

23 February 2010

DRAX GROUP PLC
(Symbol: DRX)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009
PART TWO

Chairman's introduction

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

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

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

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

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

We continued to work hard on our two major strategic carbon abatement projects – turbine upgrade and biomass co-firing. Both projects remain on schedule, with the capability to deliver savings in carbon dioxide ("CO₂") emissions of up to 17.5% by 2011, compared to 2006 levels. Also on the carbon reduction theme, we have made good progress on our new dedicated biomass-fired generation plant developments, with key steps taken in the planning consent process.

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

Chief Executive's statement

Overview

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

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

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

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

Our carbon abatement projects remain on schedule and to budget, and we remain well placed to have the capability to deliver a reduction of up to 17.5%, compared to 2006, in our emissions of CO₂ by 2011.

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

Commodity markets

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

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

Trading performance

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

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

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

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

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

Operating performance

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

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

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

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

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

Carbon abatement

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

During this year's major planned outage we successfully completed the installation of one high pressure and three low pressure turbine modules on one of our units. This takes us to just over halfway through the turbine upgrade project with all the new turbine modules meeting their guaranteed performance levels of 40% thermal efficiency. We are now delivering tangible benefits in terms of efficiency gains and CO₂ emissions reduction, with CO₂ emissions savings of some half a million tonnes a year.

On completion, the biomass co-firing facility will be the largest of its type in the world, which alongside our existing co-firing capability will provide a total of 500MW of renewable electricity capacity, sufficient to supply the needs of over 600,000 households in the UK. At full capacity the biomass co-firing facility will reduce Drax Power Station's emissions of CO₂ by over two and a half million tonnes each year.

Together, the two carbon abatement projects will have the capability to deliver CO₂ emissions savings of over three and a half million tonnes a year, or a 17.5% reduction on 2006 levels.

The development of our dedicated biomass-fired business is progressing in line with our timetable. Planning applications for two power stations, at the Drax Power Station site and the Port of Immingham, were submitted during the year. Consultation with a

wide range of stakeholders is a key part of the process and we have been delighted with the show of very strong public support for the developments. Our tender process for building the power stations has been received with keen interest and our engineering design is now well advanced.

Looking ahead

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

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

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

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

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

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

Business Review

Marketplace

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

Commodity markets

In the final quarter of 2008 we saw dark green spreads narrow and experienced significant falls in power, coal and CO₂ emissions allowances prices. During 2009, we have continued to experience challenging market conditions for coal-fired generators, with further falls in power prices driving a further contraction in spreads. These trends in forward power, coal and CO₂ emissions allowances prices are described further in the following paragraphs.

Power

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

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

Coal

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

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

Carbon allowances

The price of Phase II CO₂ emissions allowances began 2008 at approximately €22.4 per tonne, and in common with power and coal prices rose steadily over the first half of that year to €28.4 per tonne at 30 June 2008. However, carbon prices also fell significantly over the final quarter of 2008, down to €15.4 per tonne by 31 December 2008, as commodity prices fell back and industrial demand reduced in response to the economic climate. Prices continued to fall in the early part of 2009, but have subsequently stabilised (€12.5 per tonne at 31 December 2009), with a reduction in industrial selling and Phase III "banking" supporting Phase II prices.

Operational and financial performance

Introduction

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

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

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

Results of operations

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

All results relate to continuing operations.

Notes:

(1) Fuel costs in respect of generation predominantly comprise coal and CO₂ emissions allowances, together with petcoke, oil and biomass.

(2) Cost of power purchases represents power purchased in the market.

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

(4) Other operating and administrative expenses excluding depreciation, amortisation and loss on disposal of fixed assets and unrealised (losses)/gains on derivative contracts include salaries, maintenance costs and other administrative expenses.

(5) EBITDA is defined as profit before interest, tax, depreciation, amortisation and loss on disposal of fixed assets and unrealised (losses)/gains on derivative contracts.

Revenue

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

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

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

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

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

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

Fuel costs (coal and other fuels)

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

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

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

Our average cost of fuel is a function of the timing of purchases under domestic and international contracts in the forward and near-term markets. A small increase in average fuel prices was driven by the trends in coal prices described in Marketplace above. The average cost of fuel per MWh (excluding CO₂ emissions allowances) was £25.4 for the year ended 31 December 2009, compared to £25.1 in 2008. 2009 excludes the benefit of gains arising on the close out of foreign exchange contracts (see Foreign exchange contract gains).

