

Drax Group Limited

(Incorporated in the Cayman Islands with registered number WK-129356)

Directors:

Gordon Horsfield (Executive Chairman and acting Chief Executive Officer)
Gordon Boyd (Finance Director)
Peter Emery (Production Director)
Mike Grasby (Non-Executive Director)
Tim Barker (Non-Executive Director)

Registered office:

Walkers SPV Limited
Walker House
PO Box 908GT
Mary Street
George Town
Grand Cayman
Cayman Islands
British West Indies

9 August 2005

Dear Shareholder

Notice of an Extraordinary General Meeting of Drax Group Limited and Request for Shareholder Consent

I am writing to inform you that an Extraordinary General Meeting (the "EGM") of Drax Group Limited ("Drax") will be held at 2.30 p.m. on 9 September 2005 at the offices of Norton Rose at Kempson House, Camomile Street, London EC3A 7AN. The formal notice convening the EGM is set out at the end of this circular and contains details of the resolution to be put to shareholders.

The purpose of the EGM is to consider and, if thought fit, to approve a resolution (the "**Resolution**") providing for an amendment to the articles of association of Drax (the "**Articles**") in relation to the concert party provisions contained therein. The Board of Directors of Drax (the "**Board**") recognises the importance of communications with shareholders and to this end has been in discussion with Greenhill & Co. International LLP ("**Greenhill**") regarding the proposed formation of a shareholder committee, to be advised by Greenhill, in connection with the proposed capital restructuring and listing of the Drax group and review of other strategic alternatives that Drax may explore. As explained later in this circular, the amendments to the Articles are being proposed in the context of the formation of this committee.

In addition to the passing of the Resolution, any amendment to the Articles requires the approval of the Majority Holders (as defined below) and this circular also seeks your approval in this respect. Please note that you are requested to respond both in relation to the Resolution and the request for Majority Holder consent.

This circular explains the background to the proposed amendments to the Articles (the "**Proposed Amendments**"), a description of the Proposed Amendments and the reasons why the Board recommends that you: (i) vote in favour of the Resolution to make the Proposed Amendments at the EGM; and (ii) vote in favour of the Proposed Amendments so as to assist Drax in obtaining the approval of the Majority Holders.

Capitalised terms used but not defined in this letter will have the meaning given to them in the Articles or, as the context requires, in the InPower 2 Facility Agreement dated 22 December 2003 between, amongst others, InPower 2 Limited as the Borrower and Deutsche Bank AG London as the Agent.

Background

As shareholders will be aware from recent investor presentations, the Board is proceeding to develop a potential capital restructuring of the Drax group and a listing on the London Stock Exchange, whilst at the same time continuing to explore other potential strategic alternatives such as mergers and acquisitions and long-term contractual opportunities (the "Strategy"). As announced on 16 June 2005, Drax has obtained the requisite consent from shareholders (in their capacity as holders of A2 Debt) in relation to incurring certain advisory fees, including the type of third party fees referred to below, so that Drax can develop and proceed towards implementing the Strategy.

Over the last seven months a number of shareholders, together holding a significant proportion of Drax's equity, have been consulting with and seeking the advice of Greenhill in relation to the Strategy as it has been formulated. Whilst at the same time as communicating regularly and directly with its investors, the Board has also maintained a dialogue with Greenhill in this regard. This further line of communication through Greenhill has been helpful to the Board in its structured communication with a large body of shareholders during a period of change.

Greenhill has informed the Board that it is currently advising shareholders who between them hold approximately 46 per cent. of Drax's issued voting capital. To date, Greenhill has been advising these clients on an individual basis. However, we understand that a number of these and other shareholders have indicated to Greenhill their interest in forming or joining a shareholder committee (the "Shareholder Committee"), to be advised by Greenhill, for the purposes of discussing and sharing views and receiving advice from Greenhill on the Strategy. We understand that the Shareholder Committee will be open to a broad range of shareholders and is intended to be as representative as possible.

In order to serve Drax's interests, your Board believes that it is important for it to maintain a dialogue with all its shareholders and other stakeholders during the development and implementation of the Strategy. In this context, and in addition to the continued efforts of the Board and its own advisers, Deutsche Bank AG London, the Board recognises the significance of the large body of shareholders that the proposed Shareholder Committee would represent and of its value as an additional conduit for considering proposals and communicating views, both to and by Drax. For this reason Drax has entered into an engagement letter with Greenhill pursuant to which Greenhill will advise the Shareholder Committee and Drax Power will pay Greenhill's fees. Given the complexity of the current capital structure of Drax, Greenhill's clients have requested that the Shareholder Committee engage Milbank, Tweed, Hadley & McCloy LLP ("Milbank") as legal advisers to the Shareholder Committee and that Drax Power pay Milbank's fees. Given Milbank's long-standing familiarity with the company, Drax considers this appointment to be sensible.

