Remuneration Committee report

The following report by the Remuneration Committee has been approved by the Board for submission to shareholders at the 2008 AGM.

Part 1 – Unaudited information

Remuneration Committee

During the year, the Committee comprised Tim Barker (as Chairman), Charles Berry, Jamie Dundas and Mike Grasby, all of whom are independent non-executive directors. The biographical notes of the members of the Committee are set out on pages 32 and 33.

The Committee met on four occasions during the year and its members' attendance record is set out on page 40.

Advice to the Remuneration Committee

The Head of Human Resources has provided material assistance to the Committee during the year. That position was held by John Readshaw for the period 1 January 2007 to 30 June 2007, and by Neil Pearse thereafter.

The Company Secretary has attended meetings as Secretary to the Committee. That position was held by Peter Rothwell for the period 1 January 2007 to 31 May 2007, and by Philip Hudson thereafter.

Kepler Associates LLP ("Kepler"), appointed by the Committee, have provided advice to the Committee on market practice, incentive plans and other remuneration-related topics. Kepler also advised the Group on the remuneration of senior managers whose remuneration is not determined by the Committee and advised on the remuneration of non-executive directors. Kepler provided no other services to the Company during the year.

During the year, the Committee also received legal advice and other legal services from Norton Rose who were appointed by the Board to act as principal legal advisers to the Group.

Dorothy Thompson, Chief Executive, and Gordon Horsfield, Chairman of the Board, are invited to attend meetings of the Remuneration Committee except when their own remuneration is being discussed.

Principal responsibilities

The Committee's principal responsibilities are:

- recommending to the Board the remuneration strategy and framework for the executive directors and senior managers;
- determining, within that framework, the individual remuneration packages for the executive directors and senior managers;
- approval of the design of annual and long-term incentive arrangements for executive directors and senior managers, including agreeing the annual targets and payments under such arrangements;
- determining and agreeing the general terms and conditions of service and the specific terms for any individual within the Committee's remit, either on recruitment or on termination;
- determining the policy for, and scope of, executive pension arrangements; and
- to oversee any major changes in employee benefit structures throughout the Group and review remuneration trends across the Group.

The terms of reference for the Committee are reviewed annually by the Committee and then by the Board. A copy of the terms of reference is available on the Group's website at www.draxgroup.plc.uk.

Remuneration policy

The Committee's remuneration policy applicable to executive directors and senior managers whose remuneration is determined by the Committee is to:

- link a significant proportion of remuneration to performance;
- manage salaries and benefits around market levels, taking into account both industry and cross-industry benchmarks;
- award annual cash bonuses which are linked to the delivery of the annual business plan targets and personal performance; and
- provide staff with long-term incentives linked to total shareholder returns.

When applying this policy to senior managers below director level, the Committee selects salary and benefit benchmarks appropriate to individual specialisms.

The objectives of the remuneration policy are to:

- motivate executive directors and staff to help ensure that Drax meets challenging performance goals;
- enable Drax to recruit and retain the expertise needed to manage and develop its business;
- strengthen teamwork at all levels; and
- ensure alignment of executive and shareholder interests.

The remuneration package of executive directors and senior managers comprises five components, namely:

- base salary;
- annual performance bonus (a mix of cash and deferred shares);
- conditional share awards under the Executive Share Incentive Plan ("ESIP");
- pension and benefits; and
- all-employee share plans.

Variable remuneration is targeted to account for approximately 50% of the fair value of executive director remuneration (including pension). The Committee will be reviewing the structure of the variable pay element of remuneration during 2008.

The following paragraphs provide more detail in relation to each of the five components of remuneration.

Base salary
Executive directors' base salaries and benefits are reviewed each year with any changes taking effect from 1 April. The review takes into account individual performance and market competitiveness. Pensionable salary is derived from base salary only.

The Committee benchmarks executive director salaries against comparator groups of utilities, power generators and selected other industrial and commercial companies with comparable turnover, market value or staff numbers.

Annual performance bonus
The Group operates an annual bonus scheme. Bonuses are based on Group performance and individual performance against objectives. The Committee sets Group performance measures based on the Group's business priorities for which the Board sets challenging performance targets. In 2007, Group measures included financial, trading, plant operations, safety, environmental and development objectives, and a discretionary element. In exercising its discretion the Committee has regard to management's performance in handling unforeseen events which arise during the year.

