

## Business review

### Corporate and social responsibility review

#### 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 in previous years we have continued to invest, not only to comply with the environmental and health and safety requirements, but, where practicable, to go further. Throughout 2008, 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 many and diverse, including 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, Interim Management Statements and Trading Updates. All of these documents are made available on our website at [www.draxgroup.plc.uk](http://www.draxgroup.plc.uk). Significant matters relating to trading and the development of the business are disseminated to the market by way of announcements via a regulatory information service and those announcements appear as soon as practicable on our website.

Announcements are followed up with either conference calls or presentations to provide further detail and greater understanding. In addition, face-to-face meetings are held with our major institutional shareholders, again to assist them in their understanding of the announcements, but also to ensure that the Board is aware of their views and concerns. In 2008, a formal meeting programme was delivered in the UK after each of the Preliminary and Half Year Results announcements and in the US after the Preliminary Results announcement. To aid our communication with our private investors, during 2008 we continued to develop further the investor section of our website improving the information that is readily available.

#### External relations

As with previous years, we maintained our engagement with public affairs audiences on issues with implications for our business.

We engaged with Parliamentarians and officials both in the UK and the EU on issues including forthcoming environmental legislation, energy prices, security of supply, renewables policy and wholesale market issues.

The form of engagement was varied and included both face-to-face and written briefings, participation in public consultations, written and oral evidence to select committees and visits by Parliamentarians and officials to Drax Power Station.

Locally, we have continued to engage with parish, town, district and county councillors and officers, with the intention of keeping them up to date with our business issues and developments. Our regular communication channel with these and other local opinion formers takes the form of an annual consultative meeting, and three meetings each year with our local parish and town councillors.

No political donations were made in the UK or elsewhere during 2008, 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.

#### 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. At Drax Power Station our focus is on co-firing and thermal efficiency improvement.

On co-firing, we aim to produce 12.5% of our output from renewable biomass materials by mid-2010, the equivalent output of around 600 wind turbines which will save over two and a half million tonnes of CO<sub>2</sub> each year.

During 2008, we co-fired 412,000 tonnes of biomass, which, due to the carbon neutral status of biomass, avoided emissions of 644,000 tonnes of CO<sub>2</sub>.

At the centre of our thermal efficiency improvement programme is the £100 million upgrade of the high and low pressure turbines of each of our six generating units. During the major planned outages of 2008 we installed one high pressure and three low pressure turbine modules to each of two units. Together with the early installation of one high pressure turbine module during 2007, this means that we are now just over one-third of the way through the upgrade project and already saving over one-third of a million tonnes of CO<sub>2</sub> emissions a year.

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 additional annual saving of one million tonnes of CO<sub>2</sub> emissions.

We fully recognise the challenge that we and other fossil fuel-fired power stations face in tackling carbon emissions and these two projects, when complete, will reduce our emissions of CO<sub>2</sub> by over three and a half million tonnes or 17.5% by the end of 2011.

Our focus on co-firing and in particular biomass procurement has made us well placed to pursue the development of a dedicated biomass-fired power generation business. Our plan to develop three 300MW biomass-fired power plants alongside the co-firing capability at Drax Power Station, could result in Drax becoming responsible for supplying at least 15% of the UK's renewable power, and up to 10% of total UK electricity.

At the heart of our work with biomass is our sustainability policy, which places us at the forefront of the introduction of sustainable biomass practices in the UK. Through a set of sustainability principles we aim to ensure that the biomass consumed in our generation facilities is environmentally sustainable.

As a result of our policy we will strive to reduce greenhouse gas emissions by at least 70% in comparison to coal-fired generation. Furthermore, we will engage a qualified third party to develop and implement a rigorous programme of audit and verification of biomass supply chains to ensure compliance against these principles and our policy.

In addition, we have been involved in research projects with industry partners which have the potential for considerable savings in emissions of CO<sub>2</sub>. We participated in Yorkshire Forward's initiative to examine the potential for carbon capture and storage infrastructure in the Yorkshire area which reported in the year.

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.

