

**DRAX GROUP PLC**  
**INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006**

(London – 12 September 2006) Drax Group plc, the UK power generator, announces its interim results for the six months ended 30 June 2006 and reports on key developments to date.

Highlights:

- Revenue from generation increased to £603 million (2005: £366 million)<sup>(1)</sup>
- EBITDA<sup>(3)(4)</sup> of £239 million (2005: £72 million)
- Operating profit of £329 million (2005: £69 million)
- Basic and diluted earnings per share of 57 pence (2005: 32 pence)
- Interim dividend of 4 pence per share
- Special dividend of 80 pence per share
- Improved forward contracted power sales volume and price

Six months ended 30 June 2006 compared to six months ended 30 June 2005

	Six months ended 30 June	
	2006	2005
	£ million	£ million
Revenue from generation <sup>(1)</sup>	603	366
Total revenue	650	404
Gross profit <sup>(2)</sup>	320	140
EBITDA <sup>(3)(4)</sup>	239	72
EBITDA (after exceptional items) <sup>(5)</sup>	347	87
Operating Profit	329	69
Profit before tax	317	13

(1) Revenue from generation excludes revenues associated with power purchases of £47 million (2004: 38 million).

(2) Gross profit is defined as total revenues less total fuel costs.

(3) EBITDA is profit before interest, tax, depreciation and amortisation, exceptional items and unrealised gains/losses on derivative contracts.

(4) Exceptional items in 2006 comprise income of £19 million received under the TXU Claim. Exceptional items in 2005 comprise income of £19 million due to the reversal of provisions relating to impairment of tangible fixed assets and £256 million received under the TXU Claim, partially offset by a charge for share-based payment transactions under the LTIP of £11 million. Unrealised gains on derivative contracts in 2006 were £89 million. Unrealised losses on derivative contracts in 2005 were £249 million.

(5) EBITDA (after exceptional items) is profit before interest, tax, depreciation and amortisation.

Commenting on the results, Dorothy Thompson, Chief Executive of Drax, said:

“I am pleased to announce that we are successfully delivering on our strategy and that the Group is performing well. We are reporting a strong operating, trading and financial performance and announcing a special dividend of 80 pence per share plus an interim dividend of 4 pence per share to be paid in October.”

## Management Presentation and Conference Call

Management will host a presentation for analysts and investors at 9:00am (UK Time) today, 12 September 2006, at the City Presentation Centre, 4 Chiswell Street, Finsbury Square, London, EC1Y 4UP.

The meeting can also be accessed remotely via a conference call or alternatively via a live webcast, as detailed below. After the meeting, a video webcast and recordings of the call will be made available and access details for these recordings are also set out below.

A copy of the presentation will be made available from 7:00am (UK time) on Tuesday 12 September for download at [www.draxgroup.plc.uk](http://www.draxgroup.plc.uk) (>> *Financial Results 2006*).

Event Title: Drax Group plc: Half Year Results  
Event Date: Tuesday 12 September 2006  
Event Time: 9:00am (UK time)

UK Call In Number: 020 7162 0025  
International Call In Number: +44 7162 0025  
US Call In Number: +1 334 323 6201

### Webcast details

Live Event Link: <http://events.webeventsolutions.com/Drax/2006/09/12/>

### UK Instant Replay

Start Date: 12 September 2006  
Delete Date: 12 October 2006  
Dial In Number: 020 7031 4064  
Freephone number (UK only): 0800 358 1860  
Passcode: 714791

### US Instant Replay

Start Date: 12 September 2006  
Delete Date: 12 October 2006  
Dial In Number: +1 954 334 0342  
Freephone number: +1 888 365 0240  
Passcode: 714791

### Video Webcast

Start Date: 12 September 2006  
Delete Date: 13 December 2006  
Archive Link: <http://events.webeventsolutions.com/Drax/2006/09/12/>

For further information please contact:

	On the day	Thereafter
Dorothy Thompson, Chief Executive Gordon Boyd, Finance Director	+44 (0) 20 7353 4200	+44 (0) 1757 618 381
Andrew Jones, Investor Relations	+44 (0) 20 7353 4200	+44 (0) 1757 612 938
Melanie Wedgbury, Media Contact	+44 (0) 20 7353 4200	+44 (0) 1757 612 438
Tulchan Communications David Trenchard and Peter Hewer	+44 (0) 20 7353 4200	

Website: [www.draxgroup.plc.uk](http://www.draxgroup.plc.uk)

#### Notes to Editors

1. High resolution images of Dorothy Thompson are available to download free of charge from [www.vismedia.co.uk](http://www.vismedia.co.uk)

## Chairman's Statement

Drax continues to develop as a listed company with the benefit of its revised capital structure providing greater access to the markets in which it operates. The level of contracted power sales demonstrates that we are delivering our strategy and the dividends declared evidence our commitment to shareholder return.

The six months results show the group performing well. Profitability has increased, our trading strategy is being implemented successfully and we are seeing the benefits of investments made to enhance trading performance and reliability.

The Board of directors has declared an interim base dividend in respect of the six months ended 30 June 2006 of 4 pence per share, being approximately £16 million.

As foreshadowed in our June Trading Update, and in line with our policy 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 of directors has also declared a further interim dividend as a special dividend of 80 pence per share, being approximately £326 million, conditional upon a share consolidation to be put to shareholders for approval at an Extraordinary General Meeting to be held on 6 October 2006, which aims to provide comparability of financial measures and to preserve the position of the participants under certain of the Drax share plans.

Both dividends are expected to be paid on 25 October 2006.

I would like to recognise once again the continuing commitment of our employees. Over the last six months our employees have performed to the highest standards and I would like to express my appreciation for their enthusiasm and commitment to the Drax business.

Gordon Horsfield

Chairman

# Chief Executive's Statement

## Introduction

The Group produced robust performance in the six months ended 30 June 2006 resulting in an operating profit of £329 million and EBITDA of £239 million. Both measures show a substantial improvement on the performance in the first six months of last year reflecting both improved margins and improved operating performance.

These results have been delivered against a background where commodity market developments were driven by a progressive rise in crude oil prices. Natural gas prices were particularly high in the early part of the year, influenced by oil prices and a tighter demand/supply balance as the UK has moved to a greater reliance on imported gas. High gas prices have meant that gas fired generation continued to be the principal price setting plant in the UK power market and had a strong upward influence on the power price. The price of CO<sub>2</sub> emissions allowances has been extremely volatile with severe market shocks in late April/early May 2006 following the publication of 2005 EU CO<sub>2</sub> emission data which indicated lower CO<sub>2</sub> emissions across Europe than anticipated. During the period there were significant developments in the regulatory and legislative areas applicable to Drax with the resolution of the Large Combustion Plant Directive ("LCPD") elections for 2008-2015 and the publication of a new Energy Review by the UK Government.

In March 2005 we advised investors that we had identified a range of projects which had the potential to improve Drax's EBITDA by £30 million to £50 million per annum by the end of 2007. Overall, good progress has been made towards delivering the targeted improvements, particularly in the areas which relate to delivering sustainable improvements to capturing value from our principal revenue source of generating and trading electricity. We estimate that £25 million of EBITDA realised in the six months ended 30 June 2006 is attributable to EBITDA enhancement projects, with an estimated £6 million resulting from changes in commodity prices.

## Trading

Over the last 18 months we have invested in both staff and systems in the trading and risk management areas. This will continue to be an area of investment as we deliver our trading strategy with particular focus on realising market or better dark green spreads and enhancing our ability to capture value from plant flexibility and improved plant reliability. We have also reviewed and revised our risk management controls and, as a result, revised our Risk Management Policy, replacing the Trading and Risk Management Committee of the Drax Group plc Board with a Risk Management Committee of the Board of our trading subsidiary, Drax Power Limited. The responsibilities of the Audit Committee of the Board of Drax Group plc include oversight of the risk management arrangements for the group as a whole.

## Energy Sales and Contracted Position

In the six months ended 30 June 2006, Drax Power made net sales of 12.4TWh (2005: 11.6TWh) of electricity at an average achieved price of £45.7 per MWh (2005: £30.1 per MWh). The average achieved price reflects the impact of power sold forward in 2004 and 2005 for delivery in 2006, as well as market prices prevailing in the first six months of 2006, together with the net impact of the balancing mechanism activity. Power prices rose significantly during the period as reflected in the Drax average achieved price.