The Proposed Amendments

The Articles contain "voting in concert" and "acting in concert" provisions that were designed, among other things, to ensure a period of stability for the company following the restructuring that occurred in 2003. However, the broad nature of the provisions may have the effect of discouraging shareholders from collectively considering matters relating to their ownership of shares in Drax due to possible adverse consequences under those provisions. In their current form, these provisions may inhibit the Shareholder Committee in reaching a consensus of opinion in relation to any proposals that relate to the Strategy. In particular, the "voting in concert" provisions may, in certain unforeseen circumstances, result in a shareholder's vote being aggregated with the votes of other shareholders (with whom such shareholder has actively and demonstrably cooperated but has not agreed to vote in concert) and that their collective vote will be limited to 32.34 per cent. of the votes counted on the matter concerned. In addition, in the event that the Shareholder Committee came to represent shareholders holding in excess of 50 per cent. of the voting rights in Drax, those shareholders might, in certain circumstances, be treated as "acting in concert" and the "tag rights" contained in Article 20 might be inadvertently triggered as a result. (The "tag rights" entitle minority shareholders to be bought out by any shareholder who (together with any person acting in concert with it) acquires a controlling stake in Drax (or who, together with its concert parties, already has control and acquires further shares) at the highest price paid by the controlling shareholder (or any of its concert parties) for any Drax shares in the preceding 12 months.)

The Proposed Amendments to the "voting in concert" and "acting in concert" provisions relate to shareholders ("**Relevant Shareholders**") who join a shareholder committee that is formed to consider

any proposed capital reorganisation or refinancing of Drax and who become clients of a legal or financial adviser with whom Drax has entered into an agreement (an "Adviser's Agreement") for these purposes.

"Voting in concert" amendments

In respect of the "voting in concert" provisions in the Articles, the Proposed Amendments provide that the Relevant Shareholders will not be treated as "voting in concert" in relation to any resolution recommended by the Board which either (i) requires the consent of the holders of the A1 Loans or (ii) is a proposal for the refinancing and/or exchange of all of the Drax Eurobonds, unless, in either case, they have specifically agreed with each other to vote in a particular way. The proposed relaxation of the "voting in concert" provisions will cease to have effect on the earlier of the date of termination of the Adviser's Agreement and the first anniversary of the adoption of the Proposed Amendments.

Accordingly, Relevant Shareholders will not escape from the voting in concert restrictions where they have specifically agreed with each other to vote in a particular way or insofar as they wish to put forward resolutions that are not proposed by the Board. On the other hand, the Proposed Amendments will not affect the ability of any investor to vote either in favour of or against any proposal recommended by the Board and each individual shareholder's autonomy is therefore preserved.

"Acting in concert" amendments

Where such a committee has been formed and a related Adviser's Agreement has been entered into, the Proposed Amendments provide that, during the 12 months following their adoption (the "Relevant Period"), Relevant Shareholders will not be treated as "acting in concert" with each other (i) unless they enter into a binding agreement with each other relating to an acquisition of Drax shares with a view to obtaining or consolidating control of Drax, or (ii) merely by virtue of their being members of such a committee. The effect of this change will be that, absent a binding agreement between Relevant Shareholders to obtain control, the tag rights described above will be relaxed in relation to Relevant Shareholders during the Relevant Period.

The Articles currently provide that if a controlling shareholder (together with its concert parties) wishes to transfer control to a third party, it is entitled at the same time to require the remaining shareholders to transfer all their shares to the third party at the same price as the price at which the controlling stake is to be transferred (the "drag right"). In order to provide minority shareholders with additional protection in view of the proposed relaxation of the tag rights described above, the Proposed Amendments provide that if a Relevant Shareholder exercises a drag right during the Relevant Period, then the price to be paid for the minority shareholders' shares must not only match or exceed the price at which the controlling stake is to be transferred to the third party, but must also match or exceed the best price paid by any Relevant Shareholder for any shares acquired during the Relevant Period. This would entitle minority shareholders to receive a price for their shares at least as high as the price they could have obtained had their tag rights not been relaxed during the Relevant Period.

The full text of the Proposed Amendments is set out in the Resolution detailed in the attached notice of EGM.

