

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should immediately seek advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.**

**If you have sold or transferred all of your Existing Ordinary Shares, please send this document, together with the accompanying Form of Proxy as soon as possible to the purchaser or transferee of those shares or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.**

Deutsche Bank AG is authorised under German Banking Law (competent authority: BaFin - Federal Financial Supervising Authority) and with respect to UK commodity derivatives business by the Financial Services Authority; regulated by the Financial Services Authority for the conduct of UK business. Deutsche Bank AG is acting for Drax Group plc and no-one else in connection with the Proposals and will not be responsible to anyone other than Drax Group plc for providing the protections afforded to clients of Deutsche Bank nor for providing advice in connection with the Proposals.

Dresdner Kleinwort Wasserstein Limited, which is authorised and regulated by the Financial Services Authority, is acting for Drax Group plc and for no-one else in connection with the contents of this document, and will not be responsible to anyone other than Drax Group plc for providing the protections afforded to customers of Dresdner Kleinwort Wasserstein Limited or for affording advice to any other person in relation to the contents of this document or any other matters referred to herein.

**Application will be made to the UK Listing Authority for the New Ordinary Shares arising from the proposed Share Consolidation to be admitted to the Official List and to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on the London Stock Exchange's market for listed securities. It is expected that dealings in the Existing Ordinary Shares will continue until close of business on 6 October 2006 and that Admission of the New Ordinary Shares will become effective and dealings for normal settlement will commence at 8:00 a.m. on 9 October 2006.**

**The New Ordinary Shares have not been marketed and are not available to the public, in whole or in part, in connection with the application for the listing of such shares.**



**DRAX GROUP plc**  
**Proposed Special Dividend of 80 pence**  
**per Existing Ordinary Share**  
**and**  
**Share Consolidation**  
**and**  
**Notice of Extraordinary General Meeting**

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**A letter from the Chairman of Drax Group plc appears on pages 4 to 7 of this document.**

Notice of an Extraordinary General Meeting of the Company to be held at 11:00 a.m. on 6 October 2006 at The City Presentation Centre, 4 Chiswell Street, London EC1Y 4UP is set out at the end of this document. A Form of Proxy is enclosed with this document and, if used, should be lodged with the Company's Registrar, Capita Registrars, at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 11:00 a.m. on 4 October 2006.

If you hold shares in CREST, you may appoint a proxy by completing and transmitting a CREST proxy instruction to Capita Registrars (CREST participant ID RA10) so that it is received by no later than 11:00 a.m. on 4 October 2006. The return of a completed Form of Proxy or CREST proxy instruction will not prevent you from attending the Extraordinary General Meeting and voting in person if you wish to do so.

Assuming the Resolutions are passed at the Extraordinary General Meeting, no further action will be required in order for Shareholders to receive the Special Dividend, a cheque for their fractional entitlement (where applicable) and their New Ordinary Shares.

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### **TELEPHONE HELPLINE**

**If, having read this document, you still have questions on the Proposals, Drax has set up a helpline on 0870 162 3121 which you can call and which will be charged at national rates for all calls from within the United Kingdom. This helpline will be open from 9:00 a.m. to 5:00 p.m. Monday to Friday. Callers from outside the United Kingdom should call +44(0)20 8639 2157.**

**For legal reasons, this helpline will not be able to provide advice on the merits of the Special Dividend or Share Consideration or to provide legal, financial or personal taxation advice.**

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS 2006

Latest time for receipt of Forms of Direction from participants of the SIP to be valid at the EGM	11:00 a.m. on 2 October
Latest time for receipt of Forms of Proxy and CREST proxy instructions to be valid at the EGM	11:00 a.m. on 4 October
Existing Ordinary Shares marked ex-interim dividend	4 October
<b>Extraordinary General Meeting</b>	<b>11:00 a.m. on 6 October</b>
Record Date for entitlement to the interim dividend	4:30 p.m. on 6 October
Last time for dealings in Existing Ordinary Shares	6 October
Record Date for entitlement to the Special Dividend and for the Share Consolidation. Existing Ordinary Share register closes and Existing Ordinary Shares disabled in CREST	4:30 p.m. 6 October
Existing Ordinary Shares marked ex-Special Dividend	9 October
Admission of New Ordinary Shares and dealings commence	8:00 a.m. on 9 October
New Ordinary Shares credited to CREST accounts	9 October
Despatch of share certificates for New Ordinary Shares and cheques in respect of the sale of fractional entitlements to New Ordinary Shares	24 October
<b>Payment of the interim dividend</b>	<b>25 October</b>
<b>Payment of the Special Dividend</b>	<b>25 October</b>

### Notes:

1. References to time in this document are to London time.
2. If any of the above times or dates should change, the revised times and/or dates will be notified to Shareholders by an announcement on a Regulatory Information Service.
3. All events in the above timetable following the EGM are conditional on the passing of Resolution 1 at the EGM and on Admission.

