

22 February 2011

**DRAX GROUP PLC**  
(Symbol: DRX)

**PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**Drax generates the highest renewable output from a single UK facility**

<b>Year ended 31 December</b>	<b>2010</b>	<b>2009</b>	<b>% Yr on Yr</b>
<b>Key financial performance measures</b>			
EBITDA <sup>(1)</sup> (£ million)	391	355	10%
Underlying earnings per share <sup>(2)</sup> (pence)	64	58	10%
Total dividends <sup>(3)</sup> (pence per share)	32.0	13.7	134%
<b>Statutory accounting measures</b>			
Profit before tax (£ million)	255	158	
Reported earnings per share (pence)	52	31	

**Highlights**

- Operational excellence delivered record plant performance, enhancing profitability
- Improved 2010 profits underpinned by strong hedge and tight cost management
- Pressure on coal generation margins due to challenging commodity market conditions
- Continuing progress in biomass operations
  - Drax Power Station generated the highest renewable output from a single UK facility in 2010, despite operating co-firing at less than full capacity due to low regulatory support
- Ready to expand renewable biomass capacity with appropriate regulatory support
  - Expect increasing clarity on important regulatory issues through 2011

Dorothy Thompson, Chief Executive of Drax, said:

“We have delivered an excellent performance across the business in 2010. We began the year with a strong hedged position, contracted at higher average margins than for 2009. Our record operational performance and continued tight cost control have further enhanced profitability.

“We continue to make progress in our biomass operations. Drax Power Station generated around 7% of the UK’s renewable power in 2010, which is more than twice as much as any other facility in the UK. This was despite not using our renewable facilities at full capacity because of low regulatory support for biomass.

“We believe reliable and flexible electricity generation from biomass could and should make a significant contribution to meeting the UK’s demanding climate change targets at relatively low cost. With appropriate regulatory support, we stand ready to expand our biomass capability significantly, increasing our renewable output from today’s level.”

## 2010 Review

### Financial

- Underlying earnings per share for 2010 up 10% at 64 pence
  - EBITDA and underlying earnings per share both increased more than 20%, excluding the one-off £31 million profit on the close out of foreign exchange derivative contracts recognised in 2009
- Continued drive on cost and cash management
  - Achieved targeted cost efficiencies and capital expenditure reductions
- Strong balance sheet
  - Net cash at 31 December 2010 of £204 million, including £117 million of ring fenced tax cash (31 December 2009: net debt of £54 million)
- Total dividends of 32.0 pence per share, or £117 million (2009: 13.7 pence per share, or £50 million)
  - In line with our policy to distribute 50% of underlying earnings

### Operations

<b>Year ended 31 December</b>	<b>2010</b>	<b>2009</b>
<b>Key operational performance measures</b>		
Forced outage rate (%)	3.4	6.5
Availability (%)	92.1	89.1
Electrical output (net sales) (TWh)	26.4	22.6

- Excellent safety and record operational performance
- Higher than expected output due to unseasonably cold weather and high plant availability
  - Incremental volume at low margins
- Turbine upgrade project now more than two-thirds complete
- Co-firing facility commissioned – on time and to budget
  - Capability to produce 500MW of renewable power (or 12.5% of our output) from co-firing biomass now proven

#### Notes:

- (1) EBITDA is profit before interest, tax, depreciation, amortisation and gains/losses on disposal of property, plant and equipment and unrealised gains/losses on derivative contracts. 2009 EBITDA includes £31 million profit on the close out of foreign exchange derivative contracts.
- (2) Underlying earnings per share excludes unrealised losses on derivative contracts totalling £61 million (2009: £130 million) and the associated tax credit.
- (3) Total dividends represents amounts paid and proposed in respect of each financial year, based on the number of shares in issue as at 31 December 2010 and 31 December 2009 respectively.

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## Forward Looking Statements

This announcement may contain certain statements, statistics and projections that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Drax Group plc ("Drax") and its subsidiaries (the "Group") are not warranted or guaranteed. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Although Drax believes that the expectations reflected in such statements are reasonable, no assurance can be given that such expectations will prove to be correct. There are a number of factors, many of which are beyond the control of the Group, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, factors such as: future revenues being lower than expected; increasing competitive pressures in the industry; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected. We do not intend to publicly update or revise these projections or other forward-looking statements to reflect events or circumstances after the date hereof, and we do not assume any responsibility for doing so.