Your Board believes that it is in Drax's interests, and the interests of its subsidiaries, to enable Drax's shareholders, and therefore the Shareholder Committee, to consider matters that the Board recommends without having to be concerned that they might inadvertently trigger an adverse operation of the Articles. The Proposed Amendments seek to ensure that these provisions do not operate to discourage the Shareholder Committee, or any other committee of shareholders that is formed through the execution of an Advisor's Agreement, from being formed in connection with company proposals, or from operating effectively in considering and voting on any proposals that the Board recommends.

Importantly however, the Proposed Amendments are limited in time and the Board believes that they are sufficiently focused so as to ensure that the substantive effect of the relevant provisions in the Articles is nevertheless maintained and include provisions to balance the interests of those shareholders who are not members of a shareholder committee.

The Shareholder Committee is currently in the process of being organised. If the Proposed Amendments are not approved (either because the Resolution is not passed or because Majority Holder approval or Instructing Group Consent (as defined below) is not obtained), then, in order to ensure that its members do not inadvertently trigger the adverse consequences under the Articles described above, the Shareholder Committee would be constrained in its operation and, as shareholders might be discouraged from joining the Shareholder Committee, its effectiveness. This may also hamper Drax's dialogue with the Shareholder Committee members and consequently its other investors. If, on the other hand, the Proposed Amendments are approved, this will encourage a broader spectrum of shareholders, representing a wider range of interests, to participate in the Shareholder Committee and facilitate its dialogue with Drax.

Approvals required for the Proposed Amendments

The Proposed Amendments require:

- (i) the approval of the Resolution; and
- (ii) Majority Holders approval.

(i) The Shareholder Resolution

The Resolution to be proposed at the EGM seeks shareholder approval of certain amendments to the Articles in relation to those matters described above. The text of the Resolution is set out in the attached notice of EGM.

The Resolution is proposed as a special resolution but, as Majority Holders' approval is also required, the Resolution is conditional upon such approval being obtained. A special resolution requires a two-thirds majority of those voting in person or by proxy; however, it should be noted that as the Resolution relates to an amendment to the Articles, if members holding 15 per cent or more of all the votes cast vote against the Resolution, then the Resolution will not be carried.

The amendments proposed by the Resolution will also need to be approved separately by at least 66²/₃ per cent. by value of the holders of A1 Loans and at least 50.1 per cent. by value of the holders of A2 Loans who have voted within 30 days of such approval being sought (or such shorter period as the Agent may designate) ("**Instructing Group Consent**"). As a result, the Resolution is also conditional on Instructing Group Consent, such that the amendments which it proposes will only become effective if Instructing Group Consent is obtained and therefore Drax obtains consent under the Drax Eurobond Trust Deeds to the Resolution. Accordingly, requests for Instructing Group Consent are being sent to the holders of A1 and A2 Loans via the Agent.

Action to be taken in relation to the Shareholder Resolution

Enclosed with this letter is a form of proxy relating to the resolution to be proposed at the EGM (the "**Proxy Form**"). Please complete, sign and return the Proxy Form as soon as possible in accordance with the instructions printed thereon, whether or not you intend to be present at the EGM. The Proxy Form should be returned so as to be received by Drax Group Limited, c/o Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR (fax number +44 (0) 20 8639 2180), no later than 48 hours before the time appointed for holding the EGM or, alternatively, they should be deposited at the place where the EGM is to be held at any time before the time for holding the EGM. Completion and return of the Proxy Form will not prevent you from attending and voting at the EGM if you so wish.

(ii) Majority Holder Approval

Request for Approval

The Proposed Amendments require the approval of shareholders entitled to exercise more than 50 per cent. of all the voting rights attached to the shares in issue in Drax from time to time ("**Majority Holders**") under Article 69(1)(e) of the Articles.

If you are in favour of the Proposed Amendments, it is important that you vote in favour of the Proposed Amendments as failure to actively give your approval will register as a vote against the Proposed Amendments. This is because the approval level needed requires the positive approval of more than 50% of the shares in issue and not simply more than 50% of those votes cast.

We hereby request Majority Holder approval to the Proposed Amendments.

Action to be taken in relation to Majority Holders approval

Enclosed with this letter is a form headed "Majority Holders Consent" (the "**Consent Form**"). Please complete, sign and return the Consent Form provided to you as soon as possible to the address indicated on the Consent Form.

Shareholders are requested to return the completed Consent Form so as to be received by Drax Group Limited, c/o Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR (fax number +44 (0) 20 8639 2180), no later than 48 hours before the time appointed for holding the EGM or, alternatively, they should be deposited at the place where the EGM is to be held at any time before the time for holding the EGM.

You are reminded that if you are in favour of the Proposed Amendments yet fail to submit a Consent Form giving your approval your vote will effectively be registered as a vote against the proposal. The action to be taken in relation to Majority Holders approval is **in addition** to the action to be taken in relation to the Shareholder Resolution.

