

23 October 2008

DRAX GROUP PLC
(Symbol: DRX)

BIOMASS GROWTH STRATEGY

Drax Group plc ("Drax" or the "Company") announces its intention to develop a 900MW dedicated biomass-fired generation business with Siemens Project Ventures GmbH ("Siemens Project Ventures").

Summary

- Drax has entered into a Joint Development Agreement with Siemens Project Ventures to build, own and operate three large dedicated biomass-fired generation plants in the UK.
- Building on Drax's expertise in biomass co-firing, the expansion of our renewables business is expected to deliver significant attractive long-term growth opportunities.
 - Each plant meets a mid-teens equity return hurdle based on current market scenarios.
 - Each plant is expected to have a pay-back period of within 6 years from commencement of operations.
- The new plants once operational will deliver essential baseload generation capacity to the UK electricity market, both making a significant contribution to the UK's renewables target and supporting national security of supply requirements.
 - Based on current estimates, once all three plants are operational Drax will be responsible for supplying at least 15% of the UK's renewable power and up to 10% of total UK electricity.
- Drax is well positioned to build this biomass-fired generation business:
 - Biomass-fired generation has a strong strategic fit with Drax's existing business and will enable the Company to deliver additional value from its core competencies of production, trading, biomass procurement and handling and project execution.
 - Drax already produces power by co-firing biomass and is well advanced in its project to increase its biomass co-firing capability to 500MW by mid-2010, which will make Drax Power Station the largest biomass co-firing plant in the world.
 - Drax has an established biomass business management team in place and already purchases significant volumes of biomass in accordance with its established sustainable sourcing policy.
- No commitments to construction contracts or financing have been made to date and Drax expects to finalise these arrangements over the next 12-18 months.
- Drax also announces a new distribution policy: the Company will distribute excess cash generated from operations in 2008 and 2009 and then target a pay-out ratio of 50% of underlying earnings from 2010 onwards to complement the expected growth potential of the group.

Development Structure

Drax has entered into a Joint Development Agreement ("JDA") with Siemens Project Ventures to build three 300MW dedicated biomass-fired generation plants in the UK. Under the terms of the JDA the intended ownership of the biomass-fired generation business will be split 60% Drax and 40% Siemens Project Ventures. Drax will manage and operate the biomass business and will also be responsible for all biomass procurement and trading. It is proposed that the plants will use Siemens' turbine technology.

Sites

Drax has secured rights to port sites at Immingham and Hull for two of the proposed biomass plants. The Company is also progressing a number of options for the third site, including land at Drax Power Station. The planning application process for each of the two secured sites, including required consents, has recently commenced.

Costs

Current estimates of the total capital cost of the investment programme are around £2bn, including investments in ancillary biomass logistics and processing facilities. Construction of the first plant is targeted to commence in late 2010, following execution of the construction and financing contracts and agreed capital commitment, with the first plant expected to be operational in 2014.

Distribution Policy

In order to fund the expansion of the biomass business, Drax today also announces a change to its distribution policy. For 2008 and 2009, the Company will distribute all excess cash generated from operations after meeting business requirements in each year. Any refinancing proceeds will be used to fund Drax's equity investment in the new biomass business. For 2010 and beyond, Drax will target a pay-out ratio of 50% of underlying earnings in each year, adjusted for non-cash accounting items (principally accounting for derivative contracts).

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

"This is an exciting opportunity for Drax to develop its business and to deliver shareholder value by exploiting our core competencies, whilst achieving fuel diversification and carbon abatement.

"We are strongly of the view that investment in the generation sector will provide attractive returns. We believe our venture into dedicated biomass-fired generation underpins our commitment to reducing the carbon footprint of electricity generation from the continued, but necessary, reliance on fossil fuels, whilst delivering secure and reliable supplies of electricity.

"Based on current estimates, once all three plants are operational Drax will be responsible for supplying at least 15% of the UK's renewable power and up to 10% of total UK electricity."

Commenting on the announcement, Dr. Wolfgang Bischoff, Managing Director of Siemens Project Ventures, said: "We are pleased to be furthering our long-standing relationship with Drax and particularly pleased to be their partner in this new venture.

"We believe that the development of dedicated biomass plant will make a significant contribution to the renewable energy needs of the UK going forward and importantly help to address the challenge of climate change facing the sector. As a leading technology company we are used to providing solutions to such important issues."

~~~~~

## **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.

~~~~~

Management will host a presentation for analysts and investors at 9:30am (UK Time) today, Thursday 23 October 2008, 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 7am (UK time) on 23 October 2008 for download at: [www.draxgroup.plc.uk/investors/results and reports/IR presentations/2008](http://www.draxgroup.plc.uk/investors/results_and_reports/IR_presentations/2008) or use the link http://www.draxgroup.plc.uk/investor/results_and_reports/presentations/.

Event Title: Drax Group plc: Biomass Announcement
Event Date: Thursday 23 October 2008
Event Time: 9:30am (UK time)

UK Call In Number: 020 7162 0125
International Call In Number: +44 (0)20 7162 0125
US Call In Number: +1 334 420 4951

Webcast details

Live Event Link: <http://events.webeventservices.com/Drax/2008/10/23/>

UK Instant Replay

Start Date: Thursday 23 October 2008
Delete Date: Thursday 20 November 2008
Dial In Number: 020 7031 4064
Freephone number (UK only): 0800 358 1860
Passcode: 812190

US Instant Replay

Start Date: Thursday 23 October 2008
Delete Date: Thursday 20 November 2008
Dial In Number: 1-954-334-0342
Freephone number (US only): 1-888-365-0240
Passcode: 812190

Video Webcast

Start Date: Thursday 23 October 2008
Delete Date: Thursday 20 November 2008
Archive Link: <http://events.webeventservices.com/Drax/2008/10/23/>

For further information please contact:

	On the day	Thereafter
<u>Drax Group plc</u>		
Dorothy Thompson, Chief Executive	+44 (0) 20 7353 4200	+44 (0) 1757 618381
Tony Quinlan, Finance Director		
Andrew Koss, Investor Relations	+44 (0) 20 7353 4200	+44 (0) 1757 612333
Melanie Wedgbury, Media Contact	+44 (0) 20 7353 4200	+44 (0) 1757 612438
<u>Siemens Financial Services</u>		
Christian Kosch, Media Relations	+49 636 32197	+49 636 32197
<u>Tulchan Communications</u>		
David Trenchard and Peter Hewer	+44 (0) 20 7353 4200	+44 (0) 20 7353 4200
<u>Local Media Contact - Imagen</u>		
Richard Harrison and Lisa McGauley	+44 (0) 1943 468778	+44 (0) 1943 468778

Website: www.draxgroup.plc.uk

Notes

Siemens Project Ventures GmbH (SPV) is a Group company of Siemens Financial Services. Together with renowned partners, SPV has, with equity capital contributions, been involved worldwide in the development of infrastructure projects, particularly in the energy, transport and telecommunication sectors. SPV has already participated in the development of 10 international power plant projects with an overall capacity of more than 6,600 MW as well as in three telecommunication projects and an airport, with a cumulative project volume of 7 billion USD.

Siemens Financial Services (SFS) is an international provider of financial solutions in the business-to-business area. With about 1,900 employees and an international network of financial companies coordinated by Siemens Financial Services GmbH, Munich, we support Siemens as well as non-affiliated companies, focusing on the three sectors of energy, industry and healthcare. We finance infrastructure, equipment and working capital and act as a competent manager of financial risks within Siemens. By leveraging our financing expertise and our industrial know-how we create value for our customers and help them strengthen their competitiveness. For more information see: www.siemens.com/finance.