

Corporate governance

The Board of directors

As at 2 March 2009, the Board comprised the non-executive Chairman, four independent non-executive directors and three executive directors. The directors are named in the Directors' report on page 39 and their principal commitments outside the Group are described within their biographical notes on pages 36 and 37. The Board meets at least six times each year and more frequently if appropriate. In addition, the Board meets at least annually to consider Group strategy.

Charles Berry is the Chairman, having succeeded Gordon Horsfield who retired as a non-executive director and Chairman of the Board at the conclusion of the Company's Annual General Meeting on 17 April 2008. The Board considered that Charles Berry was independent on appointment as a director of the Company in December 2005.

Dorothy Thompson is the Chief Executive and is responsible for all aspects of the stewardship of the Group and its business, including developing an appropriate business strategy for Board approval and securing its timely and effective implementation. She provides leadership to the executive team and takes responsibility for the important external relationships with customers, suppliers, regulatory agencies and government bodies. The division of responsibilities between the Chairman and the Chief Executive is set out in writing, was agreed by the Board on 14 December 2005 and was reviewed and varied by the Board on 23 October 2006.

Tony Quinlan is the Finance Director, having succeeded Gordon Boyd on 1 September 2008. He is responsible for the financial management of the Group, and for relationships with the Group's bankers. He is the Chairman of the Risk Management Committee of Drax Power Limited. That committee provides reports to the Board on a monthly basis.

Peter Emery is the Production Director and is responsible for the operation, safety, repair and maintenance of the electricity generation plant at the power station and for the Drax site.

Tim Barker, Jamie Dundas and Mike Grasby have served the Group as independent non-executive directors throughout the year ended 31 December 2008. Having reviewed their position, the Board has again concluded that each of them is independent within the meaning of the Combined Code. Tim Barker is the senior independent director. David Lindsell was appointed a non-executive of the Company on 1 December 2008 and is considered by the Board to be independent.

The Company's Articles of Association provide that one-third of directors (rounded down to the nearest whole number) shall retire by rotation each year but are eligible to submit themselves for re-election by shareholders and that directors shall not serve longer than the third Annual General Meeting ("AGM") following their election without being re-elected by shareholders. Charles Berry, Jamie Dundas and Dorothy Thompson retire by rotation this year and offer themselves for re-election by shareholders at the next AGM. The Board considers it appropriate that each of them be re-elected because of their individual experience and knowledge within the electricity generation sector, wider management and industry experience. After performance evaluation, the Board has concluded that each continues to be effective and committed to their role.

The Company's Articles of Association also require that, following appointment by the Board, directors submit themselves for election by shareholders at the next AGM. Tony Quinlan was appointed to the Board of the Company on 1 September 2008 and David Lindsell was appointed to the Board of the Company on 1 December 2008 and, therefore, both will retire and offer themselves for election at the AGM. The Board considers it appropriate that each of them be re-elected because of their recent and relevant financial experience and their wider management and industry experience.

Tim Barker, Jamie Dundas and Mike Grasby have each agreed new letters of appointment during the year, by which the terms of their appointment were changed from an indefinite period to a six-year term from 15 December 2005, subject to one month's notice. David Lindsell holds a letter of appointment for a three-year term from 1 December 2008, subject to one month's notice of termination. Charles Berry's letter of appointment provides for a three-year term from 17 April 2008, subject to six months' notice on either side. It is the Board's policy that each non-executive director will be appointed for a term of three years which, subject to the Board being satisfied as to the director's performance and commitment and a resolution to re-elect at the appropriate AGM, may be renewed by mutual agreement. However, in the case of the independent non-executive directors, it is the Board's policy not to extend the aggregate period of service of any independent non-executive director beyond nine years and, as required by the Combined Code, any proposal made to extend a non-executive director's aggregate period of office beyond six years will be the subject of a rigorous review.

The Board has adopted a schedule of matters reserved for its decision and formal terms of reference for its committees which are available to view on the Group's website at www.draxgroup.plc.uk. The Board determines: the Group's strategy; the Group's appetite for risk (particularly in its trading activities); the internal control and risk management policies; the business plan and key performance indicators; acquisitions and disposals and other transactions outside delegated limits; material changes to accounting policies or practices; significant financial decisions; capital structure and dividend policy; shareholder communications; prosecution, defence or settlement of material litigation; Group remuneration policy; the terms of reference of Board committees; and the Board structure, composition and succession. Matters which are not specifically reserved to the Board and its committees under their terms of reference, or to shareholders in General Meeting, are delegated to the Chief Executive or otherwise delegated in accordance with a scheme of delegation approved by the Board.

The Board receives regular reports on performance against the business plan and periodic business reports from senior management. Directors are briefed on matters to be discussed at meetings by papers distributed in advance of Board and committee meetings.

The Board is satisfied that all the directors are able to devote sufficient time to their duties as directors.

