

CSR and our business

We operate our business within a framework of increasingly stringent and challenging legislative and regulatory requirements. We are, however, mindful of the still tougher expectations held by our wider stakeholder group. For us, corporate and social responsibility is about achieving a balance between the commercial and regulatory rigours of the competitive sector within which we operate and our commitment to our stakeholders.

The Board has ultimate control of policies in respect of both the wider corporate and social responsibility and in relation to environmental and health and safety matters. The Board's policies are implemented by dedicated specialists who make sure effective processes and procedures are in place to assure compliance and to identify and to report on risks and opportunities.

As a responsible business, we continue to invest, not only to comply with the environmental and health and safety requirements, but, where practicable, to go further. Throughout 2007, we maintained our presence in the FTSE4Good Index Series, which is designed to measure the performance of companies that meet globally recognised corporate responsibility standards and facilitate investment in those companies.

Engaging with our stakeholders

Like many businesses, our stakeholders are diverse and include: our shareholders; employees; customers; suppliers; the local community; Government; non-governmental organisations; opinion formers; and the media. Communication with all our stakeholders is considered to be an essential part of our business and we aim to be open and transparent in all that we do. We fulfil our communication commitments through an investor relations programme and a wide-ranging external relations programme.

Investor relations

Drax is committed to delivering shareholder value. We communicate our results and prospects to our shareholders in an accurate and timely manner using a variety of channels. In addition to the Annual General Meeting, we communicate through our Annual Report and Accounts, Half Year Report and Trading Updates. From 2008, we will also have the obligation to provide Interim Management Statements. All of these documents are made available on our website at www.draxgroup.plc.uk. Significant matters relating to trading and the development of the business are disseminated to the market by way of announcements via a regulatory information service and those announcements appear as soon as practicable on our website.

Face-to-face meetings are held with our major institutional shareholders to assist them in understanding the information announced to the market and to ensure that the Board is aware of investors' views and concerns. In 2007, a formal meeting programme was delivered in the UK, US and Europe after each of the Preliminary and Interim Results announcements. To aid our communication with our private investors, during 2007 we developed further the investor section of our website improving the information that is readily available.

External relations

Following on from our public affairs focus in 2006, we maintained our engagement with the Government on issues arising from the Energy Review, including the regulations governing co-firing of renewable materials. On 1 April 2007, we were pleased to see an amendment to the renewables regime come into effect which removed the caps and constraints in relation to energy crop co-firing. Importantly this removed the regulatory barrier to accessing value from Renewable Obligations Certificates ("ROCs") when co-firing energy crops.

Further positive news on the future for co-firing came with the publication of the Energy White Paper in May 2007, which proposed a fundamental reform of the Renewables Obligation ("RO"). The proposal to band the RO will place the various renewables technologies into bands according to their state of development, and reward each band with differing fractions or multiples of ROCs. The proposal is consistent with the representations we made during the Energy Review and we believe that it has the potential to deliver a mechanism that is fair to all forms of renewables and enable co-firing to make a meaningful contribution to targets for reducing carbon dioxide ("CO₂") emissions. Throughout 2007, we continued to work with the Government on the detail of the proposals to ensure appropriate bands and rewards.

Locally, we have continued to engage with parish, town, district and county councillors and officers, with the intention of keeping them up to date with our business issues and developments. Our regular communication channel with these and other local opinion formers takes the form of an annual consultative meeting, and three meetings each year with our local parish and town councillors. This year, in addition to these formal meetings, we held meetings with councillors, opinion formers and the local press, and public drop-in sessions to disseminate information concerning our plans for developing our co-firing facility at the Drax site and the results, specifically from environmental monitoring, of our coal/petcoke trial.

No political donations were made in the UK or elsewhere during 2007, and the Company's contact with those active in the political arena has been and will continue to be aimed solely at the promotion of the Company's business interests.



Tackling climate change.

We believe we have an important part to play in managing the transition of the UK towards a low carbon economy, whilst delivering secure and reliable supplies of electricity.

