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For Drax the year 2007 saw the challenge of significant volatility in the commodity markets within which we operate, but we also saw the opportunity for a satisfactory commercial return for the hard work which the executive team has undertaken to position the business better within a shifting, but frequently unclear, regulatory environment.

Like other companies operating in the electricity generation sector the prospect and consequences of climate change is a challenge we take very seriously. Our decisions announced early in 2007 to invest in carbon abatement programmes were a result of many months' work to identify options that would enable us to draw a commercial balance between our obligations to our shareholders, securing our future competitive position and delivering significant annual reductions in emissions of carbon dioxide ("CO<sub>2</sub>"). Through delivering 10% of our output from co-firing renewable biomass and upgrading all our high and low pressure turbines, we will be able to reduce our annual output of CO<sub>2</sub> by over three million tonnes from the end of 2011. I am pleased to report that we have made good progress on both these major initiatives.

#### Financial and operational performance

Against the background of the volatility in commodity markets, our financial performance in 2007 was solid rather than spectacular; margins secured for power sold and fuels purchased in previous years for delivery in 2007 dampening the effect of the lower margins achievable on power sales made within the year. In the fourth quarter of 2007 the first deliveries were made under our 600MW baseload power contract with Centrica. This contract extends to 2012 and is in line with our trading strategy to contract a proportion of our sales for the longer term.

Operationally we delivered good plant availability in the valuable high margin Winter months. In the lower margin Summer months we undertook two major planned outages and some additional elective outages to enable preventative maintenance.

#### Safety

The health and safety of our employees and others working on our premises remains our highest priority. Although a satisfactory performance was achieved by our own staff, we were deeply saddened that an employee of a sub-contractor was fatally injured whilst working in an area under the day-to-day control of a contractor.

Our Health and Safety Management Systems achieved Occupational Health and Safety 18001 certification in 2007.

#### Distributions

In line with our policy of distributing cash surplus to the needs of the business the Board proposes a further cash distribution in respect of 2007 of £60 million. This is in the form of a proposed ordinary dividend of 9.9 pence per share, being £33.6 million and a special dividend of 7.8 pence per share, being £26.5 million.

These further distributions will take the total returned to shareholders in respect of 2007 to £160 million, and to a total of £657 million since listing in December 2005.

#### Refinancing

In September 2007, the Board announced its intention (subject to market conditions) to undertake a refinancing of the current debt facilities. As a result of continuing turbulence in the debt markets, in December 2007 the Board announced its decision to postpone a refinancing until market conditions have improved and the Company can secure more attractive terms.

#### Developing the Drax business

We continue to work to identify ways to build the value of the Drax business.

We anticipate a structural tightness in the market in the medium term as older coal plant and oil plant is retired due to emissions constraints and some nuclear plant reaches the end of its working life. Our skills in production, trading, and co-firing of renewable fuels not only enable us to seek to optimise the return from the Drax plant within the evolving market and regulatory environment but also position us to capture additional value opportunities as we go forward.

#### Our people

I should like to welcome those who join the Company at an exciting time as we develop the business as well as to thank all Drax employees for their hard work in a demanding year.

#### New Chairman

As we announced on 18 December 2007, at the conclusion of the Annual General Meeting on 17 April 2008 I shall retire as a non-executive director and as Chairman of Drax to be succeeded by Charles Berry who joined the Board in December 2005.

It has been a great privilege to serve as Chairman of Drax and lead it through a period of significant change over nearly five years. I have gained enormous satisfaction from drawing together an exceptionally talented team and to have worked closely with its members as the business has developed. I have every confidence in the future of Drax and in the leadership which Charles will bring to the Board when I step down.

Gordon Horsfield  
Chairman  
3 March 2008

