

# DRAX GROUP PLC

## Schedule of Matters Reserved to the Board

Approved by the Board on 30 November 2005  
Amended by the Board on 19 June 2006, 17 July 2006  
And 23 October 2006

### Preliminary

In essence, the role of the Board of Drax Group plc (the “**Company**”), the parent company of the subsidiaries of the Company (the “**Group**”), is to secure the effective management of relationships with the Group’s stakeholders, to set the strategic direction and aims of the Group, to set the framework within which its principal operating subsidiary, Drax Power Limited, is to conduct the Group’s businesses in ordinary course and to ensure there is established and maintained for the Group an effective system of internal control.

The following paragraphs are a statement of the matters reserved to the Board for its collective decision. Certain of the matters stand referred for consideration and recommendation by the Nominations, Audit, Remuneration, Health & Safety and Trading & Risk Management Committees of the Board, according to the terms of reference of each of those Committees.

This statement does not preclude:

- (a) the delegation of authority to approve the final detail of a matter within such limits as is set by the Board when it makes the decision to delegate;
- (b) the Board from calling for reports and recommendations from time to time on any matter it considers of Group-wide significance; or
- (c) amendment of this schedule from time to time as the Board may determine.

### 1 Strategy and Management

- 1.1 Responsibility for the overall management of the Group;
- 1.2 The strategic development plan for the Group (including the appetite for risk): its production, approval and arrangements for its implementation.
- 1.3 Approval of the annual operating and capital expenditure budgets and any material changes to them.
- 1.4 Oversight of the Group’s operations ensuring:
  - competent and prudent management
  - sound planning
  - an adequate system of internal control
  - adequate accounting and other records
  - compliance with statutory and regulatory obligations

- 1.5 Review of performance in the light of the Group's strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken.
- 1.6 Extension of the Group's activities into new business or geographic areas.
- 1.7 Any decision to cease to operate all or any material part of the Group's business.

## **2 Structure and capital**

- 2.1 Changes relating to the Group's capital structure including reduction of capital, share issues (except under employee share plans), share buy backs and refinancing debt.
- 2.2 Significant changes to the Group's corporate structure.
- 2.3 Changes to the Group's management and control structure.
- 2.4 Any changes to the Company's listing or its status as a plc.

## **3 Financial reporting and controls**

- 3.1 Approval of preliminary announcements of interim and final results.
- 3.2 Approval of the annual report and accounts, including the corporate governance statement and remuneration report.
- 3.3 Approval of the dividend policy.
- 3.4 Declaration of any interim dividend and recommendation of the final dividend.
- 3.5 Approval of any significant changes in accounting policies or practices.
- 3.6 Approval of treasury policies, including foreign currency exposure and the use of financial derivatives.

## **4 Internal controls**

- 4.1 Ensuring maintenance of a sound system of internal control and risk management including:
  - receiving reports on, and reviewing the effectiveness of, the Group's risk and control processes
  - undertaking an annual assessment of these processes
  - approving an appropriate statement for inclusion in the annual report.

## **5 Contracts and Expenditure**

- 5.1 Contracts which are material strategically or by reason of size and which are not entered into the by the Company or any subsidiary in the ordinary course of business.
- 5.2 Contracts or any expenditure of the Company or any subsidiary in the ordinary course of business which fall within any of the following paragraphs:

5.2.1 Fuel or CO<sub>2</sub> allowance purchase where either:-  
(1) the duration of the agreement is longer than 5 years, or  
(2) the quantity of the commodity purchased in the agreement exceeds 3m tonnes in the aggregate.