Suppliers

As in previous years, we encouraged local and national companies to bid for contracts to supply the many goods and services required by the Company. In making purchases, we are mindful that some companies or indeed countries may have poor ethical standards or human rights issues. Covering, as we do, a varied marketplace with a number of indirect manufacturers supporting the end product, it is impossible for us to be certain that we do not indirectly trade with certain companies or countries whose standards are poor. However, we do not knowingly support or trade with such companies or countries and we remain alert to changing circumstances.

Caring for the environment

Tackling climate change

We believe we have an important part to play in managing the transition of the UK towards a low carbon economy. We fully recognise the challenge that we and other fossil fuel-fired power stations face in tackling carbon emissions and we have already committed to a CO₂ emissions reduction programme that will reduce our emissions by over three million tonnes or 15% by the end of 2011.

The focus of our programme is on co-firing and thermal efficiency improvement. On co-firing, we have set ourselves the challenging target of producing 10% of our output from renewable biomass materials by the end of 2009, saving over two million tonnes of CO₂ each year. The single biggest challenge in meeting this target is sourcing the volume of biomass material required to produce one-tenth of our output, which is equivalent to the output from around 500 wind turbines.

During the year, we have worked with suppliers of biomass materials to build a strong supplier base and facilitate the development of a supply market for this renewable material.



With a focus on sustainability, we have endeavoured to improve our understanding of the long-term environmental impacts of growing, harvesting and transporting biomass materials. As part of our drive to promote sustainability throughout the biomass supply chain we have been working with our biomass suppliers to incorporate sustainability criteria into our supply contracts in advance of possible regulatory requirements. This approach has been positively received and provides a solid platform for further development in this important area.

At the centre of our thermal efficiency programme is the £100 million upgrade of the high and low pressure turbines of each of our six generating units. The upgrade programme benefited from the early installation of one high pressure turbine module during our outage in the third quarter of the year, giving valuable engineering experience ahead of the double outage in 2008 during which two high pressure and six low pressure turbine modules will be replaced.

On completion of the upgrade in 2011 we will see an improvement in our overall baseload efficiency of 5%, taking it towards 40%, and an annual saving of one million tonnes of CO₂.

In addition, we have been involved in research projects with industry partners which have the potential for considerable savings in emissions of CO₂. We are also participating in Yorkshire Forward's initiative to examine the potential for carbon capture and storage infrastructure in the Yorkshire area.

Taking these initiatives forward, and others like them, is only possible within a regulatory framework which is both certain and predictable. Given the right framework, investment in clean coal technologies which will put the UK on a sure path to a low carbon future, whilst delivering reliable and secure supplies of electricity, will be incentivised.

Environmental performance and compliance

We recognise our responsibilities to society and the environment and we are committed to furthering the environmental leadership position we hold in the coal-fired sector. Where practicable we work towards reducing the environmental impacts of our business, in line with our policy to regard compliance with legislation as a minimum level of achievement.

We manage our environmental compliance under an Environmental Management System ("EMS"). During the year our EMS was externally audited and we were successful in achieving re-certification to the international standard ISO 14001: 2004.

We freely discuss our environmental performance and activities with our stakeholders and are sensitive to their views and concerns. Amongst our staff, business partners and contractors we promote environmental awareness, ensuring that they understand the environmental aspects of their activities, that they act responsibly and are competent to undertake their duties.

Over the last few years, UK industry has been moving towards Pollution Prevention and Control ("PPC") regulation, which replaces the former Integrated Pollution Control ("IPC") and Waste Management legislation and covers not just the discharges from site, but site issues such as contamination, wastes, odour, noise, energy efficiency, risks, accidents and management systems. The new legislation places greater focus on individual performance through a requirement for staff competency.

In 2004, we applied for a PPC permit to replace the Waste Management licence for the ash disposal site. In 2006, we applied for a PPC permit for the main power station site to replace the IPC authorisation. Both of these permits were received during 2007, and as a result we have commenced a programme of staff re-training to reflect the wider scope of the new regulations and procedures.