Since the revised capital structure was put in place at the time of listing, Drax has capitalised on its improved credit status to implement its trading strategy. As at 5 September 2006 Drax had contracted power sales of 93%, 65% and 52% of expected output for 2006, 2007 and 2008 respectively. Contracted power sales comprise sales where the price of power is fixed and sales where the margin is fixed but the power price may vary.

Fixed price sales were 93%, 59% and 29% of expected output at an average price of £48.1 per MWh, £50.1 per MWh and £49.7 per MWh for 2006, 2007 and 2008 respectively with the balance comprising fixed margin sales. Fixed margin sales include sales to Centrica under the agreement announced on 11 April 2006. This agreement was on standard market terms to provide 600MW of baseload power for

a five and a quarter year period commencing October 2007 and equates to around 27.6TWh of power. It provides Drax with fixed dark green spreads consistent with Drax's trading strategy. The volume is equivalent to a load factor of approximately 16% for the period October 2007 to December 2012.

Drax continues to execute smaller structured deals in both the season and long term markets in line with its stated trading strategy.

### **Market Commentary**

Prompt power prices were in a range of £50-60 per MWh for most of the first quarter compared to an average of £32 per MWh in the first quarter of 2005. During March prices spiked caused by high gas prices, resulting from cold weather across Europe and the unavailability of the Rough gas storage facility. Prices fell into the summer settling in a range of £30-40 per MWh on normal summer demand levels and adequate plant availability.

In the forward power market, prices were influenced by the strong UK forward gas market, which was in turn influenced by continued strength in oil prices. In late April power prices fell following a sharp downwards adjustment in the carbon price. Forward winter prices then drifted lower during the second quarter following gas, as fears of gas supply tightness reduced. Summer forward prices have been relatively stable through the first half.

Coal prices have trended upwards during the first half. Prices have been driven by strong worldwide demand for both coal and freight with spot API 2 rising from \$54 per tonne at the beginning of the year to \$63 per tonne at 30 June 2006.

The price of EU carbon emissions allowances started the year in excess of €20 per tonne rising to a peak of €31 per tonne in April. In late April 2006 CO<sub>2</sub> emissions data from several EU member states began to emerge that recorded a lower level of EU wide emissions than anticipated by the market. This led to a sharp price adjustment with prices falling to a low of €8 per tonne. Since May prices have stabilised somewhat settling in a range of €15-20 per tonne.

The fluctuations in the three commodities described above have resulted in volatility in the forward dark green spreads in the first half, but overall the spreads at 30 June 2006 finished at similar or higher levels to their opening positions. Forward winter spreads were impacted by falling carbon prices and falling power prices; the two effects resulting in spreads ending the half year where they started. With forward summer power prices being more stable, the falling carbon price resulted in forward summer dark green spreads rising over the half year.

### **Operations**

#### **Health and Safety**

Health and safety remains our highest priority. Recordable personal injury rates continue to fall and the Drax performance now compares favourably with industry practice. We believe that a strong safety culture, in addition to promoting the safety of our workforce, has an important part to play in delivering the targets for plant performance.

#### **Plant Availability and Load Factor**

We target profitability rather than production volumes and generate electricity only when it is profitable to do so. A key performance metric for the plant is availability and the most important availability metric is the forced outage rate. The first half of the year saw further improvement in forced outage rate at 4.8% (2005: 6.3%) with the critical first quarter at 3.3% being comfortably ahead of our long term objective of 4.5%. The plant availability for the six month period was 87.0% (2005: 88.1%) with a load factor (based on net sales) of 76.0% (2005: 70.8%). Availability in the first half of the year was impacted by the planned outage falling mostly in the second quarter of 2006 whereas the 2005 planned outage was largely in the third quarter of 2005. For the eight months to 31 August 2006 the forced outage rate was 5.3%.

## **Investment**

As with trading, we continue to invest in people, systems, and equipment with four main objectives in mind: to meet future environmental legislative requirements; to facilitate fuel diversity; to improve plant reliability; and to improve plant efficiency.

### **Environmental**

On 3 February 2006, under LCPD regulations, approximately 20GW of UK coal plant “opted in” with a further 13GW “opted out” and will be subject to a lifetime limit of 20,000 operating hours from 2008. Drax “opted in” under the National Emissions Reduction Plan as we believe this will serve to retain the optionality and flexibility of the plant and thereby the opportunity to add value. To meet the LCPD requirements for oxides of nitrogen emissions standards we have continued our programme to install Boosted Over Fire Air equipment on each of the six units, of which three units are now complete.

### **Fuel Diversity**

Fuel diversity projects include petcoke and biomass. Drax has invested in petcoke handling and blending facilities and commenced an 18 month trial burn on one unit in June 2005. Air quality monitoring has shown that there has been no material increase in pollutants measured. We expect to apply for a licence for commercial burn to commence in 2007. Although the results from the trials are encouraging, there can be no guarantee that consent to burn petcoke in some or all of the units will be granted.

Drax retains the ability to obtain value from the co-firing of biomass and energy crops should the outcome of the consultation arising from the Energy Review referred to below prove positive. A biomass “Direct Injection” system was installed on one unit during August 2005 and has proved to be an effective way of delivering larger volumes of prepared biomass to the boiler than is possible through the coal pulverising mills. Drax has the potential to install, at modest cost, such a system on each unit should the investment be justified on economic grounds. In addition, consideration is being given to other biomass related projects including a processing plant.

### **Reliability**

We have continued with our programmes of targeted improvements in forced outage rates by focusing on preventing minor predictable failures and seeking to avoid major failures by using historical Drax operating data together with original equipment manufacturer and industry experience. These programmes include: improved inspection and equipment monitoring; better quality repairs; equipment upgrades; and the improved provision of critical spares. Good progress has been made to date as demonstrated by the forced outage rate which remains on target for a long-run average of 4.5% from 2007. At the beginning of this year we launched a comprehensive process improvement project for our maintenance management systems which is already delivering early benefits in mill availability and maintenance cost management.

### **Efficiency and CO<sub>2</sub> Emissions**

Drax recognises the potential to improve operating and thermal efficiency leading to reduced emission rates and coal costs. We continue to evaluate value enhancing opportunities some of which may involve significant investment in excess of the three year £100 million core capital expenditure previously announced. We have committed a further £17 million to condenser and feed system plant improvements to improve efficiency and reliability. The work will be undertaken during planned outages in 2007 and 2008 and has an expected payback of 4 to 5 years. We are currently evaluating the feasibility of refurbishing the high pressure and low pressure turbines on all six generating units to improve efficiency thereby reducing the amount of coal consumed and CO<sub>2</sub> emitted per MWh. The investment will be formally considered by the Board by the end of the year and, if approved, is estimated to result in additional investment, which would be material in the context of our current programme, over a 4 to 5 year period commencing in 2007.

## **Regulatory Matters**

### **Energy Review**

In January 2006 the UK Government launched its Energy Review (the "Review"). The Review findings were published in July 2006 and confirmed, amongst other things, that the Government believed coal to have a long term role in the UK energy mix. The report also supported the view that co-firing should be part of the drive to reduce carbon emissions on a long term basis. The co-firing proposals arising from the Review are now subject to consultation. In the short term, the proposal for the removal of constraints on the burning of energy crops could be effective from April 2007. In the medium term, the proposal to introduce "banding" of the Renewables Obligation to provide different levels of financial support to the different methods of renewable generation could be effective from April 2009. Drax supports both these proposals and views the report as positive for coal-fired generation. We look forward to working with the UK Government on the detail.

### **EU Emissions Trading Scheme**

In August 2006 the UK Government submitted its National Allocation Plan for Phase II to the EU. The proposed installation allocation for Drax is 9.6 million tonnes per annum of EU Allowances which, if confirmed, would represent a shortfall of 11.2 million tonnes per annum assuming 2005 generation levels. The shortfall will be covered from 4.7 million tonnes per annum to be delivered under the Centrica contract with the balance to be purchased in the open market. The UK NAP allows for Drax to buy 0.9 million tonnes per annum of alternative Kyoto instruments to make up part of this shortfall.

