- to enable the Company to recruit, retain and motivate the talent needed to achieve its business objectives;
- to strengthen teamwork by enabling all employees to share in the success of the business;
- to ensure alignment of executive and shareholder interests; and
- to develop an approach which emphasises Total Reward.

The core principles of the remuneration policy are to:

- pay market rates of total remuneration;
- adopt different pay and benefit structures for different operating entities in the Group as appropriate to each entity's markets, workforce and location;
- ensure that there is an appropriate link between performance and reward;
- award annual bonuses which are linked to the delivery of the annual Business Plan targets including the achievement of strategic objectives and personal performance; and
- ensure that long-term incentives are linked to TSR and to the delivery of Business Plan targets including the achievement of strategic objectives.

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 BMP (Performance over three years)
Benefits in kind (Car allowance, private medical etc)	All employee share plans

Each executive director received total remuneration in respect of the year from 1 January to 31 December 2011 to the value set out in the following table:

	Dorothy Thompson	Tony Quinlan	Peter Emery	Paul Taylor
Salary (£000)	508	345	284	225
Annual bonus (£000)	497	312	257	216
Pension contributions (£000)	101	69	57	39
Benefits in kind (£000)	90	85	18	15
Vested shares under long-term incentive plan	–	–	–	–
Deferred shares	–	–	–	–
Total remuneration	**1,196**	**811**	**616**	**495**

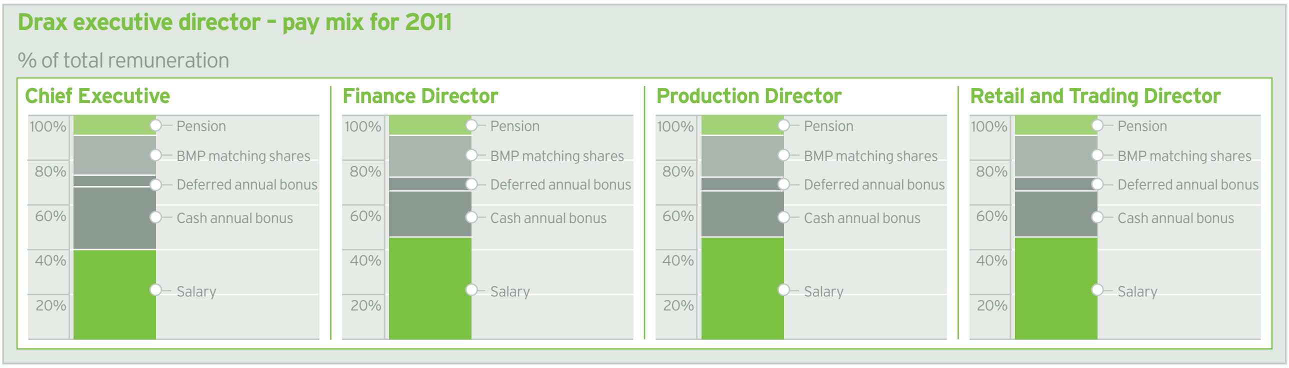
The table on page 70 shows the mix of remuneration that applied in 2011 for executive directors between variable and fixed, and short-term and long-term remuneration.

Components of remuneration

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

		Chief Executive	Finance Director	Production Director	Retail and Trading Director
Salary – Salaries were benchmarked in 2010 against two comparator groups, firstly; utilities, power generators and selected other industrial companies, and secondly; commercial companies with comparable market capitalisation, turnover and employee numbers.					
Annual bonus (% of salary)	Target	65%	60%	60%	60%
	Maximum	130%	120%	120%	120%
– Bonuses are based 50% on Group and 50% on individual performance against objectives. 25% of any bonus is settled in shares deferred for three years.					
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 FTSE51–150 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	1.5x
Employer's pension contribution (% of salary)		20%	20%	20%	20%

Remuneration Committee report



The chart values the annual bonus at target with a 5.0% p.a. forfeiture risk applied to the mandatory deferred bonus. The BMP opportunity is based on "fair value" assuming the annual bonus pays out at target and the fair value of a BMP performance share is assessed at 45% of its face value.

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

Base salary

Executive directors' base salaries and benefits are reviewed each year with any changes taking effect from 1 April. The review takes into account individual performance and market competitiveness, recognising that there is no obvious comparator to Drax in the market.

The Committee also takes into account the level of general pay increases within the Company. The pay increase agreed on behalf of staff covered by collective bargaining arrangements is subject to a three year agreement with increases on 1 January of each year of the agreement, at RPI plus 0.3%. The increase is subject to a cap of 4.9%, which was therefore the level of the general pay increase on 1 January 2011. The agreement continues until 31 December 2012. The average pensionable pay of an executive director is nine times the average of pensionable pay for employees within the collective bargaining unit.

In the light of the benchmarking exercise and the other factors considered, the Committee agreed that with effect from 1 April 2011:

– Dorothy Thompson's base salary should be increased by 2% to £510,000

– Tony Quinlan's base salary should be increased by 2% to £346,800

– Peter Emery's base salary should be increased by 2% to £285,600

The Committee consider these salary levels to be appropriate taking into account all of the factors set out.

– Paul Taylor was appointed to the Board on 1 September 2011 at an annual base salary of £240,000.

– 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 Scorecard 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 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 2011, the Scorecard had the following elements and weightings:

	Elements	Weighting
Financial targets	Underlying earnings per share; and	20%
	Cash flow[1] and controllable costs.	10%
Production targets	Safety and plant and operational performance.	20%
Strategic and Business Plan objectives	Regulatory – securing appropriate support for co-firing of sustainable biomass;	10%
	Development of technical and sourcing plans to increase the level of biomass generation subject to regulatory support;	15%
	Commercial and development targets for retail business;	10%
	Development of plans for compliance with Industrial Emissions Directive ("IED") post 2016	5%
	Volume of commercially advantaged fuel combustion; and	5%
	Value added through commodity trading.	5%

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 this process, the Committee assessed the corporate score for 2011 at 146%. The Committee exercised its discretion to adjust the corporate score (by a factor of 1.03x), resulting in a final corporate score of 150%.

A summary of the assessment is set out in the following table:

	Elements
Financial targets	Stretch target achieved for underlying earnings per share.
	Between target and stretch target achieved for cash flow.[1]
	Stretch target achieved for controllable costs.
Production targets	Stretch target achieved for total recordable injury rate.
	Between target and stretch target achieved for all other safety and operational targets, except for planned outage rate, which achieved between low and target because of additional outages associated with plant modifications for biomass trials which were not included in the original plan.
Strategic and Business Plan objectives	Between target and stretch target achieved for regulatory objectives.
	Overall, slightly below target was achieved for development of biomass plans, which reflected the inability to demonstrate a viable investment case for the development of dedicated biomass plant.
	Between target and stretch target was achieved for commercial and development targets for the retail business.
	Target was achieved for IED plans.
	Target was achieved for volume of commercially advantaged fuel combustion.
	Stretch target was achieved for value added from commodity trading.

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

Remuneration Committee report

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 2011, 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 2012 for the Chief Executive and the other executive directors are the same as in 2011, and bonus measures and targets have been set using a similar process to that used previously. The corporate scorecard weightings are 30% financial, 15% safety and production, 5% retail and 50% strategic and Business Plan. The weightings are set out in the following table:

	Target weighting
Financial performance	
Group underlying earnings per share[(1)]	20%
Cash flow[(2)] and controllable costs	10%
Total financial	**30%**
Safety, production and retail	
Safety and production targets	15%
Retail sales volume	5%
Total safety, production and retail	**20%**
Strategic and Business Plan	
Regulatory objectives	5%
Biomass co-firing development	20%
Biomass procurement targets	10%
IED compliance plan development	5%
Other	10%
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, and exceptional items (see note 9 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 the BMP as a long-term performance share plan. Awards under the BMP have been made in 2009, 2010 and 2011.

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 performance conditions determined by the Committee and described below.

The TSR condition

50% of such part of any awards that are subject to performance conditions shall vest subject to 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 FTSE51–150 (the Comparator Group). TSR is the return received by a Drax shareholder through appreciation in the share price, plus dividends assumed to be reinvested in Drax shares.

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%(1)	33%(1)

Notes:
(1) Subject normally to continuing service up to the third anniversary.

The Scorecard condition

50% of the BMP award subject to performance conditions will vest by reference to the Company's performance against the average outcome from the Scorecard over the three year performance period (the Scorecard award).

The Scorecard award will vest by reference to the average of the outputs of the Scorecard 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 Scorecard outcome	% of Scorecard Award vesting
<1	0%
1	15%(1)
1.5	100%(1)

Notes:
(1) 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 Scorecard calculation and has 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 its discretion the Committee will pay particular regard to progress against the strategic objectives incorporated in the Scorecard including sustainable development of biomass generation and the development of the Haven Power supply business.

In addition, the Committee must be satisfied that there has also been a demonstrable and sustainable 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.

Pension

Executive directors are entitled to non-contributory membership of the Group's defined contribution pension plan. The employer's contribution for executive directors is 20% of base salary.

Alternatively, at their option, executive directors may either have contributions of the same amounts made to their personal pension schemes or cash in lieu of pension at the stated rate and subject to normal statutory deductions; or a combination of pension contributions up to £50,000 per annum with the remainder as cash in lieu of pension. 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.

Remuneration Committee 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, on a non-contributory or discounted basis according to the subsidiary company's policy. 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 or senior manager is required to spend a significant amount of time at two Drax locations.