Emissions to air		
Carbon dioxide ⁽¹⁾ kg/kWh	Sulphur dioxide g/kWh	Nitrogen oxides g/kWh
	2001 2.05	2001 2.63
	2002 1.78	2002 2.55
	2003 1.70	2003 2.49
	2004 1.07	2004 2.36
2005 0.83	2005 1.01	2005 2.30
2006 0.84	2006 0.78	2006 2.12
2007 0.83	2007 0.77	2007 1.99

Notes:
(1) CO₂ - EU ETS verified taking account of carbon neutral status of biomass

Emissions to air

The principal emissions from burning coal are CO₂, sulphur dioxide ("SO₂"), nitrogen oxides ("NO_x"), and particulates ("dust"). Our generating units have all been retrofitted with flue gas desulphurisation ("FGD") equipment which removes, on average, at least 90% of SO₂ emissions before the flue gas is released via the chimney into the atmosphere.

We maintain investment in our emissions abatement equipment and consider this to be a high priority. Our FGD plant already complies with SO₂ emissions limits to 2016 and we are nearing completion of a programme of retrofitting all units with low NO_x technology - Boosted Over Fire Air - in line with the NO_x requirements of the Large Combustion Plant Directive ("LCPD"). Currently five of our six units have been retrofitted with work underway to complete the remaining unit by mid-2008.

Discharges to water

Procedures are in place to ensure that all discharges and drainage to water are monitored and treated where necessary to meet our discharge consent limits. There are a number of sources of discharge and drainage as part of the electricity generation process, including the cooling water used to cool the condensers, which as part of the steam cycle condense steam to water after it leaves the turbines and before returning to the boilers. The FGD process produces effluent water which is treated in a specially designed plant before it is discharged to the river, and there is also drainage from the main plant, coal plant and roads.

Water is abstracted mainly from the River Ouse and boiler feedwater originates from two boreholes on site. Approximately half of the water is returned to the River Ouse at a few degrees warmer than the river water.

Disposals to land

When coal is burnt, ash is left as a residue. The finer particles of ash, pulverised fuel ash ("PFA"), are collected from the flue gas by electrostatic precipitators; the heavier ash, furnace bottom ash ("FBA") falls to the bottom of the boiler. The majority of ash is sold to the construction industry with the remainder sent for landfill at the power station's adjacent ash disposal site, which over time has been developed into farmland, woodland and wetland features providing a haven to many species of wildlife and birdlife.

During 2007, we sold some 75% of our ash; our target is zero ash landfill. The construction of an ash rail loading facility will help us to improve our ash export capability through providing greater and more efficient access to construction markets around the country.

We pay landfill tax on the PFA disposed of to the ash disposal site. Through the Landfill Tax Credit Scheme, we are able to claim a tax credit against our donations to recognised Environmental Bodies. We have worked with Groundwork Selby since 2001 on projects designed to help mitigate the effects of landfill upon our local community. During 2007, we contributed approximately £89,824 towards local community-based projects designed to bring about sustainable environmental benefits and contribute to the social and economic regeneration of the area.

Alternative fuels

To help maintain our vital role in the UK economy and safeguard cost effective power production, our fuel strategy recognises the need to sustain a ready supply of traditional quality coal and how best to incorporate alternative fuels, including different fossil fuels and renewable materials. The choice of fuels has to be balanced with availability and flexibility of supply.

The trial burn of petcoke, which concluded in June 2007, was an integral part of our strategy of developing alternative fuels. It involved burning a blend of coal and up to 15% petcoke on one of our six generating units.

Petcoke is derived from the petrochemical industry and is produced from oil, it contains higher levels of sulphur than coal but the FGD plant at Drax ensures that, on average, at least 90% of the SO₂ is removed before the gases created during combustion are emitted into the atmosphere. Because of this we have the capability to burn petcoke within the permitted sulphur levels set for the power station by the Environment Agency.

The combustion trial commenced in June 2005, although designed to last for 18 months the trial was extended by a further six months to allow for some additional environmental monitoring. A considerable amount of environmental data has been collected and analysed, where possible using independent specialists. In line with our policy on openness and transparency all data have been made publicly available.

The results of the trial have provided conclusive evidence that there is no detectable impact on the environment through burning blends of coal and up to 15% petcoke at Drax. We believe the results strongly support our case for full commercial burn of coal/petcoke blends across all six units.

