

6 September 2007

DRAX GROUP plc
(Symbol: DRX)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

Drax Group plc ("Drax" or the "Company"), the UK power generator, announces its interim results for the six months ended 30 June 2007.

Highlights

- EBITDA⁽¹⁾ up 21% to £288 million driven by improved margins delivered in the first half of 2007, realised through Drax's progressive hedging strategy
- Return to shareholders of £100 million proposed, comprising: interim ordinary dividend of 4.7 pence per share (£17 million) and share buy back of £83 million starting shortly
- Leading operating performance amongst UK coal generation plant maintained with plant availability of 87%
- Emissions abatement remains a key focus:
 - Turbine upgrade installation commenced early – when complete will boost base load efficiency of the plant to 40% and save one million tonnes of CO₂ each year
 - The Government's Energy White Paper improves confidence in the long term viability of co-firing – Drax is targeting to produce 10% of its output from renewables by the end of 2009 resulting in an annual saving of two million tonnes of CO₂
 - Investment required to deliver compliance with the 2008 limits of LCPD largely complete

Six months ended 30 June 2007 compared to six months ended 30 June 2006

	Six months ended 30 June	
	2007	2006
	£ million	£ million
Total revenue	640	650
Gross profit	382	320
EBITDA ⁽¹⁾	288	239
Operating profit ⁽²⁾	283	329
Profit before tax	273	317
	Pence per share	Pence per share
Basic and diluted earnings per share ⁽³⁾	60	57
Ordinary dividend ⁽⁴⁾	4.7	4.0
Special dividend ⁽⁴⁾	Note (5)	80.0

Notes:

- (1) EBITDA is profit before interest, tax, depreciation and amortisation, exceptional items and unrealised gains on derivative contracts.
- (2) Operating profit includes exceptional items and unrealised gains on derivative contracts totalling £13 million (2006: £108 million)
- (3) During the period the calculation of earnings per share was amended to reflect share consolidations associated with special dividends from the date of consolidation only. Comparatives have been restated accordingly.
- (4) Based on the number of shares in issue at 30 June 2006 and 30 June 2007 respectively
- (5) Share buy back programme to be launched for £83 million

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

“Drax has continued to deliver on its stated strategy over the last six months. Sticking to our strategy has enabled us to return nearly £600 million to shareholders since our listing in December 2005.

“We are very pleased to announce that we have made an early start on our turbines upgrade project and are installing this month our first high pressure turbine module. Fast tracking the project will bring early benefits in terms of engineering experience, and modest efficiency gains and carbon dioxide emissions reductions.

“A key focus for the remainder of the year is to prepare for compliance with the Large Combustion Plant Directive which comes into effect next year. We expect this legislation to provide a challenge for the power generation industry as a whole as coal generators across the UK adjust to new operating constraints.”

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### **Forward Looking Statements**

This announcement may contain certain statements, statistics and projections that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Drax Group plc (“Drax”) and its subsidiaries (the “Group”) are not warranted or guaranteed. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Although Drax believes that the expectations reflected in such statements are reasonable, no assurance can be given that such expectations will prove to be correct. There are a number of factors, many of which are beyond the control of the Group, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, factors such as: future revenues being lower than expected; increasing competitive pressures in the industry; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected. We do not intend to publicly update or revise these projections or other forward-looking statements to reflect events or circumstances after the date hereof, and we do not assume any responsibility for doing so.

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Management Presentation and Conference Call

Management will host a presentation for analysts and investors at 9:00am (UK Time) today, Thursday 6 September 2007, 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 Thursday 6 September for download at www.draxgroup.plc.uk >> investor centre

Event Title: Drax Group plc: Half Year Results
Event Date: Thursday 6 September 2007
Event Time: 9:00am (UK time)

UK Call In Number: 020 7162 0125
International Call In Number: +44 (0)20 7162 0125
US Call In Number: +1 334 323 6203

Webcast details

Live Event Link: <http://events.webeventsolutions.com/drax/2007/09/06/>

UK Instant Replay

Start Date: 6 September 2007
Delete Date: 6 October 2007
Dial In Number: 020 7031 4064
Freephone number (UK only): 0800 358 1860
Passcode: 761615

US Instant Replay
Start Date: 6 September 2007
Delete Date: 6 October 2007
Dial In Number: 1-954-334-0342
Freephone number (US only): +1 888 365 0240
Passcode: 761615

Video Webcast
Start Date: 6 September 2007
Delete Date: 7 December 2007
Archive Link: <http://events.webeventservices.com/drax/2007/09/06/>

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Website: www.draxgroup.plc.uk

Chairman's introduction

Dear shareholder,

During the first half of 2007 we have announced our strategy for the co-firing of energy crop biomass and made good progress on the turbines upgrade project. These projects look to preserve our competitive position whilst delivering reductions in carbon dioxide ("CO₂") emissions and efficiency improvements.

Financial and operational performance

Our financial performance in the first half of the year has been delivered against a background of reducing spot margins driven by commodity price movements. Nevertheless, EBITDA was £288 million, an improvement of £49 million on the comparative period in 2006, and benefited from the margins secured for the first half 2007 power sold in prior periods.

Operationally, we have had the challenge of two major planned outages and in addition an elective outage for preventative maintenance during the low margin summer months. Throughout, our availability and safety performance continued to rank highly amongst our peers, although there was some deterioration against our high standards and last year's exceptional performance.

Distributions

We remain committed to our policy of distributing substantially all excess cash flows after first taking into account business needs, including our capital expenditure programme – notably in relation to the turbines upgrade and the biomass project. This requires the Board to make careful judgements about prospective cash flows from volatile commodity markets whilst operating within an uncertain future regulatory framework.

In light of our first half 2007 results, shareholders in October 2007 will receive an ordinary interim dividend of 4.7 pence per share equivalent to approximately £17 million. In addition, we are introducing a share buy back programme which will purchase shares in the market up to a total value of approximately £83 million to bring total returns made to shareholders for the six months ended 30 June 2007 to approximately £100 million. Previous special distributions have been made through the payment of a special dividend with a share consolidation. However, in view of current market conditions, the size of distribution, views expressed by shareholders and after taking advice, the Board considers the appropriate method of returning surplus cash to shareholders at present is through the introduction of a share buy back programme. The Board intends to keep under review the most appropriate method for making any future special distributions.

Refinancing

We expect to embark on a refinancing of our current debt facilities later in 2007 (market conditions permitting) to ensure balance sheet efficiency is maintained, while preserving our investment grade rating.

Shareholder value

The focus of your Board remains on building shareholder value by: delivering excellence in operations and trading; maintaining an appropriate capital structure; investing in value enhancement; remaining alert to sector opportunities; and returning excess cash to shareholders.

Developing the Drax plant

Since our initial announcement of the turbines upgrade project in 2006 we have made good progress. I am particularly pleased to report the early delivery to site of the first high pressure turbine module enabling that upgrade to take place this year.

The 2006 Energy Review and the publication of the Energy White Paper in May this year were very positive for Drax. The former facilitated lifting the cap on co-firing of energy crops from 1 April, enabling the re-introduction of economic co-firing, and the latter proposed a banding approach to support future renewable generation, a policy that Drax strongly supports. These developments underpin our investment to target 10% of our output from renewables at our Drax site, which is being managed by a dedicated project team drawn both from across the business and outside it.

Our people

Finally, I would like to welcome those who have joined Drax as part of our plans to develop the business and thank them and all the people at Drax for their hard work and contribution.

Gordon Horsfield
Chairman

Chief Executive's statement

Introduction

During the first half of 2007, we have delivered a good performance in line with our business strategy, which is founded on the effective alignment of trading, production and investment strategies. This has resulted in an EBITDA of £288 million for the period, which was £49 million higher than EBITDA in the first six months of 2006. The increase was due to realisations from forward sales contracts and improvements from business enhancements, offset to an extent by lower margins in the prompt markets and higher operational costs, as we moved forward with our investment and development programmes.