## Sustainability principles

Our policy is designed to ensure that the biomass consumed in our generation facilities is environmentally sustainable. More specifically, our procurement process is designed to ensure that the production and delivery of our biomass will:

- Significantly reduce greenhouse gas emissions compared with coal-fired generation and give preference to biomass sources that maximise this benefit.
- Not result in a net release of carbon from the vegetation and soil of either forests or agricultural lands.
- Not endanger food supply or communities where the use of biomass is essential for subsistence (for example, heat, medicines, building materials).
- Not adversely affect protected or vulnerable biodiversity and where possible we will give preference to biomass production that strengthens biodiversity.
- Deploy good practices to protect and/or improve soil, water (both ground and surface) and air quality.
- Contribute to local prosperity in the area of supply chain management and biomass production.
- Contribute to the social wellbeing of employees and the local population in the area of the biomass production.

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Emissions to air		
Carbon dioxide t/GWh	Sulphur dioxide g/kWh	Nitrogen oxides g/kWh
	2002 1.78	2002 2.55
	2003 1.70	2003 2.49
	2004 1.07	2004 2.36
2005 833	2005 1.01	2005 2.30
2006 844	2006 0.78	2006 2.12
2007 831	2007 0.77	2007 1.99
<b>2008 818</b>	<b>2008 0.71</b>	<b>2008 1.42</b>

## 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 maintaining 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.

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

## Emissions to air

The principal emissions from burning coal are CO<sub>2</sub>, sulphur dioxide ("SO<sub>2</sub>"), nitrogen oxides ("NO<sub>x</sub>"), and particulates ("dust"). Our generating units have all been retrofitted with Flue Gas Desulphurisation ("FGD") equipment which removes, on average, at least 90% of SO<sub>2</sub> 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 SO<sub>2</sub> emissions limits to 2016 and we have now completed a programme of retrofitting all units with low NO<sub>x</sub>, Boosted Over Fire Air technology in line with the NO<sub>x</sub> requirements of the Large Combustion Plant Directive ("LCPD"). All of our six units have been retrofitted and performance has been in line with expectations.

## 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.

Whilst our target is zero ash landfill, our ability to sell ash depends on the state of the construction industry. Hence performance in 2008 was not as good as we would have liked, reflecting contraction in the construction industry in the second half of the year, and we were forced to dispose of material to the ash disposal site. The construction of an ash rail loading facility was completed in 2008 and this 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 2008, we contributed approximately £71,500 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 biomass materials. The choice of fuels has to be balanced with availability and flexibility of supply. The combustion of petcoke, a fuel derived from the petroleum industry, is an integral part of our strategy of developing and utilising alternative fuels.

A considerable amount of environmental data on the combustion of petcoke 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.

Our results have provided conclusive evidence that there is no detectable impact on the environment through burning blends of coal and up to 15% petcoke compared to coal at Drax and, as a result, in early 2008 the Environment Agency accepted our case for commercial burn of coal/petcoke blends across all six units up to 600,000 tonnes per year of petcoke. The use of petcoke is now a normal part of station operation and during the year we burnt 268,000 tonnes.

### Our people

#### Lifelong learning

We are committed to improving the skill, knowledge and experience of every person in employment. Our actions are focused on enabling individuals to make the most of their personal and potential contribution at work. By its very nature, this is an endless endeavour.

In 2008, we invested over £1,000 per person, (£0.8 million), in training activities to enhance technical skills and knowledge, leadership and management knowledge and experience, and a fundamental understanding of every relevant aspect of safe working and the safety of colleagues. As a consequence, 38 of our people took on a promotion and increased responsibility.

The people at Drax are not merely the crucial asset. Through their dedication, commitment and positive culture they help to achieve outstanding results personally and collectively.

#### Laboratory analysis

The fully equipped laboratory at the power station enables comprehensive analysis of a whole range of samples ensuring close monitoring of our environmental performance.



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#### Employment

We employed 727 people at the year end. During the year we increased employment by 40 jobs. We endeavour to recruit in our local catchment area.

Nearly four out of ten Drax people have been with the Company for 20 years or more, constituting a unique core of skill, experience and knowledge. Our employee retention rate is over 96% per annum.

Our compliance with all relevant legislation and regulations is non-negotiable.