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## Management Presentation and Conference Call

Management will host a presentation for analysts and investors at 9:00am (UK Time) today, Tuesday 22 February 2011, at **UBS, 1 Finsbury Avenue, London EC2M 2PP**.

The meeting can also be accessed remotely via a conference call or alternatively via a live webcast, as detailed below. After the meeting, a video webcast and recordings of the call will be made available and access details for these recordings are also set out below.

A copy of the presentation will be made available from 7am (UK time) on Tuesday 22 February 2011 for download at:

[www.draxgroup.plc.uk>>investors>>results and reports>>IR presentations>>2011](http://www.draxgroup.plc.uk/investors/results%20and%20reports/IR%20presentations/2011)

or use the link [http://www.draxgroup.plc.uk/investor/results\\_and\\_reports/presentations](http://www.draxgroup.plc.uk/investor/results_and_reports/presentations)

Event Title:	Drax Group plc: Preliminary Results
Event Date:	Tuesday 22 February 2011
Event Time	9am (UK time)
UK Call In Number	0800 368 1916
International Call In Number	+ 44 (0)20 3140 0722
US Call In Number:	+1 866 978 9968
Webcast live event link	<a href="http://cache.cantos.com/webcast/static/ec2/4000/5275/6662/8308/Lobby/default.htm">http://cache.cantos.com/webcast/static/ec2/4000/5275/6662/8308/Lobby/default.htm</a>
<b>Instant Replay</b>	
UK Call In Number	0800 368 1890
International Call In Number	+44 (0)20 3140 0698
US Call In Number:	+1 877 846 3918
Passcode:	376211#
Start Date:	Tuesday 22 February 2011
Delete Date:	Monday 21 March 2011

<b>Video Webcast</b>	
Start Date:	Tuesday 22 February 2011
Delete Date:	Monday 20 February 2012
Archive Link:	<a href="http://cache.cantos.com/webcast/static/ec2/4000/5275/6662/8308/Lobby/default.htm">http://cache.cantos.com/webcast/static/ec2/4000/5275/6662/8308/Lobby/default.htm</a>

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**PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010**  
**PART TWO**

**Chairman's introduction**

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

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

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

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

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

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

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

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

## Chief Executive's statement

### Introduction

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

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

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

### Commodity markets

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

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

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

### Operating performance

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

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

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

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

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

## **Carbon abatement**

Carbon abatement remains central to our strategy. Our turbine upgrade project is now more than two-thirds complete, and on track for conclusion in 2012. The new modules are operating as expected, which means we are comfortably operating at an overall efficiency across the power station of above 39%. The resultant saving in emissions of carbon dioxide ("CO<sub>2</sub>") amounts to over half a million tonnes a year.

In the Summer, we commissioned our new biomass co-firing facility which gives us the capability to produce one-eighth of our power from sustainable biomass, equivalent to the output of over 700 wind turbines. When running at full capacity, a saving of over 2.5 million tonnes of CO<sub>2</sub> will be possible each year.

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

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

## **Progressing our biomass operations**

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

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

## **Regulatory outlook**

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

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

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

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

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

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

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

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

The proposals for carbon price support are, we believe, unnecessary. There is potential for conflict with the existing EU Emissions Trading Scheme ("EU ETS") and given the cap and trade nature of the EU ETS, the floor price will have no impact on overall CO<sub>2</sub> emissions, since any reduction in the UK's emissions will simply result in higher emissions elsewhere in the EU. We also believe that the introduction of a floor price which supports specific technologies would, in all likelihood, distort the wholesale market.

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

## **Looking ahead**

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

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

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

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

## **Marketplace**

### **Commodity markets**

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

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

## **Gas**

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

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

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

## **Power**

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

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

## **Coal**

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

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

## **Carbon allowances**

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

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

It appears that the carbon market predominantly continues to reflect sentiment around EU policy. With any Phase II surplus bankable into Phase III, pricing seems largely driven by political and macroeconomic factors, such as the renewable generation build rate, the pace of economic recovery, and the possible increase in UK carbon dioxide (“CO<sub>2</sub>”) reduction targets (from 20% to 30%).