We continue to follow our trading strategy by progressively hedging our output. We have maintained our forward sales portfolio and further diversified our fuel suppliers and sources. Following on from our strong performance last year, we have continued to draw benefit from our improved operating performance. Plant availability for the traditionally high margin Winter quarter ending March 2007 was 96.4% underpinned by a 3.6% forced outage rate. Plant availability for the first half of the year was 86.9%. During the second quarter we commenced our planned outage programme for the year and took elective outages to maintain plant integrity. This year, two of our six units are undergoing their four-yearly major planned outages. The first of these outages has been completed and the second is on schedule to complete in September.

The execution of our investments to upgrade our turbines and grow our co-firing activities has gained pace. In particular, we are pleased to report that we have been able to fast track the installation this year of a single new high pressure turbine module. The accelerated plan will bring benefits in terms of engineering experience as well as modest early efficiency gains and CO₂ emissions reductions ahead of the original project plan, which was scheduled to start in 2008.

On the regulatory side, we have seen two very positive moves emanating from last year's Energy Review: a fundamental rule change to the co-firing regulations that saw the removal of the caps and constraints surrounding energy crop co-firing; and the publication of the Government's Energy White Paper. Both measures improve our confidence in the long-term viability of co-firing renewable biomass materials at Drax Power Station.

Commodity Markets

As a power generation business operating in commodity markets, we are exposed to the prices of power, coal and carbon. There are many factors that drive the prices of these commodities, including the weather. The Autumn of 2006 was particularly mild and central England experienced the warmest Winter since records began in 1659. This weather continued into 2007 with significantly warmer than average temperatures through to April. This led to reduced demand for gas and electricity, and had a significant influence on UK spot gas prices, which in turn fed through to UK spot power prices, with both commodities falling.

Forward power and gas prices remain closely linked and strongly influenced by oil, which has supported fairly stable prices over the period. Coal prices firmed significantly during the first half of 2007. These have been driven by tight markets for both coal and freight, especially in the Pacific Basin caused by strong demand from China and India, combined with some production and logistical issues in Australia and Indonesia.

Lower spot gas prices and increased coal prices have meant that for certain periods during the Summer, coal-fired plant have been the price setting plant in the market as the marginal cost of coal-fired generation exceeded the marginal cost of gas-fired generation. This has been reflected in tighter margins and lower levels of generation in the Summer period.

Prices for carbon in the EU Emissions Trading Scheme ("EU ETS") have been volatile. In Phase I (2005–2007), oversupply of CO₂ emissions allowances caused the price of the allowances to fall close to zero. For Phase II (2008–2012), where Drax has an allocation of 9.5 million tonnes, prices have risen steadily over the period caused by the stronger stance taken by the European Commission in ensuring lower allocations by the EU Member States.

Trading

We have continued to deliver successfully against our trading strategy, as our strong market presence and credit rating have provided us with excellent access to all the markets in which we trade. It is our strategy to hedge progressively our output, whilst targeting market or better dark green spreads and retaining a

balanced market exposure. As part of this strategy, we generally hold the capacity of around two of our six generating units to be sold six months or less ahead of delivery. We maintained the total size of our forward sales of electricity, mainly through sales into the liquid traded electricity market. This market has shown improved liquidity and our access to this is stronger than ever.

Over the last two years we have been working hard to diversify and to optimise our fuel sourcing. We have sought to add new fuel options and sources whilst improving the quality of both the fuels and our contractual position. In February, we were pleased to complete a three-year deal to purchase coal from Hargreaves (UK) Services Limited out of Maltby colliery following its acquisition of the colliery from UK Coal. Our efforts to diversify our UK and international coal sources have delivered the widest diversity of fuels that Drax has ever burned, which increases the security of our supplies and also prepares us for the challenges we expect when operating under the Large Combustion Plant Directive ("LCPD") from 2008 onwards.

We are constantly seeking new ways to add value to our trading capability and over the first half of the year introduced several new activities, including electricity options and seaborne freight chartering. Our robust risk management approach, managed by a dedicated risk management team, ensures that as we grow the scope of our activities we retain high quality and prudent processes.

As a result of delivering plant flexibility and reliability, the services we sell to National Grid, known as ancillary services, delivered increased value in the period. We have provided some of these services under new contractual arrangements for Drax, which should provide more certainty to the income stream.

Production

The first half of the year has been not without challenge for the production side of the business. Despite delivering good performances for both safety and availability, there was some deterioration against our high standards and last year's exceptional performance.

We moved forward with the implementation of our plant improvement programme, which will deliver compliance with the LCPD and improved plant efficiency, and work to develop and improve our operational systems continued. We also elected to embark on a substantial inspection programme of our boiler tubes, which included testing approximately 7,000 boiler tubes, providing us with a high degree of confidence in maintaining plant reliability and integrity.

OHSAS 18001 certification, an internationally recognised assessment specification for Occupational Health and Safety management systems, was received in April. We are amongst the first coal-fired power stations in the country to hold the standard. The emphasis remains on improving risk management procedures and rolling out defensive behaviour programmes. The safety programmes implemented in the last few years are becoming well entrenched and are delivering sound performance.

Investment

Early replacement of the high pressure turbine of one of our units during the second planned outage this year will act as a useful learning curve for the installation process ahead of next year's upgrade of both the high pressure and low pressure turbine modules of two of our units. In addition to coal and CO₂ savings, benefits from the acceleration of the upgrade programme include a reduction in turbine maintenance times and costs going forward. Crucially, all turbine module replacements will be carried out during planned outages, ensuring no unnecessary lost generation time.

During the period we have increased the range of biomass fuels we can and have burned. We are particularly pleased to have now demonstrated that Drax can burn 4% by heat for specific fuels by combining biomass with the coal and pulverising it in the existing mills.

To support our aim of significantly increasing our biomass burn we have now established and resourced a dedicated biomass purchasing team, who are working hard to secure increased volumes of energy crop biomass from both existing arrangements and suppliers, and also from new sources. Detailed design work continues on the biomass handling and direct injection projects. A dedicated project management team has been assembled over the first six months of the year to finalise the design and deal with the construction phase of the project.

Investment for compliance with the LCPD limits for oxides of nitrogen ("NO_x") from 2008 has continued to be an area of environmental spend. Initial work on three units has shown that compliance with the LCPD requirements is achievable through the retrofit of Boosted Over Fire Air ("BOFA") systems. This year, two units are being retrofitted during the planned outage programme, leaving only one unit to be retrofitted next

year. Importantly, election for the National Emission Reduction Plan route under the LCPD has allowed us some flexibility when scheduling the retrofits, ensuring no additional outages.

Regulatory

From 1 April, an amendment to the Renewables Obligation Order removed the caps and constraints surrounding energy crop co-firing. This important development removed the regulatory hurdle to accessing value from Renewables Obligation Certificates ("ROCs"), when co-firing energy crops, to enable economic co-firing and significant savings in emissions of CO₂.

Fundamental reform of the Renewables Obligation ("RO") was a major policy put forward in the Energy White Paper published in May, which proposes to construct bands according to the state of development of the various renewables technologies. The proposed banding of the RO places energy crop co-firing and non-energy crop co-firing into different bands, with differing rewards in terms of the fraction of a ROC earned. We are supportive of the banding approach as it puts in place a mechanism that is fair to all forms of renewables and enables co-firing to contribute to CO₂ emissions reduction targets in a meaningful way.

Looking ahead

We have been reviewing the capital structure of the business and expect to embark on a refinancing of our current debt facilities later in 2007 (market conditions permitting) to ensure balance sheet efficiency is maintained, while preserving our investment grade credit rating.