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	–	220	–	–	–
Tim Cobbold	–	53	–	–	–
Peter Emery	286	–	172	12	57
David Lindsell	–	63	–	–	–
Tony Quinlan	347	–	208	78	69
Paul Taylor	240	–	144	12	48
Dorothy Thompson	510	–	332	84	102
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 and 2011, 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.

In each year of operation, options have been granted at the permitted discount of 20% to the prevailing share price (determined in accordance with the plan rules) resulting in option prices of:

2006 – 636.00 pence per share

2010 – 310.50 pence per share

2011 – 321.00 pence per share

Options may be exercised upon successful completion of the three or five year savings contract to which they are linked.

The five year contracts under the 2006 Plan matured on 1 July 2011. The market price of Drax Group plc shares from the maturity date up to the end of the exercise period peaked at 581.50 pence per share, which was well below the option price of 636 pence per share. Therefore all options under this plan lapsed on 31 December 2011.

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

On 14 February 2012, the Committee agreed that invitations to the SAYE be made again in 2012, 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 Share Award	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 SIP has not operated since 2009.

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 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.

Remuneration Committee report

Service contracts

Executive directors' service agreements are of indefinite duration, terminable at any time by either party giving 12 months' prior notice except that the contracts of Peter Emery and Paul Taylor are terminable by them 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 2011, 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	14 February 2012	3 years	1	1
Charles Berry	17 April 2011	3 years	6	6
Tim Cobbold	27 September 2010	3 years	1	1
Peter Emery	14 June 2004	Indefinite duration	12	6
Mike Grasby(1)	15 December 2005	6 years	1	1
David Lindsell	14 February 2012	3 years	1	1
Tony Quinlan	1 September 2008	Indefinite duration	12	12
Paul Taylor	1 September 2011	Indefinite duration	12	6
Dorothy Thompson	26 September 2005	Indefinite duration	12	12
Tony Thorne	29 June 2010	3 years	1	1

Notes:
(1) Mike Grasby retired as a director on 13 April 2011.

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 is a non-executive director of Johnson Matthey plc and received £50,000 in fees for that appointment during 2011.

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. This 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 the Chairman's remuneration should be increased from £200,000 to £220,000 per annum with effect from 1 April 2011. This was the first increase in the Chairman's remuneration since his appointment in April 2008 and was agreed on the basis that it would not be increased further until at least April 2013. This is reflected in the table of annualised rates of pay on page 74.

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 31 December 2006 has changed and compares that performance with the changing value of the same amount invested at the same time in the FTSE100 and FTSE250 indices. These indices have been chosen as suitable broad comparators against which the Company's shareholders may judge their relative returns given that, in recent years, the Company has been a member of both the FTSE100 and FTSE250 indices. The graph reflects the TSR (determined according to usual market practice) for the Company and each of the indices referred to on a cumulative basis over the period from 31 December 2006 to 31 December 2011.

TSR performance – Drax versus FTSE100 and FTSE250

as at 31 December 2011

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 2011.

Directors' emoluments

The emoluments payable in respect of 2011 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 2011 £000	Benefits £000	Pension[1] £000	**Total 2011 £000**	Total 2010 £000
Tim Barker	–	63	–	–	–	**63**	61
Charles Berry	–	215	–	–	–	**215**	200
Tim Cobbold	–	53	–	–	–	**53**	14
Peter Emery	284	–	257	18	57	**616**	598
Mike Grasby[2]	–	18	–	–	–	**18**	55
David Lindsell	–	63	–	–	–	**63**	61
Tony Quinlan	345	–	312	85	69	**811**	780
Paul Taylor[3]	225	–	216	15	39	**495**	399
Dorothy Thompson	508	–	497	90	101	**1,196**	1,155
Tony Thorne	–	53	–	–	–	**53**	27

Notes:
(1) Annual contribution by the Group to directors' pension plans or cash in lieu.
(2) Mike Grasby retired from the Board on 13 April 2011 and therefore his emoluments are for only part of the year.
(3) Paul Taylor was appointed to the Board on 1 September 2011. The figures in the table above show the total amounts he received, as both an employee and a director, for the period 1 January 2011 to 31 December 2011. The total for 2010 is the amount he received as an employee.

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 2011 (or appointment if later) (number)	Awards made during the year (number)	Awards vesting during the year (number)	Awards lapsing during the year (number)	**As at 31 December 2011 (number)**	Market value at the date of award (pence)
Peter Emery						
2008 Award	39,861	–	–	39,861	**–**	577.0
Paul Taylor						
2008 Award	28,596	–	–	28,596	**–**	577.0
Dorothy Thompson						
2008 Award	71,057	–	–	71,057	**–**	577.0

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 2011 (or appointment if later) (number)	Awards made during the year (number)	Awards vesting during the year (number)	Awards lapsing during the year (number)	**As at 31 December 2011 (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
2011 Matching Award	–	125,660	–	–	**125,660**	401.08
2011 Deferred Award	–	20,943	–	–	**20,943**	401.08
Total	180,436	146,603	–	–	**327,039**	–
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
2011 Matching Award	–	152,588	–	–	**152,588**	401.08
2011 Deferred Award	–	25,431	–	–	**25,431**	401.08
Total	207,266	178,019	–	–	**385,285**	–
Paul Taylor						
2009 Matching Award	48,256	–	–	–	**48,256**	495.40
2009 Deferred Award	8,042	–	–	–	**8,042**	495.40
2010 Matching Award	63,003	–	–	–	**63,003**	388.02
2010 Deferred Award	10,500	–	–	–	**10,500**	388.02
2011 Matching Award	–	76,667	–	–	**76,667**	401.08
2011 Deferred Award	–	12,777	–	–	**12,777**	401.08
Total	129,801	89,444	–	–	**219,245**	–
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
2011 Matching Award	–	243,093	–	–	**243,093**	401.08
2011 Deferred Award	–	40,515	–	–	**40,515**	401.08
Total	365,657	283,608	–	–	**649,265**	–

Details of the conditions subject to which the above awards will vest are given on page 72.

Remuneration Committee report

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 2011 (or appointment if later) (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 2011 (number)**
Tony Quinlan	2,922	–	–	–	310.5	1 May 2013 to 31 October 2013	**2,922**
Paul Taylor	2,922	–	–	–	310.5	1 May 2013 to 31 October 2013	**2,922**
Dorothy Thompson	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 2011 was 545.0 pence and the daily middle market closing quotations during the financial year ranged from 371.9 pence to 581.5 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 2011					As at 1 January 2011 (or appointment if later)				
	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	**1,000**	**–**	**–**	**–**	**–**	–	–	–	–	–
Peter Emery	**30,551**	**2,616**	**–**	**–**	**327,039**	30,551	2,616	–	39,861	180,436
David Lindsell	**7,500**	**–**	**–**	**–**	**–**	7,500	–	–	–	–
Tony Quinlan	**2,500**	**803**	**2,922**	**–**	**385,285**	2,500	803	2,922	–	207,266
Paul Taylor	**–**	**2,694**	**2,922**	**–**	**219,245**	–	2,694	2,922	28,596	129,801
Dorothy Thompson	**63,569**	**2,616**	**2,922**	**–**	**649,265**	63,569	2,616	2,922	71,057	365,657
Tony Thorne	**7,500**	**–**	**–**	**–**	**–**	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.
(4) A director is not required to hold shares of the Company by way of qualification.

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 2011 and the date upon which this report was approved by the Board.

This report was reviewed and approved by the Board on 20 February 2012.

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 2011 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 32. 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our Report.

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 2011 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 UK Corporate Governance 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 2011 and on the information in the Directors' remuneration report that is described as having been audited.

Carl D. Hughes

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

20 February 2012

Consolidated income statement

	Notes	Years ended 31 December 2011 £m	2010 £m
Revenue		**1,835.9**	1,648.4
Fuel costs in respect of generation		**(1,020.8)**	(840.9)
Cost of power purchases		**(172.3)**	(165.8)
Grid charges		**(117.6)**	(82.2)
Other retail costs		**(24.4)**	(9.0)
Total cost of sales		**(1,335.1)**	(1,097.9)
Gross profit		**500.8**	550.5
Other operating and administrative expenses	5	**(224.4)**	(210.8)
Unrealised gains/(losses) on derivative contracts	19	**89.8**	(60.5)
Operating profit		**366.2**	279.2
Interest payable and similar charges	6	**(30.3)**	(26.5)
Interest receivable	6	**2.2**	2.2
Profit before tax		**338.1**	254.9
Tax:			
– Before exceptional items	7	**(71.4)**	(66.5)
– Exceptional items	7	**197.9**	–
		126.5	(66.5)
Profit for the year attributable to equity holders		**464.6**	188.4
Earnings per share		**pence**	pence
– Basic	9	**127**	52
– Diluted	9	**126**	52

All results relate to continuing operations.