## **Dark green spread**

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

## Operational and financial performance

### Introduction

EBITDA was £391 million for the year ended 31 December 2010 compared to £355 million in 2009 and underlying earnings per share were 64 pence compared to 58 pence last year, both representing increases of 10%. We entered the year with a strong hedged position, which locked in higher average margins than for 2009. Our profitability was further enhanced by an excellent operational performance, which enabled us to capture incremental volume during some of the coldest months on record at the beginning and end of the year. In addition, we continued our drive on cash management and achieved our targeted cost efficiencies and capital expenditure reductions. In fact, underlying earnings per share have increased by more than 20%, excluding a gain of £31 million recognised in 2009 on the close out of a number of in-the-money foreign exchange contracts.

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

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

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

## Results of business

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Total revenue	1,648.4	1,475.8
Fuel costs in respect of generation <sup>(1)</sup>	(840.9)	(691.0)
Cost of power purchases <sup>(2)</sup>	(165.8)	(209.5)
Grid charges <sup>(3)</sup>	(82.2)	(68.0)
Other retail costs <sup>(4)</sup>	(9.0)	(4.4)
<b>Total cost of sales</b>	<b>(1,097.9)</b>	<b>(972.9)</b>
<b>Gross profit</b>	<b>550.5</b>	<b>502.9</b>
Other operating and administrative expenses excluding depreciation, amortisation and unrealised losses on derivative contracts <sup>(5)</sup>	(159.9)	(148.0)
<b>EBITDA<sup>(6)</sup></b>	<b>390.6</b>	<b>354.9</b>
Depreciation, amortisation and loss on disposal of property, plant and equipment	(52.2)	(52.0)
Unrealised losses on derivative contracts	(60.5)	(129.7)
<b>Operating profit</b>	<b>277.9</b>	<b>173.2</b>
Net finance costs	(23.0)	(15.4)
<b>Profit before tax</b>	<b>254.9</b>	<b>157.8</b>
Tax charge		
– Before changes in tax legislation	(74.1)	(46.9)
– Impact of change in rate of corporation tax on deferred tax	7.6	–
<b>Total tax</b>	<b>(66.5)</b>	<b>(46.9)</b>
<b>Profit for the year attributable to equity shareholders</b>	<b>188.4</b>	<b>110.9</b>
<b>Earnings per share</b>	<b>pence per share</b>	<b>pence per share</b>
– Basic and diluted	52	31
– Underlying basic and diluted <sup>(7)</sup>	64	58

All results relate to continuing operations.

Notes:

- (1) Fuel costs in respect of generation predominantly comprise coal, biomass and CO<sub>2</sub> emissions allowances, together with petcoke and oil.
- (2) Cost of power purchases represents power purchased in the market.
- (3) Grid charges include transmission network use of system charges ("TNUoS"), balancing services use of system charges ("BSUoS") and distribution use of system charges ("DUoS").
- (4) Other retail costs include broker fees, ROCs and metering.
- (5) Other operating and administrative expenses excluding depreciation, amortisation and unrealised gains and losses on derivative contracts include salaries, maintenance costs and other administrative expenses.
- (6) EBITDA is defined as profit before interest, tax, depreciation, amortisation, gains and losses on disposal of property, plant and equipment and unrealised gains and losses on derivative contracts.
- (7) Calculated using underlying earnings, being profit attributable to equity shareholders adjusted to exclude the after tax impact of unrealised gains and losses on derivative contracts.

## Revenue

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

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

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

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

In addition to power sales, total revenue also includes income from the provision of ancillary services, the sale of by-products (ash and gypsum), and the sale of ROCs and LECs. These revenues were £66 million in both years.

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

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

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

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

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

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

Our average cost of fuel is a function of the timing of purchases under domestic and international contracts in the forward and near-term markets and of fuel mix. The average cost of fuel per MWh (excluding CO<sub>2</sub> emissions allowances) was £25.7 for the year ended 31 December 2010, compared to £25.4 in 2009. The small increase in

average fuel prices was driven by fuel mix and commodity price movements. Costs per MWh for 2009 are adjusted to exclude the £31 million foreign exchange gain described above.

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

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

Our CO<sub>2</sub> emissions allowances requirement for the year ended 31 December 2010, in excess of those allocated under the UK NAP, was approximately 12.9 million tonnes compared to approximately 10.3 million tonnes in 2009. This was a result of higher generation, partially offset by plant efficiency improvements and higher levels of biomass burn.