Recommendation

Your Board unanimously believe that the proposals described in this letter are in the best interests of Drax and its shareholders as a whole. They therefore recommend shareholders to:

- (i) vote in favour of the resolution to implement the proposal at the EGM; and
- (ii) vote in favour of the amendments to the Articles so as to assist Drax in obtaining the approval of the Majority Holders.

Yours faithfully,



Gordon Horsfield
Executive Chairman

Drax Group Limited

Notice of Extraordinary General Meeting

of

Drax Group Limited (the "Company")

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Company will be held at the offices of Norton Rose at Kempson House, Camomile Street, London EC3A 7AN on 9 September 2005, at 2.30 p.m. for the following purposes:

- 1 To consider and, if thought fit, to pass the following resolution as a Special Resolution conditional upon such resolution receiving, in addition, the approval of the Majority Holders (as defined in the Articles of Association of the Company):

THAT, conditional on the consent being obtained of:

- (a) at least $66\frac{2}{3}$ per cent. by value of the holders of A1 Loans (as defined in the Articles of Association of the Company) who have voted within 30 days of their consent being sought; and
- (b) the consent of at least 50.1 per cent. by value of the holders of A2 Loans (as defined in the Articles of Association of the Company) who have voted within 30 days of their consent being sought,

the Articles of Association of the Company be amended by the insertion of the following new article 59A after article 59:

"59A. For the purposes of these articles, and notwithstanding any other provision of these articles, during the Relevant Period a Relevant Shareholder shall be deemed:

- (a) not to be acting in concert with any other Relevant Shareholder (i) in relation to any acquisition of rights or interests under a Relevant Transfer, unless such Relevant Shareholders are parties to a binding agreement with each other relating to the acquisition of rights or interests under such Relevant Transfer to obtain or consolidate Control of the Company and in the event that a Relevant Shareholder delivers a Drag Along Notice pursuant to article 20(2) of these articles during the Relevant Period (and including after such Shareholder ceases to be a Relevant Shareholder) requiring the Called Shareholders to transfer their Shares, the consideration to be paid or transferred for the transfer of such Shares held by the Called Shareholders shall be no less favourable, and shall include no less proportion of cash, than the most favourable consideration given or procured to be given under any Relevant Transfer whereby such Shareholder or any other Relevant Shareholder (who is still a Relevant Shareholder at the date of the delivery of such Drag Along Notice) has acquired any interest in any Shares during the Relevant Period; or (ii) merely by virtue of the fact that both such persons are Relevant Shareholders; and
- (b) not to be Voting in Concert with any other Relevant Shareholder on any resolution at a general meeting or (if applicable) court meeting or in respect of any matter requiring the approval of the Majority Holders where the subject matter of the resolution or matter requiring the approval of the Majority Holders is a proposal which has been recommended by the Board and (i) requires the consent of holders of the A1 Loans under the InPower 2 Facility Agreement or (ii) is a proposal for the refinancing and/or exchange of all of the Eurobonds, the Further Eurobonds and the B Facility Eurobonds, unless such Relevant Shareholders are parties to a binding agreement with each other requiring them to cast their votes on the resolution or to give or withhold their approval of the matter in accordance with the agreement.

For the purposes of this article 59A, a **"Relevant Shareholder"** is a person who has entered into an agreement which entitles it, as a member of a Shareholder committee formed to consider any proposed capital reorganisation of, or refinancing of some or all of the capital instruments in, the Drax Group, to receive advice from a legal or financial adviser in relation to such proposed capital reorganisation or refinancing with whom the Company or any other member of the Drax Group has entered into an agreement for the purposes of this article 59A (an **"Adviser's Agreement"**) and the **"Relevant Period"** is the period from the date of the adoption of this article 59A until the earlier of the date of termination of the Adviser's Agreement and the date being the first anniversary of the date of the adoption of this article 59A (which for the purpose of paragraph (a) of this article 59A, should end not earlier than the date of such first anniversary)."

By Order of the Board

Peter Rothwell (Company Secretary)

9 August 2005

Registered office: Walkers SPV Limited, Walker House, PO Box 908GT, Mary Street, George Town, Grand Cayman, Cayman Islands

Notes:

- 1 A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.
- 2 A form of proxy for the Extraordinary General Meeting ("EGM") (the "Proxy Form") is enclosed with this notice. Completion and return of the Proxy Form will not prevent a member from attending the EGM and voting in person.
- 3 To be effective, the Proxy Form and any power of attorney or other authority under which it is signed (or a notarially certified copy of such authority) must either be deposited with the Company, c/o Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR, (fax number +44 (0) 20 8639 2180), not later than 48 hours before the time of the EGM, or any adjournment thereof, or deposited at the place where the EGM or adjourned EGM (as appropriate) is to be held at any time before the time for holding the EGM or adjourned EGM (as appropriate).