The Board has adopted a policy whereby directors may, in the furtherance of their duties, seek independent professional advice at the Company's expense. During 2008, Charles Berry sought independent legal advice pursuant to the policy in connection with the duties under sections 175 and 177 of the Companies Act 2006 to avoid conflicts of interest, which concluded there were no issues.

Amended Articles of Association came into effect on 1 October 2008, giving the directors power to approve conflicts of interest. The Board has adopted a procedure by which situations giving rise to potential conflicts of interest are identified to the Board, considered for authorisation and recorded.

Each director has the benefit of a deed of indemnity from the Company and its subsidiaries in respect of claims made and liabilities incurred, in either case arising out of the bona fide discharge by the director of his or her duties. The Company has also arranged appropriate insurance cover in respect of legal action against directors of the Company and its subsidiaries.

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. A process has been established for identifying, evaluating and managing the significant risks faced by the Group and this has been in place for the year under review up to the date of approval of the Annual Report and Accounts. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Group's risk management process aims to be comprehensive, systematic and continuous. Its key features include the identification and recording of the main risks facing the Group in a risk register with clear allocation of management responsibility for risk identification, analysis and control. The Group has comprehensive and well defined control policies with clear structures, delegated authority levels and accountabilities. During the year, the Group has enhanced its procedure governing appraisal and approval of investment and development expenditure. Post completion reviews are required on significant investment and development project expenditure.

The Group has a system of planning and monitoring, which incorporates Board approval of a rolling five-year business plan and approval, towards the end of each year, of operating and capital expenditure budgets for the year ahead. Performance against the budget is subsequently monitored and reported to the Board on a monthly basis. The Board also receives monthly reports on trading risk exposure as compared to the pre-set limits and monitors overall Company performance against a corporate balanced scorecard which shows progress against a set of financial, operating, safety and other targets set at the start of the year. Performance is reported formally to shareholders through the publication of Group results. Operational management make frequent reports on performance to the executive directors.

During the year, the Board reviewed arrangements for the management of commodity trading risk. Monitoring is undertaken by a Risk Management Committee of the principal operating subsidiary, Drax Power Limited, chaired by the Finance Director. The Board receives a summary report from the Risk Management Committee each month.

Through the Audit Committee the Board has implemented and annually reviews and updates a programme of internal audit reviews of different aspects of the Group's activities designed to ensure that, over time, all facets of the business are reviewed to ensure appropriate systems of control are in place and are working effectively or, where they are not, deficiencies are rectified by timely and appropriate action. In agreeing the actions to be taken in response to each report, the aim is always to embed internal controls, including measures intended effectively to identify and manage risk, within each area of the Group's operations. In parallel with its work in relation to internal audit, the Audit Committee also satisfies itself that an action plan for dealing with points raised by the external auditors in their yearly management letters is being properly addressed by management.

With the assistance of the Audit Committee, the Board has reviewed the effectiveness of the system of internal control. It has reviewed the reports of the Audit Committee, which has considered all significant aspects of internal control including financial, operational, trading, compliance, social, environmental and ethical risks in accordance with the "Internal Control: Guidance for Directors on the Combined Code" issued in September 1999 and updated in October 2005.

Following its review the Board determined that it was not aware of any significant deficiency or material weakness in the system of internal control.

Corporate governance

Committees of the Board

The Board has established the following standing committees:

Committee	Membership
Audit Committee	Jamie Dundas (as Chairman), Tim Barker, Mike Grasby and David Lindsell.
Remuneration Committee	Tim Barker (as Chairman), Charles Berry, Jamie Dundas, Mike Grasby and David Lindsell.
Nominations Committee	Charles Berry (as Chairman), Tim Barker, Jamie Dundas, Mike Grasby and David Lindsell.
Health and Safety Committee	Mike Grasby (as Chairman), Dorothy Thompson, Peter Emery and the Head of Safety.

Details of the work of the Audit, Nominations and Remuneration Committees are given in the reports of those Committees on pages 46 to 57.

The Board attaches particular importance to the role of its Health and Safety Committee because of the fundamental importance of safety systems and procedures in a large and complex plant such as that of Drax Power Station. The Committee's terms of reference provide for it to review policy, monitor performance and hold management accountable for the efficacy of the Group's health and safety procedures and performance.

Board and Board Committee attendance

The table below shows the number of meetings, and attendance at them by directors, of the Board, Audit, Nominations, Remuneration, and Health and Safety Committees of Drax Group plc during 2008.

The number in brackets represents the maximum number of meetings that each individual was entitled to and had the opportunity to attend.