Our average price of carbon is a function of the timing of purchases under fixed price contracts in the forward and near-term markets. The average price expended for purchased CO<sub>2</sub> emissions allowances during the year ended 31 December 2010 was £12.6 per tonne compared to £14.3 per tonne in 2009, reflecting the fact that we locked into carbon contracts to cover our 2010 liability during 2009 when we sold the related power. Similarly, the 2009 carbon cost reflects contract prices which were largely locked in during 2008. Average market prices for carbon were higher in 2008 than in 2009.

### **Cost of power purchases**

We purchase power in the market when the cost of power in the market is below our marginal cost of production in respect of power previously contracted for generation and delivery by us, and to cover any shortfall in generation. In addition, Haven Power purchases power in the wholesale market for delivery to its retail customers. For the year ended 31 December 2010, the cost of purchased power was £166 million, compared to £210 million incurred in 2009. Haven Power's cost of power purchases amounted to £71 million, compared to £40 million in 2009, including the cost of power purchased directly from Drax Power Station.

### **Grid charges**

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

### **Other retail costs**

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

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

### **Operating and administrative expenses**

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

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

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

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

## Unrealised gains and losses on derivative contracts

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

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

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

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

During 2009, power prices fell, such that the average price of power that had been contracted, but had yet to be delivered at 31 December 2009 was much higher than market prices, driving the recognition of a net unrealised gain of £234 million in the balance sheet. During 2010, power prices increased such that by 31 December this difference was much smaller, driving the movement to a net unrealised loss of £61 million.

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

Mark-to-market movements on most of our derivative contracts, considered to be effective hedges, have been recognised through the hedge reserve, a component of shareholders' equity in the balance sheet. Movements in unrealised gains and losses recognised in the hedge reserve are mainly the result of unwinding mark-to-market positions relating to power delivered during a reporting period, and the recording of mark-to-market positions on power yet to be delivered at the end of that period. The net unrealised loss recognised through the hedge reserve in the year ended 31 December 2010 was £233 million, compared to a net unrealised gain of £376 million in 2009, with 2010 largely reflecting the unwind of mark-to-market positions on power delivered in the period and forward power price trends described above.

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

**After allowing for the unrealised losses on derivative contracts, depreciation and amortisation, operating profit for the year ended 31 December 2010 was £278 million compared to £173 million in 2009.**

## Interest

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

## Tax

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

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

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

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

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

## Other key factors affecting the business

### Outages and plant utilisation levels

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

#### Notes:

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

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

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

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

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

## Health and safety

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

## Liquidity and capital resources

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

## Analysis of cash flows

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

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

The working capital inflow of £115 million in 2010 includes a decrease in coal stocks of 1.6 million tonnes over the year (£84 million), resulting from higher generation (see Revenue). The remaining net inflow includes a higher

carbon creditor (£24 million) reflecting the timing of payments with respect to our 2010 carbon liability. The working capital outflow in 2009 largely reflects an increase in coal stocks of 0.7 million tonnes (£21 million), resulting from lower than expected generation over the corresponding period.

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

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

Net cash used in financing activities was £153 million in the year ended 31 December 2010, compared to £218 million in 2009. The 2010 amount includes equity dividends paid of £87 million and term loan repayments of £65 million. The 2009 amount includes equity dividends paid of £145 million, net proceeds from the issue of share capital of £106 million and term loan repayments of £170 million (see Capital resources and refinancing).

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

### **Capital resources and refinancing**

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

On 3 August 2009, we completed the refinancing of the remainder of our term loan facility and our £100 million working capital facility, both of which would otherwise have fallen due for repayment on 31 December 2010. The maturity date of both facilities was extended to December 2012 to coincide with the maturity of the £200 million letter of credit facility. The margin over LIBOR on our facilities is 3.5%.

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

### **Going concern**

The Group's business activities, together with the factors likely to affect future developments, performance and position are set out in this Operational and financial performance. Greater detail will be included within our Annual report and accounts.

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

Accordingly, we believe the Group has adequate resources to continue in operational existence for the foreseeable future, and continue to adopt the going concern basis when preparing our financial statements.

### **Seasonality of borrowing**

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

Accordingly, cash flow during the Summer months is materially reduced due to the combined effect of lower prices and output, while maintenance expenditures are increased during this period due to major planned outages. The Group's £100 million revolving credit facility assists in managing the cash low points in the cycle where required. The revolving credit facility was undrawn at 31 December 2010 and has a final maturity date of December 2012.