The European Union is currently reviewing countries' proposals on National Allocation Plans with the aim (at the least) to ensure the Kyoto commitment is achieved. In Phase II each EU country will be required to place a cap on the amount of Clean Development Mechanism certificates to be used during the Phase. Whilst guidance is now available on Phase II allocations for all the major participant countries in the scheme, both the supply of allowances and the potential for using Clean Development Mechanism certificates to meet compliance will remain uncertain until final approval of all National Allocation Plans by the European Union.

### **Outlook**

Performance in the first half of the year has been strong and Drax continues to trade in line with expectations. Against a backdrop of favourable commodities markets, we have invested, and will continue to invest, in people, systems and plant to improve on our current level of performance and to deliver shareholder value.

We will remain active in the regulatory debate particularly with regard to the consultation processes arising from the Energy Review. We believe coal is critical to the UK energy mix going forward if the Government is to achieve its objectives of delivering security of supply, affordability and tackling climate change, where biomass and energy crop burning with coal has much to contribute.

Dorothy Thompson

Chief Executive

## Operating and Financial Review

### Results of Operations

For the six months ended 30 June 2006, Drax recorded an EBITDA of £239 million and an operating profit of £329 million (£221 million excluding exceptional items and unrealised gains on derivative contracts). For the six months ended 30 June 2005 EBITDA was £72 million and operating profit was £69 million (£54 million excluding exceptional items and unrealised losses on derivative contracts).

Six months ended 30 June 2006 compared to six months ended 30 June 2005	Six months ended 30 June	
	2006	2005
	£'m	£'m
<b>Revenue</b>		
Revenue from generation	602.8	365.7
Revenue associated with power purchases	47.2	37.9
	<b>650.0</b>	<b>403.6</b>
<b>Fuel costs<sup>(1)</sup></b>		
Fuel costs in respect of generation	(282.7)	(226.1)
Costs of power purchases	(47.2)	(37.9)
	<b>(329.9)</b>	<b>(264.0)</b>
<b>Gross profit</b>	<b>320.1</b>	<b>139.6</b>
Other operating expenses excluding depreciation, amortisation, unrealised gains/(losses) on derivative contracts and exceptional items <sup>(2)</sup>	(81.5)	(67.9)
<b>EBITDA<sup>(3)</sup></b>	<b>238.6</b>	<b>71.7</b>
Depreciation and amortisation	(17.5)	(17.8)
Other operating income – net exceptional credit	19.0	263.5
Unrealised gains/(losses) on derivative contracts	89.1	(248.5)
<b>Operating profit</b>	<b>329.2</b>	<b>68.9</b>
Interest payable and similar charges	(18.2)	(58.9)
Interest receivable	5.7	2.7
<b>Profit before tax</b>	<b>316.7</b>	<b>12.7</b>
Tax (charge)/credit	(85.0)	77.1
<b>Profit for the period attributable to equity shareholders from continuing operations</b>	<b>231.7</b>	<b>89.8</b>

(1) Fuel costs comprise the fuel costs incurred in the generation process, predominantly coal and CO<sub>2</sub> emissions allowances, together with oil and biomass. Fuel costs also include the cost of power purchased to meet power sales commitments.

(2) Other operating expenses excluding depreciation, amortisation, unrealised gains/(losses) on derivative contracts and exceptional items principally include salaries, maintenance costs, grid connection charges (TNUoS), balancing services costs (BSUoS) and business rates.

(3) EBITDA is defined as profit before interest, tax, depreciation and amortisation, exceptional items and unrealised gains/losses on derivative contracts.

Drax Group's revenues from generation during the six months ended 30 June 2006 were £603 million, compared to £366 million for the corresponding period in 2005. This increase was mainly due to increases in average achieved electricity prices over the period (see Price of Electricity below). Net

power sold in the six months ended 30 June 2006 was 12.4TWh, compared to 11.6TWh in the corresponding period in 2005. Included within revenues from generation are revenues from the sale of by-products (ash and gypsum), the provision of ancillary services, and the sale of ROCs, LECs and SO<sub>2</sub> allowances. In the period ended 30 June 2006 these revenues totalled £36 million compared with £19 million for the corresponding period in 2005.

Drax purchases power in the market when the cost of power in the market is below Drax's marginal costs of production in respect of power previously contracted by the Group, and to cover any shortfall in generation. The costs of power purchased is treated as fuel costs, and revenue has been adjusted accordingly. The cost of purchased power increased by £9 million to £47 million for the first six months of 2006 compared to the corresponding period in 2005, primarily due to the impact of higher market prices.

Drax's fuel costs in respect of generation during the six months ended 30 June 2006 were £283 million, compared to £226 million for the corresponding period in 2005, an increase of £57 million. This increase was primarily due to increased generation, the impact of higher prices for CO<sub>2</sub> emissions allowances, and an increase in the cost of coal and other fuels (see Price of Coal and Other Fuels and CO<sub>2</sub> Emissions Allowances below).

Reflecting the above factors, Drax's gross profit increased from £140 million for the six months ended 30 June 2005 to £320 million for the six months ended 30 June 2006.

Drax's other operating expenses excluding depreciation, amortisation, unrealised gains/losses on derivative contracts and exceptional items were £82 million for the six months ended 30 June 2006, compared to £68 million for the corresponding period in 2005, an increase of £14 million. The increase primarily reflected the timing of expenditure related to Drax's maintenance regime, in particular planned outages, and higher balancing services costs (BSUoS).

Drax's EBITDA (defined as profit before interest, tax, depreciation, amortisation, exceptional items and unrealised gains/losses on derivative contracts) increased from £72 million for the six months ended 30 June 2005 to £239 million for the six months ended 30 June 2006.

Exceptional operating income of £19 million for the six months ended 30 June 2006 related to a further distribution received under the TXU Claim on 20 July 2006. Exceptional operating income for the six months ended 30 June 2005 of £264 million included credits of £19 million due to the reversal of provisions relating to impairment of tangible fixed assets and £256 million received under the TXU Claim. Exceptional operating income in 2005 was partially offset by a charge for share-based payment transactions under the LTIP of £11 million. Additional information relating to these exceptional items is included in the notes to the condensed consolidated financial statements.

IAS 32 and IAS 39, the International Accounting Standards in respect of derivatives and financial instruments, were applicable to Drax for the period from 1 January 2005. As a result of applying these standards, unrealised gains of £81 million and unrealised losses of £74 million on derivative contracts were recognised within assets and liabilities respectively at 30 June 2006 as compared to unrealised losses of £263 million at 30 June 2005. The unrealised gains and losses principally relate to the mark-to-market of Drax's forward contracts for power yet to be delivered, and some coal contracts, which meet the definition of derivatives under IAS 39.

For the period from 1 January 2005 to 30 June 2005, mark-to-market movements on these contracts were reflected directly in the income statement, as appropriate hedge accounting documentation was not in place. This resulted in an expense of £249 million relating to unrealised losses on derivative contracts being recognised in the income statement for the six months to 30 June 2005. Subsequently, credits of £132 million and £89 million were recognised in the income statements for the six month periods ended 31 December 2005 and 30 June 2006 respectively, representing the unwind of the June 2005 position, as power and coal was delivered in accordance with the underlying derivative contracts. From 1 July 2005, the Group put in place appropriate documentation to enable it to achieve hedge accounting for a large proportion of its commodity contracts. As a result, from 1 July 2005 mark-to-market movements on contracts considered to be effective hedges have been recognised through the hedge reserve.

Drax's operating profit increased from £69 million for the six months ended 30 June 2005 to £329 million for the six months ended 30 June 2006.

Interest payable and similar charges in the six months ended 30 June 2006 were £18 million, compared to £59 million for the corresponding period in 2005. The decrease principally reflected a reduction in interest payable on borrowings as a result of lower debt and interest rates following the Refinancing and Listing.