## PART 1

### LETTER FROM THE CHAIRMAN



### Drax Group plc

*(Incorporated and registered in England and Wales under the Companies Act 1985 with Company No. 5562053)*

#### **Directors**

Gordon Horsfield (Chairman)  
Dorothy Thompson (Chief Executive)  
Tim Barker  
Charles Berry  
Gordon Boyd  
Jamie Dundas  
Peter Emery  
Mike Grasby

#### **Registered Office**

Drax Power Station  
PO Box 3  
Selby  
North Yorkshire YO8 8PQ

15 September 2006

#### **To: Shareholders and Participants in the Drax Approved Share Incentive Plan.**

For Information only to: Participants in the Drax Approved Savings Related Share Option Plan

**Dear Shareholder,**

#### **Proposed Special Dividend and Share Consolidation**

At the Annual General Meeting held on 12 May 2006 I reaffirmed the Group's distribution policy and its intention to distribute substantially all of any remaining cash flow subject to the availability of reserves and after making provision for debt payments, debt service requirements (if any), capital expenditure, and other expected business requirements.

The Board is now proposing to return £326 million of surplus cash in the form of a Special Dividend of 80 pence per Existing Ordinary Share. In order to maintain comparability of the Drax share price and earnings and dividend per share before and after the payment of the Special Dividend, the Board is also seeking Shareholder approval to implement a consolidation of Drax's share capital.

A notice convening an Extraordinary General Meeting of the Company to be held at 11:00 a.m. on 6 October 2006 at The City Presentation Centre, 4 Chiswell Street, London EC1Y 4UP is set out at the end of this document. At the meeting, the necessary Resolutions will be proposed to approve the Special Dividend and Share Consolidation and to put in place a new authority to enable the Company to make market purchases of New Ordinary Shares.

The purpose of this document is:

- i to provide details of the Special Dividend and the Share Consolidation and to seek Shareholders' consent to the Share Consolidation and to a renewed authority to enable the Company to continue to make market purchases of its Ordinary Shares; and
- ii to explain why the Board considers the Special Dividend and Share Consolidation to be in the best interests of the Company and its Shareholders as a whole.

#### **Special Dividend**

The Board intends to return cash it considers surplus to its current and foreseen requirements to Shareholders in the form of a Special Dividend.

There are currently 407,085,395 Existing Ordinary Shares in issue.

The Special Dividend of 80 pence per Existing Ordinary Share will be payable to Shareholders who are on the Register at 4:30 p.m. on the Record Date. The Special Dividend equates to an aggregate return of funds to Shareholders of approximately £326 million (based on the number of Existing Ordinary Shares in issue as at 13 September 2006). The Special Dividend is expected to be paid to Shareholders on 25 October 2006.

### **Share Consolidation**

The ratio used for the purposes of the Share Consolidation has been determined by reference to the closing mid-market price per Existing Ordinary Share on 13 September 2006 (being the last practicable day prior to the date of posting of this document) when there were 407,085,395 Existing Ordinary Shares.

As at the close of business on 13 September 2006, the total amount of the Special Dividend was equivalent to just under 9.4 per cent. of the market capitalisation of the Company. The effect of the Share Consolidation will be to reduce the number of Ordinary Shares in issue by approximately the same percentage.

The Share Consolidation is intended to maintain comparability of the Company's share price and earnings and dividend per share before and after the payment of the Special Dividend and to maintain the position of participants under certain of the Drax Share Plans.

As all ordinary shareholdings in the Company will be consolidated, Shareholders' percentage holdings in the issued share capital of the Company will (save in respect of fractional entitlements) remain unchanged. The New Ordinary Shares will be traded on the London Stock Exchange in the same way as the Existing Ordinary Shares and will have the same rights, including voting and dividend rights, as the Existing Ordinary Shares.

