

DRAX GROUP PLC
(Symbol: DRX)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

Drax Group plc ("Drax" or the "Company"), the UK power generator, announces its preliminary results for the year ended 31 December 2007 and reports on key developments.

Highlights

- EBITDA⁽¹⁾ of £506 million (2006: £583 million) reflecting a strong trading and operating performance offset by, amongst other things, a weaker electricity market following an exceptionally warm first quarter of 2007, and rising coal prices throughout the year.
- Adjusted PBT⁽³⁾ £439 million (2006: £524 million).
- Final ordinary dividend proposed of 9.9 pence per share and special dividend of 7.8 pence per share giving a total of 17.7 pence per share or £60 million.
- Returns to shareholders in respect of 2007, by way of dividend and share buy-back, totalling £160 million.
- Good delivery on our strategic priorities through the effective alignment of trading, production and investment, in particular:
 - Leading operating performance amongst UK coal-fired generation plant maintained with plant availability of 86% and high commercial despatch with a load factor of 75%.
 - Two major planned outages completed, each within 12 weeks.
 - Winter forced outage rate of 4.2%, better than our challenging long-term target of 4.5%.
 - Strong trading performance in line with our strategy to match our power sales with corresponding carbon and fuel positions.
 - Good progress on our major carbon abatement projects.
- Capital expenditure target totalling £250 million now planned for the three years 2008 to 2010.

Year ended 31 December 2007 compared to year ended 31 December 2006:

	Year ended 31 December	
	2007	2006
	£ million	£ million
Total revenue	1,247	1,387
Gross profit	701	746
EBITDA ⁽¹⁾	506	583
Operating profit ⁽²⁾	471	658
Profit before tax	449	634
Adjusted profit before tax ⁽³⁾	439	524
Profit after tax	353	464
	Pence per share	Pence per share
Basic and diluted earnings per share ⁽⁴⁾	99	116
Proposed final ordinary dividend ⁽⁵⁾	9.9	9.1
Declared special dividend ⁽⁵⁾	7.8	32.9

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 £10 million (2006: £110 million).
- 3) Adjusted profit before tax excludes exceptional items and unrealised gains on derivative contracts totalling £10 million (2006: £110 million).
- 4) During the period the Company has amended the calculation of earnings per share to reflect share consolidations associated with special dividends from the date of consolidation only. Comparatives have been restated accordingly.
- 5) Based on the number of shares in issue as at 31 December 2007 and 31 December 2006 respectively.

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

“Our strategy is to grow shareholder value by exploiting the strategic and commercial value of Drax Power Station and by deploying and developing our core competencies to deliver additional value through fuel diversification and carbon abatement.

“We believe developments in the UK electricity market will present opportunities for Drax to exploit its strategic position as a key generator in the market and to use its competencies in the areas of trading and operations.”

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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, Tuesday 4 March 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 7:00am (UK time) today, Tuesday 4 March for download at www.draxgroup.plc.uk >> investors>>results and reports>>IR presentations>>2007 or use the link http://www.draxgroup.plc.uk/investor/results_and_reports/presentations/

Event Title:	Drax Group plc: Full Year Results
Event Date:	Tuesday 4 March 2008
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 6201

Webcast details
Live Event Link: <http://events.webeventservices.com/drax/2008/03/04/>

UK Instant Replay	
Start Date:	Tuesday 4 March 2008
Delete Date:	Thursday 3 April 2008
Dial In Number:	020 7031 4064

Freephone number (UK only): 0800 358 1860
Passcode: 782426

US Instant Replay
Start Date: Tuesday 4 March 2008
Delete Date: Thursday 3 April 2008
Dial In Number: 1-954-334-0342
Freephone number (US only): +1 888 365 0240
Passcode: 782426

Video Webcast
Start Date: Tuesday 4 March 2008
Delete Date: Tuesday 3 March 2009
Archive Link: <http://events.webeventservices.com/drax/2008/03/04/>

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PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

Introduction

During 2007, we continued to deliver sound operational and financial performance, the latter despite dramatic price changes across the commodity markets which are critical to our business. As a result of an exceptionally warm Winter the electricity wholesale price weakened which, together with rising coal and freight prices, reduced the margins previously available to coal-fired generators. These, amongst other factors, contributed towards an EBITDA of £506 million, some £77 million lower than in 2006. In 2007, we effected our policy to return surplus cash to shareholders through a combination of an ordinary dividend, special dividend and a share buy-back, together totalling £160 million.