	Board	Audit Committee	Nominations Committee	Remuneration Committee	Health and Safety Committee
Tim Barker	11 (11)	4 (4)	5 (5)	7 (7)	-
Charles Berry	11 (11)	1 (1)	5 (5)	7 (7)	-
Gordon Boyd	7 (7)	-	-	-	-
Jamie Dundas	11 (11)	4 (4)	4 (5)	6 (7)	-
Peter Emery	11 (11)	-	-	-	2 (2)
Mike Grasby	11 (11)	3 (3)	5 (5)	7 (7)	2 (2)
Gordon Horsfield	3 (3)	-	1 (1)	-	-
David Lindsell	1 (1)	1 (1)	-	-	-
Tony Quinlan	4 (4)	-	-	-	-
Dorothy Thompson	11 (11)	-	-	-	1 (2)

Performance reviews and directors' development

The effectiveness of the Board is vital to the success of the Group. During the year, the Company undertook a review to assess the performance of the Board and its committees. In addition, a review of individual director's performance was facilitated by Corporate Partners, a consultancy specialising in providing assurance to listed companies on best practice in company regulation and corporate governance.

The directors and Company Secretary each completed questionnaires on the Board and committee performance and on the performance of each individual. Summarised reports were presented to the Board, and individual reports were presented to the Chairman (with a report on the Chairman presented to the senior independent director). Individual feedback sessions were later conducted by the Chairman, and by the senior independent director in relation to the Chairman. The conclusions were that the Board and its committees were effective and performance compared well with that of other companies, and that each director continued to perform effectively in their role.

As stated in its report on pages 49 to 57, in February 2009, when deciding the executive directors' bonuses for 2008, the Remuneration Committee also evaluated the performance of each of the executive directors, against both corporate targets and personal objectives. This evaluation was informed by the results of a confidential survey of senior managers' opinions, which also covered the Chairman. The results of this survey were fed back to relevant directors.

During the year, the Chairman held meetings with the non-executive directors in the absence of the executive directors as required by provision A.1.3 of the Combined Code.

The Board is committed to the development of all employees and directors and has reviewed and will periodically again review each individual director's development requirements and make appropriate arrangements to address them. All new directors receive an induction, including information about the Company and their responsibilities, meetings with key managers and visits to the Company's site. In addition, specific Board training days are arranged involving presentations on relevant topics.

Relations with shareholders

The Board places considerable importance on communication with shareholders and is proactive in obtaining an understanding of shareholder preferences and evaluating systematically the economic, social, environmental and ethical matters that may influence or affect the interests of shareholders. A number of formal communication channels are used to account to shareholders for the performance of the Group, which include the Annual Report and Accounts, the AGM and periodic reports to the London Stock Exchange. Presentations given at appropriate intervals to representatives of the investor community are available to all shareholders to download from the Group's website. Less formal processes include contacts with institutional shareholders by the Chairman and other directors.

Major shareholders are regularly offered the opportunity to meet with the Chairman. The Board also reviews and discusses the investor feedback from post-results investor meetings conducted by the Chief Executive and the Finance Director in the UK, Europe and the USA. These took place following both the preliminary and half year results announcements in 2008. The Company has also engaged Makinson Cowell, an independent capital markets consultancy firm, to advise and assist in relation to communications with shareholders.

The Company's private registered shareholders hold approximately 1% of the issued share capital. The Board is as interested in their concerns as it is in the concerns of institutional and corporate shareholders. All shareholders are free to put questions to the Board at the AGM. Questions asked in person at the AGM will receive an oral response whenever possible. Otherwise a written response will be provided as soon as practicable after the meeting. Questions asked at other times will normally receive a written response. Shareholders attending the AGM will have an opportunity to meet informally with the directors immediately after the meeting.

All information reported to the market via a regulatory information service also appears as soon as practicable on the Group's website.

This Annual Report and Accounts together with other public announcements is designed to present a balanced and understandable view of the Group's activities and prospects. The Chairman's introduction, Chief Executive's statement, Business and financial review, and Corporate and social responsibility review provide an assessment of the Group's affairs. This Annual Report and Accounts is despatched to shareholders at least 20 working days before the AGM and the accompanying Form of Proxy provides for a shareholder to vote in favour or against, or to indicate abstention as an alternative on each separate resolution. Particulars of aggregate proxies lodged will be announced to the London Stock Exchange via a regulatory information service and placed on the Group's website as soon as practicable after the conclusion of the AGM.

Compliance with the Combined Code

It is the Board's view that throughout the period commencing on 1 January 2008, there has been full compliance with the provisions of Section 1 of the Combined Code, with the exception that, as the former holder of an executive office, Gordon Horsfield as Chairman was not independent within the meaning of the Combined Code provision A.2.2 from the start of the year up until his retirement on 17 April 2008.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts. The accounts for the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and for the Company in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). In the case of the IFRS Group Accounts, IAS 1 requires that Accounts present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition and measurement criteria for assets, liabilities, income and expenses set out in the IAS Board's "Framework for the Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

In the case of UK GAAP Accounts, the directors are required to prepare Accounts for each financial year, which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the period. In preparing these Accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Accounts.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report and Directors' Remuneration Committee report which comply with the requirements of the Companies Act 1985.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. During 2007, the website underwent a complete overhaul and now has much improved information content and navigation capabilities.