We approach the Winter season with ample gas storage in the UK. Continental gas prices have been increasing, held up by strong oil markets, and the coal market remains tight. Sustained bad weather in Indonesia has resulted in a reduction in Asian coal production, and the Asian market has tightened further amidst growing demand from Japan on the back of decreasing confidence in their nuclear generation plant. Against this backdrop of robust fuel prices, power prices have followed UK gas prices and fallen over the Summer for this coming Winter's electricity. Even with falling UK gas prices and rising international coal prices, the UK forward markets for the coming Winter are indicating that gas plant will be the predominant price setting plant with margins for coal-fired generators remaining attractive, albeit significantly lower than for the same period last year.

A high priority for the balance of 2007 is to ensure that the business is fully prepared for the new emission constraints under LCPD from 1 January 2008. Work will continue on coal sourcing options and NOX reduction equipment performance.

There is now an increasing prospect of regulatory controls on CO₂ beyond 2012, when the existing EU ETS is planned to finish. The EU is planning to introduce a Phase III of the EU ETS, possibly in line with a revitalisation of the Kyoto Protocol. In the UK, the Government has published its draft legislative programme for the next session of Parliament. This includes a Climate Change Bill and an Energy Bill, with CO₂ emissions reduction at the heart of each. This accords with our view that there will be a price for CO₂ beyond 2012 which underpins our long-term strategy of achieving significant CO₂ reduction through judicious investment.

We will continue to press forward with our carbon abatement projects, principally the upgrade of our turbines and the development of the sourcing and capability towards our target to produce 10% of our output from renewables by the end of 2009.

Dorothy Thompson
Chief Executive

Business and financial review

Results of operations

	Six months ended 30 June 2007 £m	Six months ended 30 June 2006 £m
Total revenue	639.7	650.0
Fuel costs⁽¹⁾		
Fuel costs in respect of generation	(221.6)	(282.7)
Costs of power purchases	(36.2)	(47.2)
	(257.8)	(329.9)
Gross profit	381.9	320.1
Other operating expenses excluding depreciation, amortisation, unrealised gains on derivative contracts and exceptional items ⁽²⁾	(94.3)	(81.5)
EBITDA⁽³⁾	287.6	238.6
Depreciation and amortisation	(17.4)	(17.5)
Other exceptional operating income	6.2	19.0
Unrealised gains on derivative contracts	6.9	89.1
Operating profit	283.3	329.2
Interest payable and similar charges	(17.4)	(18.2)
Interest receivable	7.2	5.7
Profit before tax	273.1	316.7
Tax charge		
– Before impact of reduction in tax rate on deferred tax	(71.5)	(85.0)
– Impact of reduction in tax rate on deferred tax	18.5	–
	(53.0)	(85.0)
Profit for the year attributable to equity shareholders from continuing operations	220.1	231.7
	pence	pence
	per share	per share
Earnings per share from continuing operations⁽⁴⁾		
– Basic and diluted	60	57

Notes:

- (1) Fuel costs comprise the fuel costs incurred in the generation process, predominantly coal and CO₂ 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 on derivative contracts and exceptional items principally include salaries, maintenance costs, grid connection and use of system charges (TNUoS), balancing services use of system charges (BSUoS) and business rates.
- (3) EBITDA is defined as profit before interest, tax, depreciation and amortisation, exceptional items and unrealised gains on derivative contracts.
- (4) During the period the Group has amended the calculation of earnings per share to reflect share consolidations associated with special dividends from the date of the consolidation only. Comparatives have been amended accordingly (see note 7 to the condensed consolidated financial statements).

The Group's principal performance indicators are highlighted at the beginning of this interim report. These illustrate strong operating results with EBITDA of £288 million for the six months ended 30 June 2007 compared to £239 million in 2006. The business and financial review includes further explanation and commentary in relation to our principal performance indicators and the results for the period.

Results of operations

Total revenue for the six months ended 30 June 2007 was £640 million compared to £650 million in 2006. Power sales for the six months ended 30 June 2007 of £614 million were flat compared to 2006. This reflected an improvement in our average achieved price (see Price of electricity below), partially offset by a decrease in net power sold to 12.0TWh, compared to 12.4TWh in 2006.

In addition to power sales, total revenue also includes income from the sale of by-products (ash and gypsum), the provision of ancillary services, and the sale of ROCs, LECs and sulphur dioxide ("SO₂") emissions allowances. In the six months ended 30 June 2007 these revenues were £26 million compared to £36 million in 2006, reflecting a significant reduction in ROC sales (following the reduction, in April 2006,

from 25% to 10% in the amount of co-fired electricity qualifying for ROCs), partially offset by higher ancillary services income.

Fuel costs in respect of generation during the six months ended 30 June 2007 were £222 million, compared to £283 million in 2006. The decrease was primarily due to the impact of lower prices for CO₂ emissions allowances and lower generation, partially offset by an increase in the cost of coal and other fuels (see Price of coal and other fuels and CO₂ emissions allowances below).

We purchase power in the market when the cost of power in the market is below our marginal costs of production in respect of power previously contracted for generation and delivery by us, and to cover any shortfall in generation. The costs of power purchased are treated as fuel costs. For the six months ended 30 June 2007, the cost of purchased power decreased to £36 million compared to £47 million in 2006, primarily due to lower power prices in the prompt (within season) markets.

Gross profit for the six months ended 30 June 2007 was £382 million compared to £320 million in 2006.

Other operating expenses excluding depreciation, amortisation, unrealised gains on derivative contracts and exceptional items were £94 million for the six months ended 30 June 2007 compared to £82 million in 2006. The increase of £12 million includes a one time payment of £3 million made in April (equating to £5,000 per eligible employee) in order to secure a two-year pay agreement with Trade Unions, following expiry of the previous two-year pay agreement. The pay award recognised the importance of retaining a skilled workforce at a time of competition for those skills locally and in the workplace at large, and recognised that in a number of areas Drax had fallen behind market rates. We also experienced an increase in business interruption insurance costs due to higher margins, and we have significantly increased our expenditure on site security following the Camp for Climate Action in August 2006 and to meet the increasing threat of terrorist activity. The increase in costs also reflects higher grid connection and use of system charges (TNUoS).

EBITDA (defined as profit before interest, tax, depreciation, amortisation, exceptional items and unrealised gains on derivative contracts) for the six months ended 30 June 2007 was £288 million compared to £239 million in 2006.

Exceptional operating income of £6 million for the six months ended 30 June 2007 related to our final distribution under the TXU claim received in April 2007, bringing the total received to date to £336 million, representing full recovery of the claim. Income recognised under the claim in the six months ended 30 June 2006 amounted to £19 million. All amounts are net of VAT and costs, and proceeds were used to prepay debt secured against the claim, which has now been repaid in full.

The Group recognises unrealised gains and losses on forward contracts which meet the definition of derivatives under IAS 32 and IAS 39, the International Accounting Standards in respect of derivatives and financial instruments. The unrealised gains and losses principally relate to the mark-to-market of our forward contracts for power yet to be delivered.

Unrealised gains on derivative contracts reflected in the income statements were £7 million for the six months ended 30 June 2007 compared to £89 million in 2006. The unrealised gains primarily represent the unwinding of unrealised losses originally reflected in the income statement in 2005, prior to the Group having the necessary documentation in place to permit hedge accounting under IAS 39, as power was delivered in accordance with underlying derivative contracts.

Mark-to-market movements on a large proportion of our commodity contracts, considered to be effective hedges under IAS 39, have been recognised through the hedge reserve, a component of shareholders' equity in the balance sheet. The unrealised losses recognised through the hedge reserve in the six months ended 30 June 2007 were £153 million compared to unrealised gains of £133 million in 2006.