Our strategy is to grow shareholder value by exploiting the strategic and commercial value of Drax Power Station and by deploying and developing our core competencies to deliver additional value through fuel diversification and carbon abatement. The strategic priorities we set ourselves for the year focused our attention on the areas of trading, production and investment in improving existing plant performance and increasing fuel optionality.

In 2007, we made good progress with our two major investment programmes to upgrade the high and low pressure turbines of all six generating units and to increase significantly our renewable biomass throughput; both importantly contributing to our commitment to reduce our emissions of carbon dioxide ("CO₂") and helping to combat climate change.

We continued to execute with success our trading strategy, progressively hedging our output whilst targeting market or better dark green spreads and retaining balanced market exposure. Throughout the year, we maintained our focus on delivering added value from our trading capability. This year saw us enter into our first power option, first ship charter and first Kyoto instrument trade. On top of these we have made full use of the flexibility and reliability of the plant through taking advantage of opportunities presented by the ancillary services market including, for the first time, selling some forward contracts for frequency response services.

We achieved good results on plant reliability and availability and once again delivered a strong performance which ranked us highly amongst our sector peers. We undertook two major planned maintenance outages during the year along with a substantial capital expenditure investment programme. Our safety record compares favourably with that of our peers and international benchmarks. In 2007, our safety programmes generally delivered sound performance, but to our regret there was a fatality following an incident at our site involving a contractor undertaking some civil works. Delivering the highest standards in safety management remains a key area of focus and is central to our operating philosophy.

Trading overview

Our practice is to sell approximately one-third of our power in the near-term markets and the remaining two-thirds in the liquid forward markets. We broadly match our power sales with corresponding carbon and fuel positions. As a result, annual profitability is influenced by past, present and future commodity prices.

Commodity prices at the end of 2007 were dramatically different to those at the start of the year and within-year volatility was very high. The three commodity prices that most strongly influence the electricity wholesale market of Great Britain continue to be international traded prices for oil, coal and carbon. During the year there was a 70% rise in international crude oil prices. In the same period, and in contrast to 2006 which saw relatively stable coal prices, international coal prices increased by 90%. The price for carbon under the EU Emissions Trading Scheme ("EU ETS") fell close to zero in 2007 whilst traded prices for carbon for delivery in Phase II of the scheme, which covers 2008–2012, rose by 45%.

For most of the year, gas-fired generation plant was the price setting plant for the electricity wholesale market of Great Britain with power prices generally moving with changes in domestic gas wholesale prices.

Gas prices were strongly influenced by international oil prices but also affected by weak Winter demand levels due to mild weather which, when combined with increased supplies of gas into Great Britain and high storage levels, resulted in some low prices in the first half of the year. The margins for coal-fired generation were sustained at attractive levels for much of the year except at times when the downward pressure from gas prices, combined with high international coal prices, depressed margins.

We continued to enjoy good liquidity in the traded electricity market out to 2012. This enabled us both to manage effectively our coal and carbon positions in line with our trading strategy and to increase the volume of our forward sales. Compared to 2006, we have modestly increased our total forward sales which, given the absence of liquidity in the market post 2012, is a significant achievement.

Over the last two years we have been working hard to diversify and to optimise our fuel sourcing. We were

particularly pleased to increase the diversity of our supplies of indigenous coal through contracts with local suppliers, Hargreaves (UK) Services Limited and Powerfuel plc.