Drax's tax charge during the six months ended 30 June 2006 was £85 million, compared to a tax credit of £77 million for the corresponding period in 2005. The tax credit in 2005 reflected the benefit of the Group's funding structure and utilisation of tax losses brought forward from earlier years, which more than offset the current tax charge for the prior period. Although the tax charge for 2006 also included the benefit of the Group's funding structure, tax losses brought forward from earlier years were exhausted during the period resulting in a higher tax charge.

Reflecting the above factors, Drax's profit from continuing operations increased from £90 million for the six months ended 30 June 2005 to £232 million for the six months ended 30 June 2006.

### Key Factors Affecting the Business

#### Price of Electricity

The table below shows the average achieved price Drax realised for the six months ended 30 June 2005 and 30 June 2006, together with the market closing price for each season.

	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
Average achieved price (£/MWh)	45.7	30.1
<hr/>		
Summer base load market close (£/MWh)	45.0	29.0
<hr/>		
Winter base load market close (£/MWh)	<b>2005/2006</b> 49.2	<b>2004/2005</b> 45.7

Average achieved price rose from £30.1 per MWh for the six months ended 30 June 2005 to £45.7 per MWh for the six months ended 30 June 2006. Average capture price (being the price attained prior to balancing mechanism activity) rose from £29.1 per MWh to £44.5 MWh for the respective periods. The forward baseload power prices for Winter 2006/07 and Summer 2007 were approximately £54.8 per MWh and £42.1 per MWh respectively as at 5 September 2006.

#### Price of Coal and Other Fuels

Drax burnt approximately 5.0 million tonnes of coal in the six months ended 30 June 2006 and approximately 4.6 million tonnes during the corresponding period in 2005. This coal was purchased from a variety of domestic and international sources on either fixed or variable priced contracts with different maturities. Spot prices for internationally traded coal delivered into North West Europe (as reflected by the TFS API 2 index) are volatile. For example, prices per tonne fell from US\$60 at the end of June 2005 to US\$54 at the end of December 2005, but then increased to US\$63 at the end of June 2006.

Drax also burns biomass, petcoke and fuel oil, although coal comprises more than 90% of total fuel costs (excluding CO<sub>2</sub> emissions allowances). The average cost of fuel per MWh (excluding CO<sub>2</sub> emissions allowances) for the six months ended 30 June 2006 was £17.0 compared with £16.1 for the corresponding period in 2005.

## CO<sub>2</sub> Emissions Allowances

Drax's CO<sub>2</sub> emissions allowances requirement for the six months ended 30 June 2006, in excess of those allocated under the UK NAP, was approximately 4.0 million tonnes, compared to approximately 3.5 million tonnes for the corresponding period in 2005.

During the six months ended 30 June 2006, the price for CO<sub>2</sub> emissions allowances has been volatile. The price began the year at approximately €22 per tonne rising to a high of €31 per tonne in April. Towards the end of April and early May the price fell dramatically, reaching a low of €8 per tonne. Since mid-May the price has been less volatile, generally in a range between €15 per tonne and €20 per tonne.

The average price expended by Drax for CO<sub>2</sub> emissions allowances during the six months ended 30 June 2006 was £18.2 per tonne compared with £11.7 per tonne during the six months ended 30 June 2005.

## Outages and Plant Utilisation Levels

	Six months ended 30 June	
	2006	2005
Forced outage rate (%)	4.8	6.3
Planned outage rate (%)	8.6	6.0
Total outage rate <sup>(1)</sup> (%)	13.0	11.9
Availability (%)	87.0	88.1
Electrical output (net sales) (TWh)	12.4	11.6
Load factor (%)	76.0	70.8

(1) The forced outage rate is expressed as a percentage of planned capacity available (i.e. this includes a reduction for planned losses). The planned outage rate is expressed as a percentage of registered capacity, therefore, the aggregation of the forced outage rate and planned outage rate will not equate to the total outage rate.

Lost generation capacity in the first six months of 2006 from forced outages was 0.7TWh, compared to 1.0TWh for the corresponding period in 2005, resulting in a forced outage rate of 4.8% compared to 6.3% in 2005. Management have targeted improvements in forced outage rates by focusing on preventing minor predictable failures and seeking to avoid major failures by using historical Drax operating data together with original equipment manufacturer and industry experience. In the six months to 30 June 2006 progress has been made in both areas and Drax management believe further progress can be made and will continue the programmes to improve performance with the objective of achieving a sustainable forced outage rate of 4.5% by 2007.

Drax's maintenance regime includes a major planned outage for each unit every four years. Consequently, there is an irregular pattern of planned outages and associated expenditure, since in two of the four years, two units will undergo a major outage. A major planned outage (unit 4) was completed mostly in the second quarter of 2006, whereas a major planned outage (unit 6) took place largely in the third quarter of 2005. As there are no other major planned outages scheduled for the remainder of 2006, the full year planned outage rate is expected to be approximately 4.6%, compared to 7.1% for the year to 31 December 2005.

## TXU Claim

Drax received £19 million under the TXU Claim in July 2006 (which was recognised as income in the six months ended 30 June 2006) and £55 million in January 2006 (which was recognised as income in the year ended 31 December 2005), bringing the total received to date to £330 million. All amounts are net of VAT and costs and all proceeds have been used to prepay debt secured against the claim.

At the time of approving these interim financial statements the Group had a further £6 million (including VAT) outstanding under the TXU Claim, which has not been recognised in the income statement at 30 June 2006.

## Liquidity and Capital Resources

Net debt reduced to £152 million as at 30 June 2006 from £462 million as at 31 December 2005. The main reasons for the reduction were the strong realised gross margin and the receipt of distributions from the TXU Claim.

Cash and cash equivalents were £298 million on 30 June 2006 compared with £88 million on 31 December 2005, an increase of £210 million. The increase in cash and cash equivalents is analysed in the table below.

## Analysis of Cash Flows

	Six months ended 30 June	
	2006	2005
	£'m	£'m
Net cash generated from operating activities	335	269
Net cash used in investing activities	(12)	(12)
Net cash used in financing activities	(113)	(217)
<b>Net increase in cash and cash equivalents<sup>(1)</sup></b>	<b>210</b>	<b>40</b>

(1) For the purposes of the cash flow statements, cash and cash equivalents excludes amounts held in escrow and debt service reserve accounts. The movements in these accounts are included as a component of net cash generated from operating activities.

Net cash generated from operating activities was £335 million in the six months ended 30 June 2006, compared to £269 million for the corresponding period in 2005, an increase of £66 million. The increase reflected the impact of improved business performance, EBITDA having increased by £167 million in 2006, and a reduction of £38 million in interest payments following the Refinancing and Listing, offset by a reduction in cash received under the TXU Claim (£55 million cash received under the claim in the six months ended 30 June 2006 compared to £205 million for the corresponding period in 2005).

Net cash used in investing activities, which represented capital expenditure in both periods, was flat at £12 million for the six months ended 30 June 2006 and the corresponding period for 2005.

Net cash used in financing activities was £113 million in the six months ended 30 June 2006, compared to £217 million for the corresponding period in 2005. The 2006 amounts included a Bridge loan prepayment of £55 million on 23 January 2006 and a Term loan repayment of £58 million on 30 June 2006. The 2005 amounts included a prepayment of B Debt of £205 million on 15 April 2005 and a prepayment of A Debt of £12 million on 30 June 2005, both under the Group's previous debt facilities.

The increase in cash and cash equivalents was £210 million in the six months ended 30 June 2006, compared to £40 million for the corresponding period in 2005. Drax's policy is to invest available cash in short term bank deposits.

On 11 May 2006, the Group entered into a new credit facility agreement providing a further £100 million borrowing facility on similar terms and with a similar repayment profile to the existing term borrowings. The facility was drawn down in full on 3 July 2006 and partially utilised to make a payment of £22.5 million into the employee pension scheme to reduce the actuarial deficit. Drax will utilise the remainder of the facility to partially fund the interim and special dividends to be paid on 25 October 2006 (see Distribution Policy below).

## Seasonality of Borrowing

Drax faces seasonality in its business with higher economic dispatch in the winter period and lower economic dispatch in the summer months. Accordingly, cash flow during the summer months is materially reduced due to the combined effect of lower prices and output, while maintenance expenditures are increased during this period due to major planned outages. The Group's £100 million revolving credit facility will assist in managing the cash low points in the cycle where required.