## Capital expenditure

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

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

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

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

## Future developments

### Progressing our biomass operations

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

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

### Positions under contract for 2011, 2012 and 2013

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

As at 14 February 2011, the positions under contract for 2011, 2012 and 2013 were as follows:

	2011	2012	2013
Power sales (TWh) comprising:	18.1	10.3	3.0
– Fixed price power sales (TWh) at an average achieved price (per MWh)	11.3 @ 55.4	2.4 @ 58.2	0.4 @ 53.5
– Fixed margin and structured power sales (TWh)	6.8	7.9	2.6
CO <sub>2</sub> emissions allowances hedged, including UK NAP allocation, market purchases, structured contracts, and benefit of biomass co-firing (TWh equivalent)	18.0	20.8	4.1
Solid fuel at fixed price/hedged, including structured contracts (TWh equivalent)	18.1	10.9	6.2

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

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

Under these contracts the Group will supply power on terms which include Centrica paying for coal, based on international coal prices, and delivering matching CO<sub>2</sub> emissions allowances amounting in aggregate to approximately 7.2 million tonnes in 2011, approximately 7.2 million tonnes in 2012 and 2.4 million tonnes in 2013. The contracts provide the Group with a series of fixed dark green spreads, with the spreads in the first contract having been agreed in the first quarter of 2006 and those in the second contract having been agreed in October 2009.

## **Distributions**

### **Distribution policy**

We notified investors of a change to our distribution policy when we announced our biomass growth strategy in October 2008. For 2010 and beyond, we will target a pay-out ratio of 50% of underlying earnings (being profit attributable to equity shareholders adjusted to exclude the after tax impact of unrealised gains and losses on derivative contracts) in each year. Underlying earnings per share were 64 pence on this basis for the year ended 31 December 2010.

### **Dividends paid**

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

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

### **Dividends proposed**

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

## Consolidated income statement

	Notes	Years ended 31 December	
		2010 £m	2009 £m
Revenue		<b>1,648.4</b>	1,475.8
Fuel costs in respect of generation		<b>(840.9)</b>	(691.0)
Cost of power purchases		<b>(165.8)</b>	(209.5)
Grid charges		<b>(82.2)</b>	(68.0)
Other retail costs		<b>(9.0)</b>	(4.4)
<b>Total cost of sales</b>		<b>(1,097.9)</b>	(972.9)
<b>Gross profit</b>		<b>550.5</b>	502.9
Other operating and administrative expenses		<b>(212.1)</b>	(200.0)
Unrealised losses on derivative contracts		<b>(60.5)</b>	(129.7)
<b>Operating profit</b>		<b>277.9</b>	173.2
Interest payable and similar charges		<b>(25.2)</b>	(17.3)
Interest receivable		<b>2.2</b>	1.9
<b>Profit before tax</b>		<b>254.9</b>	157.8
Tax charge	4	<b>(66.5)</b>	(46.9)
<b>Profit for the year attributable to equity holders</b>		<b>188.4</b>	110.9
Earnings per share		pence per share	pence per share
<b>– Basic and diluted</b>	6	<b>52</b>	31

All results relate to continuing operations.

## Consolidated statement of comprehensive income

	Notes	Years ended 31 December	
		2010 £m	2009 £m
<b>Profit for the year</b>		<b>188.4</b>	110.9
Actuarial losses on defined benefit pension scheme		<b>(6.2)</b>	(15.1)
Deferred tax on actuarial losses on defined benefit pension scheme	4	<b>1.7</b>	4.2
Fair value (losses)/gains on cash flow hedges		<b>(232.6)</b>	375.5
Deferred tax on cash flow hedges before corporation tax rate change	4	<b>65.1</b>	(105.1)
Impact of corporation tax rate change on deferred tax on cash flow hedges	4	<b>0.6</b>	–
<b>Other comprehensive (expense)/income</b>		<b>(171.4)</b>	259.5
<b>Total comprehensive income for the year attributable to equity holders</b>		<b>17.0</b>	370.4