We now have the capability to burn a wide range of coals at Drax, bringing with it the benefits of security of supply and preparedness for the challenges we face now that we are operating under the tighter environmental limits of the Large Combustion Plant Directive ("LCPD") that came into force at the start of 2008.

Production overview

Throughout the year we maintained our focus on achieving leading performances in the areas of health and safety, environmental compliance and plant reliability. Specifically, in delivering against our production strategy we implemented selective investment to improve plant safety performance, improve plant efficiency, and maintain high availability and reliability compared to our sector peers. Through improved work processes we targeted better productivity and we worked on delivering the capability to burn a wide range of fuels, including a variety of coals, biomass materials and petcoke.

As we entered 2007, we were well aware of the significant challenge we faced in managing our health and safety performance amidst two major planned outages and an increased level of site project work, which together represented an increase of over 30% in the hours worked by our production teams and contractors compared to 2006.

Although our lost time injury rate worsened compared to 2006, we maintained the much improved performance levels achieved in 2005. This demonstrates well that the systems we have implemented over the last three years are becoming embedded in the health and safety philosophy and are proving effective as we increase the intensity of work at the plant.

The availability and reliability of our plant is key to delivering shareholder value. We have set ourselves a challenging, long-term target of 4.5% for Winter forced outages.

During the critical, high margin Winter months of 2007 we achieved better than our long-term target by delivering a forced outage rate of 4.2%. The forced outage rate for the full year at 6.9% was higher than that of 2006 due largely to taking advantage of low margin Summer periods to conduct elective outages which contributed to the calculation of our published forced outage rates. These outages allowed additional plant inspections and repair work which have provided us with a high degree of confidence in maintaining plant integrity.

Investment overview

Good progress was made on the two major investment projects announced at the turn of the year. Economic carbon abatement along with fuel diversification are key elements of our strategy to grow shareholder value. We believe that there is strategic value in our environmental leadership position in the coal-fired sector and, whilst holding the position of the most efficient coal-fired generator in the UK with the lowest CO₂ emissions per unit of output, we strive for further improvement. Our decisions to invest up to £100 million to upgrade our high and low pressure turbines and to set ourselves the challenging target of producing 10% of our output from renewable biomass by the end of 2009 were driven by our will and commitment to economically reduce our emissions of CO₂. On completion, these projects will save over three million tonnes of CO₂ each year in support of our strategic priorities.

In the third quarter of the year, during the second major planned outage we were able to fast track the installation of a high pressure turbine module on one of our units. This enabled us to gain valuable engineering experience, along with some modest efficiency improvements, ahead of the upgrade of two high pressure and six low pressure turbines during the major outages on two of our generating units planned for 2008.

Our dedicated renewables co-firing project team have made good progress in finalising the design of the new biomass handling and direct injection facilities required to meet our 10% co-firing objective. In February 2008, we were granted planning approval by Selby District Council for the new facilities. Following a competitive tender process, we are on schedule to execute Engineering, Procurement and Construction contracts for the co-firing facilities in the second quarter of 2008, with building works expected to commence in the second half of 2008. The facilities are planned to come on line during the course of 2009, with full completion being at the end of 2009, in line with our target.

In 2007, we co-fired close to 200,000 tonnes of renewable biomass and made significant progress with sourcing and test burning different biomass materials. During the year there was high price volatility in the agricultural markets driven particularly by the rapeseed and grain markets. UK prices for rapeseed and wheat both increased by over 75% in the year. The higher rapeseed prices have made the economics of the proposed development of a rapeseed crushing plant less attractive, and so we have not progressed this project. The price increases have also had an adverse impact on some of the growth momentum of our local perennial energy crop programmes as farmers increased annual food crop acreage to take advantage of market opportunity.