Fuel costs (CO₂ emissions allowances)

For Phase II of the EU ETS (2008–2012), Drax has an allocation of 9.5 million tonnes of CO₂ emissions allowances per annum under the UK NAP. We purchase CO₂ emissions allowances under fixed price contracts with different maturity dates from a variety of domestic and international sources.

Our CO₂ emissions allowances requirement for the year ended 31 December 2009, in excess of those allocated under the UK NAP, was approximately 10.3 million tonnes compared to approximately 12.8 million tonnes in 2008, as a result of lower generation and plant efficiency improvements.

Our average price of carbon is a function of the timing of purchases under fixed price contracts in the forward- and near-term markets. The average price expended for purchased CO₂ emissions allowances during the year ended 31 December 2009 was £14.3 per tonne compared to £17.4 per tonne in 2008 with the reduction driven by the trends in CO₂ emissions allowances prices described in Marketplace above.

Cost of power purchases

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

Grid charges

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

Foreign exchange contract gains

To improve our operating cash flow in 2009 we closed out a number of in-the-money foreign exchange contracts relating to fuel and CO₂ emissions allowances purchases for the period 2010 to 2012. This resulted in additional gross profit and cash generation of £31 million. This gain has been included in fuel costs. New foreign exchange contracts have been entered into to hedge the foreign currency exposure of the relevant purchases.

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

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

Operating and administrative expenses

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

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

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

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

Unrealised gains and losses on derivative contracts

The Group recognises unrealised gains and losses on forward contracts which meet the definition of derivatives under IASs. Where possible, we take the own use exemption for derivative contracts entered into and held for our own purchase, sale or usage requirements, including forward domestic coal contracts. As such, the unrealised gains and losses recognised in the balance sheet principally relate to the mark-to-market of our forward contracts for power yet to be delivered. The following table describes the movements in unrealised gains and losses and where they are recorded in our financial statements.

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

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

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

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

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

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

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

Interest

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

Tax

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

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

Other key factors affecting the business

Outages and plant utilisation levels

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

Notes:

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

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

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

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

Health and safety

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

Liquidity and capital resources

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

Analysis of cash flows

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

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

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

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

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

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

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

Capital resources and refinancing

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

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

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

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

Going concern

We acknowledge guidance on going concern for companies preparing financial statements, in the light of recent volatility in financial markets which has created a general level of uncertainty. However, we have significant headroom on our newly refinanced facilities, and a recent history of cash generation, strong covenant compliance, and good visibility in medium-term forecasts, due to our progressive hedging strategy. Accordingly we continue to adopt the going concern basis when preparing our financial statements.

Seasonality of borrowing

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

Accordingly, cash flow during the Summer months is materially reduced due to the combined effect of lower prices and output, while maintenance expenditures are increased during this period due to major planned outages. The Group's £100 million revolving credit facility assists in managing the cash low points in the cycle where required. The revolving credit facility was undrawn at 31 December 2009 and has a final maturity date of December 2012.

Acquisition of Haven

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

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

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

Capital expenditure

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

In relation to the turbine upgrade project, we expect to invest up to £100 million over the five year period from 2007 to upgrade the high pressure and low pressure turbine modules on all six generating units to improve efficiency. Using proven technology we expect to achieve an overall baseload efficiency (that is, the ratio of energy out to energy in when operating at full capacity) approaching 40%. This will represent a 5% improvement on original baseload efficiency of around 38%. When complete, the project is expected to deliver annual savings of one million tonnes of CO₂ emissions allowances and approximately half a million tonnes of coal.

During this year's major planned outage we successfully completed the installation of one high pressure and three low pressure turbine modules on one of our units. Overall, the project is now just over halfway complete with all of the new turbine modules meeting their guaranteed performance levels of 40% efficiency. We are now delivering tangible benefits in terms of efficiency gains and savings in CO₂ emissions of half a million tonnes per year.

With regard to extending our biomass capability, we are investing around £80 million to develop a 400MW direct injection co-firing biomass facility. The necessary processing and handling infrastructure is being installed to enable us to handle an additional one and a half million tonnes of biomass material per annum. Alongside our existing, through-the-mill delivery co-firing capacity of 100MW, the facility will provide us with a total co-firing capacity of 500MW. When complete, this will give us the capability to save over two and a half million tonnes of CO₂ emissions allowances, displace approximately one and a quarter million tonnes of coal and generate in excess of one and a half million ROCs per annum.