Movements between the balance sheet position reported at 30 June 2007 and 31 December 2006 are mainly the result of unwinding mark-to-market movements relating to power delivered during 2007, and recording mark-to-market movements on power yet to be delivered. As a consequence of the decline in power prices over the last 12 months, the average price relating to power which had been contracted but had yet to be delivered at 31 December 2006 was significantly higher than market prices at that time, resulting in the recognition of a net unrealised gain of £344 million in the balance sheet. By comparison, at 30 June 2007, although the average price relating to power which had been contracted but had yet to be delivered remained higher than market prices at that time, the differential had narrowed resulting in the recognition of a much lower net unrealised gain of £199 million in the balance sheet.

Operating profit for the six months ended 30 June 2007 was £283 million compared to £329 million in 2006. Interest payable and similar charges in the six months ended 30 June 2007 were £17 million compared to £18 million in 2006, as a result of lower debt levels.

The tax charge for the six months ended 30 June 2007 was £53 million, compared to £85 million in 2006. The tax charge for 2007 includes a credit of £19 million to reflect the impact on deferred tax of a reduction in the rate of UK corporation tax from 30% to 28% with effect from 1 April 2008.

Reflecting the above factors, profit attributable to equity shareholders for the six months ended 30 June 2007 was £220 million compared to £232 million in 2006, and basic and diluted earnings per share was 60 pence compared to 57 pence in 2006, as calculated in accordance with note 7 to the condensed consolidated financial statements.

Key factors affecting the business

Price of electricity

The table below shows the average achieved price realised for the six months ended 30 June 2006 and 30 June 2007, together with the market closing price on the last day each season illustrated was traded as a product.

	Six months ended 30 June 2007	Six months ended 30 June 2006
Average achieved price (£/MWh)	48.1	45.7
Summer baseload market close (£/MWh)	23.5	2006 45.0
Winter baseload market close (£/MWh)	51.7	2006/2007 2005/2006 49.2

Average achieved price for the six months ended 30 June 2007 was £48.1 per MWh compared to £45.7 per MWh in 2006. Average capture price (being the price attained prior to balancing mechanism activity) for the six months ended 30 June 2007 was £46.4 per MWh compared to £44.5 per MWh in 2006. The forward baseload power prices for Winter 2007/2008 and Summer 2008 were approximately £36.7 per MWh and £35.9 per MWh respectively as at 31 August 2007.

The increase in average achieved price reflected the benefit from forward sales contracts secured in the higher margin months of prior periods for power now delivered in 2007, partially offset by lower prices in the prompt markets.

Price of coal and other fuels

We burnt approximately 4.8 million tonnes of coal in the six months ended 30 June 2007 compared to approximately 5.0 million tonnes in 2006. This coal was purchased from a variety of domestic and international sources under 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) rose from US\$54 per tonne at the end of December 2005 to US\$68 per tonne at the end of December 2006, and then to US\$79 per tonne at the end of June 2007.

We also burn biomass, petroleum coke ("petcoke") and fuel oil, although coal comprised around 97% of total fuel costs in 2007 (excluding CO₂ emissions allowances), which was an increase compared with 2006 when coal comprised around 90% of total fuel costs. The increase in coal burn resulted from the reduction in the amount of co-fired electricity qualifying for ROCs from April 2006. The average cost of fuel per MWh (excluding CO₂ emissions allowances) for the six months ended 30 June 2007 was £17.6 compared to £17.0 in 2006.

CO₂ emissions allowances

Our CO₂ emissions allowances requirement for the six months ended 30 June 2007, in excess of those allocated under the UK NAP, was approximately 3.6 million tonnes compared to approximately 4.0 million tonnes in 2006, with the reduction largely due to lower generation.

The price for Phase I (2005–2007) CO₂ emissions allowances began the year at approximately €6.6 per tonne, and as a result of oversupply, fell steadily over the period, closing at €0.13 per tonne on 30 June

2007. The average price expended for CO₂ emissions allowances during the six months ended 30 June 2007 was £3.0 per tonne compared to £18.2 per tonne in 2006.

Outages and plant utilisation levels

	Six months ended 30 June 2007	Six months ended 30 June 2006
Forced outage rate (%)	7.0	4.8
Planned outage rate (%)	6.6	8.6
Total outage rate ⁽¹⁾ (%)	13.1	13.0
Availability (%)	86.9	87.0
Electrical output (net sales) (TWh)	12.0	12.4
Load factor (%)	73.9	76.0

Note:

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

Plant availability in the six months ended 30 June 2007 was 87% after taking account of both forced and planned outages, which is the same level of performance achieved for the corresponding period in 2006.

The winter forced outage rate in the first quarter of 2007 was 3.6% (3.3% in 2006). This compares favourably with a forced outage rate of 7.0% for the six months ended 30 June 2007 (4.8% in 2006), of which approximately 1.3% was due to a decision to undertake a number of elective forced outages to inspect boiler tubes following a tube failure at an older UK coal-fired power station.

We 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. We believe further progress can be made in both areas and will continue the programmes to improve performance, with the objective of achieving a sustainable average forced outage rate of 4.5%.

Our 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. The planned outage rate achieved for the six months ended 30 June 2007 was 6.6% compared to 8.6% in 2006, with a major planned outage on one unit substantially completed in both periods. A second major planned outage for 2007 is currently in progress.

Health and safety

The lost time injury rate was 0.44% for the six months ended 30 June 2007 compared to 0.15% in 2006. Although this represents a deterioration, the safety programmes implemented in the last few years are becoming well entrenched and are delivering sound performance, and our safety record compares favourably to international benchmarks.

Liquidity and capital resources

Net debt was £271 million as at 30 June 2007 compared to £152 million at 30 June 2006 and £321 million at 31 December 2006.

Cash and cash equivalents were £165 million as at 30 June 2007 compared to £298 million at 30 June 2006 and £155 million at 31 December 2006. The changes in cash and cash equivalents are analysed in the following table.

Analysis of cash flows

	Six months ended 30 June 2007	Six months ended 30 June 2006
Net cash generated from operating activities	234	335
Net cash used in investing activities	(24)	(12)
Net cash used in financing activities	(200)	(113)
Net increase in cash and cash equivalents	10	210

Net cash generated from operating activities was £234 million in the six months ended 30 June 2007 compared to £335 million in 2006. The decrease reflected lower cash received under the TXU claim (£6 million cash received under the claim in the six months ended 30 June 2007 compared to £55 million in 2006) and an increase of £49 million in income taxes paid. The impact of improved business performance, EBITDA having increased by £49 million, was offset by increased working capital utilisation in 2007, including a higher coal stock build and a significantly lower liability with respect to CO₂ emissions allowances.

Net cash used in investing activities, which represented capital expenditure payments in both periods, was £24 million for the six months ended 30 June 2007 compared to £12 million in 2006 (see Capital expenditure below).

Net cash used in financing activities was £200 million in the six months ended 30 June 2007 compared to £113 million in 2006. The 2007 amounts included equity dividends paid of £155 million, the final bridge loan prepayment of £3 million, a term loan repayment of £40 million and purchases of own shares to meet commitments under share-based incentive plans of £2 million. The 2006 amounts included a bridge loan prepayment of £55 million and a term loan repayment of £58 million.

The increase in cash and cash equivalents was £10 million in the six months ended 30 June 2007, compared to £210 million in 2006. Drax's policy is to invest available cash in short-term bank, building society or other low risk deposits.

Capital resources and refinancing

Drax is committed to maintaining an appropriate capital structure. Since Listing in December 2005, senior secured debt has fallen from £500 million to £445 million at 30 June 2007 (before deferred financing costs of £10 million), through a combination of scheduled debt repayments and the raising of additional secured debt. Senior secured debt is expected to reduce by a further £40 million to £405 million (before deferred financing costs of £8 million) on 31 December 2007, following the next scheduled debt repayment due on that date. In line with our commitment to shareholders, we expect to embark on a refinancing of our current debt facilities in the second half of 2007 (market conditions permitting) to ensure balance sheet efficiency is maintained.