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

Consolidated statement of comprehensive income

	Notes	Years ended 31 December 2011 £m	2010 £m
Profit for the year		**464.6**	188.4
Actuarial losses on defined benefit pension scheme	30	**(3.7)**	(6.2)
Deferred tax on actuarial losses on defined benefit pension scheme	7	**0.9**	1.7
Fair value gains/(losses) on cash flow hedges	25	**2.6**	(232.6)
Deferred tax on cash flow hedges before corporation tax rate change	7	**(0.7)**	65.1
Impact of corporation tax rate change on deferred tax on cash flow hedges	7	**1.9**	0.6
Other comprehensive income/(expense)		**1.0**	(171.4)
Total comprehensive income for the year attributable to equity holders		**465.6**	17.0

Consolidated balance sheet

	Notes	As at 31 December 2011 £m	2010 £m
Assets			
Non-current assets			
Intangible assets – goodwill	10	**10.7**	10.7
Property, plant and equipment	11	**1,195.7**	1,184.2
Derivative financial instruments	19	**11.0**	25.8
		1,217.4	1,220.7
Current assets			
Inventories	12	**137.6**	116.6
ROC assets	13	**32.1**	33.1
Trade and other receivables	14	**269.3**	233.0
Derivative financial instruments	19	**120.6**	112.6
Short-term investments	15	**30.0**	95.0
Cash and cash equivalents	16	**202.8**	236.0
		792.4	826.3
Liabilities			
Current liabilities			
Trade and other payables	17	**292.8**	285.0
Current tax liabilities		**33.8**	189.7
Borrowings	18	**7.1**	61.7
Derivative financial instruments	19	**95.6**	197.9
		429.3	734.3
Net current assets		**363.1**	92.0
Non-current liabilities			
Borrowings	18	**0.5**	65.3
Derivative financial instruments	19	**5.3**	1.5
Provisions	20	**30.5**	6.4
Deferred tax liabilities	21	**203.8**	244.2
Retirement benefit obligations	30	**37.0**	37.3
		277.1	354.7
Net assets		**1,303.4**	958.0
Shareholders' equity			
Issued equity	22	**42.1**	42.1
Capital redemption reserve	24	**1.5**	1.5
Share premium	24	**420.7**	420.7
Merger reserve	24	**710.8**	710.8
Hedge reserve	25	**63.3**	59.5
Retained profits/(accumulated losses)	26	**65.0**	(276.6)
Total shareholders' equity		**1,303.4**	958.0

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 20 February 2012.

Signed on behalf of the Board of directors:

Dorothy Thompson
Chief Executive

Tony Quinlan
Finance Director

Consolidated statement of changes in equity

	Issued equity £m	Capital redemption reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Retained profits/(accumulated losses) £m	Total £m
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 8)	–	–	–	–	–	(86.5)	(86.5)
Movement in equity associated with share-based payments (note 23)	–	–	–	–	–	2.8	2.8
At 1 January 2011	42.1	1.5	420.7	710.8	59.5	(276.6)	958.0
Profit for the year	–	–	–	–	–	464.6	464.6
Other comprehensive income/(expense)	–	–	–	–	3.8	(2.8)	1.0
Total comprehensive income for the year	–	–	–	–	3.8	461.8	465.6
Equity dividends paid (note 8)	–	–	–	–	–	(123.7)	(123.7)
Movement in equity associated with share-based payments (note 23)	–	–	–	–	–	3.5	3.5
At 31 December 2011	**42.1**	**1.5**	**420.7**	**710.8**	**63.3**	**65.0**	**1,303.4**

Consolidated cash flow statement

	Notes	Years ended 31 December 2011 £m	2010 £m
Cash generated from operations	27	**281.9**	484.7
Income taxes paid		**(67.7)**	(56.1)
Other gains		**0.7**	2.0
Interest paid		**(18.9)**	(23.0)
Interest received		**2.5**	3.5
Net cash from operating activities		**198.5**	411.1
Cash flows from investing activities			
Purchases of property, plant and equipment		**(43.8)**	(62.3)
Short-term investments		**65.0**	(40.0)
Net cash generated from/(used in) investing activities		**21.2**	(102.3)
Cash flows from financing activities			
Equity dividends paid	8	**(123.7)**	(86.5)
Repayment of borrowings		**(135.4)**	(65.2)
New borrowings		**10.0**	–
Other financing costs paid		**(3.8)**	(1.5)
Net cash used in financing activities		**(252.9)**	(153.2)
Net (decrease)/increase in cash and cash equivalents		**(33.2)**	155.6
Cash and cash equivalents at 1 January		**236.0**	80.4
Cash and cash equivalents at 31 December	16	**202.8**	236.0

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. The principal activities of the Group are the generation and sale of electricity and by-products of the electricity generation process at Drax Power Station, Selby, North Yorkshire and the sale of electricity to business customers by Haven Power Limited ("Haven Power").

2. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("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 Operational and financial review on page 29, and on the historical cost basis, except for certain financial assets and liabilities that have been measured at fair value.

Adoption of new and revised accounting standards

In 2011, several new, revised and amended standards and interpretations became effective. These are IAS 24 (revised) "Related party disclosures", IFRS 1 (amendment) "First time adoption: financial instrument disclosure", IAS 32 (amendment) "Financial instruments: Presentation on classification of rights issues", IFRIC 19 "Extinguishing financial liabilities with equity instruments", IFRIC 14 "Prepayments of a minimum funding requirement", and Improvements to IFRSs (2010). The adoption of these standards and interpretations has not had a material impact on the financial statements of the Group.

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

- IFRS 1 (amendment) "Severe hyperinflation and removal of fixed dates for first-time adopters" – effective for accounting periods beginning on or after 1 July 2011.
- IFRS 7 (amendment) "Financial instruments: Disclosures on derecognition" – 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 2015.
- IFRS 10 "Consolidated financial statements" – effective for accounting periods beginning on or after 1 January 2013.
- IFRS 11 "Joint arrangements" – effective for accounting periods beginning on or after 1 January 2013.
- IFRS 12 "Disclosure of interests in other entities" – effective for accounting periods beginning on or after 1 January 2013.
- IFRS 13 "Fair value measurement" – effective for accounting periods beginning on or after 1 January 2013.
- IAS 1 (amendment) "Presentation of financial statements – Other comprehensive income" – effective for accounting periods beginning on or after 1 July 2012.
- IAS 12 (amendment) "Deferred tax: Recovery of underlying assets" – effective for accounting periods beginning on or after 1 January 2012.
- IAS 19 (revised) "Employee benefits" – effective for accounting periods beginning on or after 1 January 2013.
- IAS 27 (revised) "Separate financial statements" – effective for accounting periods beginning on or after 1 January 2013.
- IAS 28 (revised) "Investments in associates and joint ventures" – effective for accounting periods beginning on or after 1 January 2013.

The Group is yet to assess the full impact of adoption of IFRS 9 and IFRS 13, and intends to adopt both standards no later than the accounting period beginning on or after 1 January 2015 and 1 January 2013 respectively, subject to endorsement by the EU.

Adoption of the other standards in future periods is not expected to have a material impact on the financial statements of the Group.

Notes to the consolidated financial statements

3. 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 (E). 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 10).

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 Drax Power Station, along with the sale of electricity direct to customers through our retail business, Haven Power. As a result of the growth in the retail business, this segment has become more significant during the year ended 31 December 2011, and therefore the results of this segment are separately disclosed from 1 January 2011, along with comparatives for the year ended 31 December 2010 (see note 4).

(E) 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.

(F) Property, plant and equipment

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

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

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

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

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

Notes to the consolidated financial statements

3. Summary of significant accounting policies (continued)

(G) 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.

(H) 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. The discount rate used is a risk free pre-tax rate, reflecting the fact that the estimated future cash flows have built in risks specific to the liability. An amount equivalent to the discounted provision is capitalised within property, plant and equipment and is depreciated over the useful lives of the related assets. The unwinding of the discount is included in interest payable and similar charges.

(I) 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.

(J) ROC assets

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. In respect of ROCs earned but not yet sold, 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.

(K) 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, within intangible assets. 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.

(L) Taxation

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

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

Deferred tax is calculated at the tax rates that 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.

(M) Pension and other post-retirement benefits

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

The current service cost of the pension charge is deducted in arriving at operating profit in other operating and administrative expenses. The net interest cost of the pension charge is now included in finance costs and therefore deducted in arriving at profit before tax. This presentational change has resulted in the reclassification of £1.3 million costs in 2010 from salaries, in other operating and administrative expenses, to finance costs. The excess of the present value of the defined benefit obligation over the fair value of the plan assets is recognised as a liability in the balance sheet.

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

(N) Share-based payments

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

(O) Foreign currencies

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

(P) Financial instruments

Debt instruments

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

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

Commodity contracts and treasury derivatives

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

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

The Group also uses treasury related derivatives to manage exposure to 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.

Notes to the consolidated financial statements

4. Segmental reporting

Information reported to the Board and for the purposes of assessing performance and making investment decisions is organised into two operating segments. The Group's operating segments under IFRS 8 are as follows:

Generation – The generation of electricity at Drax Power Station.

Retail – The supply of electricity to retail customers in the small and medium enterprise and industrial and commercial markets.

The measure of profit or loss for each reportable segment, presented to the Board on a regular basis is EBITDA. Assets and working capital are monitored on a Group basis, with no separate disclosure of asset by segment made in the management accounts, and hence no separate asset disclosure is provided here.

Segment revenues and results

The following is an analysis of the Group's results by reporting segment for the year ended 31 December 2011:

	Year ended 31 December 2011			
	Generation £m	Retail £m	Eliminations £m	Consolidated £m
Revenue				
External sales	1,560.4	275.5	–	1,835.9
Inter-segment sales	174.8	–	(174.8)	–
Total revenue	1,735.2	275.5	(174.8)	1,835.9
Result				
Segment EBITDA	336.1	(2.5)	–	333.6
Central costs				
Depreciation, amortisation and loss on disposal of property, plant and equipment				(57.2)
Unrealised gains on derivative contracts				89.8
Operating profit				366.2
Net finance costs				(28.1)
Profit before tax				338.1

The following is an analysis of the Group's results by reporting segment for the year ended 31 December 2010:

	Year ended 31 December 2010			
	Generation £m	Retail £m	Eliminations £m	Consolidated £m
Revenue				
External sales	1,524.1	124.3	–	1,648.4
Inter-segment sales	71.9	–	(71.9)	–
Total revenue	1,596.0	124.3	(71.9)	1,648.4
Result				
Segment EBITDA	393.4	(1.5)	–	391.9
Central costs				
Depreciation, amortisation and loss on disposal of property, plant and equipment				(52.2)
Unrealised losses on derivative contracts				(60.5)
Operating profit				279.2
Net finance costs				(24.3)
Profit before tax				254.9

The accounting policies of the reportable segments are the same as the Group's accounting policies which are described in note 3. All revenue and results arise from operations within Great Britain, therefore no separate geographical segments are reported. The revenue and results of both segments are subject to seasonality as detailed in the Operational and financial performance review – Seasonality of borrowing.