## **Capital Expenditure**

Capital expenditure was £12 million in both the six months ended 30 June 2006 and the corresponding period in 2005. As previously announced, Drax expects to incur core capital expenditure of approximately £100 million in the plant over the period 2006 to 2008 in support of current operations. It is also expected that additional expenditure will be incurred ahead of the requirements of the Large Combustion Plant Directive from 2016. Drax also intends to evaluate other opportunities which may result in additional expenditure (see Business Enhancements below).

## **Business Enhancements**

Drax advised investors in March 2005 that it had identified a range of projects which had the potential to improve EBITDA by £30 million to £50 million per annum by the end of 2007. The projects were focused on the following areas: trading; operations (planned and forced outages); alternative fuels (petcoke); by-product sales; procurement savings; and exploiting the Drax site. Overall, good progress has been made with an estimated £25 million of EBITDA realised in the six months ended 30 June 2006 attributable to the EBITDA enhancement project (with an estimated £6 million resulting from changes in commodity prices). Greatest progress has been made in trading, where we have invested in both people and systems and have been able to take advantage of the increasing reliability of the plant. Plans to exploit the Drax site continue to progress.

The results from the test burning of petcoke on one unit are encouraging. Although the price differential between petcoke and coal has narrowed since the trial commenced (and, if sustained, will reduce the benefits from extending the burning of petcoke to the other five units, assuming consent is given by the Environment Agency) there remains significant benefit. To date this narrowing of the price differential has been more than offset by higher than planned benefits being achieved elsewhere (particularly trading and plant availability).

Management initiated a series of programmes at the end of 2004 aimed at reducing forced outage, with a target of achieving a forced outage rate of 4.5% by the end of 2007. Results to date have been better than expected, although until we are confident that the improvement is sustainable, we have not attributed the full improvement in realised EBITDA enhancements against our target.

We continue to evaluate other value enhancing opportunities, some of which may involve significant investment in excess of the £100 million of core capital expenditure previously announced for the period 2006 to 2008. For example, we have already committed a further £17 million to condenser and feed system plant improvements to enhance efficiency and reliability. The work will be undertaken during planned outages in 2007 and 2008 and has an expected payback of 4 to 5 years. In addition, we are currently evaluating tenders from a number of international turbine manufacturers to upgrade the high pressure and low pressure turbine rotors on all six generating units to improve efficiency, thereby reducing the amount of coal consumed and CO<sub>2</sub> emitted per MWh. It is expected that this investment will be formally considered by the Board by the end of the year and, if approved, would result in expenditure material in the context of the current capital expenditure programme, spread over a 4 to 5 year period commencing in 2007.

## **Employee Share Plans**

On 23 May 2006, the Company issued 157,734 ordinary shares of 10 pence each in Drax Group plc at par to a trust on behalf of qualifying employees under the Group's Share Incentive Plan. Each qualifying employee received 254 free shares, equating to a cash value of approximately £2,000 based on a price of £7.89, being the average closing price over the five dealing days immediately preceding 23 May 2006.

In addition, participation in three and five year Savings Related Share Option Plans was offered to all qualifying employees. The plans commenced on 1 July 2006 and are expected to result in the issue of 298,898 options to acquire ordinary shares in Drax Group plc at a price of £6.36 exercisable at the end of three year savings contracts, and a further 600,498 options to acquire ordinary shares in Drax Group plc at a price of £6.36 exercisable at the end of five year saving contracts.

### Contracted Position for 2006, 2007 and 2008

Since issuing a Trading Update on 30 June 2006, Drax has continued to trade in line with expectations and to follow the stated trading strategy of making steady forward power sales with matching carbon and coal purchases. Drax's aim is to deliver market level or better dark green spreads across all traded market periods and, as part of this strategy, Drax retains power to be sold into the prompt (within season) power markets.

As at 5 September 2006 the contracted power sales for 2006, 2007 and 2008 were as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Output – percentage of expected annual production hedged	93%	65%	52%
comprising:			
– Fixed price power sales at an average achieved price per MWh	93% at £48.1	59% at £50.1	29% at £49.7
– Fixed margin power sales	—	6%	23%
CO <sub>2</sub> emissions allowances – percentage of expected annual requirement (including UK NAP allocation, market purchases and structured contracts)	93%	72%	67%
Coal – percentage of expected annual requirement hedged	100%	63%	54%

Fixed margin power sales include approximately 1.3TWh in 2007 and 5.3TWh in 2008 under the five and a quarter year baseload contract with Centrica which commences on 1 October 2007. Under this contract Drax will supply power on terms which include Centrica paying Drax for coal, based on international coal prices, and delivering matching CO<sub>2</sub> emissions allowances. The contract provides Drax with a series of fixed dark green spreads.

Drax expects to issue a trading update on or around 13 December 2006.

### Distribution Policy

The Board has previously stated that Drax will pay a stable amount (£50 million) by way of ordinary dividends each year (the base dividend) subject to availability of cash and appropriate reserves. Accordingly, on 11 September 2006 the Board resolved to pay an interim dividend for the six months ended 30 June 2006 of 4 pence per share (equivalent to £16 million) on 25 October 2006. These shares will be marked ex-interim dividend on 4 October 2006.

In addition to the base dividend, the Board has also previously stated that 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, will be distributed to shareholders. Accordingly, on 11 September 2006 the Board resolved, subject to the approval by shareholders of a resolution to effect a share consolidation to be considered at an Extraordinary General Meeting on 6 October 2006, to pay a further interim dividend as a special dividend of 80 pence per share (equivalent to £326 million), also on 25 October 2006. The shares will be marked ex-special dividend on 9 October 2006.

This review was approved by the Board on 11 September 2006.

Gordon Boyd

Finance Director

## Condensed Consolidated Income Statements

	Notes	Six months ended		Year
		30 June		ended
		2006	2005	31
		(Unaudited)		December
		£'m	£'m	2005
				£'m
<b>Continuing operations</b>				
Revenue		650.0	403.6	928.6
Fuel costs		(329.9)	(264.0)	(539.5)
Other operating expenses excluding exceptional items		(99.0)	(85.7)	(180.9)
Other exceptional operating income	i	19.0	274.8	329.9
Other exceptional operating expenses	i	—	(11.3)	(66.6)
Total other operating (expenses)/income		(80.0)	177.8	82.4
Unrealised gains/(losses) on derivative contracts		89.1	(248.5)	(117.0)
<b>Operating profit</b>		<b>329.2</b>	<b>68.9</b>	<b>354.5</b>
Interest payable and similar charges		(18.2)	(58.9)	(114.4)
Interest receivable		5.7	2.7	23.5
<b>Profit before tax</b>		<b>316.7</b>	<b>12.7</b>	<b>263.6</b>
Tax (charge)/credit	i	(85.0)	77.1	18.8
<b>Profit for the period attributable to equity shareholders from continuing operations</b>		<b>231.7</b>	<b>89.8</b>	<b>282.4</b>
<b>Earnings per share from continuing operations expressed in pence per share</b>				
– Basic		56.9	31.8	98.0
– Diluted		56.9	31.8	98.0

The results above relate to the continuing operations of the Group.