The Share Consolidation will replace every 32 Existing Ordinary Shares with 29 New Ordinary Shares. Fractional entitlements arising from the Share Consolidation will be aggregated and sold in the market on behalf of the relevant Shareholders. The proceeds of sale are expected to be sent to Shareholders on 24 October 2006. The value of any Shareholder's fractional entitlement will not exceed the value of one New Ordinary Share and in accordance with Article 45.1.1 of the Company's Articles of Association, if the amount due to a holder is less than £3, it shall not be distributed and shall be retained for the benefit of the Company.

For purely illustrative purposes, examples of the effects of the Special Dividend and the Share Consolidation in respect of certain holdings of Existing Ordinary Shares are set out below:

<b>Existing Ordinary Shares</b>	<b>New Ordinary Shares</b>	<b>Special Dividend</b>
100	90	£80
250	226	£200
500	453	£400
1000	906	£800

These examples do not show fractional entitlements, the value of which will depend on the market value of the New Ordinary Shares at the time of sale, as detailed in Part 2 below.

Following the Share Consolidation, the Company's authorised ordinary share capital will comprise 905,796,893 New Ordinary Shares and, assuming 13 further shares are issued (so as to make the number of ordinary shares in issue divisible by 32) between the date of this document and the Share Consolidation becoming effective, the issued ordinary share capital will comprise 368,921,151 New Ordinary Shares.

Further details of the Special Dividend and Share Consolidation are included in Part 2.

### **Share Plans**

Details of the Special Dividend and the Share Consolidation with respect to the Drax Share Plans are set out in paragraph 3 of Part 2.

## **Taxation**

A summary of the taxation consequences of the Special Dividend and the Share Consolidation for certain categories of UK resident Shareholders is set out in paragraph 4 of Part 2. As more particularly set out in that paragraph, the Directors have been advised that:

- the tax treatment of UK resident Shareholders who receive the Special Dividend will generally be similar to the tax treatment of such holders receiving any other dividend paid by the Company since 6 April 2006; and
- UK resident Shareholders should not be treated as having made a disposal of their Existing Ordinary Shares for the purposes of UK taxation of chargeable gains as a result of the Share Consolidation.

**Shareholders should read paragraph 4 of Part 2 and, if they are in any doubt as to their tax position, should consult their professional advisers.**

## **Extraordinary General Meeting**

A notice convening the Extraordinary General Meeting of the Company to be held at 11:00 a.m. on 6 October 2006 at The City Presentation Centre, 4 Chiswell Street, London EC1Y 4UP is set out at the end of this document.

The first resolution to be put to the EGM will effect the Share Consolidation, following which the total number of issued Ordinary Shares will be reduced and the nominal value of the Ordinary Shares will change. As a result, the general authority to make market purchases of Ordinary Shares which was given to the Company at the Annual General Meeting of the Company held on 12 May 2006 can no longer be used.

The purpose of the second resolution is, therefore, to put in place a new authority to enable the Company to make market purchases of New Ordinary Shares. This authority will apply to up to 36,800,000 New Ordinary Shares, representing approximately 10 per cent. of the Company's expected issued ordinary share capital after the Share Consolidation. The new authority will only be used if, in the opinion of the Directors, to do so would be in the best interests of Shareholders generally.

## **ACTION TO BE TAKEN**

### **Ordinary Shareholders**

Whether or not you propose to attend the EGM, you are requested to complete and sign the enclosed Form of Proxy in accordance with the instructions printed thereon. Completed Forms of Proxy should be returned to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible and in any event so as to be received by Capita Registrars no later than 11:00 a.m. on 4 October 2006.

If you hold shares in CREST, you may appoint a proxy by completing and transmitting a CREST proxy instruction to Capita Registrars (CREST participant ID RA10) so that it is received by no later than 11:00 a.m. on 4 October 2006. The return of a completed Form of Proxy or CREST proxy instruction will not prevent you from attending the Extraordinary General Meeting and voting in person if you wish to do so.