Drax Holdings Limited
c/o Citco Trustees (Cayman) Limited, Corporate Centre, PO Box 31106 SMB,
West Bay Road, Grand Cayman, Cayman Islands

To: **JPMorgan Chase Bank, N.A.**
(in its capacity as bond trustee under each of the Drax Eurobond Trust Deeds)
Trinity Tower
9 Thomas More Street
London E1W 1YT

Attention: Corporate Trust Operations

Fax No: 0207 777 5410/5420/5440

To: **InPower 2 Limited**
(in its capacity as borrower under the InPower 2 Facility Agreement)
St Helier
Jersey
JE4 8PX
Channel Islands

Attention: The Company Secretary (MIFA Corporate 2)

Fax No: 01534 609 333

9 August 2005

Dear Sirs

PROPOSED AMENDMENTS TO DRAX GROUP LIMITED'S ARTICLES OF ASSOCIATION

Bond Trust Deed dated 30 November 1999 between, amongst others, Drax Holdings Limited as the Issuer and JPMorgan Chase Bank, N.A. as the Bond Trustee and constituting the £1,725,000,000 8.86 per cent. Guaranteed Secured Bonds due 2015, as amended and restated from time to time;

Further Bond Trust Deed dated 22 December 2003 between, amongst others, Drax Holdings Limited as the Issuer and JPMorgan Chase Bank, N.A. as the Further Bond Trustee and constituting the £86,472,000 Floating Rate Guaranteed Secured Bonds due 2020; and

B Facility Bond Trust Deed dated 22 December 2003 between, amongst others, Drax Holdings Limited as the Issuer and JPMorgan Chase Bank, N.A. as the B Facility Bond Trustee and constituting the £338,291,000 Floating Rate Guaranteed Secured Bonds due 2025,

(together the "Drax Eurobond Trust Deeds"); and

InPower 2 Facility Agreement dated 22 December 2003 between, amongst others, InPower 2 Limited as the Borrower and Deutsche Bank AG London as the Agent (the "InPower 2 Facility Agreement").

We write to JPMorgan Chase Bank, N.A. in its capacity as the bond trustee under each of the Drax Eurobond Trust Deeds (the "**Bond Trustee**").

We write to InPower 2 Limited in its capacity as the borrower under the InPower 2 Facility Agreement.

This letter is being placed on the Drax web site (www.draxpower.com).

Capitalised terms used but not defined in this letter will have the meaning given to them in the InPower 2 Facility Agreement.

1 DRAX GROUP ARTICLES AMENDMENTS

- 1.1 We hereby request that, pursuant to Conditions 8.5.2 (*Transaction Documents*) and 9.7.4 (*Change of business*) of each of the Drax Eurobond Trust Deeds, the Bond Trustee consents to and approves certain amendments to the articles of association of Drax Group Limited (the "Company").
- 1.2 An explanation for, and details of, the proposed amendments (the "**Drax Group Articles Amendments**") are set out in the circular dated 9 August 2005 which is attached as Schedule 1 to this letter and which has been distributed to shareholders of the Company in respect of the extraordinary general meeting of the Company that will be held on 9 September 2005 (the "**Circular**").
- 1.3 The consent of the Bond Trustee to the Drax Group Articles Amendments shall be conditional on: (i) the shareholders of the Company passing a special resolution approving the Drax Group Articles Amendments and (ii) the Majority Holders (as defined in the Circular) approving such amendments.
- 1.4 We would be grateful if the Bond Trustee would deliver written notice of its consent to the Drax Group Articles Amendments as soon as possible, but in any event by not later than **5.00 p.m. (London time) on Wednesday 7 September 2005**.

2 REQUEST FOR DELIVERY OF LETTER

- 2.1 We request that InPower 2 Limited deliver to the Agent a letter (in the form set out in Schedule 2 to this letter) requesting the Instructing Group's consent and approval to the Drax Group Articles Amendments.
- 2.2 We request that InPower 2 Limited deliver such requested letter to the Agent as soon as possible.
- 2.3 Please note that the Agent's consent to the Drax Group Articles Amendments (and, consequently, the instructions of the Instructing Group as to whether such consent is to be granted) is required by not later than **5.00 p.m. (London time) on Wednesday 7 September 2005**.