Major customers

Total revenue for the year ended 31 December 2011 includes amounts of £482.4 million and £228.5 million (2010: £307.0 million, £295.6 million and £159.1 million) derived from two customers (2010: three customers), each representing 10% or more of the Group's revenue for the year. All of these revenues arose in the generation segment.

5. Operating profit

	Years ended 31 December	
	2011 £m	2010 £m
The following charges have been included in arriving at operating profit:		
Staff costs (note 29)	**73.4**	66.0
Depreciation of property, plant and equipment (note 11)	**57.2**	52.2
Repairs and maintenance expenditure on property, plant and equipment	**33.4**	36.4
Other operating and administrative expenses	**60.4**	56.2
Total other operating and administrative expenses	**224.4**	210.8

Auditor's remuneration

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

	Years ended 31 December	
	2011 £000	2010 £000
Audit fees:		
Fees payable for the audit of the Group's consolidated financial statements	**258**	251
Fees payable for the audit of the Company's subsidiaries pursuant to legislation	**42**	39
	300	290
Other fees:		
Pursuant to legislation – interim review	**60**	59
Other services	**40**	21
Total audit related fees	**400**	370
Taxation services	**138**	70
Total non-audit fees	**138**	70
Total auditor's remuneration	**538**	440

Notes to the consolidated financial statements

6. Net finance costs

	Years ended 31 December 2011 £m	2010 £m
Interest payable and similar charges:		
Interest payable on bank borrowings	**(15.1)**	(17.5)
Other financing charges	**(4.4)**	(4.9)
Unwinding of discount on provisions (note 20)	**(0.6)**	(0.5)
Net finance cost in respect of defined benefit scheme (note 30)	**(1.0)**	(1.3)
Amortisation of deferred finance costs	**(9.2)**	(2.3)
Total interest payable and similar charges	**(30.3)**	(26.5)
Interest receivable:		
Interest income on bank deposits	**2.2**	2.2
Total interest receivable	**2.2**	2.2

Following the refinancing of our letter of credit, working capital and term loan facilities in July 2011 (see note 18), the deferred finance costs in relation to our previous bank facilities have been accelerated. This resulted in a one-time £2.6 million interest charge in the year ended 31 December 2011.

7. Taxation

The income tax expense reflects the estimated effective tax rate on profit before tax for the Group for the year ended 31 December 2011 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the income statement.

Exceptional items
Under the Group's previous financing structure, Drax Holdings Limited (a subsidiary company) was partially funded by a Eurobond payable to another group company. This Eurobond debt structure was unwound in 2008, potentially accelerating additional tax losses with a cash tax benefit of up to £220 million. Because of the risks related to the unwinding of the Eurobond structure, no benefit was recognised in the Group's financial statements prior to agreement with HMRC.

On 5 April 2011, we reached agreement with HMRC, resulting in the resolution of the Eurobond tax position and certain smaller legacy tax matters. Accordingly, we have recognised an exceptional tax credit of £197.9 million in the income statement. This includes a current tax credit of £149.5 million and a deferred tax credit of £48.4 million.

Changes in the rate of corporation tax
Following the announcement of the 2011 Budget, the Finance Act 2011 (the "Act") was enacted by Parliament in July 2011. The Act confirmed reductions in the rate of corporation tax from 27% to 26% from April 2011, and from 26% to 25% from April 2012, both of which were enacted during the year. In addition, in the 2011 Budget, the Government proposed further reductions in the rate of corporation tax from 25% to 23% by 2014. These proposals had not been substantively enacted at the balance sheet date. It is currently expected that each future Finance Bill will reduce the corporation tax rate by 1% until the rate of 23% is effective.

	Years ended 31 December 2011 £m	2010 £m
Tax (credit)/charge comprises:		
Current tax before exceptional items	**61.3**	88.5
Deferred tax before exceptional items:		
– Before impact of corporation tax rate change	**26.2**	(14.4)
– Impact of corporation tax rate change	**(16.1)**	(7.6)
Tax charge before exceptional items	**71.4**	66.5
Exceptional items:		
– Current tax	**(149.5)**	–
– Deferred tax	**(48.4)**	–
Exceptional items	**(197.9)**	–
Total tax (credit)/charge	**(126.5)**	66.5

	Years ended 31 December 2011 £m	2010 £m
Tax on items (credited)/charged to other comprehensive income:		
Deferred tax on actuarial losses on defined benefit pension scheme (note 21)	**(0.9)**	(1.7)
Deferred tax on cash flow hedges (note 21)	**0.7**	(65.1)
Impact of corporation tax rate change on deferred tax on cash flow hedges (note 21)	**(1.9)**	(0.6)
	(2.1)	(67.4)

The tax differs from the standard rate of corporation tax in the UK of 26.5% (2010: 28%). The differences are explained below:

	Years ended 31 December 2011 £m	2010 £m
Profit before tax	**338.1**	254.9
Profit before tax multiplied by the rate of corporation tax in the UK of 26.5% (2010: 28%)	**89.6**	71.4
Effects of:		
Adjustments in respect of prior periods	**(3.8)**	(0.5)
Expenses not deductible for tax purposes	**1.3**	1.5
Other	**0.4**	1.7
Change to corporation tax rate	**(16.1)**	(7.6)
Total tax charge before exceptional items	**71.4**	66.5
Exceptional items	**(197.9)**	–
Total tax (credit)/charge	**(126.5)**	66.5

Notes to the consolidated financial statements

8. Dividends

	Years ended 31 December 2011 £m	2010 £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 2011 of 16.0 pence per share paid on 14 October 2011 (2010: 14.1 pence per share paid on 15 October 2010)	**58.4**	51.5
Final dividend for the year ended 31 December 2010 of 17.9 pence per share paid on 13 May 2011 (2010: 9.6 pence per share paid on 14 May 2010)	**65.3**	35.0
	123.7	86.5

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 2011 of 11.8 pence per share (equivalent to approximately £43.1 million) payable on or before 11 May 2012. The final dividend has not been included as a liability as at 31 December 2011.

9. 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, and exceptional items.

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

	Years ended 31 December 2011 £m	2010 £m
Earnings:		
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	**464.6**	188.4
After tax impact of unrealised gains and losses on derivative contracts	**(64.3)**	44.6
Exceptional items (note 7)	**(197.9)**	–
Underlying earnings attributable to equity holders of the Company	**202.4**	233.0

	Years ended 31 December 2011	2010
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**364.9**	364.9
Effect of dilutive potential ordinary shares under share plans	**2.6**	0.7
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	**367.5**	365.6
Earnings per share – basic (pence)	**127**	52
Earnings per share – diluted (pence)	**126**	52
Underlying earnings per share – basic (pence)	**56**	64
Underlying earnings per share – diluted (pence)	**55**	64

10. Intangible assets – goodwill

	£m
Cost and carrying amount:	
At 1 January 2010, 31 December 2010 and 31 December 2011	**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 2011, 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.

11. Property, plant and equipment

	Freehold land and buildings £m	Plant and equipment £m	Plant spare parts £m	Total £m
Cost:				
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 1 January 2011	170.9	1,386.7	46.0	1,603.6
Additions at cost	0.4	58.7	9.6	68.7
Disposals	–	(6.5)	–	(6.5)
Issues	–	7.8	(7.8)	–
Transfers	(0.1)	(1.4)	1.5	–
At 31 December 2011	**171.2**	**1,445.3**	**49.3**	**1,665.8**
Accumulated depreciation:				
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 1 January 2011	39.9	369.3	10.2	419.4
Charge for the year	3.9	51.4	1.9	57.2
Disposals	–	(6.5)	–	(6.5)
At 31 December 2011	**43.8**	**414.2**	**12.1**	**470.1**
Net book amount at 31 December 2010	131.0	1,017.4	35.8	1,184.2
Net book amount at 31 December 2011	**127.4**	**1,031.1**	**37.2**	**1,195.7**

Assets in the course of construction amounted to £40.0 million at 31 December 2011 (2010: £30.4 million).

Plant and equipment includes assets held under finance lease agreements with a carrying value at 31 December 2011 of £1.1 million (2010: £0.7 million).

Additions in the year ended 31 December 2011 include £23.5 million in relation to the revaluation of the provision for reinstatement (see note 20).

Notes to the consolidated financial statements

12. Inventories

	As at 31 December	
	2011 £m	2010 £m
Coal	**103.1**	79.2
Biomass	**17.9**	21.9
Other fuels and consumables	**16.6**	15.5
	137.6	116.6

The cost of inventories recognised as an expense in the year ended 31 December 2011 was £879.5 million (2010: £658.3 million).

13. ROC assets

	ROCs £m
Cost and carrying amount:	
At 1 January 2010	11.7
Generated	42.4
Utilised	(1.3)
Sold	(19.7)
At 1 January 2011	33.1
Generated	59.2
Utilised	(2.9)
Sold	(57.3)
At 31 December 2011	**32.1**

14. Trade and other receivables

	As at 31 December	
	2011 £m	2010 £m
Amounts falling due within one year:		
Trade receivables	**206.5**	195.4
Accrued income	**55.6**	32.8
Prepayments and other receivables	**7.2**	4.8
	269.3	233.0

Trade receivables principally represent sales of electricity to a number of counterparties. At 31 December 2011, the Group had amounts receivable from three (2010: three) significant counterparties, representing 71% (2010: 75%) 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 19.