## Condensed Consolidated Statement of Recognised Income and Expense

	Six months ended		Year ended
	30 June		31
	2006	2005	December
	(Unaudited)		
	£'m	£'m	£'m
<b>Profit for the period</b>	<b>231.7</b>	<b>89.8</b>	<b>282.4</b>
Actuarial gains/(losses) on defined benefit pension schemes	9.8	(0.2)	(8.2)
Deferred tax on actuarial (gains)/losses on defined benefit pension schemes	(2.9)	0.1	2.5
Initial recognition of net mark-to-market liability on adoption of IAS 32 and IAS 39	—	(5.6)	(5.6)
Deferred tax recognised on adoption of IAS 32 and IAS 39	—	1.7	1.7
Fair value gains/(losses) on cash flow hedges	132.6	—	(109.7)
Deferred tax recognised on fair value (gains)/losses on cash flow hedges	(39.8)	—	32.9
<b>Net gains/(losses) not recognised in income statement</b>	<b>99.7</b>	<b>(4.0)</b>	<b>(86.4)</b>
<b>Total recognised income for the period attributable to equity shareholders</b>	<b>331.4</b>	<b>85.8</b>	<b>196.0</b>

## Condensed Consolidated Balance Sheets

	Notes	As at		As at
		30 June		31
		2006	2005	December
		(Unaudited)		2005
		£'m	£'m	£'m
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment		1,044.5	1,051.3	1,050.5
Derivative financial instruments		19.5	—	0.3
		<b>1,064.0</b>	<b>1,051.3</b>	<b>1,050.8</b>
<b>Current assets</b>				
Inventories		75.6	56.8	67.8
Trade and other receivables		110.0	109.5	192.9
Derivative financial instruments		61.7	0.4	7.7
Cash at bank and in hand		298.2	109.7	99.1
		<b>545.5</b>	<b>276.4</b>	<b>367.5</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Financial liabilities:				
– Borrowings	10	25.3	51.1	101.4
– Derivative financial instruments		47.8	250.4	173.0
Trade and other payables		174.4	101.6	176.1
Current tax liabilities		32.1	0.9	5.2
		<b>279.6</b>	<b>404.0</b>	<b>455.7</b>
<b>Net current assets/(liabilities)</b>		<b>265.9</b>	<b>(127.6)</b>	<b>(88.2)</b>
<b>Non-current liabilities</b>				
Financial liabilities:				
– Borrowings	10	425.3	1,015.7	460.1
– Derivative financial instruments		26.4	12.9	49.6
Deferred tax liabilities		287.2	167.8	185.3
Retirement benefit obligations		35.0	36.9	44.7
Other non-current liabilities		1.0	25.9	0.7
Provisions		2.1	1.5	2.0
		<b>777.0</b>	<b>1,260.7</b>	<b>742.4</b>
<b>Net assets/(liabilities)</b>		<b>552.9</b>	<b>(337.0)</b>	<b>220.2</b>
<b>Shareholders' equity</b>				
Issued equity	11	40.7	—	40.7
Share premium		420.7	0.5	420.7
Merger reserve		710.8	445.1	710.8
Capital reserve		—	293.5	—
Hedge reserve		16.0	—	(76.8)
Retained losses		(635.3)	(1,076.1)	(875.2)
<b>Total shareholders' equity</b>		<b>552.9</b>	<b>(337.0)</b>	<b>220.2</b>

## Condensed Consolidated Statement of Changes in Equity

	Share capital £'m	Share premium £'m	Merger reserve £'m	Capital reserve £'m	Hedge reserve £'m	Retained losses £'m	Total £'m
<b>At 1 January 2005</b>	—	0.5	445.1	293.5	—	(1,173.2)	(434.1)
Profit for the period	—	—	—	—	—	282.4	282.4
Actuarial losses on defined benefit pension schemes	—	—	—	—	—	(8.2)	(8.2)
Deferred tax on actuarial losses on defined benefit pension schemes	—	—	—	—	—	2.5	2.5
Initial recognition of net mark-to-market liability on adoption of IAS 32 and 39	—	—	—	—	—	(5.6)	(5.6)
Deferred tax recognised on adoption of IAS 32 and 39	—	—	—	—	—	1.7	1.7
Fair value losses on cash flow hedges	—	—	—	—	(109.7)	—	(109.7)
Deferred tax recognised on fair value losses on cash flow hedges	—	—	—	—	32.9	—	32.9
Share capital issued on Refinancing and Listing	40.7	—	—	—	—	—	40.7
Share premium arising on Refinancing and Listing	—	420.7	—	—	—	—	420.7
Reverse acquisition adjustments:							
– Share for share exchange	—	(0.5)	(27.8)	—	—	—	(28.3)
– Transfer of capital reserve	—	—	293.5	(293.5)	—	—	—
LTIP – value of services provided	—	—	—	—	—	25.2	25.2
<b>At 31 December 2005</b>	<b>40.7</b>	<b>420.7</b>	<b>710.8</b>	<b>—</b>	<b>(76.8)</b>	<b>(875.2)</b>	<b>220.2</b>
<b>At 1 January 2005</b>	—	0.5	445.1	293.5	—	(1,173.2)	(434.1)
Profit for the period	—	—	—	—	—	89.8	89.8
Actuarial losses on defined benefit pension schemes	—	—	—	—	—	(0.2)	(0.2)
Deferred tax on actuarial losses on defined benefit pension schemes	—	—	—	—	—	0.1	0.1
Initial recognition of net mark-to-market liability on adoption of IAS 32 and 39	—	—	—	—	—	(5.6)	(5.6)

	Share capital £'m	Share premium £'m	Merger reserve £'m	Capital reserve £'m	Hedge reserve £'m	Retained losses £'m	Total £'m
Deferred tax recognised on adoption of IAS 32 and 39	—	—	—	—	—	1.7	1.7
LTIP – value of services provided	—	—	—	—	—	11.3	11.3
<b>At 30 June 2005</b>	<b>—</b>	<b>0.5</b>	<b>445.1</b>	<b>293.5</b>	<b>—</b>	<b>(1,076.1)</b>	<b>(337.0)</b>
<b>At 1 January 2006</b>	<b>40.7</b>	<b>420.7</b>	<b>710.8</b>	<b>—</b>	<b>(76.8)</b>	<b>(875.2)</b>	<b>220.2</b>
Profit for the period	—	—	—	—	—	231.7	231.7
Actuarial gains on defined benefit pension schemes	—	—	—	—	—	9.8	9.8
Deferred tax on actuarial gains on defined benefit pension schemes	—	—	—	—	—	(2.9)	(2.9)
Fair value gains on cash flow hedges	—	—	—	—	132.6	—	132.6
Deferred tax recognised on fair value gains on cash flow hedges	—	—	—	—	(39.8)	—	(39.8)
Share-based payments – value of services provided	—	—	—	—	—	1.3	1.3
<b>At 30 June 2006</b>	<b>40.7</b>	<b>420.7</b>	<b>710.8</b>	<b>—</b>	<b>16.0</b>	<b>(635.3)</b>	<b>552.9</b>

## Condensed Consolidated Cash Flow Statements

	Notes	Six months ended		Year
		30 June		ended
		2006	2005	31
		(Unaudited)		December
		£'m	£'m	2005
				£'m
<b>Cash generated from operations</b>	<b>12</b>	<b>338.3</b>	<b>320.2</b>	<b>462.3</b>
Income taxes received/(paid)		1.1	(1.7)	(2.8)
Decrease in restricted cash		11.3	5.6	26.9
Interest paid on the Refinancing and Listing		—	—	(86.2)
Interest paid		(20.2)	(58.4)	(57.5)
Interest received		4.7	2.8	5.8
<b>Net cash generated from operating activities</b>		<b>335.2</b>	<b>268.5</b>	<b>348.5</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment		(12.2)	(12.4)	(25.0)
<b>Net cash used in investing activities</b>		<b>(12.2)</b>	<b>(12.4)</b>	<b>(25.0)</b>
<b>Cash flows from financing activities</b>				
Repayment of borrowings		(112.6)	—	—
Repayment of borrowings prior to the Refinancing and Listing		—	(216.5)	(267.6)
Repayment of borrowings on the Refinancing and Listing		—	—	(582.6)
Debt issued as a result of the Refinancing and Listing		—	—	577.0
<b>Net cash used in financing activities</b>		<b>(112.6)</b>	<b>(216.5)</b>	<b>(273.2)</b>
<b>Net increase in cash and cash equivalents</b>		<b>210.4</b>	<b>39.6</b>	<b>50.3</b>
Cash and cash equivalents at beginning of the period		87.8	37.5	37.5
<b>Cash and cash equivalents at end of the period</b>	<b>12</b>	<b>298.2</b>	<b>77.1</b>	<b>87.8</b>

# Notes to the Condensed Consolidated Financial Statements

## 1 General Information

Drax Group plc (the "Company") is a company incorporated in England and Wales under the Companies Act 1985. Drax Group plc and its subsidiaries (together the "Group") operate in the electricity generation industry within the UK. The address of Drax Group plc's registered office and principal establishment is Drax Power Station, Selby, North Yorkshire, YO8 8PQ, United Kingdom.