Drax remains committed to supporting and encouraging the growth of UK energy crops, although the significant rise in agricultural prices demonstrates the value of the diverse sourcing strategy for biomass which we have been pursuing. It is our strategy to secure biomass contracts from both domestic and international sources across the spectrum of energy crop and non-energy crop products. As part of this strategy, we are placing particular emphasis on environmental sustainability in our sourcing plans.

In the last year we also introduced new systems and procedures for controlling and managing projects. This is central to the successful execution of both the strategic projects detailed above and the large number of smaller projects that we have been implementing across the business, most notably plant enhancement projects which deliver environmental, efficiency and reliability improvements. These improved management systems supported our execution, within budget and on a timely basis, of projects included in the £83 million incurred under our capital expenditure investment programme in 2007.

Regulatory and market outlook

The Government published its Energy Bill on 10 January 2008 setting out policy proposals in response to the UK's long-term energy challenges of tackling climate change and ensuring secure, clean and affordable energy.

The Energy Bill is consistent with the conclusions of the May 2007 Energy White Paper which confirmed that coal "will continue to play a significant role in global electricity generation for the foreseeable future", recognising both the global abundance of coal and other important security of supply benefits that coal brings to the energy mix, such as its ability to respond quickly to changes in demand. We have long advocated the continuing need for coal in the energy mix, but we have always acknowledged that there can only be a place for coal, and other fossil fuels, if we address the environmental challenge.

The UK currently generates 4% of its electricity from renewable sources. The Energy Bill provides for a strengthening of the Renewables Obligation ("RO") to drive greater and more rapid deployment of renewables. This accords with the EU objectives and the proposed target set by the EU for the UK of 15% renewable energy by 2020. The consequent growth in renewable generation will increase the diversity of the UK's energy mix and lower CO₂ emissions from the electricity sector.

There is clear recognition of the contribution that renewable biomass materials can make towards the UK's renewables target. The new RO regime should support the growth of both standalone biomass power plants and co-firing biomass with coal. In April 2007, we saw the removal of caps and constraints on energy crop co-firing biomass whilst the new regime provides for the doubling of the volume of permitted co-firing of non-energy crop biomass.

We are already committed to substantially increasing the proportion of power we generate from biomass through co-firing with coal. We believe that lessons learnt in both understanding the technology and, more importantly, in sourcing and logistics when combined with the incentives through the RO may present additional opportunities for creating additional shareholder value and fuel diversification.

The Government's energy policy recognises that substantial investment in new generation capacity will be needed to address the emerging capacity gap left by retiring coal, oil and nuclear power stations and to meet anticipated increases in electricity demand.

The requirements of the EU's LCPD, which came into effect on 1 January 2008, will bring about the closure of some 8.5GW of coal-fired capacity and some 3.4GW of oil-fired capacity between 2012 and the end of 2015. In addition, around 7GW of nuclear capacity is scheduled to close between now and 2020. Although some of the capacity gap may be addressed by actions on the demand-side, it is nevertheless expected that without new plant build, in the near term, the power markets will tighten. The ensuing market dynamics are likely to be beneficial to strategic generators such as Drax Power Station, with its proven technology and expected generation life, and may also present opportunities.

In January 2008, the EU outlined its proposals for the EU ETS beyond 2012. It is proposed that the scheme will be extended to a third phase covering the period 2013–2020. The cap on traded emissions by 2020 will be 79% of traded emissions in 2005 with a linear reduction of 1.74% per annum. It is proposed that all of the allowances for the electricity sector will be auctioned. We support a traded price for carbon but we oppose full auctioning for the electricity sector in Phase III.

We consider that to introduce full auctioning from 2013 is likely to prove a precipitous move which could be destabilising for the electricity sector and could lead to the early closure of less efficient plant at a time when the reserve capacity margins across the EU are forecast to reach critically low levels. The proposals now must be approved by both the Council of the EU and the European Parliament in order to become law.