The target bonus for the Chief Executive and the other executive directors is 50% and 45% of base salary, respectively. The normal maximum bonus opportunity for the Chief Executive and the other executive directors is 100% and 90% of base salary, respectively.

From 2007, 50% of any bonus earned above target will be deferred in the Company's shares for one year, and will be forfeited if the executive leaves Drax other than as a "good leaver" before the shares vest.

In 2007, achievement of Group-based performance conditions provided for a bonus of up to 77% of target bonus, which was then adjusted according to individual performance by a multiplier in the range 0.67 to 1.33. The Committee reviewed 2007 actual performance against bonus targets and the amounts paid are shown in the Directors' emoluments table on page 52.

For 2008, bonus measures and targets have been set using a similar process to that used previously.

Benefits
The Committee's policy is to offer a car allowance to executive directors and to certain senior managers, according to their role. The annual allowance has remained unchanged since July 2004 and is currently £17,500 per annum for the Chief Executive, £12,000 per annum for executive directors and £7,200 per annum for senior managers whose remuneration is determined by the Committee. In addition, life assurance (in a sum assured of four times base salary) is provided for the directors and senior managers and private medical insurance is provided for them and their dependants. Relocation expenses are paid where appropriate.

Pensions
Executive directors and senior managers who joined the Group after 1 January 2002 are entitled to membership of the Group's defined contribution pension plan. The employer's contribution for executive directors is 20% of base salary and for senior managers who are not members of the Electricity Supply Pension Scheme ("ESPS") it is 11.5% of base salary. For senior managers who are members of the ESPS the normal employer's contribution is 13.3% of base salary but, in addition, the employer currently contributes 15.2% of base salary to discharge the scheme's actuarial deficit. In each case contributions were and are capped by the different statutory limits applicable before and after 6 April 2006, although there is no director or senior manager for whom contributions would mean they exceed either the lifetime or annual allowances.

Alternatively, at their option, executive directors may either have contributions of the same amounts made to their personal pension schemes or cash in lieu of pension at the stated rate and subject to normal statutory deductions. Details of pension contributions for executive directors and of payments in lieu are included in the emoluments table in Part 2 of this report.

Drax Power Limited, a trading subsidiary, is the Principal Employer of the Drax Power Group of the ESPS, an occupational pension scheme providing defined benefits on death, ill-health, early retirement or normal retirement to eligible members and beneficiaries based on the member's length of pensionable service, final salary and the applicable accrual rate. The defined benefit pension scheme was closed to new entrants in 2002. Although certain senior managers are members, none of the executive directors are eligible for membership.

Current annualised rates of pay

The following table shows the current annualised rates of base salary, benefits, bonus (at target level) and pension contributions for each of the directors:

	Annual salary £000	Annual fees[(1)] £000	Annual cash bonus[(2)] £000	Annual benefits[(3)] £000	Annual pension[(4)] £000
Tim Barker	–	57	–	–	–
Charles Berry	–	54	–	–	–
Gordon Boyd	245	–	110	12	49
Jamie Dundas	–	57	–	–	–
Peter Emery	230	–	104	12	46
Mike Grasby	–	57	–	–	–
Gordon Horsfield	–	195	–	–	–
Dorothy Thompson	410	–	205	18	82

Notes:

(1) Includes Board Committee membership fees paid as separate amounts.

(2) The annual cash bonus assumes an "on target" performance yielding a bonus of 50% of base salary for Dorothy Thompson and 45% of base salary for the other executive directors.

(3) Covers car allowance only. The cost of other benefits such as BUPA and additional life cover is not easily predicted because they are subject to price variation (the amount of which depends on personal circumstances at the time) during the year.

(4) Annual contribution by the Company to the directors' pension plans or cash in lieu.

ESIP

Under the ESIP, annual awards of performance shares can be made to executive directors and other senior staff up to a normal maximum of 100% of salary (200% in exceptional circumstances). Shares vest based on Drax's Total Shareholder Return ("TSR") performance relative to an index over three years. The Committee considers relative TSR to be an objective, external measure of the Company's success.