Yours faithfully,



.....
For and on behalf of
DRAX HOLDINGS LIMITED

SCHEDULE 1
The Circular

Drax Group Limited

(Incorporated in the Cayman Islands with registered number WK-129356)

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Accordingly, Relevant Shareholders will not escape from the voting in concert restrictions where they have specifically agreed with each other to vote in a particular way or insofar as they wish to put forward resolutions that are not proposed by the Board. On the other hand, the Proposed Amendments will not affect the ability of any investor to vote either in favour of or against any proposal recommended by the Board and each individual shareholder's autonomy is therefore preserved.

"Acting in concert" amendments

Where such a committee has been formed and a related Adviser's Agreement has been entered into, the Proposed Amendments provide that, during the 12 months following their adoption (the "**Relevant Period**"), Relevant Shareholders will not be treated as "acting in concert" with each other (i) unless they enter into a binding agreement with each other relating to an acquisition of Drax shares with a view to obtaining or consolidating control of Drax, or (ii) merely by virtue of their being members of such a committee. The effect of this change will be that, absent a binding agreement between Relevant Shareholders to obtain control, the tag rights described above will be relaxed in relation to Relevant Shareholders during the Relevant Period.

The Articles currently provide that if a controlling shareholder (together with its concert parties) wishes to transfer control to a third party, it is entitled at the same time to require the remaining shareholders to transfer all their shares to the third party at the same price as the price at which the controlling stake is to be transferred (the "drag right"). In order to provide minority shareholders with additional protection in view of the proposed relaxation of the tag rights described above, the Proposed Amendments provide that if a Relevant Shareholder exercises a drag right during the Relevant Period, then the price to be paid for the minority shareholders' shares must not only match or exceed the price at which the controlling stake is to be transferred to the third party, but must also match or exceed the best price paid by any Relevant Shareholder for any shares acquired during the Relevant Period. This would entitle minority shareholders to receive a price for their shares at least as high as the price they could have obtained had their tag rights not been relaxed during the Relevant Period.

The full text of the Proposed Amendments is set out in the Resolution detailed in the attached notice of EGM.

Your Board believes that it is in Drax's interests, and the interests of its subsidiaries, to enable Drax's shareholders, and therefore the Shareholder Committee, to consider matters that the Board recommends without having to be concerned that they might inadvertently trigger an adverse operation of the Articles. The Proposed Amendments seek to ensure that these provisions do not operate to discourage the Shareholder Committee, or any other committee of shareholders that is formed through the execution of an Adviser's Agreement, from being formed in connection with company proposals, or from operating effectively in considering and voting on any proposals that the Board recommends.

Importantly however, the Proposed Amendments are limited in time and the Board believes that they are sufficiently focused so as to ensure that the substantive effect of the relevant provisions in the Articles is nevertheless maintained and include provisions to balance the interests of those shareholders who are not members of a shareholder committee.

The Shareholder Committee is currently in the process of being organised. If the Proposed Amendments are not approved (either because the Resolution is not passed or because Majority Holder approval or Instructing Group Consent (as defined below) is not obtained), then, in order to ensure that its members do not inadvertently trigger the adverse consequences under the Articles described above, the Shareholder Committee would be constrained in its operation and, as shareholders might be discouraged from joining the Shareholder Committee, its effectiveness. This may also hamper Drax's dialogue with the Shareholder Committee members and consequently its other investors. If, on the other hand, the Proposed Amendments are approved, this will encourage a broader spectrum of shareholders, representing a wider range of interests, to participate in the Shareholder Committee and facilitate its dialogue with Drax.

Approvals required for the Proposed Amendments

The Proposed Amendments require:

- (i) the approval of the Resolution; and
- (ii) Majority Holders approval.

(i) The Shareholder Resolution

The Resolution to be proposed at the EGM seeks shareholder approval of certain amendments to the Articles in relation to those matters described above. The text of the Resolution is set out in the attached notice of EGM.

The Resolution is proposed as a special resolution but, as Majority Holders' approval is also required, the Resolution is conditional upon such approval being obtained. A special resolution requires a two-thirds majority of those voting in person or by proxy; however, it should be noted that as the Resolution relates to an amendment to the Articles, if members holding 15 per cent or more of all the votes cast vote against the Resolution, then the Resolution will not be carried.

The amendments proposed by the Resolution will also need to be approved separately by at least $66\frac{2}{3}$ per cent. by value of the holders of A1 Loans and at least 50.1 per cent. by value of the holders of A2 Loans who have voted within 30 days of such approval being sought (or such shorter period as the Agent may designate) ("**Instructing Group Consent**"). As a result, the Resolution is also conditional on Instructing Group Consent, such that the amendments which it proposes will only become effective if Instructing Group Consent is obtained and therefore Drax obtains consent under the Drax Eurobond Trust Deeds to the Resolution. Accordingly, requests for Instructing Group Consent are being sent to the holders of A1 and A2 Loans via the Agent.