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 £3.0 million (2010: £2.6 million). This allowance has been determined by reference to past default experience, and includes £3.0 million in relation to Haven Power (2010: £2.6 million).

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

	Years ended 31 December 2011 £m	2010 £m
At 1 January	**2.6**	1.2
Receivables written off	**(1.6)**	(1.0)
Provision for receivables impairment	**2.0**	2.4
At 31 December	**3.0**	2.6

15. Short-term investments

	As at 31 December 2011 £m	2010 £m
Short-term investments	**30.0**	95.0

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

16. Cash and cash equivalents

	As at 31 December 2011 £m	2010 £m
Cash and cash equivalents	**202.8**	236.0

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

17. Trade and other payables

	As at 31 December 2011 £m	2010 £m
Amounts falling due within one year:		
Trade payables	**16.7**	13.4
Accruals	**228.8**	239.4
Other payables	**47.3**	32.2
	292.8	285.0

Accruals at 31 December 2011 include £126.1 million (2010: £146.7 million) with respect to the Group's estimated net liability to deliver CO_2 emissions allowances.

Notes to the consolidated financial statements

18. Borrowings

	As at 31 December 2011 £m	2010 £m
Current:		
Term loans	–	61.6
Revolving credit facility	**6.8**	–
Finance lease liabilities	**0.3**	0.1
	7.1	61.7

	As at 31 December 2011 £m	2010 £m
Non-current:		
Term loans	–	64.9
Finance lease liabilities	**0.5**	0.4
	0.5	65.3

Scheduled term loan repayments of £33.8 million were made on 30 June 2011, and £32.5 million on each of 30 June 2010 and 31 December 2010. These repayments were made in line with the target repayment profile as a result of the levels of cash available for debt service.

Refinancing

On 28 July 2011, we completed the refinancing of our letter of credit, working capital and term loan facilities, which were due to mature in December 2012. These facilities were replaced with a £310 million revolving credit facility which matures in April 2014, which can be used for both letters of credit and working capital purposes. The margin over LIBOR on our new facility has reduced from 3.5% to 2%. The existing term loan was repaid in full out of cash in hand and we subsequently drew down £10 million against the new revolving credit facility.

Analysis of borrowings

Borrowings at 31 December 2011 and 31 December 2010 consisted principally of amounts drawn down against the revolving credit facility, and bank loans respectively, both held by the Company's subsidiary Drax Finance Limited as follows:

	As at 31 December 2011		
	Borrowings before deferred finance costs £m	**Deferred finance costs £m**	**Net borrowings £m**
Revolving credit facility	**10.0**	**(3.2)**	**6.8**
Finance lease liabilities	**0.8**	–	**0.8**
Total borrowings	**10.8**	**(3.2)**	**7.6**
Less current portion	**(10.3)**	**3.2**	**(7.1)**
Non-current borrowings	**0.5**	–	**0.5**

	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

Contingent liabilities

In addition to the amount drawn down against the revolving credit facility, 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 2011 the Group's contingent liability in respect of letters of credit issued under the revolving credit facility amounted to £126.1 million (2010: £134.3 million, under the previous £200 million letter of credit facility).

19. 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, sustainable biomass and CO_2 emissions allowances, as well as financial coal contracts to swap floating for fixed, or fixed for floating prices on fixed volumes of coal. 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 amounts drawn down against the revolving credit facility (2010: 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 2011 and 31 December 2010 were as follows:

	As at 31 December 2011		As at 31 December 2010	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Commodity contracts:				
Less than one year	101.7	(78.0)	87.8	(167.5)
More than one year but not more than two years	10.6	(4.5)	19.3	(0.3)
More than two years	–	–	6.1	(0.3)
Interest rate swaps:				
Less than one year	–	–	–	(4.6)
Forward foreign currency exchange contracts:				
Less than one year	18.9	(17.6)	24.8	(25.8)
More than one year but not more than two years	0.4	(0.5)	0.3	(0.5)
More than two years	–	(0.3)	0.1	(0.4)
Total	131.6	(100.9)	138.4	(199.4)
Less: non-current portion				
Commodity contracts	(10.6)	4.5	(25.4)	0.6
Forward foreign currency exchange contracts	(0.4)	0.8	(0.4)	0.9
Total non-current portion	(11.0)	5.3	(25.8)	1.5
Current portion	120.6	(95.6)	112.6	(197.9)

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

	Years ended 31 December	
	2011 £m	2010 £m
Unrealised gains/(losses) on derivative contracts recognised in arriving at operating profit	89.8	(60.5)

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.

Notes to the consolidated financial statements

19. Financial instruments (continued)

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.
- **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 currency exchange 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 Principal risks and uncertainties which identify, evaluate and hedge financial risks in close co-operation with the Group's trading function under policies approved by the Board of directors.

Commodity price risk

The Group is exposed to the effect of fluctuations in commodity prices, particularly the price of electricity, the price of coal, sustainable biomass and other fuels, and the price of 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, sustainable biomass and other fuels under either fixed or variable priced contracts with different maturities from a variety of domestic and international sources. All international physical coal purchase contracts transacted at a fixed price and financial coal contracts exchanging floating price coal for fixed price amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from fluctuations in the price of coal. All physical biomass and domestic coal 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 2011 would increase/decrease by £61.2 million (2010: decrease/increase by £17.3 million). This is mainly attributable to the Group's exposure to financial coal derivatives; and
- other equity reserves would decrease/increase by £25.7 million (2010: decrease/increase by £9.3 million) mainly as a result of the changes in the fair value of commitments to sell power and the Group's exposure to financial coal derivatives.

Interest rate risk

Historically the Group has been exposed to interest rate risk principally in relation to its bank debt, and has sought to mitigate this risk with interest rate hedges on a proportion of its debt facilities. On refinancing in July 2011 (see note 18), the Group repaid its outstanding term loan balance, and drew down £10 million against a new revolving credit facility. The interest rate swaps linked to the previous term loans were closed out and no new interest rate swaps have been taken out since. Information about the Group's instruments that are exposed to interest rate risk and their repayment schedules is included in note 18.

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 2011 would decrease/increase by £0.8 million (2010: increase/decrease by £0.2 million) mainly as a result of the changes in interest payable during the period.

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 2011 would decrease/increase by £21.2 million (2010: increase/decrease by £6.1 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 £4.9 million (2010: decrease/increase by £0.9 million) as a result of the changes in the fair value of hedged foreign currency exchange contracts.

Liquidity risk

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

Notes to the consolidated financial statements

19. Financial instruments (continued)

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 2011			
	Within 3 months £m	3 months–1 year £m	1–5 years £m	Total £m
Revolving credit facility, gross value	10.0	–	–	10.0
Finance lease liabilities, carrying value	0.1	0.2	0.5	0.8
Borrowings, contractual maturity	10.1	0.2	0.5	10.8
Trade and other payables	260.7	31.4	0.7	292.8
	270.8	31.6	1.2	303.6

	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

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	
	2011 % p.a.	2010 % p.a.
Revolving credit facility	3.12	–
Term loans	–	7.45

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 2011			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts, net	197.8	60.9	(0.9)	257.8
Forward foreign currency exchange contracts, net	224.7	138.9	381.8	745.4
	422.5	199.8	380.9	1,003.2

	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

Counterparty risk

As the Group relies on third party suppliers for the delivery of coal, sustainable 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, as amended on 22 July 2011, 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	
	2011 £m	2010 £m
Financial assets:		
Cash and cash equivalents	**202.8**	236.0
Short-term investments	**30.0**	95.0
Trade and other receivables	**272.3**	235.6
Derivative financial instruments	**131.6**	138.4
	636.7	705.0

Trade and other receivables are stated gross of the provision for doubtful debts of £3.0 million (2010: £2.6 million). Credit exposure is controlled by counterparty limits that are reviewed and approved by the trading and risk 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 18, cash and cash equivalents in note 16 and short-term investments in note 15. Equity attributable to the shareholders of the Company comprises issued capital, capital reserves, retained profits/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 within the Business review. The capital structure of the Group is as follows:

	As at 31 December	
	2011 £m	2010 £m
Borrowings	**(7.6)**	(127.0)
Cash and cash equivalents	**202.8**	236.0
Short-term investments	**30.0**	95.0
Net cash	**225.2**	204.0
Total shareholders' equity, excluding hedge reserve	**1,240.1**	898.5

Notes to the consolidated financial statements

20. Provisions

	Reinstatement £m
Carrying amount:	
At 1 January 2010	5.9
Unwinding of discount	0.5
At 1 January 2011	6.4
Adjustment for change in discount rate	23.5
Unwinding of discount	0.6
At 31 December 2011	**30.5**

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. The initial provision and subsequent estimation increases are capitalised within property, plant and equipment and are being depreciated over the useful lives of the related assets. The unwinding of the discount is included in finance costs (note 6).

The provision is estimated using the assumption that the reinstatement will take place between 2039 and 2045, and has been estimated using existing technology at current prices. The discount rate applied is a risk free rate, reflecting the fact that the estimated future cash flows have built in the risks specific to the liability.