Seasonality of borrowing

Our business is seasonal with higher economic despatch in the Winter period and lower economic despatch 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 assists in managing the cash low points in the cycle where required. The revolving credit facility was undrawn at 30 June 2007.

Capital expenditure

In March 2007, we announced that we expected to incur total capital expenditure of approximately £260 million over the three years 2007 to 2009. Of this, around £150 million specifically related to the turbines upgrade project, condenser and feed system plant improvements and investments in extending our biomass capability. The remainder comprised smaller value enhancing investments and other expected capital expenditure in support of current operations. We plan to fund these investments from a combination of operational cash flows and debt.

In relation to the turbines upgrade project, we expect to invest up to £100 million over a five year programme, including approximately £68 million over the next three years, to upgrade the high pressure and low pressure turbine modules on all six generating units to improve efficiency. Using proven technology we expect to achieve an overall baseload efficiency (that is, the ratio of energy out to energy in when operating at full capacity) approaching 40%. This represents a 5% improvement on current baseload efficiency of 38%. When complete, the project is expected to deliver annual savings of one million tonnes of CO₂ emissions allowances and approximately half a million tonnes of coal. Installation, which will be undertaken during the planned outage programme, is currently expected to take place between the third quarter of 2007, starting with the high pressure turbine on unit 3, and 2011.

In terms of extending our biomass capability, the 2006 Energy Review and the expected changes in the co-firing regime have allowed us to formalise our target to produce 10% of our output from burning biomass by the end of 2009. Achievement of this target is expected to result in savings of over two million tonnes of CO₂ emissions allowances, the displacement of approximately one million tonnes of coal and the generation of in excess of two and a half million ROCs per annum. To achieve the target will require additional investment in people and infrastructure. In March 2007, we announced that we expected to invest up to £47 million over the next three years to extend our direct injection capability from one generating unit to all six generating

units, and to install the necessary processing and handling infrastructure to ensure we are able to handle up to 1.5 million tonnes of biomass material per annum. Since making the announcement, we have appointed design engineers to develop detailed project plans in support of the planning application and the letting of construction contracts in due course. We expect to update the market on progress when we present our preliminary results in March 2008.

We will continue to evaluate other opportunities which may result in additional expenditure. Further investment will be required beyond 2009 and prior to 2016 to meet the requirements of the Large Combustion Plant Directive.

Share-based incentive plans

Under the 2007 SIP free share award, the Company purchased a total of 195,810 shares in April 2007 to be held in trust on behalf of qualifying employees, equating to 305 shares with a cash value of approximately £2,500 per employee based on the Company's share price at the time of the award. The fair value of the 2007 free share award (determined at the award date) of £1.6 million was charged to the income statement in full in the six months ended 30 June 2007, on the basis that employees were granted specific rights in relation to shares held in trust on their behalf. Similarly, the fair value of the 2006 free share award of £1.3 million was charged to the income statement in full in the six months ended 30 June 2006.

In March 2007, the SIP was extended by introducing two further elements: partnership shares and matching shares. Qualifying employees can buy up to £1,500 worth of partnership shares (out of pre tax pay) in any one tax year. Matching shares are awarded to employees to match any partnership shares they buy, in a ratio of one to one for the 2007/08 tax year, with the cost of matching shares borne by the Group. As at 30 June 2007, a total of 93,570 matching shares had been purchased and were held in trust on behalf of qualifying employees. The fair value of matching shares awarded up to 30 June 2007 (determined at the award dates) of £0.7 million is being charged to the income statement on a straight-line basis over a one year vesting period (matching shares are forfeited if an employee leaves Drax within one year of the award).

ESIP awards over 361,582 shares were granted to executive directors and other senior staff in April and June 2007, with performance measured over the three years to 31 December 2009 and potential vesting in April 2010. The fair value of the 2007 ESIP awards (determined at the grant date) of £0.9 million, which takes into account the estimated probability of different levels of vesting, is being charged to the income statement on a straight-line basis over the three year vesting period to 19 April 2010. Similarly, the fair value of the 2006 ESIP award of £1.9 million is being charged to the income statement on a straight-line basis over the three year vesting period to 19 September 2009.

There have been no further offers under the SAYE Plan since that made in July 2006. No shares have been issued or purchased to date with respect to the SAYE or ESIP.

Closing cash position guidance

We issued a Trading Update on 29 June 2007 which reported our contracted position for 2007, 2008 and 2009 in respect of power, coal and CO₂ emissions allowances. In addition, we reported management's expectation that the cash position as at 30 June 2007 would be in the range £160 million to £165 million. The reported cash position as at 30 June 2007 was £165 million.

Contracted position for 2007, 2008 and 2009

Since issuing the Trading Update on 29 June 2007, we have continued to trade in line with expectations and to follow our stated trading strategy of making forward power sales with corresponding CO₂ emissions allowances and coal purchases. Our aim is to deliver market level or better dark green spreads across all traded market periods and, as part of this strategy, we retain power to be sold into the prompt (within season) power markets.

As at 31 August 2007, the contracted power sales for 2007, 2008 and 2009 were as follows:

	2007	2008	2009
Output (TWh)	22.8	16.0	10.3
Comprising:			
– Fixed price power sales (TWh) at an average achieved price (per MWh)	21.5 at £45.4	10.7 at £46.3	5.0 at £39.2
– Fixed margin power sales (TWh)	1.3	5.3	5.3
CO ₂ emissions allowances hedged (including UK NAP allocation, market purchases and structured contracts) – (TWh equivalent)	23.9	16.9	17.3
Solid fuel at fixed price/hedged, including structured contracts (TWh equivalent)	24.3	15.9	11.2

Fixed margin power sales include approximately 1.3TWh in 2007 and 5.3TWh in 2008 and 2009 under the five and a quarter year Baseload contract with Centrica which commences on 1 October 2007. Under this contract the Group will supply power on terms which include Centrica paying for coal based on international coal prices, and delivering matching CO₂ emissions allowances amounting to approximately 4.7 million tonnes per annum. The contract provides the Group with a series of fixed dark green spreads which were agreed in the first quarter of 2006.

The contracted position for CO₂ emissions allowances reflects the annual allocation made under the EU ETS and allowances due to be delivered under the terms of the Centrica contract. The contracted position for solid fuel includes the coal volumes specified under the terms of the Centrica contract, which effectively remove the risk from Drax of price movements in respect of that coal.

We expect to issue a further Trading Update on or around 18 December 2007.

Distributions

Distribution policy

The Board has previously stated that the Group 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. 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.

Dividends paid

On 7 March 2007, the Board resolved to pay a final dividend for the year ended 31 December 2006 of 9.1 pence per share (equivalent to £34 million). Also on 7 March 2007, the Board resolved, subject to the approval by shareholders of a resolution to effect a share consolidation considered at the Annual General Meeting on 26 April 2007, to pay a further interim dividend as a special dividend of 32.9 pence per share (equivalent to £121 million). The share consolidation, under which shareholders received 64 new ordinary shares of 11¹⁶/₂₉ pence each for every 67 existing ordinary shares of 11¹/₂₉ pence, became effective on 30 April 2007. The final and special dividends were subsequently paid on 16 May 2007.

Dividends proposed

On 5 September 2007, the Board resolved to pay an interim dividend for the six months ended 30 June of 4.7 pence per share (equivalent to approximately £17 million) on 24 October 2007. Shares will be marked ex-interim dividend on 3 October 2007.

Special distribution – share buy back

On 5 September 2007, the Board resolved to make a special distribution of approximately £83 million to be undertaken through the introduction of a share buy back programme. On completion of the buy back programme, returns to shareholders for the six months ended 30 June 2007 will amount to approximately £100 million, being the total of the interim dividend and share buy back programme.