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

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

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

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

Biomass growth strategy

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

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

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

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

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

Positions under contract for 2010, 2011 and 2012

We continue to follow our stated trading strategy of making steady forward power sales with corresponding purchases of CO₂ emissions allowances and fuel purchases. Our aim is to deliver market level dark green spreads across all traded market periods and, as part of this strategy, we retain power to be sold into the prompt (within season) power markets.

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

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

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

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

Under these contracts the Group will supply power on terms which include Centrica paying for coal, based on international coal prices, and delivering matching CO₂ emissions allowances amounting in aggregate to approximately 5.4 million tonnes in 2010 and approximately 7.2 million tonnes in each of 2011 and 2012. The contracts provide the Group with a series of fixed dark green spreads, with the spreads in the first contract having been agreed in the first quarter of 2006 and with those in the second contract having been agreed in October 2009.

Distributions

Distribution policy

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

Dividends paid

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

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

Dividends proposed

At the forthcoming Annual General Meeting the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2009 of 9.6 pence per share (£35 million) payable on or before 14 May 2010. Shares will be marked ex-dividend on 28 April 2009.

Consolidated income statement

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

All results relate to continuing operations.

Consolidated statement of comprehensive income

	Notes	Years ended 31 December	
		2009 £m	2008 £m
Profit for the year		110.9	332.9
Actuarial losses on defined benefit pension scheme		(15.1)	(12.9)
Deferred tax on actuarial losses on defined benefit pension scheme	4	4.2	3.6
Fair value gains on cash flow hedges		375.5	164.7
Deferred tax on cash flow hedges	4	(105.1)	(47.4)
Other comprehensive income		259.5	108.0
Total comprehensive income for the year attributable to equity shareholders		370.4	440.9

Consolidated balance sheet

	Notes	As at 31 December	
		2009 £m	2008 £m
Assets			
Non-current assets			
Intangible assets – goodwill		10.7	–
Property, plant and equipment		1,177.2	1,135.7
Derivative financial instruments		112.5	105.5
		1,300.4	1,241.2
Current assets			
Inventories		205.9	189.5
Trade and other receivables		208.9	259.9
Derivative financial instruments		308.8	286.5
Short-term investments		55.0	–
Cash and cash equivalents		80.4	130.2
		859.0	866.1
Liabilities			
Current liabilities			
Trade and other payables		227.3	295.0
Current tax liabilities		157.8	49.4
Financial liabilities:			
– Borrowings	7	62.9	14.9
– Derivative financial instruments		178.3	337.1
		626.3	696.4
Net current assets		232.7	169.7
Non-current liabilities			
Financial liabilities:			
– Borrowings	7	126.9	350.0
– Derivative financial instruments		8.9	70.6
Provisions		5.9	2.6
Deferred tax liabilities		333.6	273.8
Retirement benefit obligations		33.1	20.6
		508.4	717.6
Net assets		1,024.7	693.3
Shareholders' equity			
Issued equity	8	42.1	39.2
Capital redemption reserve		1.5	1.5
Share premium		420.7	420.7
Merger reserve		710.8	710.8
Hedge reserve		226.4	(44.0)
Retained losses		(376.8)	(434.9)
Total shareholders' equity		1,024.7	693.3

Consolidated statement of changes in equity

	Issued equity £m	Capital redemption reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Retained losses £m	Total £m
At 1 January 2008	39.2	1.5	420.7	710.8	(161.3)	(649.9)	361.0
Profit for the year	–	–	–	–	–	332.9	332.9
Other comprehensive income	–	–	–	–	117.3	(9.3)	108.0
Total comprehensive income for the year	–	–	–	–	117.3	323.6	440.9
Equity dividends paid (note 5)	–	–	–	–	–	(110.0)	(110.0)
Movement in equity associated with share-based payments	–	–	–	–	–	3.8	3.8
Own shares held by employee trust	–	–	–	–	–	(0.6)	(0.6)
Own shares purchased and vested with employees	–	–	–	–	–	(1.8)	(1.8)
At 1 January 2009	39.2	1.5	420.7	710.8	(44.0)	(434.9)	693.3
Profit for the year	–	–	–	–	–	110.9	110.9
Other comprehensive income	–	–	–	–	270.4	(10.9)	259.5
Total comprehensive income for the year	–	–	–	–	270.4	100.0	370.4
Issue of share capital (note 8)	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)
At 31 December 2009	42.1	1.5	420.7	710.8	226.4	(376.8)	1,024.7