Reduce, reuse and recycle

In line with the new PPC regulations, we have stepped up our focus on the handling of wastes through embodying the philosophy of "reduce, reuse and recycle". During the year, a new recycling centre was constructed and the range of materials recycled was expanded. Monitoring our performance showed that an impressive 76% of all our wastes were recycled in 2007.

Our plan is to focus our efforts on the remaining 24%, with greater emphasis on office-based wastes.

Our people

Our principles

At Drax we believe that our people are one of our key assets and all of our practices and policies are designed to maximise the contribution of our human resource to achieve our business objectives. Our core principles are underpinned by commitments to our staff.

We commit to comply with all relevant legislation and regulations, and strive to achieve best practice in the areas of employment practices, for example, through the avoidance of any and all discriminatory practices, recruitment and termination of employment, and staff training and development.

We commit to working constructively with the recognised trades unions representing our staff, to ensure that all parties are engaged and committed to the Company's objectives, and that we maintain a positive industrial relations climate which mitigates the risk of disruption to the Company's operations. This includes our commitment to be fair in the settlement of any grievances or disputes.

We commit to using a variety of communication techniques, both one-way and two-way, to ensure that all staff are kept fully informed of developments in the Company's operations. The communication methods include monthly team briefs to all staff, plant-wide meetings at least six monthly on Company performance and major initiatives, written communications such as leaflets and newsletters, e-mails, 360° feedback and employee opinion surveys. We undertake to fully consult staff on all changes that have a material impact on their employment.

We commit to operating fair and transparent remuneration policies which ensure that staff are paid an appropriate rate for the work they undertake, and that we compensate appropriately where staff work unsocial hours to support our operations.

We commit to maintain and support a range of share plans which encourage all of our staff to build a personal stake in the ownership of the business. In the case of executive directors and senior staff this includes a commitment to own shares to a significant percentage of their annual salary.

We commit to operate a suitable level of occupational health services on site to promote the well-being of all our staff and to ensure a professional response to any and all emergency situations that occur. We ensure that our first aid response is the best that we can make it by training our staff to the highest level we can.

Our programmes

Over the past 12 months we have introduced or maintained a number of activities to support our human resources principles. We have recruited a new head of human resources and a senior occupational health nurse to strengthen the team supporting these activities.

Through the recruitment of a further six young apprentices in September 2007, we have continued to support our technical apprenticeship programme. The year also saw eight apprentices from our first intake after re-introducing the programme complete their apprenticeships. We were especially pleased to see one of our second year apprentices win the Empower's Apprentice of the Year Award 2007 in the power generation category.

For the second year running, we have conducted a thorough 360° appraisal process for the management of the organisation and provided detailed feedback to all participants. Our Company-wide staff appraisal process identified competency gaps which have been addressed through nearly 2,000 separate training and development events.

In addition, training and development of our staff has been taken further through the design of the first stage of a competency-based management development programme to be implemented over the next 18 months to all those with supervisory responsibility for employees or contractors.

Throughout the year, we have met regularly with the officials of the recognised trades unions to address issues of mutual interest and to maintain a positive and constructive industrial relations climate.

A comprehensive pay benchmarking exercise was conducted in the early part of the year in support of our annual pay review process, ensuring that accurate data was available for managers involved in the process.

The use of the Share Incentive Plan was reviewed in the early part of the year and widened to provide the opportunity for employees to purchase Partnership shares which also attracted an award of Matching shares at a ratio of one Matching share for each Partnership share purchased; this was in addition to an award of Free shares. All staff were eligible to participate and the level of take up of the Partnership and Matching elements was significant at 91%; the take up of the Free shares award was 100%. Further details on the Company's share plans can be found in the Remuneration Committee report on pages 46 to 53.

Drax's commitment to employee share participation received independent recognition at the *ifsProShare* Annual Awards ceremony held on 20 November 2007, at which we won the award for the "Most Effective Communication of an Employee Share Plan (for companies with 0 to 1,000 employees)".

ifsProShare Annual Award winner



Phil White, Drax Group plc Assistant Company Secretary (second-left) receiving the award from Anthony Nelson, *ifsProShare* Chairman.