The buy back programme exercises the authority granted to the Company by shareholders at the Annual General Meeting held on 26 April 2007, whereby the Company is authorised to buy back up to 35.2 million ordinary shares (representing approximately 10% of the issued ordinary share capital). Based on the closing share price of 665 pence on 31 August, the intended programme represents approximately 3.5% of the issued ordinary share capital.

The immediate intended programme will cover market purchases by the Company of shares up to the value of approximately £83 million, which will subsequently be cancelled. The exact amount and timing of purchases will be determined by the Company and is dependent on market conditions and other factors. However, it is anticipated this will be achieved in this calendar year.

The special distribution is based on the closing cash position on 30 June 2007 after allowing for the working capital needs of the business during the Summer months and for a deduction of approximately £17 million to fund the base interim dividend. Working capital needs are impacted by expected payments relating to the planned outages on two of our generating units and the capital expenditure programme, both of which are weighted towards the second half of the financial year.

Previous special distributions have been made through the payment of a special dividend combined with a share consolidation. However, in view of current market conditions, the size of distribution, views expressed

by shareholders and after having taken advice, the Board considers the appropriate method of returning surplus cash to shareholders at present is through the introduction of a share buy back programme.

The Board intends to keep under review the most appropriate method for making any future special distributions.

Gordon Boyd
Finance Director

Condensed consolidated income statements

	Notes	Year ended 31		
		Six months ended 30 June 2007 (Unaudited) £m	2006 (Unaudited) £m	December 2006 (Audited) £m
Continuing operations				
Revenue		639.7	650.0	1,387.0
Fuel costs		(257.8)	(329.9)	(641.3)
		381.9	320.1	745.7
Other operating expenses excluding exceptional items		(111.7)	(99.0)	(197.6)
Other exceptional operating income	5	6.2	19.0	19.0
Total other operating expenses		(105.5)	(80.0)	(178.6)
Unrealised gains on derivative contracts		6.9	89.1	90.8
Operating profit		283.3	329.2	657.9
Interest payable and similar charges		(17.4)	(18.2)	(37.1)
Interest receivable		7.2	5.7	13.4
Profit before tax		273.1	316.7	634.2
Tax charge	6	(53.0)	(85.0)	(170.7)
Profit for the period attributable to equity shareholders from continuing operations		220.1	231.7	463.5
		pence per share	pence per share	pence per share
Earnings per share from continuing operations				
– Basic and diluted	7	60	57	116

Condensed consolidated statements of recognised income and expense

	Year ended 31		
	Six months ended 30 June 2007 (Unaudited) £m	2006 (Unaudited) £m	December 2006 (Audited) £m
Profit for the period	220.1	231.7	463.5
Actuarial gains on defined benefit pension scheme	9.2	9.8	8.6
Deferred tax on actuarial gains on defined benefit pension scheme before impact of reduction in tax rate	(2.8)	(2.9)	(2.6)
Impact of reduction in tax rate on deferred tax on defined benefit pension scheme	(0.4)	–	–
Fair value (losses)/gains on cash flow hedges	(152.6)	132.6	468.2
Deferred tax recognised on fair value losses/gains on cash flow hedges before impact of reduction in tax rate	45.8	(39.8)	(140.5)
Impact of reduction in tax rate on deferred tax on fair value losses/gains on cash flow hedges	1.0	–	–
Net (losses)/gains not recognised in income statement	(99.8)	99.7	333.7
Total recognised income for the period attributable to equity shareholders	120.3	331.4	797.2

Condensed consolidated balance sheets

		As at 30 June	As at 31
		2006	December
		(Unaudited)	2006
		£m	(Audited)
	Notes		£m
Assets			
Non-current assets			
Property, plant and equipment		1,062.3	1,044.5
Derivative financial instruments		42.0	19.5
		1,104.3	1,136.1
Current assets			
Inventories		97.6	75.6
Trade and other receivables		65.4	110.0
Derivative financial instruments		181.6	61.7
Cash and cash equivalents		164.6	298.2
		509.2	545.5
Liabilities			
Current liabilities			
Financial liabilities:			
– Borrowings	10	14.8	25.3
– Derivative financial instruments		8.5	47.8
Trade and other payables		90.2	174.4
Current tax liabilities		82.5	32.1
		196.0	279.6
Net current assets		313.2	265.9
Non-current liabilities			
Financial liabilities:			
– Borrowings	10	420.3	425.3
– Derivative financial instruments		16.6	26.4
Deferred tax liabilities		332.9	287.2
Retirement benefit obligations	9	2.3	35.0
Other non-current liabilities		1.0	1.0
Provisions		2.3	2.1
		775.4	777.0
Net assets		642.1	552.9
Shareholders' equity			
Issued equity	11	40.7	40.7
Share premium		420.7	420.7
Merger reserve		710.8	710.8
Hedge reserve		145.1	16.0
Retained losses		(675.2)	(635.3)
Total shareholders' equity		642.1	552.9

Condensed consolidated statements of changes in equity

	Share capital £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Retained losses £m	Total £m
At 1 January 2006	40.7	420.7	710.8	(76.8)	(875.2)	220.2
Profit for the period	–	–	–	–	463.5	463.5
Equity dividends paid	–	–	–	–	(342.0)	(342.0)
Actuarial gains on defined benefit pension scheme	–	–	–	–	8.6	8.6
Deferred tax on actuarial gains on defined benefit pension scheme	–	–	–	–	(2.6)	(2.6)
Fair value gains on cash flow hedges	–	–	–	468.2	–	468.2
Deferred tax recognised on fair value gains on cash flow hedges	–	–	–	(140.5)	–	(140.5)
Net movement in equity associated with share-based payments	–	–	–	–	1.7	1.7
At 31 December 2006	40.7	420.7	710.8	250.9	(746.0)	677.1
At 1 January 2006	40.7	420.7	710.8	(76.8)	(875.2)	220.2
Profit for the period	–	–	–	–	231.7	231.7
Actuarial gains on defined benefit pension scheme	–	–	–	–	9.8	9.8
Deferred tax on actuarial gains on defined benefit pension scheme	–	–	–	–	(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)
Net movement in equity associated with share-based payments	–	–	–	–	1.3	1.3
At 30 June 2006	40.7	420.7	710.8	16.0	(635.3)	552.9
At 1 January 2007	40.7	420.7	710.8	250.9	(746.0)	677.1
Profit for the period	–	–	–	–	220.1	220.1
Equity dividends paid	–	–	–	–	(155.0)	(155.0)
Actuarial gains on defined benefit pension scheme	–	–	–	–	9.2	9.2
Deferred tax on actuarial gains on defined benefit pension scheme before impact of reduction in tax rate	–	–	–	–	(2.8)	(2.8)
Impact of reduction in tax rate on deferred tax on defined benefit pension scheme	–	–	–	–	(0.4)	(0.4)
Fair value losses on cash flow hedges	–	–	–	(152.6)	–	(152.6)
Deferred tax recognised on fair value losses on cash flow hedges before impact of reduction in tax rate	–	–	–	45.8	–	45.8
Impact of reduction in tax rate on deferred tax on fair value losses on cash flow hedges	–	–	–	1.0	–	1.0
Net movement in equity	–	–	–	–	0.4	0.4

associated with share-based
payments

Treasury shares held	–	–	–	–	(0.7)	(0.7)
At 30 June 2007	40.7	420.7	710.8	145.1	(675.2)	642.1

Condensed consolidated cash flow statements

		Six months ended 30 June 2007 (Unaudited) £m	2006 (Unaudited) £m	Year ended 31 December 2006 (Audited) £m
Cash generated from operations	Notes 12	290.9	338.3	586.5
Income taxes (paid)/received		(48.1)	1.1	(50.0)
Decrease in restricted cash		–	11.3	11.2
Interest paid		(15.9)	(20.2)	(36.1)
Interest received		7.0	4.7	13.5
Net cash generated from operating activities		233.9	335.2	525.1
Cash flows from investing activities				
Purchase of property, plant and equipment		(23.9)	(12.2)	(27.0)
Net cash used in investing activities		(23.9)	(12.2)	(27.0)
Cash flows from financing activities				
Equity dividends paid	8	(155.0)	–	(342.0)
Repayment of borrowings	10	(42.9)	(112.6)	(189.1)
Debt issued	10	–	–	100.0
Purchase of own shares		(2.3)	–	–
Net cash used in financing activities		(200.2)	(112.6)	(431.1)
Net increase in cash and cash equivalents		9.8	210.4	67.0
Cash and cash equivalents at beginning of the period		154.8	87.8	87.8
Cash and cash equivalents at end of the period		164.6	298.2	154.8

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 ("IFRSs") and in accordance with IAS 34 "Interim Financial Reporting".