21. 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	Non trade losses £m	Other liabilities £m	Other assets £m	Total £m
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 1 January 2011	(16.1)	254.6	–	17.6	(11.9)	244.2
Charged/(credited) to the income statement	25.5	(19.5)	(31.6)	(14.5)	1.8	(38.3)
Credited to equity in respect of actuarial losses	–	–	–	–	(0.9)	(0.9)
Credited to equity in respect of cash flow hedges	(1.2)	–	–	–	–	(1.2)
At 31 December 2011	**8.2**	**235.1**	**(31.6)**	**3.1**	**(11.0)**	**203.8**

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 7, we reached agreement with HMRC during 2011 on the resolution of the Eurobond tax position. This has resulted in the recognition of a deferred tax asset in respect of the non trading losses incurred on the unwinding of the Eurobond debt structure.

The Group did not recognise deferred tax assets with an estimated value of £3.0 million at 31 December 2011 (2010: £3.2 million) in respect of trading losses that are carried forward against future taxable income.

22. Issued equity

	As at 31 December	
	2011 £m	2010 £m
Authorised:		
865,238,823 ordinary shares of 11 16/29 pence each	**100.0**	100.0
Issued and fully paid:		
2010 – 364,859,988 ordinary shares of 11 16/29 pence each	**–**	42.1
2011 – 364,862,718 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	
	2011 (number)	2010 (number)
At 1 January	**364,859,988**	364,853,890
Issued under employee share schemes	**2,730**	6,098
At 31 December	**364,862,718**	364,859,988

The Company has only one class of shares, which are ordinary shares of 11 16/29 pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends.

Issued under employee share schemes

On 1 April 2011, a total of 2,456 shares were issued in satisfaction of shares vesting in accordance with the rules of the Group's Bonus Matching Plan to an individual whose employment with the Group had terminated due to retirement (1 September 2010: 6,098 shares, issued to six individuals). Additionally, on 28 September 2011, a total of 274 options under the Group's Savings-Related Share Option Plan were exercised early, resulting in an issue of the same number of shares to one individual whose employment with the Group had terminated due to redundancy.

23. Share-based payments

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

	Years ended 31 December	
	2011 £m	2010 £m
SIP	**–**	0.2
ESIP	**0.1**	0.4
BMP	**3.2**	2.0
SAYE	**0.2**	0.2
	3.5	2.8

Share Incentive Plan ("SIP")

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. There were no awards under the SIP Partnership and Matching share plan in 2010, or 2011.

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 2011 (number)	Shares acquired during year (number)	Shares transferred during year (number)	**Shares held at 31 December 2011 (number)**	**Cost at 31 December 2011 £000**	**Nominal value at 31 December 2011 £000**	**Market value at 31 December 2011 £000**
SIP	385,589	–	(20,541)	**365,048**	**2,465**	**42**	**1,990**

23. Share-based payments (continued)

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 vested according to whether the Group's Total Shareholder Return ("TSR") matched or outperformed 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 have been charged to the income statement on a straight-line basis over the corresponding three year vesting periods.

Bonus Matching Plan ("BMP")

The BMP was introduced 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 the Group's TSR matches or outperforms an index (determined in accordance with the scheme rules) over three years. From 2011, a proportion of the shares vesting will be conditional upon performance against the internal Balanced Corporate Scorecard. The fair value of the 2011, 2010 and 2009 BMP awards of £5.5 million, £3.0 million and £2.8 million respectively are being charged to the income statement on a straight-line basis over the corresponding three year vesting periods.

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

	2011		2010	
	ESIP (number)	BMP (number)	ESIP (number)	BMP (number)
At 1 January	**442,799**	**2,278,856**	754,925	981,932
Granted	**–**	**2,054,644**	–	1,404,989
Forfeited	**–**	**(65,533)**	(36,180)	(101,967)
Exercised	**–**	**(2,456)**	–	(6,098)
Expired	**(442,799)**	**–**	(275,946)	–
At 31 December	**–**	**4,265,511**	442,799	2,278,856

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

In April 2011 and 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 321 pence (2010: 310.5 pence), representing a discount of 20% to the prevailing market price determined in accordance with the scheme rules. The options are exercisable at the end of three or five year savings contracts. The fair value of the 2011 and 2010 options granted in connection with the SAYE Plan of £0.2 million and £0.6 million, respectively, is being charged to the income statement over the life of the relevant 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:

	2011		2010	
	SAYE 3 Year (number)	SAYE 5 Year (number)	SAYE 3 Year (number)	SAYE 5 Year (number)
At 1 January	**668,521**	**906,343**	–	464,449
Granted	**138,242**	**114,159**	701,877	730,811
Forfeited	**(50,942)**	**(66,454)**	(33,356)	(288,917)
Exercised	**(274)**	**–**	–	–
Expired	**–**	**(165,159)**	–	–
At 31 December	**755,547**	**788,889**	668,521	906,343

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.

24. Other reserves

	Capital redemption reserve		Share premium		Merger reserve	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £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.

25. Hedge reserve

	Years ended 31 December	
	2011 £m	2010 £m
At 1 January	**59.5**	226.4
Gains/(losses) recognised:		
– Commodity contracts	**70.5**	(68.3)
– Forward foreign currency exchange contracts	**0.1**	(1.0)
Released from equity:		
– Commodity contracts	**(68.6)**	(167.2)
– Forward foreign currency exchange contracts	**0.6**	–
– Interest rate swaps	**–**	3.9
Related deferred tax, net (note 21)	**1.2**	65.7
At 31 December	**63.3**	59.5

The Group's cash flow hedges relate to commodity contracts (principally commitments to sell power) and forward foreign currency exchange contracts. Amounts are recognised in the hedge reserve as the designated contracts are marked-to-market at each period end for the effective portion of the hedge, which is generally 100% of the relevant contract. Amounts held within the hedge reserve are then released as the related contract matures and the hedged transaction impacts profit or loss. For power sales contracts, this is when the underlying power is delivered. Further information in relation to the Group's accounting for financial instruments is included in notes 3 and 19.

25. Hedge reserve (continued)

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

	As at 31 December 2011			
	Within 1 year £m	**1–2 years £m**	**>2 years £m**	**Total £m**
Commodity contracts	**59.6**	**3.9**	**–**	**63.5**
Forward foreign currency exchange contracts	**0.2**	**(0.2)**	**(0.2)**	**(0.2)**
	59.8	**3.7**	**(0.2)**	**63.3**

	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)
	41.7	13.7	4.1	59.5

26. Retained profits/(accumulated losses)

	Years ended 31 December	
	2011 £m	2010 £m
At 1 January	**(276.6)**	(376.8)
Profit for the year	**464.6**	188.4
Actuarial losses on defined benefit pension scheme (note 30)	**(3.7)**	(6.2)
Deferred tax on actuarial losses on defined benefit pension scheme (note 21)	**0.9**	1.7
Equity dividends paid (note 8)	**(123.7)**	(86.5)
Net movements in equity associated with share-based payments	**3.5**	2.8
At 31 December	**65.0**	(276.6)

27. Cash generated from operations

	Years ended 31 December	
	2011 £m	2010 £m
Profit for the year	**464.6**	188.4
Adjustments for:		
Interest payable and similar charges	**30.3**	26.5
Interest receivable	**(2.2)**	(2.2)
Tax (credit)/charge	**(126.5)**	66.5
Depreciation and loss on disposal of property, plant and equipment	**57.2**	52.2
Unrealised (gains)/losses on derivative contracts	**(89.8)**	60.5
Defined benefit pension scheme current service cost	**5.4**	4.3
Non-cash charge for share-based payments	**3.5**	2.8
Operating cash flows before movement in working capital	**342.5**	399.0
Changes in working capital		
(Increase)/decrease in inventories	**(21.0)**	77.6
Increase in receivables	**(36.6)**	(25.4)
Increase in payables	**6.4**	62.5
Total (increase)/decrease in working capital	**(51.2)**	114.7
Decrease/(increase) in ROC assets	**1.0**	(21.4)
Defined benefit pension scheme contributions	**(10.4)**	(7.6)
Cash generated from operations	**281.9**	484.7

28. Reconciliation of net cash

	Years ended 31 December	
	2011 £m	2010 £m
Net cash/(debt) at 1 January	**204.0**	(54.4)
(Decrease)/increase in cash and cash equivalents	**(33.2)**	155.6
(Decrease)/increase in short-term investments	**(65.0)**	40.0
Decrease in borrowings	**119.4**	62.8
Net cash at 31 December	**225.2**	204.0

29. Employees and directors

Staff costs (including executive directors)

	Years ended 31 December 2011 £m	2010 £m
Included in other operating and administrative expenses (note 5):		
Wages and salaries	**55.6**	52.7
Social security costs	**6.0**	4.3
Other pension costs (note 30)	**8.3**	6.2
Share-based payments (note 23)	**3.5**	2.8
	73.4	66.0

Average monthly number of people employed (including executive directors)

	Years ended 31 December 2011 (number)	2010 (number)
Operations	**582**	593
Retail services	**352**	298
Business services	**162**	153
	1,096	1,044

30. 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

The most recent actuarial valuation of the DPG ESPS was 31 March 2010. This has been updated as at 31 December 2011 to reflect relevant changes in assumptions. The principal assumptions were as follows:

	As at 31 December 2011 % p.a.	2010 % p.a.
Discount rate	**4.8**	5.3
Inflation (RPI)	**3.1**	3.5
Rate of increase in pensions in payment and deferred pensions	**3.0**	3.3
Rate of increase in pensionable salaries	**4.1**	4.5
Expected return on plan assets	**5.2**	5.9

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retired in 2011 at age 60 will live on average for a further 26 years (2010: 26 years) after retirement if they are male, and for a further 28 years (2010: 28 years) after retirement if they are female. Similarly life expectancy at age 60 for male and female non-pensioners (currently aged 45) is assumed to be 27 years and 29 years respectively (2010: 27 years and 29 years respectively).