Personal Safety Statistics

	2004	2005	2006	2007
Fatality	0	0	0	1
Lost time accident	8	7	2	10
Restricted work accident	6	4	1	2
Medical treatment accident	5	1	1	3
First aid	182	140	127	267
RIDDOR⁽¹⁾ reportable	6	6	2	13

Notes:

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

We continue to ensure that all our policies and procedures are reviewed to comply with legislative requirements and to move towards best practice. During 2007, we developed a new service for employees to support the whistle blowing policy introduced in 2006, enabling staff to log concerns confidentially with an external agency. The service was launched plant-wide in January 2008.

We will continue to ensure that we have the right complement of skills and experience to deliver our business objectives. We will focus on deriving mutual benefit from the employer/employee relationship through a range of initiatives, including opinion surveys, appraisals, good lines of communication and above all we will aim to increase transparency in the relationship.

Health and safety

Health and safety is at the heart of our corporate responsibility. Protecting our employees, contractors and all visitors from injury and promoting employee well-being is fundamental to our business philosophy. We are committed to developing and maintaining a positive health and safety culture in which statutory requirements are viewed as a minimum standard and leading performance our goal.

Although we have made significant progress in working together with our own staff and contractors on all aspects of health and safety, we were deeply saddened by the death of a civil works contractor following an incident at the power station site at the end of September 2007. The Company has given its full co-operation to the relevant authorities in their investigation of the incident. Although these investigations have not yet concluded, no indication has been given to the Company that it will be prosecuted for any offence arising from the incident.

Attaining leading performance

The lost time injury rate for 2007, was 0.34, compared to 0.08 in 2006, but against an increase of nearly one-third in the total hours worked. Although this represents a deterioration, the safety programmes implemented in the last few years are becoming well entrenched and are delivering sound performance and our safety record compares favourably to that of our sector peers and international benchmarks.

In March 2007, we were delighted to announce that the Company's Health and Safety Management System was certified to the internationally recognised Occupational Health and Safety standard OHSAS 18001. Drax is amongst the first of the coal-fired power stations in the country to hold the standard, which is approved by Lloyd's Register Quality Assurance. In addition to this, the Company was equally delighted to be awarded the RoSPA Gold Award for the third year running.

Processes underpinning performance

The Production Integrity Management Systems programme launched during the year will provide the platform the business needs to deliver continuous improvement of business critical systems which are fundamental to the safe and effective operation of the power station.

"Spotlight on Safety" is our implementation of the internationally proven DuPont™ STOP™ programme. This behavioural safety programme coupled with the recently launched "Safety Kick-Off", start of shift safety briefings and "Take-2" dynamic point of work risk assessment initiatives give us the framework we need for open engagement between operatives and supervisors to develop the defensive behaviours which are a fundamental component of the robust world-class safety culture we aspire to create.

Communicating the safety message

Our "Weekly Safety Bulletin" briefing process provides a fast track for safety communication to all those working on the site, through which we draw attention to specific safety issues and our performance record, and recognise achievements. In addition, the safety representatives and management team members of the Health and Safety Advisory Committee continue to play a vital role in facilitating staff consultation on health and safety issues.

Our ongoing safety exchange relationships with ScottishPower's Longannet power station and E.ON's Ratcliffe-on-Soar power station continue to provide new ideas and stimulation to drive our health and safety improvement efforts forward.

Accident frequency rate

Lost time injury rate

2004	0.42
2005	0.35
2006	0.08
2007	0.34

Total recordable injury rate

2004	0.99
2005	0.60
2006	0.17
2007	0.49



Caring for the community

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

Our involvement takes the form of sponsoring a variety of local charities and fund raising events, promoting our own campaigns which focus on the three themes of youth sport, education and the environment, and maintaining open communication channels and good working relationships with the region’s key opinion formers.

Sponsorship in the community

During 2007, we gave financial support of £121,108 in total across a range of charitable and non-charitable causes. Of that total, charitable donations amounted to £73,754 (2006: £45,872).