## 2 Basis of Preparation

The condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards in accordance with IAS 34 "Interim Financial Reporting".

The Refinancing and Listing of the Group, effective on 15 December 2005, resulted in the creation of a new holding company, Drax Group plc. Under IFRS 3, the insertion of Drax Group plc as the new holding company was accounted for as a reverse acquisition, whereby Drax Group Limited (being the previous Group holding company), the legal subsidiary, acquired Drax Group plc, the legal parent company.

The information for the year ended 31 December 2005 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

The interim financial statements were approved by the Board of directors on 11 September 2006.

## 3 Significant Accounting Policies

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005. The Group does not expect any significant changes in accounting policies in the remainder of 2006.

## 4 Segmental Reporting

Turnover comprises primarily sales of electricity generated by the Group to the electricity wholesale market in England and Wales. As such, the Group has only one business segment and one geographical segment.

## 5 Other Exceptional Operating Income and Expenses

	Six months ended 30 June		Year ended 31 December
	2006 (Unaudited) £'m	2005 £'m	2005 £'m
<b>Other exceptional operating income:</b>			
Distributions under the TXU Claim received in:			
– March 2005	—	204.7	204.7
– August 2005	—	51.1	51.1
– January 2006	—	—	55.1
– July 2006	19.0	—	—
Reversal of impairment of tangible fixed assets	—	19.0	19.0
<b>Total other exceptional operating income</b>	<b>19.0</b>	<b>274.8</b>	<b>329.9</b>
<b>Other exceptional operating expenses:</b>			
LTIP expenses arising on share-based transactions	—	(11.3)	(32.9)
LTIP expenses arising on cash-based transactions	—	—	(4.7)
Refinancing and Listing fees and expenses	—	—	(29.0)
<b>Total other exceptional operating expenses</b>	<b>—</b>	<b>(11.3)</b>	<b>(66.6)</b>

### Distributions under the TXU Claim

The Group received £19.0 million under the TXU Claim in July 2006 (which was recognised as income in the six months ended 30 June 2006) and £55.1 million in January 2006 (which was recognised as income in the year ended 31 December 2005),

bringing the total received to date to £329.9 million. All amounts are net of VAT and costs and all proceeds have been used to prepay debt secured against the claim.

At the time of approving the condensed consolidated financial statements the Group had a further £6.4 million (including VAT) outstanding under the TXU Claim. The directors have reasonable expectations that the Group will receive repayment of this amount broadly in full by mid-2007. However, due to the contingent nature of insolvency proceedings, there remains uncertainty over the timing and amount of further distributions to be determined by the TXU Supervisors, and consequently these further amounts have not been recognised in the income statement at 30 June 2006.

#### Reversal of impairment of tangible fixed assets

In accordance with IAS 36, the Group assessed at each reporting date whether there was any indication that impairment losses recognised during the year to 31 December 2002, following the loss of the TXU Contract, should be reversed. As a result of the assessment performed at 30 June 2005 for the purposes of the financial information prepared in connection with the Refinancing and Listing, the Group recorded a reversal of tangible fixed asset impairment of £19.0 million (£13.3 million net of tax). This represents a reversal of the total impairment loss recognised in respect of tangible fixed assets at 31 December 2002 after adjusting for depreciation.

#### Refinancing and Listing fees and expenses

The total costs of the Refinancing and Listing amounted to £44.7 million. £29.0 million (£20.3 million net of tax) of these costs were included within other exceptional operating expenses in the income statement for the year ended 31 December 2005. The remaining £15.7 million was deducted from debt and is being amortised to interest payable over the duration of the Group's new debt facilities.

#### LTIP expenses arising on share and cash-based transactions

The LTIP expense arising from share-based payment transactions was determined based on the Group's estimate of the market value of the shares included in the scheme. This was charged in full following vesting of the awards on Refinancing and Listing on 15 December 2005.

The LTIP expense arising from cash-based payment transactions reflected the expected total cash cost of the scheme. This was charged in full following vesting of the awards on Refinancing and Listing on 15 December 2005.

## 6 Taxation

The income tax expense reflects the estimated effective rate on profit before taxation for the Group for the year ending 31 December 2006 and the movement in the deferred tax balance in the period so far as it relates to items recognised in the income statement.

	Six months ended 30 June		Year ended 31 December
	2006 (Unaudited) £'m	2005 £'m	2005 £'m
<b>Tax (charge)/credit comprises:</b>			
Current tax	(25.8)	—	(5.5)
Deferred tax	(59.2)	77.1	24.3
	<b>(85.0)</b>	<b>77.1</b>	<b>18.8</b>

## 7 Earnings Per Share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The calculation of weighted average number of ordinary shares outstanding assumes that the ordinary shares in Drax Group plc issued to the existing shareholders of Drax Group Limited on Refinancing and Listing were in issue either at 1 January 2005 (to the extent that the related Drax Group Limited shares were in issue at 1 January 2005), or from the date of issue of Drax Group Limited shares (to the extent that the related Drax Group Limited shares were issued after 1 January 2005).

Reconciliations of the earnings and weighted average number of shares used in the calculation are set out below.

	Six months ended 30 June	Year ended 31 December
--	-----------------------------	------------------------------

	2006 (Unaudited)	2005	2005
<b>Earnings:</b>			
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings (£'m)	231.7	89.8	282.4
	Six months ended 30 June	Year ended 31 December	
	2006 (Unaudited)	2005	2005
<b>Number of shares:</b>			
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	407.0	282.8	288.2
Effect of dilutive potential ordinary shares under share options	—	—	—
<b>Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)</b>	<b>407.0</b>	<b>282.8</b>	<b>288.2</b>

Outstanding share options in relation to the Group's Savings Related Share Option Plans have been considered in calculating the diluted weighted average share capital as at 30 June 2006.

## 8 Dividends

On 11 September 2006 the Board resolved to pay an interim dividend for the six months ended 30 June 2006 of 4 pence per share on 25 October 2006. Also on 11 September 2006 the Board resolved, subject to the approval by shareholders of a resolution to effect a share consolidation to be considered at an Extraordinary General Meeting on 6 October 2006, to pay a further interim dividend as a special dividend of 80 pence per share, also on 25 October 2006.

The interim dividend of 4 pence per share and special dividend of 80 pence per share have not been included as liabilities as at 30 June 2006. No dividends were proposed in respect of the year ended 31 December 2005.

## 9 Pension

The most recent actuarial valuation of the approved defined benefit scheme operated on behalf of the Drax Power Group of the Electricity Supply Pension Scheme was updated as at 30 June 2006 to reflect relevant changes in assumptions. The principal change from those assumptions adopted at 31 December 2005 was a change in the discount rate from 4.7% to 5.2% reflecting market conditions at that date.

## 10 Financial Liabilities – Borrowings

	As at 30 June 2006 (Unaudited) £'m	2005 £'m	As at 31 December 2005 £'m
<b>Current:</b>			
Term loan	6.3	—	46.3
Bridge loan	19.0	—	55.1
B Facility Debt	—	51.1	—
	<b>25.3</b>	<b>51.1</b>	<b>101.4</b>
	As at 30 June	As at 31 December	
	2006	2005	2005

	As at 30 June		As at 31 December
	2006	2005	2005
	(Unaudited)		
	£'m	£'m	£'m
	(Unaudited)		
	£'m	£'m	£'m
<b>Non-current:</b>			
Term loan	422.4	—	438.2
Bridge loan	2.9	—	21.9
A Facility Debt	—	933.3	—
B Facility Debt	—	82.4	—
	<b>425.3</b>	<b>1,015.7</b>	<b>460.1</b>

Payment profiles for repayment of the Term loan are based on the fixed minimum repayment profile. Repayments above the fixed minimum repayment profile are permitted subject to the amount of cash available for debt service. £57.5 million of the Term loan was repaid on 30 June 2006 in line with the target repayment profile as a result of the levels of cash available for debt service.

The Bridge loan has a first priority over the TXU Claim and the proceeds thereof, which are its primary source of repayment. Following a third distribution under the TXU Claim on 19 January 2006, £55.1 million of the Bridge loan was repaid on 23 January 2006. The distribution was recognised as income in the year ended 31 December 2005. Following a fourth distribution on 20 July 2006, £19.0 million of the Bridge loan was repaid on 25 July 2006. The fourth distribution was recognised as income in the six months ended 30 June 2006.