Our people

It is the commitment and enthusiasm of our people that have secured the progress that we have made during 2007, and we recognise only too well their contribution to delivering against our strategy and delivering value to our shareholders.

In keeping with our significant developments made throughout the year, we have increased our headcount by around 10%. As in the previous year, we continued to recruit specialists with the skills and experience to take our business forward. In particular, the areas of business development, IT, risk management and trading have seen the largest growth; it is these areas that will enable us to explore and exploit new opportunities.

We placed particular emphasis on the development of our people during 2007, ensuring that all development needs identified during our appraisal process were addressed. Through a tailored competency-based management development programme for all staff with supervisory responsibilities we targeted all first line supervisors and during 2008 our plans are to target all our staff with a leadership role. The target set at the outset of the year for training events was exceeded and we shall be assessing the effectiveness of the development programme initiated as part of the 2008 performance appraisals.

Looking ahead

During the last two years our primary focus has been on delivering the strategy for the business which we laid out on listing the Company in December 2005. This focused on the strong alignment between our trading and production strategies and the achievement of leading performance in both areas. We believe that we have successfully delivered this.

Our strategic focus is now on producing value growth for our shareholders whilst maintaining leading performances in trading and production. We plan to increase shareholder value by developing our core competencies to deliver significant fuel diversification and carbon abatement. In the near term this will be through the successful implementation of our existing two major strategic projects, upgrading our turbines and biomass co-firing.

We believe that our biomass handling and sourcing capabilities are areas of emerging competence which have the potential to produce significant value. We therefore intend to further develop our biomass procurement and handling capability with a view to potentially expanding significantly our generation from renewable biomass fuels. This would achieve both additional carbon abatement and increased fuel diversification.

We also believe that the purchase of Kyoto instruments in place of CO₂ emissions allowances could provide significant value potential for Drax, particularly in Phase III of the EU ETS when there should be greater opportunity for these trades, provided that there is a new international agreement on greenhouse gas emissions. We will ensure that we are well placed to capture this value potential and will work to further build our Kyoto instrument trading and origination capabilities.

All the analysis that we have done reinforces our view that the electricity wholesale market of Great Britain will provide increasing returns to available capacity as the retirement of some of the older plant reduces the margin of installed capacity above system demand. This will be positive for Drax and we believe that our strategic position and focus will give us the ability and opportunity to deliver value growth to our shareholders relative to the commodity markets in which we operate.

Results of operations

	Year ended 31 December 2007	Year ended 31 December 2006
	£m	£m
Continuing operations		
Total revenue	1,247.4	1,387.0
Fuel costs(1)		
Fuel costs in respect of generation	(470.6)	(547.5)
Costs of power purchases	(75.5)	(93.8)
	(546.1)	(641.3)
Gross profit	701.3	745.7
Other operating expenses excluding depreciation, amortisation, unrealised gains on derivative contracts and exceptional items(2)	(195.7)	(162.7)
EBITDA(3)	505.6	583.0
Depreciation and amortisation	(43.7)	(34.9)
Other operating income – exceptional credit	6.2	19.0
Unrealised gains on derivative contracts	3.3	90.8
Operating profit	471.4	657.9
Interest payable and similar charges	(34.3)	(37.1)
Interest receivable	11.4	13.4
Profit before tax	448.5	634.2
Tax charge		
– Before impact of reduction in tax rate on deferred tax	(113.4)	(170.7)
– Impact of reduction in tax rate on deferred tax	17.9	–
	(95.5)	(170.7)
Profit for the year attributable to equity shareholders	353.0	463.5
	Pence per share	Pence per share
Earnings per share (4)		
– Basic and diluted	99	116

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 year 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 consolidated financial information below).

Total revenue for the year ended 31 December 2007 was £1,247 million compared to £1,387 million in 2006. Power sales were £1,204 million for the year ended 31 December 2007 compared to £1,327 million in 2006, reflecting a fall in our average achieved electricity price (see Price of electricity) and a reduction in net power sold to 24.9TWh, compared to 25.2TWh in 2006.