## Consolidated balance sheet

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

## Consolidated statement of changes in equity

	Issued equity £m	Capital redemption reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Accumulated losses £m	Total £m
<b>At 1 January 2009</b>	39.2	1.5	420.7	710.8	(44.0)	(434.9)	693.3
Profit for the year	–	–	–	–	–	110.9	110.9
Other comprehensive income/(expense)	–	–	–	–	270.4	(10.9)	259.5
Total comprehensive income for the year	–	–	–	–	270.4	100.0	370.4
Issue of share capital	2.9	–	–	–	–	102.6	105.5
Equity dividends paid (note 5)	–	–	–	–	–	(145.0)	(145.0)
Movement in equity associated with share-based payments	–	–	–	–	–	2.0	2.0
Own shares held by employee trust	–	–	–	–	–	(0.8)	(0.8)
Own shares purchased and vested with employees	–	–	–	–	–	(0.7)	(0.7)
<b>At 1 January 2010</b>	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 5)	–	–	–	–	–	(86.5)	(86.5)
Movement in equity associated with share-based payments	–	–	–	–	–	2.8	2.8
<b>At 31 December 2010</b>	42.1	1.5	420.7	710.8	59.5	(276.6)	958.0

## Consolidated cash flow statement

	Notes	Years ended 31 December	
		2010 £m	2009 £m
<b>Cash generated from operations</b>	7	<b>484.7</b>	321.4
Income taxes (paid)/refunded		<b>(56.1)</b>	19.4
Other gains		<b>2.0</b>	–
Interest paid		<b>(23.0)</b>	(13.4)
Interest received		<b>3.5</b>	0.7
<b>Net cash from operating activities</b>		<b>411.1</b>	328.1
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		<b>(62.3)</b>	(93.1)
Acquisition of a subsidiary		–	(11.7)
Short-term investments		<b>(40.0)</b>	(55.0)
<b>Net cash used in investing activities</b>		<b>(102.3)</b>	(159.8)
<b>Cash flows from financing activities</b>			
Equity dividends paid	5	<b>(86.5)</b>	(145.0)
Proceeds on issue of share capital		–	105.5
Repayment of borrowings		<b>(65.2)</b>	(170.1)
Other financing costs paid		<b>(1.5)</b>	(7.0)
Purchase of own shares held by employee trust		–	(1.5)
<b>Net cash used in financing activities</b>		<b>(153.2)</b>	(218.1)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>155.6</b>	(49.8)
Cash and cash equivalents at 1 January		<b>80.4</b>	130.2
<b>Cash and cash equivalents at 31 December</b>		<b>236.0</b>	80.4

## 1. General information

The consolidated financial information for Drax Group plc (the "Company") and its subsidiaries (together "the Group") set out in this preliminary announcement has been derived from the audited consolidated financial statements of the Group for the year ended 31 December 2010 (the "financial statements").

This preliminary announcement does not constitute the full financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"). The financial statements were approved by the Board of directors on 21 February 2011.

The report of the auditors on the financial statements was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report, and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006 or equivalent preceding legislation.

The Annual report and accounts will be posted to shareholders in mid March 2011 and will be available on request from the Company Secretary, Drax Group plc, Drax Power Station, Selby, North Yorkshire YO8 8PH. The Annual General Meeting will be held at The City Presentation Centre, 4 Chiswell Street, London EC1Y 4UP at 11.30am on 13 April 2011. The financial statements for the year ended 31 December 2010, will be delivered to the Registrar of Companies following the Annual General Meeting.

## 2. Basis of preparation

The financial statements have been prepared in accordance with IFRSs. The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the consolidated financial statements comply with Article 4 of the EU IAS Regulations.

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

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

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

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

## 3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out in the Annual report and accounts. These policies have been consistently applied to both years presented, and are consistent with the prior year accounts unless otherwise stated.

## 4. Taxation

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

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

As previously described, the Eurobond was formally waived by the lending group company on 30 December 2008. As a result, the whole of the remaining prepaid coupon was charged in the Drax Holdings Limited income statement, giving rise to potential additional interest deductions with a tax effect of around £220 million. Because

of the risks related to the unwind of the Eurobond structure, no benefit will be recognised in the Group's financial statements with respect to the potential additional deductions until the Group is more certain they will be realised. We have continued our dialogue with HMRC over this tax position. However, whilst we still believe we have a strong and robust case, we are no clearer as to whether we will ultimately be successful.

### Changes in the rate of tax

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

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

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

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

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

## 5. Dividends

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

At the forthcoming Annual General Meeting the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2010 of 17.9 pence per share (equivalent to approximately £65.3 million) payable on or before 13 May 2011. The final dividend has not been included as a liability as at 31 December 2010.