Consolidated cash flow statement

	Notes	Years ended 31 December	
		2009 £m	2008 £m
Cash generated from operations	9	321.4	430.8
Income taxes refunded/(paid)		19.4	(102.2)
Interest paid		(13.4)	(25.9)
Interest received		0.7	6.8
Net cash from operating activities		328.1	309.5
Cash flows from investing activities			
Purchases of property, plant and equipment		(93.1)	(91.4)
Acquisition of a subsidiary	10	(11.7)	–
Short-term investments		(55.0)	–
Net cash used in investing activities		(159.8)	(91.4)
Cash flows from financing activities			
Equity dividends paid	5	(145.0)	(110.0)
Proceeds on issue of share capital	8	105.5	–
Repayment of borrowings	7	(170.1)	(35.0)
Other financing costs paid		(7.0)	–
Purchase of own shares held by employee trust		(1.5)	(2.6)
Net cash used in financing activities		(218.1)	(147.6)
Net (decrease)/increase in cash and cash equivalents		(49.8)	70.5
Cash and cash equivalents at 1 January		130.2	59.7
Cash and cash equivalents at 31 December		80.4	130.2

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 2009 (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 22 February 2010.

The report of the auditors on the financial statements was unqualified 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 by the end of March 2010 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 11.00am on 21 April 2010. The financial statements for the year ended 31 December 2009, 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 under the historical cost basis, except for certain financial assets and liabilities that have been measured at fair value.

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

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, unless otherwise stated.

4. Taxation

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

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

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

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

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

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

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

In November/December 2008, HMRC issued draft legislation which updated rules on, amongst other things, the tax deductibility of interest and were 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.

5. Dividends

	Years ended 31 December	
	2009 £m	2008 £m
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 2009 of 4.1 pence per share paid on 7 October 2009 (2008: 5.0 pence per share paid on 8 October 2008)	15.0	17.0
Final dividend for the year ended 31 December 2008 of 38.3 pence per share paid on 22 May 2009 (2008: 9.9 pence per share paid on 7 May 2008)	130.0	33.6
Special interim dividend for the year ended 31 December 2008 of 9.7 pence per share paid on 8 October 2008	–	32.9
Special interim dividend for the year ended 31 December 2007 of 7.8 pence per share paid on 7 May 2008	–	26.5
	145.0	110.0

At the forthcoming Annual General Meeting the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2009 of 9.6 pence per share (equivalent to approximately £35 million) payable on or before 14 May 2010. The final dividend has not been included as a liability as at 31 December 2009.

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 Savings-Related Share Option Plan ("SAYE Plan") and contingently issuable shares under the Group's Executive Share Incentive Plan ("ESIP") and Bonus Matching Plan ("BMP").

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

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

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

7. Borrowings

	As at 31 December	
	2009 £m	2008 £m
Current:		
Term loans	62.8	14.9
Finance lease liabilities	0.1	–
	62.9	14.9

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

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

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

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

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

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

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

Analysis of borrowings

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

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

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

The Group's debt is guaranteed and secured directly by each of the principal subsidiary undertakings of the Company. Drax Group plc is not a guarantor of the Group's debt, but has granted a charge over the shares in its subsidiary, Drax Finance Limited.

Letter of credit facility and revolving credit facility

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

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

8. Issued equity

	As at 31 December	
	2009 £m	2008 £m
Authorised		
865,238,823 ordinary shares of £0. 11 ¹⁶ / ₂₉ each	100.0	100.0
Issued and fully paid		
2008 – 339,398,968 ordinary shares of £0. 11 ¹⁶ / ₂₉ each	–	39.2
2009 – 364,853,890 ordinary shares of £0. 11 ¹⁶ / ₂₉ each	42.1	–
	42.1	39.2

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

	Years ended 31 December	
	2009 number	2008 number
At 1 January	339,398,968	339,397,000
Issue of share capital	25,454,922	–
Issued under employee share schemes	–	1,968
At 31 December	364,853,890	339,398,968

Issue of share capital

On 23 June 2009, the Group announced the placing of approximately 25.5 million new ordinary shares, representing 7.5% of the Group's existing issued ordinary share capital. The placing raised £105.5 million and was undertaken to help maintain the Group's investment grade debt rating, with the proceeds used to pay down debt on 31 July 2009.