For the 2007 ESIP awards, index TSR is based 50% (60% for 2006 ESIP awards) on the median TSR of FTSE350 electricity sector peers, 25% (20%) on the median TSR of selected UK-listed oil and gas companies and 25% (20%) on the TSR of the FTSE100 index, as shown below:

	Electricity sector peers	Oil and gas comparators	FTSE100
Weighting	50%	25%	25%
Constituents[(1)(2)]	British Energy International Power Scottish and Southern Energy	BG Group BP Gazprom Royal Dutch Shell	FTSE100 index, as published

Notes:

(1) Viridian Group Limited had previously been included in the electricity sector peers group, however, it was subject to takeover by ElectricInvest (wholly owned by an international investment company) through a scheme of arrangement which took effect on 8 December 2006, and therefore it was considered appropriate to remove it as a constituent in the sector peers group for 2007.

(2) ScottishPower had previously been included in the electricity sector peers group, however, it was subject to takeover by Iberdrola SA on 23 April 2007, and therefore it was considered appropriate to remove it as a constituent in the sector peers group for 2007.

The comparator Index is most influenced by companies operating in the same sector and markets as Drax, yet also reflects the performance of companies trading in oil and gas (the prices of which influence electricity generation margins) and the performance of other general-market UK-listed companies. The Committee reviews the constituents and their weightings prior to the start of each ESIP cycle to ensure they remain appropriate.

No shares vest if the Company's TSR over the three year period is less than the index TSR; 25% of shares vest if the Company's TSR equals that of the Index; shares vest in full if the Company's TSR outperforms that of the Index by 30% or more, and there is straight-line pro rata vesting in between. The Committee intends to review the targets prior to the start of each ESIP cycle to ensure they remain relevant and stretching.

For any award to vest, additionally the Committee must be satisfied that there has been a demonstrable improvement in the performance of the Company in terms of (but not limited to) finance, production, trading, ancillary activities and progress in delivering the Company's strategy. The Committee has chosen these broader criteria rather than the more straightforward criterion of financial performance because of the extent to which financial performance is susceptible to the influence of movements in relevant commodity markets.

Awards under the ESIP will normally be prorated for time and performance in circumstances where they vest for "good leavers" and on a change of control.

At the 2007 Annual General Meeting a resolution proposing that dividends accrue on ESIP shares over the vesting period to ensure alignment with shareholders' interests was approved. Dividend accrual will only relate to "ordinary" dividends and will not be allowed in respect of any special dividends which are directly linked to share consolidations (where each share consolidation has the effect of automatically maintaining the value of the award following payment of the special dividend).

2007 ESIP award

ESIP awards were made in April 2007, for nil consideration. For executive directors, the value of each award was equal to 100% of base salary. Performance for the 2007 ESIP awards will be measured over the three years from 1 January 2007 to 31 December 2009 with potential vesting in April 2010. The awards made in September 2006 are the only long-term incentives to vest before that date.

All-employee share plans

The Committee operates a Savings-Related Share Option Plan ("SAYE") and a Share Incentive Plan ("SIP"), both of which are approved by HM Revenue & Customs and must be operated on an all-employee basis. The executive directors may participate in each plan upon the same terms as other employees.

The SAYE provides for the grant of options (which, at the Committee's discretion, may be offered at a discount of up to 20% to the market price of a share determined in accordance with the rules of the plan) linked to a savings contract which pays interest at a statutory rate. No invitations to participate in the SAYE plan were made in 2007.

Details of the SAYE options held by the executive directors are shown in the table in Part 2 of this report.

In any one tax year, the Committee may operate the SIP for the benefit of participants using any combination of the following elements:

- award Free Shares (up to £3,000 in value);
- allow the purchase of Partnership Shares (up to £1,500 in value subject to an overriding maximum of 10% of salary);
- allocate free Matching Shares (in a maximum ratio of two free shares for each Partnership Share); and
- allow the investment in shares of dividends received in respect of SIP shares.

In January 2007, the Committee reviewed the use of the SIP with the aim of establishing a clearer linkage between long-term incentive rewards for all employees and collective performance and encouraging wider share ownership amongst employees. Wider employee share ownership aligns the interests of employees with those of shareholders by enabling employees to share in the benefits flowing from their contribution to the success of the Company.

As a result of the review the Committee decided to:

- award Free shares to the value of £2,500 to each eligible employee;
- allow employees to purchase Partnership shares up to the maximum permitted of £1,500 subject to an overriding maximum of 10% of salary; and
- make an allocation of one free Matching share in respect of each Partnership share purchased.

In accordance with the plan rules, shares taken up by an employee are allocated to a trustee which holds them on behalf of the employee. Under normal circumstances, the employee will receive the shares from the trustee without incurring a tax liability once the shares have been held in trust for five years. The employee is entitled to receive dividends paid in respect of the shares held in trust.