Some £12,000 of the total donations were made under the direction of our sponsorship team, across a range of activities within a 20-mile radius of the power station.

Each month the team meets to consider requests received for charitable donations and community sponsorship and makes awards against our criteria of furthering community, environmental and sporting interests.

An example of the good causes supported through the sponsorship team in 2007, is the Sherburn-in-Elmet Youth Drop-in, a scheme aimed at 11-19 year-olds in the village. The Drop-in is held every Friday evening and has proved hugely successful in encouraging local youths to take part in a range of activities including arts and crafts, drama and music. Our donation was put to good use through the purchase of new arts and crafts materials.

Drax also operates a “£ for £” matching scheme, under which we match, £ for £, any monies raised for charity by employees. During 2007, approximately £42,518 of the total donations made were through this scheme.

For the third year running, we ran a scheme to encourage and reward good safety performance during the planned outage periods. Through the scheme £500 is donated for every seven days that goes by without an injury requiring more than first aid treatment, in total £7,500 was raised during the two outages. Employees and the outage contractor, Doosan Babcock, were each asked to nominate charities to receive a share of the total.

In December 2007, Drax staff responded to a request to raise money for a very special and deserving cause. Marni Smyth, a 13 year-old girl who lives with her family in a nearby village, was born with spinal muscular atrophy. Marni wakes every hour at night and has to call out to her parents to be turned in her bed. Through a variety of initiatives we raised just under £7,000 to purchase a special bed which can be programmed to alter the air pressure in the mattress and turn Marni in her sleep, which will mean an uninterrupted night’s sleep for her and her parents.

A new visitor centre

The new facility uses large format graphics, multimedia presentations and interactive models to explain the electricity generation process.



Welcoming visitors to Drax.

Thousand of visitors are welcomed to the power station every year. During 2007, we played host to some 5,750 visitors from schools, colleges, business organisations and associations.

Other sponsorship activities included a £15,000 donation to the Selby Abbey Restoration Appeal. The donation, used to sponsor two fundraising concerts, one of which was held in October 2007, and the second to be held in July 2008, allows all proceeds raised from the concerts to go to the Appeal as the restoration work enters its seventh and final phase.

Education in the community

Our "Cricket in the Community" initiative launched in May 2006 has continued to prove popular with local schools. We now boast four England and Wales Cricket Board ("ECB") qualified coaches on our staff, who together with England ladies' cricketer, Katherine Brunt took cricket coaching to schools in the local area as part of our support for education and to promote sports learning as part of the National Curriculum.

Strengthening our links with the game of cricket, we launched the Drax Cup, the region's first-ever cricket competition for teams of girls and boys under the age of nine.

A total of 86 primary schools across Yorkshire took part in the knock-out tournament organised by The Yorkshire County Cricket Club ("Yorkshire CCC") in conjunction with The Yorkshire Cricket Board and The Yorkshire Schools' Cricket Association. The semi-finals and final were played at Headingley Carnegie Stadium, the home of Yorkshire CCC and a long-standing venue for test matches and one-day internationals. The trophy, crafted from recycled boiler tube from a Drax boiler, was presented to the winning school, Wheatlands Primary School, Redcar by Darren Gough, Yorkshire CCC captain and ex-England international.

"Art in the Community", a new initiative designed to encourage and develop art appreciation, was launched in September 2007. Primary and secondary schools in the area were invited to enter and have the chance to share in prize money totalling over £2,500. The prize money for the winning artists was matched with a donation to their schools.

Visitors to Drax

In October 2007, the Minister of State for Energy, Malcolm Wicks MP, officially opened the new Drax Visitor Centre. The Minister joined pupils from Dringhouses Primary School, York to be part of the first group to tour the new exhibition. The new facility uses large format graphics, multimedia presentations and interactive models to explain the electricity generation process. Visitors can also discover fun facts about the power station and its pioneering environmental projects.

Thousands of visitors are welcomed to the power station every year. The appeal of discovering more about how power is produced and the sheer scale of the site and its associated activities attracts schools and colleges as well as business organisations and associations. During 2007, we played host to some 5,750 visitors.