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

	As at 31 December	
	2011 £m	2010 £m
Defined benefit obligation	182.4	167.2
Fair value of plan assets	(145.4)	(129.9)
Net liability recognised in the balance sheet	**37.0**	37.3

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

	Years ended 31 December	
	2011 £m	2010 £m
Included in staff costs (note 29):		
Current service cost	5.4	4.3
Total included in other operating and administrative expenses	5.4	4.3
Included in finance costs (note 6):		
Interest cost	8.9	8.4
Expected return on plan assets	(7.9)	(7.1)
Total included in finance costs	1.0	1.3
Total amounts recognised in the income statement	**6.4**	5.6

The actual return on plan assets was a gain of £8.5 million (2010: gain of £10.5 million).

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

	Years ended 31 December	
	2011 £m	2010 £m
Cumulative actuarial losses on defined benefit pension scheme at 1 January	(59.9)	(53.7)
Actuarial losses on defined benefit pension scheme recognised in the year	(3.7)	(6.2)
Cumulative losses recognised in the statement of comprehensive income at 31 December	**(63.6)**	(59.9)

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

	Years ended 31 December	
	2011 £m	2010 £m
Defined benefit obligation at 1 January	**167.2**	146.5
Current service cost	5.4	4.3
Employee contributions	0.4	1.0
Interest cost	8.9	8.4
Actuarial losses	4.3	9.6
Benefits paid	(3.8)	(2.6)
Defined benefit obligation at 31 December	**182.4**	167.2

Employee contributions reduced from 1 April 2011 following the introduction of a salary sacrifice arrangement, whereby employees sacrifice pay equal to the contributions that they would otherwise have paid to the DPG ESPS, and in return the Group pays an equal amount to the DPG ESPS.

30. Retirement benefit obligations (continued)

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

	Years ended 31 December	
	2011 £m	2010 £m
Fair value of plan assets at 1 January	**129.9**	113.4
Expected return on plan assets	**7.9**	7.1
Actuarial gains	**0.6**	3.4
Employer contributions	**10.4**	7.6
Employee contributions	**0.4**	1.0
Benefits paid	**(3.8)**	(2.6)
Fair value of plan assets at 31 December	**145.4**	129.9

Employer contributions included payments to reduce the actuarial deficit of £5.4 million (2010: £3.7 million).

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

	As at 31 December	
	2011 %	2010 %
Equities	**35.8**	40.5
Fixed interest bonds	**49.4**	42.4
Hedge funds	**11.0**	13.0
Cash	**3.8**	4.1

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. 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 £16 million (2010: £15 million) and a decrease of 0.5% in the discount rate would increase the net liability recognised in the balance sheet by £19 million (2010: £17 million).

The history of experience adjustments is as follows:

	As at 31 December				
	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Defined benefit obligation	**(182.4)**	(167.2)	(146.5)	(114.4)	(118.6)
Fair value of plan assets	**145.4**	129.9	113.4	93.8	105.1
Deficit	**(37.0)**	(37.3)	(33.1)	(20.6)	(13.5)
Experience adjustments on plan liabilities	**(4.3)**	(9.6)	(23.1)	13.2	(1.1)
Experience adjustments on plan assets	**0.6**	3.4	8.0	(26.1)	(2.2)

Defined contribution scheme

Pension costs for the defined contribution scheme are as follows:

	Years ended 31 December	
	2011 £m	2010 £m
Total included in staff costs (note 29)	**2.9**	1.9

The Group expects to contribute £13.9 million to its pension plans during the 12 months ended 31 December 2012. The Company intends to fund the deficit, agreed at the last triennial valuation, over the period to 31 December 2018.

31. Capital and other financial commitments

	As at 31 December	
	2011 £m	2010 £m
Contracts placed for future capital expenditure not provided in the financial statements	**68.4**	72.7
Future support contracts not provided in the financial statements	**22.9**	39.7
Future commitments to purchase fuel under fixed and variable priced contracts	**1,400.7**	1,345.7

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

	As at 31 December	
	2011 £m	2010 £m
Within one year	**0.9**	0.4
Within two to five years	**3.3**	1.5
After five years	**7.2**	3.8
	11.4	5.7

32. 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.

	Years ended 31 December	
	2011 £000	2010 £000
Salaries and short-term benefits	**3,317**	2,749
Aggregate amounts receivable under share-based incentive schemes	**1,145**	595
Company contributions to money purchase pension schemes	**266**	218
	4,728	3,562

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

On 21 April 2011, Charles Berry resigned as the Chairman and as a director of Eaga Limited (formerly Eaga plc), upon the completion of the acquisition of that company by Carillion plc. During the year ended 31 December 2011, services purchased from Eaga plc totalled £5.3 million (2010: £5.0 million), with a total of £10.2 million outstanding at 31 December 2011 (2010: £6.0 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 2011 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our Report.

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 2011;
- 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 2011.

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

20 February 2012

Company balance sheet

	Notes	2011 £000	2010 £000
		As at 31 December	
Fixed assets			
Investment in subsidiaries	3	**469,766**	466,096
Current assets			
Amounts due from other group companies		**12,318**	10,564
Cash at bank and in hand		**101**	66
		12,419	10,630
Current liabilities			
Amounts due to other group companies		**(2,790)**	(2,338)
Net current assets		**9,629**	8,292
Net assets		**479,395**	474,388
Capital and reserves			
Called-up share capital	4	**42,148**	42,148
Capital redemption reserve	5	**1,502**	1,502
Share premium account	5	**420,688**	420,688
Profit and loss account	5	**15,057**	10,050
Total equity shareholders' funds	5	**479,395**	474,388

These financial statements were approved by the Board of directors on 20 February 2012.

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 20 February 2012. Drax Group plc reported a profit for the year ended 31 December 2011 of £125.1 million, or £0.6 million before dividends received from other group companies (2010: a profit for the year of £0.5 million).

The Company has no employees other than the directors, whose remuneration was paid by a subsidiary undertaking and a proportion was re-charged to the Company. The amount re-charged during the year was £593,000 (2010: £578,000).

The auditor's remuneration for audit services provided to the Company for the year ended 31 December 2011 was £20,000 (2010: £20,000).

3. Fixed asset investments

	Subsidiary undertakings £000
Carrying amount:	
At 1 January 2011	466,096
Capital contribution	3,670
At 31 December 2011	**469,766**

The capital contribution consists of two elements: a £0.1 million capital injection into a new subsidiary, and £3.6 million in relation to the share-based payment charge associated with the Executive Share Incentive Plan, Savings-Related Share Option Plan and Bonus Matching Plan schemes, which arises because the beneficiaries of the scheme are employed by subsidiary companies. For more information see note 23 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	– (7)	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 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 Fuel Supply Limited (trading company, fuel supply) (1)(3)	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) (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)	England and Wales	Ordinary	100%
Drax Power International Limited (non-trading company) (4)*	England and Wales	Ordinary	100%
Drax (International) Limited (holding company) (5)*	England and Wales	Ordinary	100%
Drax Biomass International Limited (non-trading company) (5)*	England and Wales	Ordinary	100%
Drax Biomass International Inc. (non-trading company) (1)*	USA	Ordinary	100%
Salerosa One Limited (non-trading company) (6)*	England and Wales	Ordinary	100%
Salerosa Two Limited (non-trading company) (1)(6)*	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) Formerly Drax Investments Limited.
(4) 25 October year end.
(5) 24 October year end.
(6) 16 December year end.
(7) Limited by guarantee.
* Additions in year.

Notes to the Company balance sheet

4. Called-up share capital

	As at 31 December	
	2011 £000	2010 £000
Authorised:		
865,238,823 ordinary shares of 11 16/29 pence each	**99,950**	99,950
Issued and fully paid:		
2010 – 364,859,988 ordinary shares of 11 16/29 pence each	**–**	42,148
2011 – 364,862,718 ordinary shares of 11 16/29 pence each	**42,148**	–
	42,148	42,148

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

	Years ended 31 December	
	2011 (number)	2010 (number)
At 1 January	**364,859,988**	364,853,890
Issued under employee share schemes	**2,730**	6,098
At 31 December	**364,862,718**	364,859,988

The Company has only one class of shares, which are ordinary shares of 11 16/29 pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends.

Issued under employee share schemes
On 1 April 2011, a total of 2,456 shares were issued in satisfaction of shares vesting in accordance with the rules of the Group's Bonus Matching Plan to one individual whose employment with the Group had terminated due to retirement (1 September 2010: 6,098 shares, issued to six individuals). Additionally, on 28 September 2011, a total of 274 options under the Group's Savings-Related Share Option Plan were exercised early, resulting in an issue of the same number of shares to one individual whose employment with the Group had terminated due to redundancy.

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 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 1 January 2011	42,148	1,502	420,688	10,050	474,388
Retained profit for the year	–	–	–	125,125	125,125
Credited to equity for share-based payments	–	–	–	3,570	3,570
Equity dividends paid (note 6)	–	–	–	(123,688)	(123,688)
At 31 December 2011	**42,148**	**1,502**	**420,688**	**15,057**	**479,395**

6. Dividends

	Years ended 31 December	
	2011 £000	2010 £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 2011 of 16.0 pence per share paid on 14 October 2011 (2010: 14.1 pence per share paid on 15 October 2010)	**58,378**	51,445
Final dividend for the year ended 31 December 2010 of 17.9 pence per share paid on 13 May 2011 (2010: 9.6 pence per share paid on 14 May 2010)	**65,310**	35,026
	123,688	86,471

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 2011 of 11.8 pence per share (equivalent to approximately £43.1 million) payable on or before 11 May 2012. The final dividend has not been included as a liability as at 31 December 2011.