The Committee has agreed that the SIP will operate on the same basis in 2008 as it did in 2007. The SIP Trustee will be funded by the Group to purchase the required Free and Matching shares in order to avoid any dilution.

Details of the shares allocated to executive directors are shown in the table on page 53 of this report.

Provision of shares for share plans – dilution
The current estimated dilution from subsisting awards, including executive and all-employee share awards, is less than 0.5% of the shares in issue at the date of this report.

Share ownership guidelines
The Company has share ownership guidelines for executives participating in the ESIP. They are 100% and 50% of base salary for executive directors and other senior manager ESIP participants, respectively.

Those who receive shares by virtue of ESIP awards or who receive deferred bonus shares must retain 50% of the net (that is, after income tax and national insurance contributions) shares received until the applicable guideline is reached.

Service contracts
Executive directors' service agreements are of indefinite duration, subject to a normal retirement age of 65, and, except in the case of Dorothy Thompson, terminable at any time by the Company giving 12 months' prior notice and by the executive director giving six months' prior notice. Up until 15 December 2007, Dorothy Thompson's service agreement was terminable by either party on not less than 12 months' notice in writing. It is now terminable by either party giving a period of six months' notice in writing.

Under each of the executive directors' service agreements other than the Chief Executive's, Drax has the right to make a payment in lieu of notice of termination, the amount of that payment being the salary and benefits that would have accrued to the executive director during the contractual notice period.

The following table shows for each person who has served as a director of the Company at any time during the year ended 31 December 2007, the date of the service agreement or contract for services, the unexpired term and details of the notice periods. No service agreement now includes any operative provision for the payment of compensation upon early termination. Any compensation payable in those circumstances would need to be negotiated at the time and in the light of the circumstances.

	Contract start date	Unexpired term	Notice period by the Company Months	Notice period by the director Months
Tim Barker	30 June 2004	Indefinite duration	1	1
Charles Berry	15 December 2005	Indefinite duration	1	1
Gordon Boyd	10 January 2005	Indefinite duration	12	6
Jamie Dundas	15 December 2005	Indefinite duration	1	1
Peter Emery	14 June 2004	Indefinite duration	12	6
Mike Grasby	22 December 2003	Indefinite duration	1	1
Gordon Horsfield	7 March 2006	1 year	6	6
Dorothy Thompson(1)	26 September 2005	Indefinite duration	6	6

Notes:
(1) Until 15 December 2007, Dorothy Thompson's service agreement was terminable by either party on not less than 12 months' notice in writing. Thereafter it is terminable by either party giving a period of six months' notice in writing.

Directors' service agreements and contracts for services are available for inspection at the Company's registered office during normal hours of business and will be available at the place of the Annual General Meeting from 10.00am until the close of the meeting.

External appointments

The Committee recognises that executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience to the benefit of the Company. The policy is that an executive director who accepts an external appointment having had the prior approval of the Board should retain the fees payable in respect of the appointment. Dorothy Thompson was appointed as a non-executive director of Johnson Matthey plc with effect from 1 September 2007.

Non-executive directors

Chairman's remuneration and service agreement

Gordon Horsfield, as a non-executive director and Chairman of the Board has a contract to provide services in substantially similar terms to the contract of each of the other non-executive directors, save as to the level of remuneration and the period of notice to terminate the contract.

In January 2007, the Committee reviewed the Chairman's remuneration using a similar approach to that used in 2006, which followed a review of remuneration data for Chairmen of other listed companies of a similar market value or turnover to Drax and having regard to his expected time commitment. It decided that, with effect from 1 February 2007, his remuneration should be at the annual rate of £195,000, which is reflected in the table of annualised rates of pay on page 48. His notice period is six months' on either side. Like the other non-executive directors, he does not receive a pension or other benefits, nor is he eligible for an annual cash bonus or any of the share-based reward plans.

A further review was undertaken in February 2008, on the same basis as that used in February 2007, and it was decided to increase the Chairman's fee from £195,000 to £200,000 per annum, with effect from 1 April 2008.