In addition to power sales, total revenue also includes income from the provision of ancillary services, the sale of by-products (ash and gypsum), and the sale of ROCs, LECs and sulphur dioxide (“SO₂”) emissions allowances. In the year ended 31 December 2007, these revenues were £43 million compared to £60 million in 2006, reflecting the timing of ROC sales, partially offset by higher ancillary services income. Although we burnt more biomass in 2007 compared to 2006, a proportion of the associated ROC sales will not be made until 2008, which has resulted in a reduction in ROC revenues in 2007 when compared to 2006.

Fuel costs in respect of generation during the year ended 31 December 2007 were £471 million, compared to £548 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).

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 year ended 31 December 2007, the cost of purchased power decreased to £76 million compared to £94 million in 2006, primarily due to lower market prices for electricity.

Gross profit for the year ended 31 December 2007 was therefore £701 million compared to £746 million in 2006.

Other operating expenses excluding depreciation, amortisation, unrealised gains on derivative contracts and exceptional items were £196 million for the year ended 31 December 2007 compared to £163 million in 2006. The increase of £33 million includes significantly higher maintenance costs, with two units undergoing a major planned outage in 2007 compared to just one unit in 2006. We also experienced an increase in business interruption insurance costs due to higher margins in 2006 and the first six months of 2007, and we have significantly increased our expenditure on site security following the Camp for Climate Action in August 2006. We also incurred higher grid connection and use of system charges ("TNUoS").

Increased operating expenses also includes a one-time payment of £3 million made in April 2007 (equating to £5,000 per eligible employee) in order to secure a two-year pay agreement with Trades 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. In addition, our average monthly headcount increased to 658 in 2007 compared to 619 in 2006, primarily as a result of planned investments in the business.

EBITDA (defined as profit before interest, tax, depreciation, amortisation, exceptional items and unrealised gains on derivative contracts) for the year ended 31 December 2007 was accordingly £506 million compared to £583 million in 2006.

Depreciation and amortisation for the year ended 31 December 2007 was £44 million compared to £35 million in 2006. The increase primarily reflected accelerated depreciation of plant and equipment we expect to replace under our capital expenditure investment programme.

Exceptional operating income of £6 million for the year ended 31 December 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 year ended 31 December 2006 amounted to £19 million. All amounts are net of VAT and costs, with proceeds 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, IAS 39 and IFRS 7, 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 recorded in the income statements were £3 million for the year ended 31 December 2007 compared to £91 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 implementing 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 year ended 31 December 2007 were £584 million compared to unrealised gains of £468 million in 2006.

Movements between the balance sheet position reported at 31 December 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 six months of 2006, 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, following increases in power prices over the last quarter of 2007, the average price relating to power which had been contracted but had yet to be delivered at 31 December 2007 was lower than market prices at that time, resulting in the recognition of a net unrealised loss of £237 million in the balance sheet.

Operating profit for the year ended 31 December 2007 was £471 million compared to £658 million in 2006.

Interest payable and similar charges for the year ended 31 December 2007 were £34 million compared to £37 million in 2006, as a result of lower debt levels partially offset by the impact of higher interest rates.

The tax charge for the year ended 31 December 2007 was £96 million, compared to £171 million in 2006. The tax charge for 2007 includes a one-off credit of £18 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 year ended 31 December 2007 was £353 million compared to £464 million in 2006, and basic and diluted earnings per share was 99 pence compared to 116 pence in 2006, as calculated in accordance with note 7 to the consolidated financial information below.

Key factors affecting the business

Price of electricity

The table below shows the average achieved electricity price realised for the years ended 31 December 2006 and 31 December 2007, together with the market closing price on the last day each season illustrated was traded as a product.