### **SIP Participants**

You are requested to complete and sign the enclosed Form of Direction in order to instruct the Trustee of the SIP as to how you would like them to vote on your behalf. Completed Forms of Direction should be returned to Yorkshire Building Society, 1 Filey Street, Bradford BD1 5AT as soon as possible and in any event so as to be received by Yorkshire Building Society no later than 11:00 a.m. on 2 October 2006.

### **Share Certificates**

New Ordinary Share Certificates will only be issued following Admission. It is therefore important, if you hold certificates in respect of your Existing Ordinary Shares, that you retain them until New Ordinary Share certificates are despatched, which is expected to be on 24 October 2006. When Shareholders receive their share certificates for their holdings of New Ordinary Shares, they should destroy their certificates for the Existing Ordinary Shares, as those certificates will be valid no longer nor hold value.

For shareholders wishing to hold any New Ordinary Shares in Uncertificated Form through the CREST system, the relevant CREST securities accounts are expected to be credited on 9 October 2006. Shareholders holding New Ordinary Shares in Uncertificated Form through the CREST system will not receive any share certificates.

### **Interim Dividend**

In addition and as previously intimated, the Board has now resolved to pay an interim dividend of 4 pence per Existing Ordinary Share. The timetable for the payment of the interim dividend runs broadly in parallel with that of the Special Dividend. Details of the Record, ex-dividend and payment dates can be found in the Expected Timetable of Events 2006 on page 3 of this document.

### **Recommendation**

**Your Board considers that the Proposals are in the best interests of the Shareholders as a whole. Your Board has received financial advice from Deutsche Bank and Dresdner Kleinwort and, in giving that financial advice, Deutsche Bank and Dresdner Kleinwort have placed reliance on the Board's commercial assessments.**

**Accordingly, the Directors unanimously recommend Shareholders to vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting as they intend to do in respect of their own beneficial interests of 4,602,676 Existing Ordinary Shares representing 1.13 per cent. of the existing issued ordinary share capital of the Company.**

Yours sincerely



Gordon Horsfield  
Chairman

## **PART 2**

### **FURTHER DETAILS OF THE SPECIAL DIVIDEND AND SHARE CONSOLIDATION**

#### **1. Share Consolidation**

The effect of the Share Consolidation will be that Shareholders on the Register at 4:30 p.m. on the Record Date, which is expected to be 6 October 2006, will, on the implementation of the Share Consolidation, exchange:

#### **32 Existing Ordinary Shares for 29 New Ordinary Shares**

and in that proportion for any other number of Existing Ordinary Shares then held. Although each Shareholder will hold fewer Ordinary Shares than before, his or her shareholding as a proportion of the total number of New Ordinary Shares in issue, and therefore his or her ownership of the Company will be the same before and after the Share Consolidation, subject only to minor adjustments to reflect any fractional entitlement. Apart from having a different nominal value, each New Ordinary Share will carry the same rights as set out in the Company's Articles of Association that currently attach to the Existing Ordinary Shares.

To effect the Share Consolidation it may be necessary to issue such minimum number of additional Existing Ordinary Shares so that the number of the Company's Existing Ordinary Shares is exactly divisible by 32.

Shareholders whose holdings of Existing Ordinary Shares cannot be consolidated into an exact number of New Ordinary Shares will be left with a fractional entitlement. Such Shareholders will receive cash in respect of fractional entitlements to New Ordinary Shares following the Share Consolidation. New Ordinary Shares representing such fractional entitlements will be sold in the market on behalf of the relevant Shareholders. The value of any Shareholder's fractional entitlement will not exceed the value of one New Ordinary Share. Cheques in respect of the net proceeds of sale are expected to be despatched on 24 October 2006. Shareholders who hold only one Existing Ordinary Share will only receive cash. In accordance with Article 45.1.1 of the Company's Articles of Association, if the amount due to a holder is less than £3, it shall not be distributed and shall be retained for the benefit of the Company.

#### **2. Conditions**

Payment of the Special Dividend and the Share Consolidation are conditional on the first resolution set out in the notice of Extraordinary General Meeting being passed and becoming unconditional and effective. This resolution is conditional on the New Ordinary Shares being admitted to the Official List by the UK Listing Authority and being admitted to trading by the London Stock Exchange.

#### **3. Drax Share Plans**

##### **SIP Participants**

Participants in the SIP will be entitled to receive the Special Dividend through the Trustee of the plan. As outlined in the Letter from the chairman, they may also give instructions to the Trustee on how they would like it to vote at the EGM.