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 18 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 2012

At the date of publication of this document, the following are the proposed key dates in the 2012 financial calendar:

Annual General Meeting	18 April
Ordinary shares marked ex-dividend[(1)]	25 April
Record Date for entitlement to the final dividend[(1)]	27 April
Payment of final dividend[(1)]	11 May
Interim Management Statement	mid May
Financial half year end	30 June
Announcement of half year results	31 July
Interim Management Statement	mid 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 under "Regulatory news" within the Investor section on the Company's website.

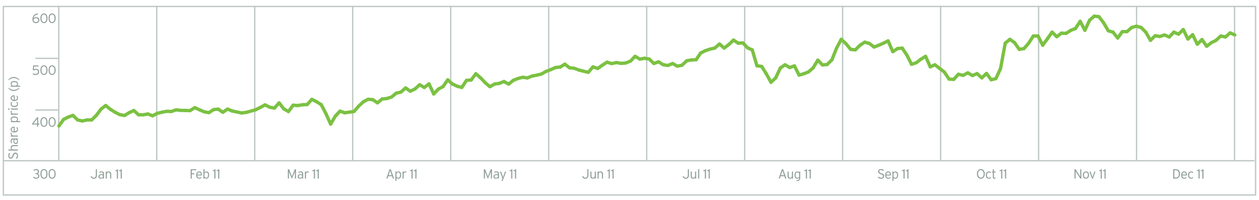
Share price

Shareholders can access the current share price of Drax Group plc ordinary shares on our website at www.draxgroup.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 2011, and the graph provides an indication of the trend of the share price throughout the year.

Closing price on 31 December 2010	Low during the year (24 March 2011)	High during the year (16 November 2011)	**Closing price on 31 December 2011**
368.3 pence	371.9 pence	581.5 pence	**545.0 pence**

Share price graph[(1)]
as at 31 December 2011



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

Market capitalisation

The market capitalisation, based on the number of shares in issue and the closing middle market price at 31 December 2011, was approximately £2.0 billion.

Financial reports

Copies of all financial reports we publish are available from the date of publication and can be downloaded from our website. Printed copies of reports can be requested by writing to the Company Secretary at the registered office, by clicking on "Contact Us" on our website, or direct by e-mail to enquiries@draxpower.com.

Drax shareholder queries

Drax's share register is maintained by Equiniti Limited ("Equiniti"), who is primarily responsible for updating the share register and for dividend payments.

Shareholders should contact Equiniti directly if they have a query relating to their Drax shareholding. In particular queries regarding;

- Transfer of shares;
- Change of name or address;
- Lost share certificates;
- Lost or out-of-date dividend cheques;
- Payment of dividends direct to a bank or building society account;
- Death of a registered shareholder.

Equiniti can be contacted as follows:

- Call Equiniti on 0871 384 2030 from within the UK (calls to this number cost 8 pence per minute 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.
- Write to Equiniti at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

When contacting Equiniti by telephone or in writing it is advisable to have your shareholder reference to hand and quote Drax Group plc, as well as the name and address in which the shares are held.

Online communications

Registering for online communications allows you to have more control over the administration of your shareholding. The registration process is easy via Equiniti's secure website www.shareview.com.

Once registered with Shareview you are able to:

- elect how Drax communicates with you;
- amend some of your personal details;
- amend the way you receive dividends; and
- buy or sell shares online.

Registering for electronic communications does not mean that you can no longer receive paper copies of documents. We are able to offer a range of services and tailor the communications to meet your needs.

A range of frequently asked shareholder questions can also be found on the Drax website at www.draxgroup.plc.uk/investor/shareholder_info/shareholderfaq.

Beneficial owners and "information rights"

If your shares are registered in the name of a third party (i.e. an ISA provider or other nominee company) you may, if you wish, receive information rights under Section 146 of the Companies Act 2006. In order for this to happen, you must contact the third party registered holder, who will then nominate you. All communications by beneficial owners of shares where the shares are held by third party registered holders must be directed to that registered holder and not to Drax or Equiniti.

ShareGift

ShareGift (registered charity No. 1052686) is an independent charity which provides a free service for shareholders wishing to dispose charitably of small parcels of shares, which would most likely cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is possible to obtain income tax relief. Further information can be obtained directly from the charity at www.sharegift.org.

Shareholder information

Share frauds ("Boiler room scams")

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence offering to purchase their shares at apparently inflated prices. It is often the case that the caller, or message in the correspondence claims that they represent a majority shareholder who is looking to take over the Company. Some Drax Group plc shareholders have received such communications in the latter part of 2011 and the early part of 2012.

At the time of this report, the Company was not the subject of a take-over attempt, hostile or otherwise, and approaches such as those experienced by our shareholders are usually made by unauthorised companies and individuals. The approaches can be very persistent and extremely persuasive. Shareholders should be very wary of any unsolicited advice, offers to buy shares at a premium or offers of free reports into the Company.

If you receive any unsolicited investment advice or any offers to purchase your shares:

- make sure you get the correct name of the person and organisation;
- check that they are properly authorised by the Financial Services Authority ("FSA") before getting involved. You can check at www.fsa.gov.uk/register;
- the FSA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted, UK investors and any approach from such organisations should be reported to the FSA so that this list can be kept up to date and any other appropriate action can be considered. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme;
- do not provide any personal details to callers e.g. bank details, full address;
- do not send your share certificates to anyone; and
- report the matter to the FSA either by calling 0845 606 1234 (cost of calls may vary) or visiting www.fsa.gov.uk/pages/consumerinformation.

The FSA advises that, if it sounds too good to be true, it probably is. The FSA also recommend ten steps to help protect shareholders and consumers from scams such as this. More detailed information on this or similar activity can be found on the FSA website (details above).

Shareholder profile

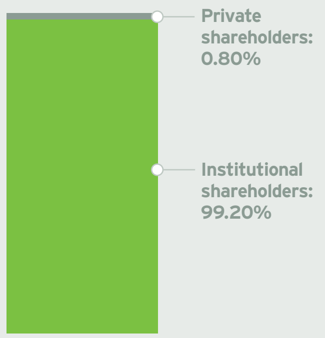
The categories of ordinary shareholders and the ranges and size of shareholdings as at 31 December 2011 are set out below:

	As at 31 December 2011			
Analysis of shareholders	Number of shareholders	%	Number of shares[1]	%
Private shareholders	1,558	53.28	2,921,808	0.80
Institutional and corporate holders	1,366	46.72	361,940,910	99.20
Total	2,924	100.00	364,862,718	100.00

	As at 31 December 2011			
Range	Number of shareholders	%	Number of shares[1]	%
1-100	113	3.86	5,851	0.00
101-200	163	5.57	26,501	0.01
201-500	531	18.16	194,321	0.05
501-1,000	625	21.37	515,664	0.14
1,001-5,000	911	31.16	2,036,109	0.56
5,001-10,000	118	4.04	846,871	0.23
10,001-100,000	254	8.69	9,582,782	2.63
100,001-500,000	127	4.34	30,618,331	8.39
500,001-5,000,000	70	2.39	106,349,470	29.15
5,000,001 and above	12	0.41	214,686,818	58.84
Total	2,924	100.00	364,862,718	100.00

Notes:
(1) Ordinary shares of $11\frac{16}{29}$ pence each.

Shareholders by percentage ownership
as at 31 December 2011



Shareholders by number
as at 31 December 2011

Shareholder information

Company information, professional advisers and service providers

Drax Group plc

Registered office and trading address
Drax Power Station
Selby
North Yorkshire YO8 8PH
Telephone +44 (0)1757 618381
Fax +44 (0)1757 612192
www.draxgroup.plc.uk

Registration details
Registered in England and Wales
Company Number: 5562053

Company Secretary
Philip Hudson

Enquiry e-mail address
enquiries@draxpower.com

Professional advisers and service providers

Auditor
Deloitte LLP
2 New Street Square, London EC4A 3BZ

Bankers
Barclays Bank PLC
1 Churchill Place, Canary Wharf, London E14 5HP

Brokers
Deutsche Bank AG
Winchester House, 1 Great Winchester Street, London EC2N 2DB

UBS Investment Bank
1 Finsbury Avenue, London EC2M 2PP

Financial PR
Brunswick Group LLP
16 Lincoln's Inn Fields, London WC2A 3ED

Registrars
Equiniti Limited
Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA

Remuneration
PricewaterhouseCoopers LLP
1 Embankment Place, London WC2N 6RH

Solicitors
Norton Rose LLP
3 More London Riverside, London SE1 2AQ

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.

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
The 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, gains/(losses) on disposal of property, plant and equipment and unrealised gains/(losses) on derivative contracts.

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.

Feed-in Tariff with Contracts for Difference (FiT CfD)
A long-term contract set at a fixed level where variable payments are made to ensure the generator receives an agreed tariff (assuming they sell their electricity at the market price). The Feed-in Tariff payment would be made in addition to the generator's revenues from selling electricity in the market. The FiT CfD can be a two-way mechanism that has the potential to see generators return money to consumers if electricity prices are higher than the agreed tariff.

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.

IFRSs
International Financial Reporting Standards.

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

Glossary

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

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

Net Balancing Mechanism
Net volumes attributable to accepted bids and offers in the Balancing Mechanism.

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

Net 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.

Summer
The calendar months April to September.

Technical availability
Total availability after planned and forced outages.

Through-the-mill co-firing
The 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 holders, adjusted to exclude the after tax impact of unrealised gains and losses on derivative contracts, and exceptional items, divided by the weighted average number of ordinary shares outstanding during the period.

Winter
The calendar months October to March.

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