## 6. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. In calculating diluted earnings per share the weighted average number of ordinary shares outstanding during the year is adjusted, when relevant, to take account of outstanding share options in relation to the Group's Approved Savings-Related Share Option Plan ("SAYE Plan") and contingently issuable shares under the Group's Executive Share Incentive Plan ("ESIP") and Bonus Matching Plan ("BMP"). The underlying earnings per share has been calculated after excluding the after tax impact of marking to market derivative contracts which are not hedged.

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

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

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

## 7. Cash generated from operations

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

# Glossary

## **Ancillary services**

Services provided to National Grid used for balancing supply and demand or maintaining secure electricity supplies within acceptable limits. They are described in Connection Condition 8 of the Grid Code.

## **Availability**

Average percentage of time the units were available for generation.

## **Average achieved price**

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

## **Average capture price**

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

## **Balancing Mechanism**

The sub-set of the market through which the System Operator can call upon additional generation/consumption or reduce generation/consumption, through market participants' bids and offers, in order to balance the system minute by minute.

## **Baseload**

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

## **Bilateral contracts**

Contracts with counterparties and power exchange trades.

## **BMP**

The Drax Group plc Bonus Matching Plan.

## **Company**

Drax Group plc.

## **Dark green spread**

The difference between the price available in the market for sales of electricity and the marginal cost of production (being the cost of coal and other fuels including CO<sub>2</sub> emissions allowances).

## **Direct injection co-firing**

Is a process whereby biomass is fed directly (that is, avoiding the pulverising mills) to the burners situated in the boiler walls.

## **EBITDA**

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

## **ESIP**

The Drax Group plc Restricted Share Plan, also known as the Drax Group plc Executive Share Incentive Plan.

## **EU ETS**

The EU Emissions Trading Scheme is a mechanism introduced across the EU to reduce emissions of CO<sub>2</sub>; the scheme is capable of being extended to cover all greenhouse gas emissions.

## **Forced outage**

Any reduction in plant availability excluding planned outages.

## **Forced outage rate**

The capacity which is not available due to forced outages or restrictions expressed as a percentage of the maximum theoretical capacity, less planned outage capacity.

## **Frequency response service**

Services purchased by National Grid to maintain system frequency.

## **Grid charges**

Includes transmission network use of system charges ("TNUoS"), balancing services use of system charges ("BSUoS") and distribution use of system charges ("DUoS").

**Group**

Drax Group plc and its subsidiaries.

**IASs**

International Accounting Standards.

**IFRSs**

International Financial Reporting Standards.

**LECs**

Levy Exemption Certificates. Evidence of Climate Change Levy exempt electricity supplies generated from qualifying renewable sources.

**Load factor**

Net sent out generation as a percentage of maximum sales.

**Lost time injury rate**

The frequency rate is calculated on the following basis: lost time injuries/hours worked x 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 borrowings net of deferred finance costs.

**Net merchant sales**

Net volumes attributable to bilateral contracts and power exchange trades.

**Net sales**

The aggregate of net merchant sales and net Balancing Mechanism.

**Occupational health and safety assessment series (OHSAS)**

The OHSAS specification gives requirements for an occupational health and safety management system to enable an organisation to control occupational health and safety risks and improve its performance.

**Planned outage**

A period during which scheduled maintenance is executed according to the plan set at the outset of the year.

**Planned outage rate**

The capacity not available due to planned outages expressed as a percentage of the maximum theoretical capacity.

**Pond fines**

Coal dust and waste coal from the cleaning and screening process which can be used for coal-fired power generation.

**Power exchange trades**

Power sales or purchases transacted on the APX UK power trading platform.

**Power revenues**

The aggregate of bilateral contracts and Balancing Mechanism income/expense.

**ROCs**

Renewables Obligation Certificates.

**SAYE Plan**

The Drax Group plc Approved Savings-Related Share Option Plan.

**SIP**

The Drax Group plc Approved Share Incentive Plan.

**Summer**

The calendar months April to September.

**Technical availability**

Total availability after planned and forced outages.

**Through-the-mill co-firing**

Is a process whereby biomass passes first through the pulverising mills before going to the burners situated in the boiler walls.

**Total recordable injury rate (TRIR)**

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

**UK NAP**

UK National Allocation Plan.

**Underlying earnings per share**

Calculated as profit attributable to equity shareholders, adjusted to exclude the after tax impact of unrealised gains and losses on derivative contracts, divided by the weighted average number of ordinary shares outstanding during the year.

**Winter**

The calendar months October to March.