SIP participants will also be affected by the Share Consolidation in the same way that Shareholders are and therefore should take time to read and understand paragraph 1 above.

##### **Participants in the SAYE Plan**

Participants in the SAYE Plan are not entitled to receive the Special Dividend. As the effect of the Share Consolidation will be broadly to preserve the value of the share options granted under the SAYE Plan (subject to normal market fluctuations), no adjustment to the share options is required. Following the Share Consolidation, holders of options under the SAYE Plan will be entitled, on the maturity of options, to receive the same number of New Ordinary Shares as their previous entitlement to Existing Ordinary Shares.

As at 13 September 2006 (being the last practicable date prior to the publication of this document), the total number of outstanding SAYE options to acquire Ordinary Shares was 898,302 which, if the Ordinary Shares were subscribed for, would represent approximately 0.22 per cent. of the Company's issued equity

share capital as at that date. If the Resolutions are passed and become unconditional, and no further options have been exercised or Ordinary Shares repurchased, these options will represent approximately 0.24 per cent. of the Company's issued equity share capital immediately after the Share Consolidation.

## **ESIP**

It is possible that, after consultation with major shareholders, the ABI and RREV, the Board will be in a position to make awards under the ESIP in the period between the publication of this document and the date of the EGM.

Participants in the ESIP are not entitled to receive the Special Dividend. As the effect of the Share Consolidation will be broadly to preserve the value of the awards made under the ESIP (subject to normal market fluctuations), no adjustment to the awards is required. Following the Share Consolidation, holders of awards under the ESIP will be entitled, on the vesting of the awards, to receive the same number of New Ordinary Shares as their previous entitlement to Existing Ordinary Shares.

Following the Share Consolidation, the Directors have determined that the Drax Share Plans will be operated in such a way as to ensure that New Ordinary Shares are not issued to employees under the Drax Share Plans in excess of the maximum permitted number of the Existing Ordinary Shares which may currently be so issued under the rules of the Drax Share Plans.

## **4. Taxation**

The following summary is intended as a general guide only and relates only to the UK taxation treatment of the Special Dividend and the related Share Consolidation. It is based on current UK law and current published Inland Revenue practice for Shareholders who (except where otherwise indicated) are resident in the UK for tax purposes, who are the beneficial owners of those shares and who hold them as investments. The summary may not apply to certain classes of Shareholders, such as brokers, dealers in securities or persons regarded as having obtained their Existing Ordinary Shares by reason of their employment. Shareholders who are in any doubt about their tax position, or who are subject to tax in any jurisdiction other than the UK, should consult their own appropriate professional advisers.

### **Special Dividend**

There is no UK withholding tax on dividends.

An individual Shareholder should generally be entitled to a tax credit in respect of the Special Dividend which he or she can offset against his or her total income tax liability. The amount of the tax credit is equal to 10 per cent. of the aggregate of the dividend and the tax credit (the "gross dividend") (one-ninth of the amount of the net cash dividend). The gross dividend is included in computing the income of such an individual holder for UK tax purposes.

The rate of income tax on dividends is 10 per cent. of the gross dividend for taxpayers liable to income tax at rates not exceeding the basic rate. The tax credit will discharge the income tax liability on the Special Dividend of an individual Shareholder who is not liable to income tax at a rate higher than the basic rate. A higher rate taxpayer will be liable to tax on the Special Dividend at the rate of 32.5 per cent. of the gross dividend; so after the tax credit has been set against his or her tax liability, he or she will have to account for tax equal to 22.5 per cent. of the gross dividend (25 per cent. of the net cash dividend received) to the extent that the gross dividend, being treated as the top slice of his or her income, falls above the threshold for higher rate income tax.

UK resident taxpayers who are not liable to UK tax on dividends, including pension funds and charities, will generally not be entitled to claim repayment of the tax credit in respect of the Special Dividend.

A UK resident corporate Shareholder will not normally be liable to corporation tax in respect of the Special Dividend. Such a holder will not be able to claim any repayment of tax credits.