Other non-executive directors

The remuneration for the other non-executive directors is determined by the Chairman and the executive directors and is designed to:

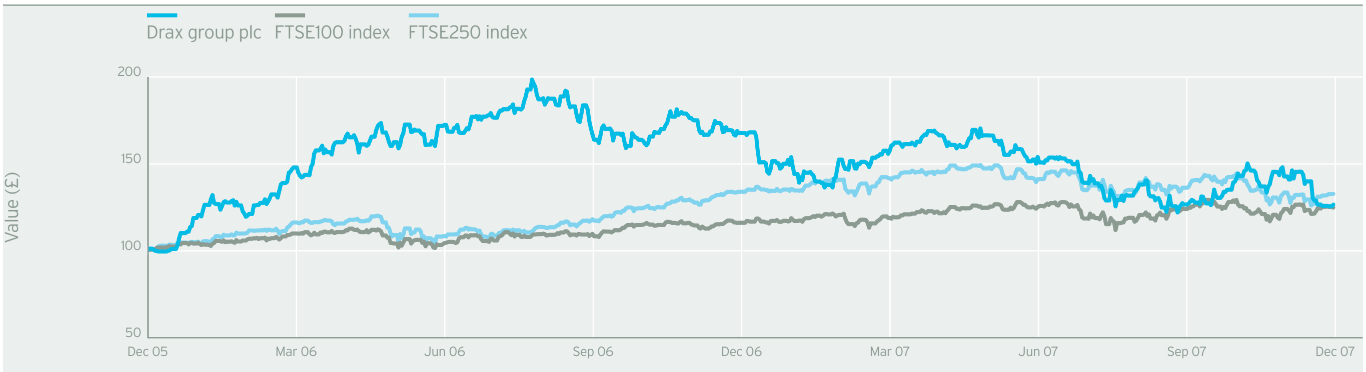
- recognise prevailing market rates for non-executive directors' fees;
- reflect the responsibilities and time commitment of non-executive directors; and
- attract and retain individuals with the necessary skills and experience to contribute to the future growth of the Company.

The fees for non-executive directors were last reviewed in February 2007, and in that review the Board took into account the fees payable by the same comparator companies as those used for the purposes of the review of the Chairman's remuneration by the Committee and decided to increase the basic fee from £36,000 to £39,000 per annum with additional fees for each Board committee membership remaining unchanged at £5,040 per annum and introduced a fee of £2,500 per annum to the Chairman of each of the Board's Committees, other than the Nominations Committee (of which the Chairman of the Board is the Chairman).

Non-executive directors' fees are neither performance-related nor pensionable. The non-executive directors do not participate in any of the Company's bonus schemes or share-based reward plans. The non-executive directors have contracts to provide services to the Company which may be terminated by either party at any time on giving one month's notice.

Value of £100 invested

The following graph shows how the value of £100 invested in the Company on the listing of its shares on the London Stock Exchange on 15 December 2005 has changed and compares that performance with the changing value of the same amount invested at the same time in the FTSE100 and FTSE250 indices. Those indices have been chosen as suitable broad comparators against which the Company's shareholders may judge their relative returns given that, during the year under review, the Company has been a member of both the FTSE250 and FTSE100 indices. The graph reflects the total shareholder return (determined according to usual market practice) for the Company and each of the indices referred to on a cumulative basis over the period from 15 December 2005 to 31 December 2007.



Part 2 – Audited information

This section of the report (which has been subject to audit) sets out the remuneration paid to the directors during the year ended 31 December 2007.

Directors' emoluments

The emoluments payable in respect of 2007 to directors who held office for any part of the financial year, including amounts paid to them as directors of subsidiary undertakings and compensation for loss of office, was as follows:

	Salary £000	Fees £000	Cash bonus in respect of 2007 £000	Benefits £000	Pension[(1)] £000	Total 2007 £000	Total 2006 £000
Tim Barker	–	56	–	–	–	56	51
Charles Berry	–	54	–	–	–	54	51
Gordon Boyd	239	–	76	20	48	383	418
Jamie Dundas	–	56	–	–	–	56	51
Peter Emery	224	–	96	19	45	384	405
Mike Grasby	–	56	–	–	–	56	51
Gordon Horsfield	–	194	–	–	–	194	201
Dorothy Thompson[(2)]	399	–	189	24	80	692	764

Notes:

(1) Annual contribution by the Company to directors' pension plans or cash in lieu.

(2) Dorothy Thompson is a non-executive director of Johnson Matthey plc. The fees paid to her in 2007 were £15,000. This amount is not included in the table above and is retained by her.

