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## Chairman's introduction

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This is my first full year report to you as Chairman, and I am pleased to report that it has been a solid year for Drax, despite the fact that the commodity markets in which we operate have been highly volatile. Although we are reporting lower earnings than for 2007, reflecting a decrease in the margins captured for power sales as a consequence of commodity market movements, our earnings for 2008 have been in line with expectations. We report earnings (EBITDA) of £454 million for 2008, and the Board proposes a final dividend in respect of 2008 of 38.3 pence per share, equivalent to £130 million. This takes total dividend payments for 2008 to £180 million.



Since listing the Company at the end of 2005, we have worked hard to exploit the strategic and commercial value of Drax Power Station and to deliver additional value through fuel diversification and carbon abatement. Over these years, we have delivered value for our shareholders through a combination of efficient asset management, strong engineering and commodity trading capabilities, and effective project execution.

Building on this firm foundation and taking advantage of opportunities presented by a reducing generation capacity margin and the UK's requirement for significant, low carbon, renewable generation, we are now taking the next step in the development of the Group. In October 2008, we announced our intention to build a large scale, dedicated biomass generation business.

We believe our decision to pursue this biomass business growth strategy, is not only timely, but right for our investors. Our intention to develop 900MW of dedicated biomass-fired power generating capacity with our strategic partner, Siemens Project Ventures GmbH, is expected to add to the value of the business in future years.

In October 2008, when we announced our biomass growth strategy, we also announced a change to our distribution policy which would help fund that expansion. The Company will distribute excess cash generated from operations in 2008 and 2009 and then target a pay-out ratio of 50% of underlying earnings, adjusted for non-cash accounting items (principally accounting for unrealised gains and losses on derivative contracts), from 2010 onwards to complement the expected growth potential of the Group. Any net refinancing proceeds will be used to fund Drax's equity investment in the new biomass business.

Turning our attention to the membership of the Board. We were pleased to welcome Tony Quinlan as Finance Director on 1 September 2008.

Following a review of the composition of the Board at the start of the year, we decided to recruit another independent non-executive director. I am pleased to report that, David Lindsay joined the Board on 1 December 2008. In April 2009, David will become Chairman of the Audit Committee of the Board.

I believe that both Tony's and David's knowledge and experience will complement the expertise currently held across the Board, and will be of great benefit to the Company.

Significant progress has been made during 2008 to get us to the position where we are ready to grow the business. I am confident that we have the right people in place and the right long-term plan to put us on course for a successful future.

Finally, I should like to give my thanks and praise to all our staff. Without their commitment and drive we would not have made the advances that we have. Our people are pivotal to our continued success and growth as we embark on the next phase of the Company's development.

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**Charles Berry**  
Chairman  
2 March 2009