The right of Shareholders who are not resident in the UK for tax purposes to reclaim tax credits attaching to the Special Dividend will depend upon the existence and terms of an applicable double tax treaty. In most cases, the amount that can be paid to such Shareholders will be reduced to nil as a result of the terms of the relevant treaty. Shareholders who are not resident in the UK for tax purposes should consult their own tax advisers concerning their tax liabilities on the Special Dividend in the UK and in any other country.

## **Share Consolidation**

It is expected that for the purposes of UK taxation on chargeable gains the Share Consolidation will be treated as follows:

- (a) the New Ordinary Shares arising from the Share Consolidation will result from a reorganisation of the share capital of the Company. Accordingly, a Shareholder will not generally be treated as making a disposal of all or part of the Shareholder's holding of Existing Ordinary Shares by reason of the Share Consolidation being implemented, and the New Ordinary Shares which replace a Shareholder's holding of Existing Ordinary Shares ("the new holding") as a result of the Share Consolidation will be treated as the same asset acquired at the same time as the Shareholder's holding of Existing Ordinary Shares was acquired. Subject to sub-paragraph (b) below, the Shareholder's new holding will have the same tax base cost as the Shareholder's Existing Ordinary Shares;
- (b) to the extent that a Shareholder receives cash by virtue of a sale on his or her behalf of any New Ordinary Shares to which he or she has a fractional entitlement, the Shareholder will not in practice normally be treated as making a part disposal of the Shareholder's holding of Existing Ordinary Shares, the proceeds instead being deducted from the tax base cost of the Shareholder's new holding; and
- (c) on a subsequent disposal of the whole or part of the New Ordinary Shares from within the new holding, a Shareholder may, depending on his or her circumstances, be subject to tax on the amount of any chargeable gain realised.

## **Section 703 of the Income and Corporation Taxes Act 1988 ("ICTA")**

Under the provisions of section 703 ICTA, the Inland Revenue can, in certain circumstances, counteract tax advantages arising in relation to certain transactions in securities. No clearance has been or will be sought under section 707 ICTA that the Inland Revenue will not seek to apply those provisions to Shareholders in relation to the Special Dividend. The Company has been advised, however, that these provisions should not affect the taxation of Shareholders who receive the Special Dividend while continuing to hold their Ordinary Shares.

Shareholders considering transactions in respect of their Existing Ordinary Shares are advised to take independent advice on the potential application of section 703 ICTA in the light of their own particular circumstances.

## **5. Dealings and settlement**

Application will be made for the New Ordinary Shares to be admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange. Subject to the Share Consolidation becoming effective, it is expected that dealings in the New Ordinary Shares will commence at 8:00 a.m. on 9 October 2006.

The Company will apply for the New Ordinary Shares to be admitted to CREST with effect from listing so that general market transactions in New Ordinary Shares may be settled within CREST.

New share certificates in respect of the New Ordinary Shares are expected to be posted at the risk of Shareholders on 24 October 2006 to those Shareholders who hold their shares in Certificated Form. These will replace existing certificates which should then be destroyed. Pending the receipt of new certificates, transfers of New Ordinary Shares held in Certificated Form will be certified against the Register. Shareholders who hold their entitlement to New Ordinary Shares in Uncertificated Form through CREST will have their CREST accounts adjusted to reflect their entitlement to New Ordinary Shares on 9 October 2006. As from 6 October 2006, each holding of Existing Ordinary Shares credited to any stock account in CREST will be disabled and all Existing Ordinary Shares will be removed from CREST.

## **6. Record Date**

Subject to Admission, Shareholders who are on the Register on the Record Date will receive the Special Dividend and have their holdings consolidated.

Persons who acquire Existing Ordinary Shares but who are not on the Register as at the Record Date should apply to the broker or other intermediary through whom they bought the Existing Ordinary Shares to arrange for delivery to them of the New Ordinary Shares, the Special Dividend and the proceeds of the sale of any fractional entitlement.

## **7. Overseas Shareholders**

Cheques in respect of the Special Dividend, certificates in respect of New Ordinary Shares and, where applicable, cheques in respect of fractional entitlements will be distributed to overseas Shareholders by post in accordance with the timetable set out in this document.

## **8. Consent**

Deutsche Bank AG has given and not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which it appears.

Dresdner Kleinwort Wasserstein Limited has given and not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which it appears.