On 11 May 2006, the Group entered in to a new credit facility agreement providing a further £100 million borrowing facility on similar terms and with a similar repayment profile to the existing borrowings. The facility was drawn down in full on 3 July 2006 and partially utilised to make a payment of £22.5 million into the employee pension scheme to reduce the actuarial deficit. The Group expects to utilise the remainder of the facility to partially fund the interim and special dividends to be paid on 25 October 2006 (note 8).

## 11 Called up Share Capital

	As at 30 June		As at 31 December
	2006	2005	2005
	(Unaudited)		
	£'m	£'m	£'m
<b>Authorised:</b>			
1,000,000,000 ordinary shares of 0.001 pence each	—	—	—
999,500,020 ordinary shares of £0.10 each	100.0	—	100.0
<b>Issued and fully paid:</b>			
30 June 2005—94,254,480 ordinary shares of 0.001 pence each	—	—	—
31 December 2005—406,927,661 ordinary shares of £0.10 each	—	—	40.7
30 June 2006—407,085,395 ordinary shares of £0.10 each	40.7	—	—
	<b>40.7</b>	<b>—</b>	<b>40.7</b>

Under IFRS 3, the insertion of Drax Group plc as the new holding company on Refinancing and Listing was accounted for as a reverse acquisition, whereby Drax Group Limited (being the previous holding company), the legal subsidiary, acquired Drax Group plc, the legal parent company. Therefore, the share capital in the condensed consolidated balance sheet at 30 June 2005 reflected that of Drax Group Limited prior to the reverse acquisition.

On 23 May 2006, the Company issued 157,734 ordinary shares of 10 pence each in Drax Group plc at par to a trust on behalf of qualifying employees under the Share Incentive Plan. Each qualifying employee received 254 free shares, equating to a cash value of approximately £2,000 each based on a price of £7.89, being the average closing price over the five dealing days immediately preceding 23 May 2006.

## 12 Cash Flow from Operating Activities

	Six months ended		Year ended
	30 June		31
	2006	2005	December
	(Unaudited)		2005
	£'m	£'m	£'m
<b>Continuing operations</b>			
Profit for the period	231.7	89.8	282.4
Adjustments for:			
Interest payable and similar charges	18.2	58.9	114.4
Interest receivable	(5.7)	(2.7)	(23.5)
Tax charge/(credit)	85.0	(77.1)	(18.8)
Depreciation	17.5	15.8	31.0
Reversal of impairment of tangible fixed assets	—	(19.0)	(19.0)
Loss on disposal of property, plant and equipment	—	2.0	0.2
Unrealised (gains)/losses on derivative contracts	(89.1)	248.5	117.0
Credit to equity for share-based payments	1.3	11.3	25.2
<b>Operating cash flows before movement in working capital</b>	<b>258.9</b>	<b>327.5</b>	<b>508.9</b>
Changes in working capital:			
Increase in inventories	(6.2)	(11.6)	(22.6)
Decrease/(increase) in receivables	83.9	(40.0)	(123.4)
Increase in payables	1.5	43.1	99.8
Increase in pensions	0.1	0.2	—
Increase/(decrease) in provisions	0.1	1.0	(0.4)
<b>Cash generated from operations</b>	<b>338.3</b>	<b>320.2</b>	<b>462.3</b>

Cash and cash equivalents includes the following for the purposes of the cash flow statement:

	As at		As at
	30 June		31
	2006	2005	December
	(Unaudited)		2005
	£'m	£'m	£'m
<b>Cash and cash equivalents:</b>			
Cash at bank and in hand	298.2	109.7	99.1
Less: debt service reserve and escrow accounts	—	(32.6)	(11.3)
	<b>298.2</b>	<b>77.1</b>	<b>87.8</b>

# **Independent Review Report to Drax Group plc**

## **Introduction**

We have been instructed by the Company to review the financial information for the six months ended 30 June 2006 which comprises the condensed consolidated income statements, the condensed consolidated balance sheets, the condensed consolidated statement of total recognised income and expense, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statements and related notes 1 to 12. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

## **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority and the requirements of IAS 34 which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

## **Review work performed**

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

## **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

## **Deloitte & Touche LLP**

Chartered Accountants  
London  
11 September 2006

## Glossary

<b>Availability</b>	Average percentage of time the units were available for generation.
<b>Average achieved price</b>	Power revenues divided by volume of net sales.
<b>Average capture price</b>	Revenue derived from bilateral contracts divided by volume of net merchant sales.
<b>Bilateral contracts</b>	Revenue resulting from bilateral contract and power exchange trades.
<b>Balancing mechanism income/expense</b>	Income or expense resulting from accepted bids and offers in the balancing mechanism.
<b>Dark green spread</b>	The difference between the price available in the market for sales of electricity and the marginal cost of production (being the cost of coal and other fuels including CO <sub>2</sub> emissions allowances.)
<b>EU ETS</b>	EU Emissions Trading Scheme; establishing a scheme for greenhouse gas emission allowance trading within the EU.
<b>Forced outage rate</b>	Average percentage of time the units were not available for generation at full capacity due to an unplanned failure or conditions requiring the unit to be removed from service.
<b>IAS</b>	International Accounting Standards.
<b>IFRS</b>	International Financial Reporting Standards.
<b>Load factor</b>	Percentage of actual net sales to potential maximum net generation.
<b>LTIP</b>	The Drax Group Limited Long Term Incentive Plan.
<b>Net balancing mechanism</b>	Net volumes attributable to accepted bids and offers in the balancing mechanism.
<b>Net merchant sales</b>	Net volumes attributable to bilateral contract and power exchange trades.
<b>Net sales</b>	The aggregate of net merchant sales and net balancing mechanism.
<b>Planned outage rate</b>	Percentage of planned outages to maximum generation.
<b>Power revenues</b>	The aggregate of bilateral contracts and balancing mechanism income/expense.
<b>Refinancing and Listing</b>	The financial restructuring of the Group effective on 15 December 2005 resulting in the creation of a new holding company, Drax Group plc. Pursuant to the schemes of arrangement under which the Refinancing and Listing was implemented, the existing debt of the Group was settled partially through the issue of new debt and partially through the issue of ordinary shares in Drax Group plc. Also on 15 December 2005, Drax Group plc was introduced to the Official List of the UK Listing Authority and its ordinary shares commenced trading on the London Stock Exchange.
<b>Summer base load market close</b>	Market price on the last day that the season was traded as a product.
<b>The Company</b>	Drax Group plc.
<b>The Group</b>	Drax Group plc and its subsidiaries.
<b>TXU</b>	TXU Europe Energy Trading Limited (in administration and subject to a company voluntary arrangement).
<b>TXU Claim</b>	The claim issued by the Group, ultimately agreed by the Administrators of TXU at approximately £348 million (including VAT) in respect of unpaid power purchased by TXU and liquidated damages under the TXU Contract.
<b>TXU Contract</b>	A 15-year power purchase agreement with TXU.
<b>UK NAP</b>	UK National Allocation Plan.
<b>Winter base load market close</b>	Market price on the last day that the season was traded as a product.

## Shareholder Information

### Registered Office and Trading Address

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

### Registration Details

Registered in England and Wales  
Company Number: 5562053

### Company Website

[www.draxgroup.plc.uk](http://www.draxgroup.plc.uk)

### Financial Calendar

At the date of publication of this document, the following are the proposed key dates in the 2006 financial calendar and outline dates for 2007:

#### 2006

4 October	Existing ordinary shares marked ex-interim dividend
6 October	Record date for interim dividend, special dividend and share consolidation
6 October	Extraordinary General Meeting
9 October	Existing ordinary shares marked ex-special dividend and admission of new ordinary shares
25 October	Payment date for interim dividend and special dividend
13 December	Trading update
31 December	Financial year end

#### 2007

March	Preliminary results announcement
Late April	Annual General Meeting
30 June	Financial half year end

Other significant dates, or amendments to the proposed dates above, will be posted on the Company's website as and when they become available.