	Year ended 31 December 2007	Year ended 31 December 2006
Average achieved price (£/MWh)	45.3	48.9
	2007	2006
Summer baseload market close (£/MWh)	23.0	45.5
	2007/2008	2006/2007
Winter baseload market close (£/MWh)	40.4	51.7

Average achieved price for the year ended 31 December 2007 was £45.3 per MWh compared to £48.9 per MWh in 2006. Average capture price (being the price attained prior to Balancing Mechanism activity) for the year ended 31 December 2007 was £44.2 per MWh compared to £47.7 per MWh in 2006. The forward baseload power prices for Summer 2008 and Winter 2008/2009 were approximately £54.2 per MWh and £61.2 per MWh respectively as at 22 February 2008.

The fall in average achieved price primarily reflected the impact from forward sales contracts secured in the last six months of 2006 and early in 2007, during which time power prices were generally falling relative to the levels of late 2005 and early 2006, for power now delivered in 2007.

Price of coal and other fuels

We burnt approximately 9.8 million tonnes of coal in the year ended 31 December 2007 compared to approximately 10.2 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 steadily from US\$68 per tonne on 31 December 2006 to US\$79 per tonne by 30 June 2007, but then increased dramatically over the last six months of the year reaching US\$127 per tonne on 31 December 2007. This reflected 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 Indonesia and Australia.

We also burn biomass, petcoke and fuel oil, although coal comprised around 95% of total fuel costs in 2007 (excluding CO₂ emissions allowances) compared to 93% in 2006, primarily reflecting higher coal prices in 2007. The average cost of fuel per MWh (excluding CO₂ emissions allowances) for the year ended 31 December 2007 was £18.5 compared to £17.1 in 2006, with coal prices continuing to rise throughout the year.

CO₂ emissions allowances

Our CO₂ emissions allowances requirement for the year ended 31 December 2007, in excess of those allocated under the UK NAP, was approximately 7.6 million tonnes compared to approximately 8.2 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 first six months of the year to €0.13 per tonne on 30 June 2007, subsequently falling away further to €0.04 per tonne by 31 December 2007. The average price expensed for CO₂ emissions allowances during the year ended 31 December 2007 was £1.5 per tonne compared to £14.3 per tonne in 2006.

Outages and plant utilisation levels

	Year ended 31 December 2007	Year ended 31 December 2006
Winter forced outage rate (%)	4.2	4.7
Forced outage rate (%)	6.9	5.8
Planned outage rate (%)	8.1	4.8
Total outage rate(1) (%)	14.3	10.4
Availability (%)	85.7	89.6
Electrical output (net sales) (TWh)	24.9	25.2
Load factor (%)	75.0	75.9

Notes:

(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 year ended 31 December 2007 was 86% compared to 90% in 2006, primarily as a result of an increase in the planned outage rate with two major planned outages taking place in 2007 compared to one in 2006.

Our maintenance regime includes a major planned outage for each unit every four years. Consequently, there is an irregular pattern to planned outages and associated expenditure, since in two of the four years; two units will undergo a major planned outage. Two major planned outages (units 2 and 3) were completed during 2007, whereas one major planned outage (unit 4) took place during 2006. The planned outage rate achieved for the year ended 31 December 2007 was 8.1% compared to 4.8% in 2006. Two units will each undergo a major planned outage in 2008.

The Winter forced outage rate in 2007 was 4.2% (4.7% in 2006). The forced outage rate for the full year was 6.9% (5.8% in 2006), of which approximately 0.8% was due to a decision to undertake a number of elective forced outages during low margin periods to inspect boiler tubes following a tube failure at an older UK coal-fired power station.

These outages also allowed additional plant inspections and repair work to be undertaken which have provided us with a high degree of confidence in maintaining plant integrity.

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 Winter forced outage rate of 4.5%.