The information for the year ended 31 December 2006 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 condensed consolidated financial statements were approved by the Board on 5 September 2007.

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 2006.

In the current financial year, the Group will adopt IFRS 7 "Financial Instruments: Disclosures" for the first time. As IFRS 7 is a disclosure standard, there is no impact of this change in accounting policy on this interim report. Full details of the change will be disclosed in the Group's annual report for the year ended 31 December 2007.

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

	Six months ended 30 June 2007 (Unaudited) £m	2006 (Unaudited) £m	Year ended 31 December 2006 (Audited) £m
Other exceptional operating income:			
Distributions under the TXU claim received in:			
– July 2006	–	19.0	19.0
– April 2007	6.2	–	–
Total other exceptional operating income	6.2	19.0	19.0

The Group received £6.2 million under the TXU claim in April 2007, bringing the total received to date to £336 million, representing full recovery of the claim. All amounts above are net of VAT and costs, and proceeds have been used to prepay debt secured against the claim, which has now been repaid in full.

6. Taxation

The income tax expense reflects the estimated effective rate on profit before taxation for the Group for the year ending 31 December 2007 and the movement in the deferred tax balance in the period, so far as it relates to items recognised in the income statement.

In June 2007 the Finance Bill was presented to Parliament for approval. The bill proposed a reduction in the rate of UK corporation tax from 30% to 28% with effect from 1 April 2008. At 30 June 2007 the rate reduction was substantively enacted, and accordingly the tax charge for the six months ended 30 June 2007 includes a credit of £18.5 million to reflect the impact on deferred tax. This rate reduction will also reduce the amount of tax payable on future profits.

Although amendments to the industrial buildings allowance regime were also proposed in the 2007 budget announcement, these amendments were not substantively enacted at 30 June 2007 and accordingly have not been reflected in the Group's results for the six months ended 30 June 2007. The directors have estimated that, had these amendments been reflected in the Group's results for the six months ended 30

June 2007, the effect would be to increase the deferred tax liability held in the balance sheet by approximately £11 million.

	Six months ended 30 June 2007 (Unaudited) £m	2006 (Unaudited) £m	Year ended 31 December 2006 (Audited) £m
Tax charge comprises:			
Current tax	67.3	25.8	108.2
Deferred tax:			
– Before impact of reduction in tax rate	4.2	59.2	62.5
– Impact of reduction in tax rate	(18.5)	–	–
	53.0	85.0	170.7

Under the current financing structure, Drax Holdings Limited (“Holdings”), a wholly owned subsidiary undertaking of the Company, is partially funded by a Eurobond payable to another group company, with a tax deduction being claimed for all of the corresponding interest charged in the Holdings income statement. Were HM Revenue & Customs to successfully challenge the deductions claimed in respect of the Eurobond coupons for open years to 31 December 2006, it is estimated that the additional tax liability would be up to £73 million, together with interest and penalties.

7. Earnings per share

During the period the Group has amended the calculation of earnings per share. Previously, the calculation of the weighted average number of ordinary shares outstanding assumed that share consolidations took place at the beginning of the relevant period. However, to better reflect the linkage between the special dividends and the related share consolidations, the number of shares in issue is now only amended from the date of the share consolidation. This change affects disclosure only and has no effect on profits, assets, liabilities or cash flows.

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. In calculating diluted earnings per share the weighted average number of ordinary shares outstanding during the year is adjusted to take account of outstanding share options in relation to the Group’s SAYE Plan and contingently issuable shares under the Group’s ESIP.

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

	Six months ended 30 June 2007 (Unaudited) £m	2006 (Unaudited) £m	Year ended 31 December 2006 (Audited) £m
Earnings:			
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	220.1	231.7	463.5

	Six months ended 30 June 2007 (Unaudited) millions	2006 (Unaudited) millions	Year ended 31 December 2006 (Audited) millions
Number of shares:			
Weighted average number of ordinary shares for the purposes of basic earnings per share	364.8	407.0	400.0
Effect of dilutive potential ordinary shares under share options	0.2	–	0.1
Weighted average number of ordinary shares for the purposes of diluted earnings per share	365.0	407.0	400.1

The effect of the amendments to the Group's calculation of earnings per share can be summarised as follows:

	Six months ended 30 June 2007 (Unaudited)	2006 (Unaudited)	Year ended 31 December 2006 (Audited)
Number of shares:			
Weighted average number of ordinary shares for the purposes of basic earnings per share as previously reported (millions)	352.4	407.0	368.9
Effect of share consolidations from beginning of relevant period (millions)	12.4	–	31.1
Weighted average number of ordinary shares for the purposes of basic earnings per share under revised basis (millions)	364.8	407.0	400.0
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings (£ millions)	220.1	231.7	463.5
Basic earnings per share as previously reported (pence per share)	62	57	126
Basic earnings per share under revised basis (pence per share)	60	57	116

The effect of this amendment in respect of diluted earnings per share is the same as set out above.

8. Dividends

	Six months ended 30 June 2007 (Unaudited) £m	2006 (Unaudited) £m	Year ended 31 December 2006 (Audited) £m
Amounts recognised as distributions to equity holders in the period (based on the number of shares in issue at the record date):			
Final dividend for the year ended 31 December 2006 of 9.1 pence per share paid on 16 May 2007	33.6	–	–
Special interim dividend for the year ended 31 December 2006 of 32.9 pence per share paid on 16 May 2007	121.4	–	–
Interim dividend for the year ended 31 December 2006 of 4 pence per share paid on 25 October 2006	–	–	16.3
Special interim dividend for the year ended 31 December 2006 of 80 pence per share paid on 25 October 2006	–	–	325.7
	155.0	–	342.0

	Six months ended 30 June 2007 (Unaudited) £m	2006 (Unaudited) £m	Year ended 31 December 2006 (Audited) £m
Amounts not recognised as distributions to equity holders in the period:			
Proposed interim dividend for the six months ended 30 June 2007 of 4.7 pence per share (2006: 4 pence per share paid on 25 October 2006)	16.6	16.3	–
Special interim dividend for the six months ended 30 June 2006 of 80 pence per share paid on 25 October 2006	–	325.7	–
Proposed final dividend for the year ended 31 December 2006 of 9.1 pence per share paid on 16 May 2007	–	–	33.6
Proposed special interim dividend for the year ended 31 December 2006 of 32.9 pence per share paid on 16 May 2007	–	–	121.4
	16.6	342.0	155.0

On 5 September 2007 the Board resolved to pay an interim dividend for the six months ended 30 June 2007 of 4.7 pence per share on 24 October 2007. The interim dividend of 4.7 pence per share has not been included as a liability as at 30 June 2007.

Also on 5 September 2007, the Board resolved to make a special distribution of approximately £83 million to be undertaken through the introduction of a share buy back programme as described in the Business and financial review.

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 2007 to reflect relevant changes in assumptions. The principal change from those assumptions adopted at 31 December 2006 was a change in the discount rate from 5.1% to 5.8%, reflecting market conditions at each date.