## **9. Documents available for inspection**

Copies of the following documents will be available for inspection during normal business hours Monday to Friday (public holidays excepted) at the offices of Norton Rose, Kempson House, Camomile Street, London EC3A 7AN until the date of the EGM:

- (a) the written consents referred to in paragraph 8 above; and
- (b) this document.

15 September 2006

**PART 3**  
**DEFINITIONS**

The following definitions apply throughout this document and in the accompanying Form of Proxy, (or in the case of SIP participants, the Form of Direction) unless the context requires otherwise:

“ABI”	the Association of British Insurers
“Act” or “Companies Act”	the Companies Act 1985 (as amended)
“Admission”	admission of the New Ordinary Shares to the Official List and to trading on the London Stock Exchange’s market for listed securities and “Admission becoming effective” means it becoming effective in accordance with paragraph 7.1 of the Listing Rules and paragraph 2 of the admission and disclosure standards published by the London Stock Exchange
“Board” or “Directors”	the directors of Drax
“Certificated” or “in Certificated Form”	not in Uncertificated Form
“Company’s Registrars”	Capita Registrars (a trading name of Capita IRG Plc), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
“CREST”	the relevant systems (as defined in the CREST Regulations) in respect of which CRESTCo Limited is the Operator (as defined in such regulations)
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
“Daily Official List”	The Stock Exchange Daily Official List published by the London Stock Exchange
“Deutsche Bank”	Deutsche Bank AG
“Dresdner Kleinwort ”	Dresdner Kleinwort Wasserstein Limited
“Drax” or the “Company”	Drax Group plc
“Drax Share Plans”	the SIP, SAYE Plan and ESIP
“ESIP”	the Drax Executive Share Incentive Plan
“Existing Ordinary Shares”	the existing issued ordinary shares of 10 pence each in the capital of the Company
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be held at 11:00 a.m. on 6 October 2006 (and any adjournment thereof)
“Form of Direction”	the form enclosed with this document specifically for SIP participants, who may then use it to instruct the Trustee how to vote at the EGM
“Form of Proxy”	the proxy form enclosed with this document for use at the EGM
“Group”	Drax and its subsidiary and associated undertakings

“Interim Dividend”	the interim base dividend of 4 pence per Existing Ordinary Share
“Listing Rules”	the listing rules of the UK Listing Authority
“London Stock Exchange”	London Stock Exchange plc
“New Ordinary Shares”	ordinary shares of 11 <sup>1</sup> / <sub>29</sub> pence each in the capital of the Company resulting from the proposed Share Consolidation
“Official List”	the official list of the UK Listing Authority
“Ordinary Shares”	prior to the Share Consolidation, the Existing Ordinary Shares and, thereafter, the New Ordinary Shares
“Proposals”	the Share Consolidation and the declaration of the Special Dividend
“Record Date”	4:30 p.m. on 6 October 2006
“Register”	the register of members of the Company
“Resolutions”	the resolutions set out in the notice convening the EGM
“RREV”	the Research, Recommendations and Electronic Voting, which is a joint venture between the National Association of Pension Funds and Institutional Shareholder Services
“SAYE Options”	the share options granted under the SAYE Plan
“SAYE Plan”	the Drax Approved Savings Related Share Option Plan
“Share Consolidation”	the proposed consolidation to be effected by consolidating every 32 Existing Ordinary Shares or 32 authorised but unissued ordinary shares respectively into 29 New Ordinary Shares
“Shareholders”	holders of Existing Ordinary Shares and/or New Ordinary Shares, as the context may require
“SIP”	the Drax Approved Share Incentive Plan
“Special Dividend”	the interim dividend described as the special dividend of 80 pence per Existing Ordinary Share
“Trustee”	Yorkshire Building Society as trustee of the SIP
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“Uncertificated” or “in Uncertificated Form”	recorded on the Register as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
“United Kingdom” or “UK”	The United Kingdom of Great Britain and Northern Ireland

**Drax Group plc**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Company will be held at 11:00 a.m. on 6 October 2006, at The City Presentation Centre, 4 Chiswell Street, London EC1Y 4UP for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions:**