Directors' interests under the ESIP

The following information shows the interests of the directors as at the end of the financial year in the Company's ESIP:

	As at 1 January 2007 Number	Awards made during the year Number	Awards vesting during year Number	Awards lapsing during year Number	As at 31 December 2007 Number	Market value at the date of award Pence
Gordon Boyd						
2006 award[(1)]	32,597	–	–	–	32,597	874.3
2007 award[(2)]	–	27,600	–	–	27,600	797.1
Peter Emery						
2006 award[(1)]	30,024	–	–	–	30,024	874.3
2007 award[(2)]	–	25,718	–	–	25,718	797.1
Dorothy Thompson						
2006 award[(1)]	60,048	–	–	–	60,048	874.3
2007 award[(2)]	–	46,104	–	–	46,104	797.1

Notes:

(1) The 2006 awards were made on 19 September 2006 and, subject to the performance conditions being achieved, will vest on 19 September 2009. The performance period for those awards commenced on 1 July 2006 and will end on 30 June 2009.

(2) The 2007 awards were made on 19 April 2007 and, subject to the performance conditions being achieved, will vest on 19 April 2010. The performance period for those awards commenced on 1 January 2007 and will end on 31 December 2009.

Details of the conditions subject to which the above awards will vest are given on page 48.

Directors' interests under SAYE

The following information shows the interests of directors as at the end of the financial year in the Company's SAYE Plan:

	As at 1 January 2007 Number	Share options granted during the year Number	Share options exercised or lapsed during the year Number	Exercise price per share Pence	Exercise period	As at 31 December 2007 Number
Gordon Boyd	1,470	–	–	636.0	From July 2009 to December 2009	1,470
Peter Emery	–	–	–	–	–	–
Dorothy Thompson	2,531	–	–	636.0	From July 2011 to December 2011	2,531

The middle market closing quotation for an ordinary share of the Company on 31 December 2007, was 605 pence and the daily middle market closing quotations during the financial year ranged from 588 pence to 820.5 pence. These figures make no adjustment to take account of the effect of the share consolidation in April 2007.

Directors' interests in Drax Group shares

The interests held by each director at the end of the financial year in the ordinary shares in the Company are shown below. All the disclosed interests are beneficial save that the non-beneficial interest of Gordon Horsfield in shares held by him jointly with two other trustees upon the trusts of a Charitable Trust is shown separately from his beneficial interest. No director had any interest at any time during the year or since in any security issued by the Company other than its ordinary shares.

The numbers of shares shown below are all adjusted to reflect the share consolidation in April 2007.

	As at 31 December 2007			As at 1 January 2007		
	Ordinary shares	SIP shares(2)	SAYE option shares(3)	Ordinary shares	SIP shares(4)	SAYE option shares
Tim Barker	3,462	–	–	3,625	–	–
Charles Berry	1,730	–	–	1,812	–	–
Gordon Boyd	26,825	896	1,470	28,125	230	1,470
Jamie Dundas	1,730	–	–	1,812	–	–
Peter Emery	30,551	896	–	31,984	230	–
Mike Grasby	1,730	–	–	1,812	–	–
Gordon Horsfield (beneficial interest)	2,378,790	–	–	2,490,296	–	–
Gordon Horsfield (non-beneficial interest)	64,178	–	–	67,187	–	–
Dorothy Thompson	63,569	896	2,531	66,549	230	2,531

Notes:

(1) On 30 April 2007, the Company paid a special dividend of 32.9 pence per share and an ordinary dividend of 9.1 pence per share. In connection with the special dividend, the Company's share capital was consolidated so that for every 67 ordinary shares of 11 $\frac{1}{29}$ pence each in issue prior to the consolidation, 64 shares (with fractional entitlements being paid in cash, if worth more than £3) of 11 $\frac{16}{29}$ pence each were in issue after the consolidation.

(2) The SIP shares at 31 December 2007 include the Free, Partnership and Matching elements of the plan.

(3) The number of SAYE option shares are those which will be available to exercise at the maturity of the savings contract.

(4) The SIP shares at 1 January 2007 include the Free shares element only, as the Partnership and Matching elements of the plan were not purchased until May 2007.

No director had at any time during the financial year, or has had since, any beneficial interest in the shares of any subsidiaries.

Other than as detailed above, no other changes to directors' share interests have taken place between 31 December 2007, and the date upon which this report was approved by the Board.

This report was reviewed and approved by the Board on 3 March 2008.

Tim Barker
Chairman, Remuneration Committee

T.S. Barker