10. Financial liabilities – borrowings

	As at 30 June 2007 (Unaudited) £m	As at 30 June 2006 (Unaudited) £m	As at 31 December 2006 (Audited) £m
Current:			
Term loans	14.8	6.3	19.8
Bridge loan	–	19.0	–
	14.8	25.3	19.8

	As at 30 June 2007 (Unaudited) £m	As at 30 June 2006 (Unaudited) £m	As at 31 December 2006 (Audited) £m
Non-current:			
Term loans	420.3	422.4	453.5
Bridge loan	–	2.9	2.9
	420.3	425.3	456.4

The term loans are subject to a fixed amortisation profile ending on 31 December 2010 and debt service payments are made semi-annually on 30 June and 31 December. Payment profiles for repayment of debt 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. £40 million of the term loan was repaid on 29 June 2007. Previously, repayments of £57.5 million were made on each of 30 June 2006 and 29 December 2006. All repayments have been made in line with the target repayment profile as a result of the levels of cash available for debt service.

The bridge loan was repaid in full following receipt of the final distribution under the TXU claim in April 2007. On 11 May 2006, the Group entered in to a further credit facility agreement providing an additional £100 million borrowing facility on similar terms and with a similar repayment profile to existing borrowings. The facility was drawn down in full on 3 July 2006 and is included within the term loans in the table above.

11. Called up share capital

	2007 (Unaudited) £m	As at 30 June 2006 (Unaudited) £m	As at 31 December 2006 (Audited) £m
Authorised:			
30 June 2007 – 865,238,823 ordinary shares of £0.11 ¹⁶ / ₂₉ each	100.0	–	–
31 December 2006 – 905,796,893 ordinary shares of £0.11 ¹ / ₂₉ each	–	–	100.0
30 June 2006 – 999,500,020 ordinary shares of £0.10 each	–	100.0	–
Issued and fully paid:			
30 June 2007 – 352,402,304 ordinary shares of £0.11 ¹⁶ / ₂₉ each	40.7	–	–
31 December 2006 – 368,921,151 ordinary shares of £0.11 ¹ / ₂₉ each	–	–	40.7
30 June 2006 – 407,085,395 ordinary shares of £0.10 each	–	40.7	–
	40.7	40.7	40.7

The movement in allotted and fully paid share capital of the Company during each period was as follows:

	Six months ended 30 June 2007 (Unaudited) Number	2006 (Unaudited) Number	Year ended 31 December 2006 (Audited) Number
At beginning of the period	368,921,151	406,927,661	406,927,661
Issued under employee share schemes	–	157,734	157,734
Effect of share consolidation	(16,518,847)	–	(38,164,244)
At end of the period	352,402,304	407,085,395	368,921,151

The Company undertook a share consolidation in connection with the interim special dividend paid on 16 May 2007 (note 8). Following approval at the Annual General Meeting held on 26 April 2007, the share consolidation under which shareholders received 64 new ordinary shares of 11¹⁶/₂₉ pence each for every 67 existing ordinary shares of 11¹/₂₉ pence each, became effective on 30 April 2007.

12. Cash flow from operating activities

	Six months ended 30 June 2007 (Unaudited) £m	2006 (Unaudited) £m	Year ended 31 December 2006 (Audited) £m
Continuing operations			
Profit for the period	220.1	231.7	463.5
Adjustments for:			
Interest payable and similar charges	17.4	18.2	37.1
Interest receivable	(7.2)	(5.7)	(13.4)
Tax charge	53.0	85.0	170.7
Depreciation	17.4	17.5	34.9
Unrealised gains on derivative contracts	(6.9)	(89.1)	(90.8)
Non-cash charge for share-based payments	2.0	1.3	1.7
Operating cash flows before movement in working capital	295.8	258.9	603.7
Changes in working capital:			
Increase in inventories	(20.7)	(6.2)	(9.1)
Decrease in receivables	106.0	83.9	19.7
(Decrease)/increase in payables	(89.3)	1.5	(4.4)
(Decrease)/increase in pensions	(1.0)	0.1	(23.6)
Increase in provisions	0.1	0.1	0.2
Cash generated from operations	290.9	338.3	586.5

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 2007, which comprises the condensed consolidated income statements, the condensed consolidated balance sheets, the condensed consolidated statements of recognised income and expense, the condensed consolidated statements 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 2007.

Deloitte & Touche LLP
Chartered Accountants
London

Glossary

Ancillary services

Services provided by National Grid used for balancing supply and demand or maintaining secure electricity supplies within acceptable limits. They are described in connection Condition 8 of the Grid Code.

Availability

Average percentage of time the units were available for generation.

Average achieved price

Power revenues divided by volume of net sales (includes imbalance charges).

Average capture price

Revenue derived from bilateral contracts divided by volume of net merchant sales.

Balancing mechanism

The period during which the System Operator can call upon additional generation/consumption or reduce generation/consumption, through market participants' bids and offers, in order to balance the system minute by minute.

Baseload

Running 24 hours per day, seven days per week remaining permanently synchronised to the system.

Bilateral contracts

Contract with counterparties and power exchange trades.

Company

Drax Group plc.

Dark green spread

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 CO₂ emissions allowances).

EBITDA

Profit before interest, tax, depreciation and amortisation, exceptional items and unrealised gains/(losses) on derivative contracts.

ESIP

The Drax Group plc Restricted Share Plan, also known as the Drax Group plc Executive Share Incentive Plan.

EU ETS

The EU Emissions Trading Scheme is a policy introduced across Europe to reduce emissions of CO₂, the scheme is capable of being extended to cover all greenhouse gas emissions.

Forced outage

Any reduction in plant availability excluding planned outages.

Forced outage rate

The capacity which is not available due to forced outages or restrictions expressed as a percentage of the maximum theoretical capacity, less planned outage capacity.

Group

Drax Group plc and its subsidiaries.

IASs

International Accounting Standards.

IFRSs

International Financial Reporting Standards.

LECS

Levy Exemption Certificate. Evidence of Climate change levy exempt electricity supplies generated from qualifying renewable sources.

Load factor

Net sent out generation as a percentage of maximum sales.

Net balancing mechanism

Net volumes attributable to accepted bids and offers in the balancing mechanism.

Net merchant sales

Net volumes attributable to bilateral contracts and power exchange trades.

Net sales

The aggregate of net merchant sales and net balancing mechanism.

Occupational health and safety assessment series (OHSAS).

The OHSAS specification gives requirements for an occupational health and safety (OH&S) management system, to enable an organisation to control its OH&S risks and improve its performance.

Planned outage

A period during which scheduled maintenance is executed according to the budget set at the outset of the year.

Planned outage rate

The capacity not available due to planned outages expressed as a percentage of the maximum theoretical capacity.

Power exchange trades

Power sales or purchases transacted on the APX UK power trading platform.

Power revenues

The aggregate of bilateral contracts and balancing mechanism income/expense.

ROCs

Renewables Obligation Certificates. One ROC is issued to eligible generators for every MWh of electricity generated from renewable sources.

SAYE plan

The Drax Group plc Approved Savings Related Share Option Plan.

SIP

The Drax Group plc Approved Share Incentive Plan.

Summer

The calendar months April to September.

Summer baseload market close

Market price on the last day that the season was traded as a product.

TXU

TXU Europe Energy Trading Limited (in administration and subject to a company voluntary arrangement).

TXU claim

The claim issued by the Group, ultimately agreed by the Administrators of TXU at approximately £336 million (excluding VAT) in respect of unpaid power purchased by TXU and liquidated damages under the TXU contract.

TXU contract

A 15 year power purchase agreement with TXU.

UK NAP

UK National Allocation Plan.

Winter

The calendar months October to March.

Winter baseload market close

Market price on the last day that the season was traded as a product.