

Directors' report

The directors present their report for Drax Group plc, together with the Consolidated accounts of the Drax group of companies, for the year ended 31 December 2008.

Annual General Meeting

The fourth Annual General Meeting ("AGM") of the Company will be held on 28 April 2009, at The City Presentation Centre, 4 Chiswell Street, London EC1Y 4UP at 11.00am. A separate document accompanying this report contains the notice convening the AGM and a description of the business to be conducted thereat.

Corporate governance

The Group is committed to high standards of corporate governance, details of which are given in this Directors' report and the Corporate governance, Audit Committee, Nominations Committee and Remuneration Committee reports set out on pages 42 to 57.

Business review

A review of the development and performance of the business of the Group during the year ended 31 December 2008, including the financial performance during the year, an analysis of the position of the Group at the end of the financial year, key performance indicators, a description of the principal risks and uncertainties facing the Group, and forward looking statements can be found in the Chairman's introduction on pages 2 and 3. The Business review on pages 6 to 33 incorporates the Chief Executive's statement, the Business and financial review and the Corporate and social responsibility review and the reports under the broad heading of Corporate governance as referred to above. The Business review is a constituent part of this Directors' report.

The purpose of this Annual Report is to provide information to members of the Company. It contains certain forward looking statements relating to the operations, performance and financial condition of the Group. By their nature these statements involve uncertainty since future events and circumstances can differ from those anticipated. Nothing in this Annual Report should be construed as a profit forecast.

Principal activities

Drax Group plc is the holding company of the Drax group of companies. The principal activities of the Group are the generation and sale of electricity at the Drax Power Station, Selby, North Yorkshire and the sale of by-products of the electricity generation process. No significant acquisitions or disposals have been made by the Group during the year.

Results

The Group results for the year are shown in the Consolidated income statements on page 61.

Going concern

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Risk identification, assessment and management

A summary of the Group's position regarding risk identification, assessment and management and use of financial instruments is contained in the Audit Committee report on pages 46 and 47 and also in the Business and financial review on pages 12 to 23.

Dividends

Details of the dividends paid and proposed on the ordinary share capital by financial year to which these relate are shown below:

	2008 £m	2007 £m
Interim and final dividends		
Interim dividend paid on 8 October 2008 of 5.0 pence per share (24 October 2007: 4.7 pence per share)	17.0	16.3
Proposed final dividend to be paid on 22 May 2009 ⁽¹⁾ of 38.3 pence per share (7 May 2007: 9.9 pence per share)	130.0	33.6
Special dividends		
Paid on 8 October 2008 of 9.7 pence per share (24 October 2007: nil)	32.9	-
Paid on 7 May 2008: 7.8 pence per share	-	26.5

Notes:

(1) Subject to approval by shareholders at the forthcoming AGM.

Share capital

The Company has only one class of equity shares, which are ordinary shares. There are no known restrictions on the voting rights of the ordinary shares.

At 1 January 2008, 339,397,000 ordinary shares of 11¹⁶/₂₉ pence each in the Company were in issue and at 31 December 2008, 339,398,968 ordinary shares of 11¹⁶/₂₉ pence each in the Company were in issue. The following details the changes to the share capital during the year.

Share issues

During the year, 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 Drax Group plc Approved Savings-Related Share Option Plan.

Authority to purchase own shares

At the AGM of the Company held on 17 April 2008, shareholders resolved to authorise the Company to make market purchases of up to 10% of the issued ordinary share capital. At the forthcoming AGM, shareholders will be asked to renew this authority. Details are contained in the Notice of Annual General Meeting.

The Company did not purchase any of its own shares during 2008.

The Company held no Treasury shares during 2008.

Details of the share capital as at 31 December 2008, and shares issued during the year, are given in note 19 on page 80.

Directors

The current directors are Tim Barker, Charles Berry, Jamie Dundas, Peter Emery, Mike Grasby, David Lindsell, Tony Quinlan and Dorothy Thompson. Biographical notes of the directors appear on pages 36 and 37.

Gordon Horsfield retired as a non-executive director and Chairman of the Board at the conclusion of the AGM held on 17 April 2008. He had been a director since 15 October 2005 and was succeeded as Chairman by Charles Berry.

Gordon Boyd resigned as a director and left the Company on 31 August 2008. He had been a director since 15 October 2005. Tony Quinlan was appointed Finance Director of the Company on 1 September 2008.

David Lindsell was appointed a non-executive director of the Company on 1 December 2008.

No other person served as a director or as an alternate director at any time during the year.

In accordance with the Company's Articles of Association, Charles Berry, Jamie Dundas and Dorothy Thompson will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. The evaluation of the Board described on page 44 concluded that the directors offering themselves for re-election continue to demonstrate commitment to their particular role and perform effectively.

The Company's Articles of Association also require that, following appointment by the Board, directors submit themselves for election by shareholders at the first AGM following their appointment. 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 retire and offer themselves for re-election at the AGM.

The re-election of each director is recommended by the Board. Details of the relevant terms of appointment and service agreements appear on page 54.

The rules relating to the appointment or replacement of directors are highlighted in the Corporate governance report on page 42.

Directors' interests, indemnity arrangements and other significant agreements

Other than a deed of indemnity between each director, the Company and each of its subsidiaries in respect of claims made and personal liability incurred as a result of the bona fide discharge of the director's responsibilities and a service contract between the executive directors and a Group company, or as noted in the Remuneration Committee report, no director had a material interest at any time during the year in any contract of significance with the Company or any of its subsidiary undertakings.