Action to be taken in relation to the Shareholder Resolution

Enclosed with this letter is a form of proxy relating to the resolution to be proposed at the EGM (the "**Proxy Form**"). Please complete, sign and return the Proxy Form as soon as possible in accordance with the instructions printed thereon, whether or not you intend to be present at the EGM. The Proxy Form should be returned so as to be received by Drax Group Limited, c/o Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR (fax number +44 (0) 20 8639 2180), no later than 48 hours before the time appointed for holding the EGM or, alternatively, they should be deposited at the place where the EGM is to be held at any time before the time for holding the EGM. Completion and return of the Proxy Form will not prevent you from attending and voting at the EGM if you so wish.

(ii) Majority Holder Approval

Request for Approval

The Proposed Amendments require the approval of shareholders entitled to exercise more than 50 per cent. of all the voting rights attached to the shares in issue in Drax from time to time ("**Majority Holders**") under Article 69(1)(e) of the Articles.

If you are in favour of the Proposed Amendments, it is important that you vote in favour of the Proposed Amendments as failure to actively give your approval will register as a vote against the Proposed Amendments. This is because the approval level needed requires the positive approval of more than 50% of the shares in issue and not simply more than 50% of those votes cast.

We hereby request Majority Holder approval to the Proposed Amendments.

Action to be taken in relation to Majority Holders approval

Enclosed with this letter is a form headed "Majority Holders Consent" (the "**Consent Form**"). Please complete, sign and return the Consent Form provided to you as soon as possible to the address indicated on the Consent Form.

Shareholders are requested to return the completed Consent Form so as to be received by Drax Group Limited, c/o Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR (fax number +44 (0) 20 8639 2180), no later than 48 hours before the time appointed for holding the EGM or, alternatively, they should be deposited at the place where the EGM is to be held at any time before the time for holding the EGM.

You are reminded that if you are in favour of the Proposed Amendments yet fail to submit a Consent Form giving your approval your vote will effectively be registered as a vote against the proposal. The action to be taken in relation to Majority Holders approval is **in addition to** the action to be taken in relation to the Shareholder Resolution.

Recommendation

Your Board unanimously believe that the proposals described in this letter are in the best interests of Drax and its shareholders as a whole. They therefore recommend shareholders to:

- (i) vote in favour of the resolution to implement the proposal at the EGM; and
- (ii) vote in favour of the amendments to the Articles so as to assist Drax in obtaining the approval of the Majority Holders.

Yours faithfully,



Gordon Horsfield
Executive Chairman

Drax Group Limited

Notice of Extraordinary General Meeting

of

Drax Group Limited (the "Company")

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Company will be held at the offices of Norton Rose at Kempson House, Camomile Street, London EC3A 7AN on 9 September 2005, at 2.30 p.m. for the following purposes:

- 1 To consider and, if thought fit, to pass the following resolution as a Special Resolution conditional upon such resolution receiving, in addition, the approval of the Majority Holders (as defined in the Articles of Association of the Company):

THAT, conditional on the consent being obtained of:

- (a) at least $66\frac{2}{3}$ per cent. by value of the holders of A1 Loans (as defined in the Articles of Association of the Company) who have voted within 30 days of their consent being sought; and
- (b) the consent of at least 50.1 per cent. by value of the holders of A2 Loans (as defined in the Articles of Association of the Company) who have voted within 30 days of their consent being sought,

the Articles of Association of the Company be amended by the insertion of the following new article 59A after article 59:

"59A. For the purposes of these articles, and notwithstanding any other provision of these articles, during the Relevant Period a Relevant Shareholder shall be deemed:

- (a) not to be acting in concert with any other Relevant Shareholder (i) in relation to any acquisition of rights or interests under a Relevant Transfer, unless such Relevant Shareholders are parties to a binding agreement with each other relating to the acquisition of rights or interests under such Relevant Transfer to obtain or consolidate Control of the Company and in the event that a Relevant Shareholder delivers a Drag Along Notice pursuant to article 20(2) of these articles during the Relevant Period (and including after such Shareholder ceases to be a Relevant Shareholder) requiring the Called Shareholders to transfer their Shares, the consideration to be paid or transferred for the transfer of such Shares held by the Called Shareholders shall be no less favourable, and shall include no less proportion of cash, than the most favourable consideration given or procured to be given under any Relevant Transfer whereby such Shareholder or any other Relevant Shareholder (who is still a Relevant Shareholder at the date of the delivery of such Drag Along Notice) has acquired any interest in any Shares during the Relevant Period; or (ii) merely by virtue of the fact that both such persons are Relevant Shareholders; and
- (b) not to be Voting in Concert with any other Relevant Shareholder on any resolution at a general meeting or (if applicable) court meeting or in respect of any matter requiring the approval of the Majority Holders where the subject matter of the resolution or matter requiring the approval of the Majority Holders is a proposal which has been recommended by the Board and (i) requires the consent of holders of the A1 Loans under the InPower 2 Facility Agreement or (ii) is a proposal for the refinancing and/or exchange of all of the Eurobonds, the Further Eurobonds and the B Facility Eurobonds, unless such Relevant Shareholders are parties to a binding agreement with each other requiring them to cast their votes on the resolution or to give or withhold their approval of the matter in accordance with the agreement.