The placing shares have been credited as fully paid and rank equally in all respects with the existing ordinary shares of 11¹⁶/₂₉ pence each in the capital of the Company, including the right to receive all dividends and other distributions declared, made or paid in respect of such shares after the date of issue of the placing shares.

The share placing was achieved through a "cash box" placing arrangement. The benefit of a cash box placing arrangement is that it is legally structured to enable the merger relief criteria within the Companies Act 1985 to apply. Accordingly the funds raised in excess of the nominal value of the shares issued have been treated as distributable within retained reserves rather than credited to the share premium account. As a consequence, of the £105.5 million funds raised, share capital increased by £2.9 million, and the balance of £102.6 million reduced the Group's retained losses in the year ended 31 December 2009.

Issued under employee share schemes

During 2008, a total of 1,968 ordinary shares of 11¹⁶/₂₉ pence each were issued in satisfaction of share options which were exercised in accordance with the rules of the SAYE Plan. There were no such issues in 2009.

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

9. Cash generated from operations

	Years ended 31 December	
	2009 £m	2008 £m
Profit for the year	110.9	332.9
Adjustments for:		
Interest payable and similar charges	17.3	28.8
Interest receivable	(1.9)	(7.2)
Tax charge	46.9	109.6
Depreciation and loss on disposal of fixed assets	52.0	46.2
Unrealised losses/(gains) on derivative contracts	129.7	(56.3)
Defined benefit pension scheme charge	5.1	4.1
Non-cash charge for share-based payments	2.0	3.8
Operating cash flows before movement in working capital	362.0	461.9
Changes in working capital:		
Increase in inventories	(17.0)	(81.2)
Decrease/(increase) in receivables	61.8	(130.3)
(Decrease)/increase in payables	(77.7)	190.1
Total increase in working capital	(32.9)	(21.4)
Defined benefit pension scheme contributions	(7.7)	(9.9)
Increase in provisions charged to the income statement	–	0.2
Cash generated from operations	321.4	430.8

10. Business combinations

On 6 March 2009, the Group acquired 100% of the share capital of Haven, an electricity supply business serving business customers, in line with its strategy to extend its trading capabilities and options for routes to market.

Haven contributed revenues of £65.9 million to the Group for the period from 6 March 2009 to 31 December 2009. If the acquisition had been completed on 1 January 2009, consolidated revenues for the period would have been £79.6 million. This information is provided for disclosure purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the combined companies.

The attributed fair values of the identifiable assets and liabilities of Haven and the corresponding carrying amounts immediately before acquisition are detailed below:

	Book value £m	Fair value £m
Recognised amounts of identifiable assets acquired and liabilities assumed;		
Cash and cash equivalents	0.9	0.9
Trade and other receivables	9.6	9.6
Property, plant and equipment	1.2	1.2
Trade and other payables	(12.7)	(12.7)
Derivative financial instruments	–	4.0
Deferred tax liabilities on derivative financial instruments	–	(1.1)
	(1.0)	1.9
Goodwill		10.7
Total consideration		12.6
Satisfied as:		
Cash paid		12.0
Directly attributable costs		0.6
		12.6
		£m
Purchase consideration settled in cash		(12.6)
Cash and cash equivalents in subsidiary acquired		0.9
Cash outflow on acquisition		(11.7)

The fair value adjustments reflect the mark-to-market value of Haven's short-term power trading book position at acquisition, and the related deferred tax. No other fair value adjustments were identified.

The goodwill of £10.7 million is attributable to various features of the business, including the ability to secure term power sales, which complements Drax's existing trading strategy, and its capacity to grow significantly from its customer base at acquisition.

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 period during 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 CO₂ 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 and loss or gain on disposal of fixed assets, exceptional items 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 policy introduced across the EU to reduce emissions of CO₂; 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 plc used 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 calculated on the following basis (lost time injuries * 100,000) / hours worked. Accidents 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 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)

TRIR is calculated on the following basis (lost time injuries + worse than first aid) / hours worked * 100,000

UK NAP

UK National Allocation Plan.

Winter

The calendar months October to March.