Details of directors' remuneration, service contracts and interests in the shares of the Company are set out in the Remuneration Committee report on pages 49 to 57.

There are no agreements between the Group and its directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

Under an £800 million credit facility agreement dated 27 October 2005 between, amongst others, Drax Finance Limited, Drax Power Limited and Barclays Bank PLC (as facility agent), on a change of control, if any lender requires, it may, by giving notice to Drax Finance Limited and the facility agent within 30 days of receiving notice from Drax Finance Limited that a change of control has occurred, cancel its commitments and require payment of its share of any outstanding amounts within three business days of such cancellation notice being given.

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Under a £100 million credit facility dated 11 May 2006 between, amongst others, Drax Finance Limited and Lloyds TSB plc (as facility agent), on a change of control, if any lender so requires, it may, by giving notice to Drax Finance Limited and the facility agent within 30 days of receiving notice from Drax Finance Limited that a change of control has occurred, cancel its commitments and require payment of its share of any outstanding amounts within three business days of such cancellation notice being given.

Under the terms of both credit facility agreements, a "change of control" occurs if any person or group of persons acting in concert gains control of the Group.

There are no other significant agreements to which the Group is a party that take effect, alter or terminate upon a change of control of the Group following a takeover bid providing that the Group's credit rating is maintained.

Substantial shareholdings

As at 20 February 2009, the following shareholders had notified the Company that their holdings exceeded the appropriate disclosure and notification thresholds:

	Number of ordinary shares directly held	Number of ordinary shares indirectly held	Total number of ordinary shares held	% of the issued ordinary share capital held
Invesco plc	-	100,966,140	100,966,140	29.74
AXA S.A.	1,641,991	19,534,443	21,176,434	6.23
Barclays Global Investors	-	11,827,092	11,827,092	3.48
Total shares held by substantial shareholders	1,641,991	132,327,673	133,969,666	39.45

Employees

A commentary on employee involvement and the Group's commitment to its employees is set out within the Corporate and social responsibility review on pages 26 to 33 and details of employee involvement through share participation are contained in the Remuneration Committee report on pages 49 to 57.

Shares awarded under the Group's Share Incentive Plan are registered in the name of the Trustee. Voting rights attached to those shares are at the direction of individual employee participants.

Drax uses a wide variety of communication methods in order to create a common awareness on the part of all employees of the financial and economic factors affecting the performance of the Company. For example, team briefings are held once a month where wide-ranging information is communicated throughout the organisation. In addition, plant-wide meetings are held on a regular basis and cover, inter alia, the financial and market factors affecting the performance of the Group. Details of the communication methods used are provided in the "Our People" section of the report on Corporate and social responsibility on pages 29 to 31.

It is the Group's policy to give full and fair consideration to suitable applications for employment from people with disabilities having regards to their particular aptitudes and abilities. In the event of a member of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training and rehabilitation is provided. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The Group is committed to a policy of equal opportunities and ensures that country of origin, colour, gender, religious belief, sexual orientation, age or disability, are not barriers to working at Drax.

The Group provides a wide range of development opportunities to help employees develop the necessary skills, knowledge and experience to realise their performance potential.

Corporate and social responsibility

Details of the Group's Corporate and social responsibility policies and operations are set out on pages 26 to 33.

There are Group policies for environment, health and safety and human resources as well as a code of business ethics. The internal control processes described on page 43 takes account of social, environmental and ethical risks.

Charitable donations

The Group has continued to support community initiatives and charitable causes. The total charitable donations made by the Group in the year were £99,952 (2007: £73,754). More information on the charitable donations made is contained within the Corporate and social responsibility review on pages 32 and 33.

Political donations

No political donations were made in the UK or elsewhere during the year (2007: £nil). It is the Board's policy not to make donations to political organisations or for political causes.

The Corporate and social responsibility review explains that the Group's activities in the political sphere are aimed only at the promotion of its business interests. However, the definitions of EU political expenditure are broad and there is widespread doubt about the extent to which normal business activities, which might not be thought to be political expenditure in the usual sense, could be considered to be political expenditure within the meaning of the legislation. The Board wishes to avoid any inadvertent infringement of the legislation and is, therefore, seeking the authority of shareholders to incur expenditure for the Company and its subsidiaries for such purposes of £100,000 during the next 12 months. A resolution to that effect is contained within the Notice of Meeting for the AGM. The Board does not believe that the Group has incurred any political expenditure in the past year.

Creditor payment policy and practice

Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms and pay creditors when sums owing fall due for payment, provided that the suppliers also comply with all relevant terms and conditions. Drax Group plc, the holding company of the Group, has no trade creditors. In respect of Group activities, the amounts due to trade creditors at 31 December 2008 represented approximately 21 days of average daily purchases through the year (2007: 22 days).

Auditors and the disclosure of information to the auditors

So far as each person who is a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing the report, of which the auditors are unaware. Having made enquiries of fellow directors, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information. This information is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

In accordance with Section 385 of the Companies Act 1985, a resolution is to be proposed at the AGM for the reappointment of Deloitte LLP as auditors of the Company. A resolution will also be proposed authorising the directors to determine the auditors' remuneration. The Audit Committee reviews the appointment of the auditors, the auditors' effectiveness and relationship with the Group, including the level of audit and non-audit fees paid to the auditors. Further details on the work of the auditors and the Audit Committee are set out in the Audit Committee report on pages 46 and 47.

By order of the Board.

Philip Hudson
Company Secretary
2 March 2009



Registered Office:
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Selby
North Yorkshire YO8 8PH
Registered in England No. 5562053