**RESOLUTIONS**

1. THAT, subject to and conditional upon admission of the New Ordinary Shares (as defined below) to the Official List of the United Kingdom Listing Authority and to trading on the London Stock Exchange becoming effective:
  - (a) all the ordinary shares of 10 pence each in the capital of the Company which at 4:30 p.m. on 6 October 2006 (or such other time and date as the directors of the Company may determine) are shown in the books of the Company as authorised, whether issued or unissued, shall be sub-divided into new ordinary shares of  $10\frac{1}{29}$  pence each in the capital of the Company (the "Intermediate Shares");
  - (b) immediately thereafter:
    - (i) all Intermediate Shares that are unissued shall be consolidated into new ordinary shares of  $11\frac{1}{29}$  pence each in the capital of the Company (the "Unissued New Ordinary Shares"), provided that, where such consolidation would otherwise result in a fraction of an Unissued New Ordinary Share, that number of Intermediate Shares which would otherwise constitute such fraction shall be cancelled pursuant to section 121(2)(e) of the Companies Act 1985; and
    - (ii) all Intermediate Shares that are in issue shall be consolidated into new ordinary shares of  $11\frac{1}{29}$  pence each in the capital of the Company (the "New Ordinary Shares"), provided that, where such consolidation results in any member being entitled to a fraction of a New Ordinary Share, such fraction shall, so far as possible, be aggregated with the fractions of a New Ordinary Share to which other members of the Company may be entitled and the directors of the Company be and are hereby authorised to sell (or appoint any other person to sell to any person), on behalf of the relevant members, all the New Ordinary Shares representing such fractions at the best price reasonably obtainable in the market at the time of, or shortly after, the instruction to sell is given, and to distribute the proceeds of sale (net of expenses) in due proportion among the relevant members entitled thereto (save that any fraction of a penny which would otherwise be payable shall be rounded up or down in accordance with the usual practice of the registrar of the Company) and that any director of the Company (or any person appointed by the directors of the Company) shall be and is hereby authorised to execute an instrument of transfer in respect of such shares on behalf of the relevant members and to do all acts and things as the directors consider necessary or expedient to effect the transfer of such shares to, or in accordance with the directions of, any buyer of any such shares.
2. THAT, subject to and conditional on the passing of Resolution 1 above and the same becoming effective, the Company be generally and unconditionally authorised in substitution for all such existing authorities to make one or more market purchases (within the meaning of s163(3) of the Companies Act 1985) of New Ordinary Shares on such terms and in such manner as the directors of the Company may from time to time determine, provided that:
  - (a) the maximum aggregate number of New Ordinary Shares authorised to be purchased is 36,800,000;
  - (b) the minimum price which may be paid for a New Ordinary Share shall be the nominal amount of such New Ordinary Share;
  - (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall not exceed 105 per cent. of the average middle market quotations for a New Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days in respect of which such Daily Official List is published immediately preceding the day on which the share is contracted to be purchased;
  - (d) this authority shall expire on 12 August 2007, or if earlier, at the conclusion of the annual general meeting of the Company in 2007, unless previously revoked, varied or renewed by the Company in general meeting; and
  - (e) the Company may make a contract to purchase its own shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partially after the expiry of such authority and may make a purchase of its own shares in pursuance of any such contract as if the authority conferred hereby had not expired.

Registered Office  
Drax Power Station  
P O Box 3  
Selby  
North Yorkshire YO8 8PQ

By order of the Board  
Peter J Rothwell  
Company Secretary  
15 September 2006

Notes:

1. A member of the Company entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. Appointing a proxy will not prevent a member from attending in person and voting at the meeting.
2. A Form of Proxy is enclosed. To be effective, the Form of Proxy together with the power of attorney or authority, if any, under which it is signed (or a duly certified copy of any such power or authority) must be lodged with the Company's Registrars not later than 48 hours before the time of the meeting or lodged using the CREST proxy voting services — see note 5 below. Return of a completed Form of Proxy will not preclude a member from attending and voting personally at the meeting.
3. The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered on the register of members at 6.00 p.m. on the day two days before the date of the meeting (or any adjourned meeting) shall be entitled to attend or vote thereat in respect of the number of shares registered in their name at that time and changes to the register thereafter shall be disregarded in determining rights to attend and vote.
4. If you have sold or transferred all your shares, these documents should be passed to the person through whom the sale or transfer was made for transmission to the purchaser or transferee.
5. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Extraordinary General Meeting to be held on 6 October 2006 and any adjournment(s) thereof utilising the procedures described in the CREST manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (Capita Registrars CREST participant ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