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

#### Industrial partnership

We recognise and negotiate with independent Trades Unions representing a substantial number of our people. This is a long-standing and well-developed partnership. Both parties work hard to ensure that more objectives are shared than are disputed.

As a consequence, we maintain a positive industrial relations climate in which continuity of the Company's operations is acknowledged to be paramount. We are committed to be fair in the settlement of any grievances or dispute. We undertake to consult staff fully on all changes that have a material impact on their employment.

#### Quality of internal communication

We use a variety of communication techniques, one-way and two-way, formal and informal, to ensure that all our staff are kept fully informed of developments in the Company's operations.

In the last year the communication methods have included monthly team briefs to all staff, plant-wide meetings at least every six months on Company performance and major initiatives, written communications such as leaflets and newsletters, e-mails, and 360° feedback. The Company intranet is also widely used.



#### Internal communication

We strive to communicate in a clear and timely manner to all our employees. In 2008, we launched our newsletter, theGen, which covers a range of work-related and human interest topics.



### Fair pay and benefits

We operate fair and visible remuneration policies which ensure that staff are paid an appropriate salary for the work they undertake. The lowest level of salary paid at Drax is substantially higher than the national minimum wage.

Benefits, such as holidays and pension, match or exceed the best in the industry sector and the local area.

We commission independent experts to benchmark our salaries and benefits at every level against the industry sector and the market as a whole. We also participate in specialist industry meetings to exchange information and developments in employment policy.

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.

### Health and wellbeing

Health and safety is our priority. We are committed to promoting the wellbeing of all our staff and to ensure a professional response to 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 occupational health team undertakes regular programmes to screen colleagues who are in contact with high noise-levels and sensitive respiratory conditions. Everyone working in operational areas has a three-yearly lung function test. Eye-sight tests are carried out for all on a three-year cycle, alongside the periodic medical examination. During 2008, 200 employees were tested and given specialist advice.

In 2008, the occupational health team promoted a "Stop Smoking" campaign, supported by the Hull and East Riding stop smoking service.

The average level of absence at Drax for 2008 was 2.8%, lower than the UK average for the manufacturing/industrial working environment.

### New skills for young people

Drax runs an active and developing apprenticeship programme, currently training 24 young men and women over a four-year training period. In 2008, our second year apprentices won the Apprentice Team Award, and one of its number, Oliver Dann, won Power Generation Apprentice of the Year and the Engineering Academy Apprentice of the Year Award.

### The third age

Each year we invite over 350 Drax pensioners to a celebratory event at Christmas. The Retired Employees Association organise trips and other events during the course of the year for our people who have now retired from Drax.

There are 117 Pensioners in the Drax Power Group Section of the Electricity Supply Pension Scheme ("ESPS"), 54 deferred members and 425 active contributors still working at Drax. Since 2000, new recruits have joined the Group Personal Pension Plan which now has 268 contributing members.

### 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 wellbeing 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.

### Personal safety statistics

	2004	2005	2006	2007	2008
Fatality	0	0	0	1	0
Lost time accident	8	7	2	10	4
Restricted work accident	6	4	1	2	1
Medical treatment accident	5	1	1	3	7
First aid	182	140	127	267	273
RIDDOR <sup>(1)</sup> reportable	6	6	2	13	7

Notes:

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

### Attaining leading performance

The lost time injury rate and total recordable injury rate for 2008 are significantly lower than in 2007. This improvement in performance is commendable given the significant increase in contractor man-hours worked during the year, and is a clear indication that the safety programmes implemented in the last few years are now delivering sound sustainable performance. Our safety record continues to compare favourably with that of our sector peers and international benchmarks.

The Company has been successful in retaining accreditation of its Health and Safety Management System to the recently updated internationally recognised Occupational Health and Safety standard OHSAS 18001. Drax is proud to be one of a select group of large coal-fired power stations in the country to hold this standard, which is approved by Lloyd's Register Quality Assurance. In addition to this, the Company was equally delighted to be awarded the RoSPA Gold Award for the fourth year running.

### Processes underpinning performance

The Production Integrity Management Systems ("PIMS") programme launched last year continues to provide the platform the business needs to deliver continuous improvement of business critical systems which are fundamental to the safe and effective operation of the power station.