5.2.2 Electricity sales where either:  
(1) the duration of the agreement is longer than 5 years; or  
(2) the aggregate volume sold in the agreement exceeds 4TWh

5.2.3 Contracts not within paragraph 5.2.1 or 5.2.2 which are expected to result in aggregate expenditure in excess of £15m

5.2.4 Any expenditure of the Company or any subsidiary:

5.2.4.1 On a Project (being any capital expenditure, major repairs and renewals expenditure and overhaul expenditure) for which provision has been made by the current Budget (which term includes a financial plan covering more than one year) approved by the Board and which is expected to exceed £15m in any one financial year;

5.2.4.2 on a Project or in respect of any other matter for which provision has been made by the current Budget approved by the Board where the aggregate expenditure is expected to exceed the budget provision by more than £5m in any one financial year;

5.2.4.3 on a Project or in respect of any other matter for which no provision has been made by the current Budget approved by the Board and which is expected to exceed £5m in any one financial year in aggregate;

5.2.5 Asset disposals (including scrap disposals) where either the expected proceeds of sale or the original cost of the asset exceeds £5m.

5.3 Major investments (not including the short term investment of cash balances in ordinary course of business but including the acquisition or disposal of an interest in more than 5 percent of the voting shares of any company or the making of any takeover offer).

5.4 The Board may from time to time delegate authority to enter into such agreements subject to such limits and conditions as it may stipulate at the time of such delegation.

## **6 Communication**

6.1 Approval of resolutions and corresponding documentation to be put forward to shareholders at a general meeting.

6.2 Approval of all circulars and listing particulars.

6.3 Approval of press releases concerning matters decided by the Board.

## **7 Board membership and other appointments**

7.1 Changes to the structure, size and composition of the Board, following recommendations from the Nominations committee.

- 7.2 Appointments to the Board, following recommendations by the Nominations committee.
- 7.3 Selection of the Chairman of the Board and the Chief Executive having regard to, but not necessarily acting in accordance with, a recommendation from the Nominations committee.
- 7.4 Appointment of the Senior Independent Director.
- 7.5 Membership and Chairmanship of Board committees.
- 7.6 Continuation in office of directors at the end of their term of office, when they are due to be re-elected by shareholders at the AGM and otherwise as appropriate.
- 7.7 Continuation in office of any director at any time, including the suspension or termination of service of an executive director as an employee of the company, subject to the law and their service contract.
- 7.8 Appointment or removal of the Company Secretary.
- 7.9 Appointment, reappointment or removal of the external auditor to be put to shareholders for approval, following the recommendation of the Audit Committee.
- 7.10 Authorising appointments to boards of subsidiaries.

## **8 Remuneration**

- 8.1 Determining the remuneration policy for the directors, senior management and employees.
- 8.2 Determining the remuneration of the non-executive directors, subject to the articles of association and shareholder approval as appropriate.
- 8.3 Oversight of the existing annual bonus plan and existing Employee Share Plans and the Executive Share Incentive Plan and the making of recommendations to shareholders for the approval of any new such plans or arrangements to be put to shareholders for approval.

## **9 Delegation of Authority**

- 9.1 The division of responsibilities between the Chairman, the Chief Executive and other executive directors.
- 9.2 Approval of terms of reference of Board committees.
- 9.3 Receiving reports from Board committees on their activities.

## **10 Corporate governance matters**

- 10.1 Undertaking a formal and rigorous review periodically of its own performance, that of its committees and individual directors.
- 10.2 Determining the independence of directors.

- 10.3 Considering the balance of interests between shareholders, employees, customers and the community.
- 10.4 Review of the Group's overall corporate governance arrangements.
- 10.5 Receiving reports on the views of the Company's shareholders.

## **11 Policies**

- 11.1 Approval of policies, including:
  - Code of conduct
  - Share dealing code
  - Environmental policy
  - Communications policy including procedures for the release of price sensitive information.
  - Corporate social responsibility policy.
  - Charitable donations policy.

## **12 Other**

- 12.1 The making of political donations.
- 12.2 Approval of the appointment of the Group's principal professional advisers and relevant reporting arrangements.
- 12.3 Prosecution, defence or settlement of litigation involving £100,000 or being otherwise material to the interests of the group.
- 12.4 Approval of the overall levels of insurance for the group including Directors' & Officers' liability insurance.
- 12.5 Major changes to the rules of the Group's pension scheme, or changes of trustees or changes in the fund management arrangements

Matters which the Board considers suitable for delegation are contained in the terms of reference of its Committees and in its scheme of delegation.

In addition, the Board will receive reports and recommendations from time to time on any matter which it considers significant to the Group.