For the purposes of this article 59A, a **"Relevant Shareholder"** is a person who has entered into an agreement which entitles it, as a member of a Shareholder committee formed to consider any proposed capital reorganisation of, or refinancing of some or all of the capital instruments in, the Drax Group, to receive advice from a legal or financial adviser in relation to such proposed capital reorganisation or refinancing with whom the Company or any other member of the Drax Group has entered into an agreement for the purposes of this article 59A (an **"Adviser's Agreement"**) and the **"Relevant Period"** is the period from the date of the adoption of this article 59A until the earlier of the date of termination of the Adviser's Agreement and the date being the first anniversary of the date of the adoption of this article 59A (which for the purpose of paragraph (a) of this article 59A, should end not earlier than the date of such first anniversary)."

By Order of the Board

Peter Rothwell (Company Secretary)

9 August 2005

Registered office: Walkers SPV Limited, Walker House, PO Box 908GT, Mary Street, George Town, Grand Cayman, Cayman Islands

Notes:

- 1 A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.
- 2 A form of proxy for the Extraordinary General Meeting ("**EGM**") (the "**Proxy Form**") is enclosed with this notice. Completion and return of the Proxy Form will not prevent a member from attending the EGM and voting in person.
- 3 To be effective, the Proxy Form and any power of attorney or other authority under which it is signed (or a notorially certified copy of such authority) must either be deposited with the Company, c/o Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR, (fax number +44 (0) 20 8639 2180), not later than 48 hours before the time of the EGM, or any adjournment thereof, or deposited at the place where the EGM or adjourned EGM (as appropriate) is to be held at any time before the time for holding the EGM or adjourned EGM (as appropriate).

SCHEDULE 2

[On InPower 2 Limited Letterhead]

To: **Deutsche Bank AG London** (as Agent)
Winchester House
1 Great Winchester Street
London EC2N 2DB

Attention: Corporate Trust and Agency Section, Loan Syndication

Fax No: 0207 933 3419/4703

[•] 2005

Dear Sirs

PROPOSED AMENDMENTS TO DRAX GROUP LIMITED'S ARTICLES OF ASSOCIATION

InPower 2 Facility Agreement dated 22 December 2003, between amongst others, InPower 2 Limited as the Borrower and Deutsche Bank AG London as the Agent (the "InPower 2 Facility Agreement")

Capitalised terms used but not defined in this letter will have the meaning given to them in the InPower 2 Facility Agreement.

We refer to the letter dated 9 August 2005 from Drax Holdings Limited addressed to, amongst others, ourselves (the "**Drax Group Articles Consent Request Letter**"), which requests consent and approval to the Drax Group Articles Amendments (as defined therein), the explanation for and details of which are set out in the Circular (as attached to and defined therein),

Without the consent of the Agent, the Drax Group Articles Amendments will breach the InPower 2 Facility Agreement (Clauses **18.20(d)** (*Change of business*) and **18.25(b)** (*Transaction Documents*)).

Request for Approval and Consent

We request the **Instructing Group** to approve and consent to the **Drax Group Articles Amendments**, and to authorise and instruct the Agent to do all things and sign all documents as are necessary in order to give effect, on behalf of the Finance Parties, to such consent or ratification (as appropriate).

The consent of the Instructing Group shall be subject to the conditions set out in paragraph 1.3 of the Drax Group Articles Consent Request Letter.

Please note that the Agent's consent to the Drax Group Articles Amendments (and, consequently, the instructions of the Instructing Group as to whether such consent is to be granted) is required by not later than **5.00 p.m. (London time) on Wednesday 7 September 2005**.

We should be grateful if you would inform members of the Instructing Group that, in respect of the request detailed above, a response is sought by not later than **5.00 p.m. (London time) on Wednesday 7 September 2005**.

Yours faithfully,

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For and on behalf of
INPOWER 2 LIMITED