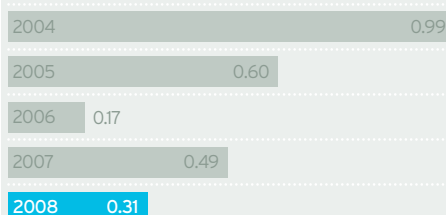
"Spotlight on Safety" is our implementation of the internationally proven DuPont™ STOP™ programme. This behavioural safety programme coupled with the Drax Task Risk Assessment ("TRA") process, the "Safety Kick-Off" start of shift safety briefings and the dynamic point of work risk assessment ("POWRA") 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.

### Accident frequency rate

#### Lost time injury rate



#### Total recordable injury rate



Notes:

(1) Lost time injury rate = (number of time losing injuries / hours worked) x 100,000.

(2) Total recordable injury rate = ((number of time losing injuries + number of worst than first aid injuries) / hours worked) x 100,000.

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#### Safety leadership and recognition

The Company has made a concerted effort to improve the critical safety leadership contribution required from first line supervisors. The expectations of both management and supervisors have been debated afresh and reaffirmed in a Safety Leadership Charter.

People working on the site at all levels who have demonstrated safety leadership have been given recognition awards.

#### Communicating the safety message

Our "Weekly Safety Bulletin" briefing process provides a fast track communication vehicle to reach all those working on the site. We use the process to draw attention to specific safety issues, our performance record and to recognise achievements. Active engagement in the safety briefing process is a job requirement. 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 a stimulus to drive our health and safety improvement efforts forward.

#### 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 2008, we gave financial support of £137,012 in total across a range of charitable and non-charitable causes. Of that total, charitable donations amounted to £99,952 (2007: £73,754).

Some £24,000 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 2008 is The Prince of Wales Hospice in Pontefract, West Yorkshire. Providing services to around 190,000 local people, the hospice cares for adults with progressive illnesses free of charge. Heavily dependent on donations, we are pleased to play a small part in helping to keep these services available.

Drax also operates a "£ for £" matching scheme, under which we match, £ for £, any monies raised for charity by employees. During 2008, approximately £31,300 of the total donations made were through this scheme.

For the fourth 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 £8,000 was raised during the two outages. The money was divided equally between Lindsey Lodge Hospice in Scunthorpe, a charity chosen by Drax and Martin House Children's Hospice in Boston Spa, selected by our contractors, Doosan Babcock.



#### Caring for the community

Our approach to community engagement takes many forms, but adheres to the themes of environment, education and youth sport.

For the second year running we held a charity corporate golf tournament at the championship course at Fulford, York. The event raised £3,000 for The Yorkshire Air Ambulance, which provides a crucial emergency service for the region.

Other sponsorship activities included a £40,000 donation to the Selby Abbey Restoration Appeal. The donation not only ensured that the Appeal's £4.5 million target was met, but importantly that a reserve fund was set up to assist with future restoration work.

**Education in the community**

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

Strengthening our links with the game of cricket, for the second year we ran the Drax Cup, a cricket competition for teams of girls and boys under the age of nine.

A total of 270 primary schools, treble the number of last year, 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. This year the winning school was High View Learning Centre, in Wombwell, near Barnsley.

Under the "Art in the Community" banner, we held our second art competition for primary and secondary schools. Double the number of entries of the previous year's competition were received and the winners and their schools shared in prize money totalling over £2,500.

We also held a two-day art camp in the Summer for seven to 13 year-olds. Under the guidance of local artist, Mark Hearld, the budding artists produced their own artistic interpretations of the Drax nature reserve and the materials handling area of the power station site. The artwork is to be pieced together to produce a large format mural which will become a permanent feature in the newly refurbished materials handling offices.

**Visitors to Drax**

Thousands of visitors are welcomed to the power station every year. The appeal of discovering more about how power is produced and the sheer scale of the site and its associated activities attracts schools and colleges as well as business organisations and associations. During 2008, we played host to some 6,550 visitors.

Visitors	
2006	5,000
2007	5,750
2008	6,550