Health and safety

The lost time injury rate was 0.34 for the year ended 31 December 2007 compared to 0.08 in 2006. Although this represents a deterioration, we maintained the much improved performance levels achieved in 2005, despite a 53% increase in hours worked by our production teams and contractors in 2007 compared to 2005. This demonstrates that 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 our sector peers and international benchmarks.

Liquidity and capital resources

Net debt was £337 million as at 31 December 2007 compared to £321 million at 31 December 2006.

Cash and cash equivalents were £60 million as at 31 December 2007 compared to £155 million at 31 December 2006. The changes in cash and cash equivalents are analysed in the following table.

Analysis of cash flows

	Year ended 31 December 2007	Year ended 31 December 2006
Net cash generated from operating activities	312.8	525.1
Net cash used in investing activities	(67.8)	(27.0)
Net cash used in financing activities	(340.1)	(431.1)
Net (decrease)/increase in cash and cash equivalents	(95.1)	67.0

Net cash generated from operating activities was £313 million in the year ended 31 December 2007 compared to £525 million in 2006. The decrease reflected a reduction of £77 million in EBITDA in 2007, lower cash received under the TXU Claim (£6 million cash received under the claim in the year ended 31 December 2007 compared to £74 million in 2006), an increase of £55 million in income taxes paid and 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 payments in respect of capital expenditure in both periods, was £68 million for the year ended 31 December 2007 compared to £27 million in 2006 (see Capital expenditure).

Net cash used in financing activities was £340 million in the year ended 31 December 2007 compared to £431 million in 2006. The 2007 amounts included equity dividends paid of £171 million and payments under the share buy-back programme of £84 million (inclusive of all expenses), together representing returns to shareholders totalling £255 million. Also included were term loan repayments of £40 million in June 2007 and £40 million in December 2007, the final bridge loan prepayment of £3 million, and purchases of our own shares to meet commitments under share-based incentive plans of £2 million. The 2006 amounts included new debt raised of £100 million, offset by equity dividends paid of £342 million, term loan repayments of £58 million in June 2006 and £58 million in December 2006 and bridge loan prepayments of £55 million and £19 million in January and July 2006 respectively.

The decrease in cash and cash equivalents was therefore £95 million in the year ended 31 December 2007, compared to an increase of £67 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

Since Listing in December 2005, senior secured debt has fallen from £500 million to £405 million at 31 December 2007 (both before deferred financing costs), through a combination of scheduled debt repayments and the raising of additional secured debt. Scheduled debt repayments for 2008 are £35 million.

The Board continues to monitor developments in the debt markets and is committed to maintaining balance sheet efficiency. In September 2007, the Board announced its intention to undertake a refinancing of the Group's current debt facilities (subject to market conditions). As a result of continuing turbulence in the debt markets the Board decided to postpone the refinancing until such time as it judges market conditions have improved and the Group will be able to secure more attractive terms.

Seasonality of borrowing

Our business is seasonal with higher electricity prices and despatch in the Winter period and lower despatch in the Summer months, when prices are lower and plant availability is affected by planned outages. 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 31 December 2007.

Contractual commitments

The following table illustrates our contractual obligations, excluding interest, as they fall due as at 31 December 2007.

	Total	Payments due by period			
		2008	2009	2010	2011-2014
	£m	£m	£m	£m	£m
Debt	405.0	10.0	15.0	380.0	–
Fuel purchases	996.5	461.7	293.6	124.3	116.9
Contracted capital expenditure	94.8	33.3	26.6	20.3	14.6
Support contract payments	45.6	29.6	9.1	4.5	2.4
Total	1,541.9	534.6	344.3	529.1	133.9

Capital expenditure

At the turn of the year 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. Following capital expenditure of £83 million in 2007, we remain on track to achieve this target.

We now expect to incur capital expenditure of approximately £250 million over the three years 2008 to 2010, of which around £150 million specifically relates to the turbines upgrade project and investments in extending our biomass capability. We plan to fund this capital expenditure investment programme 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 period, including approximately £70 million over the three years 2008 to 2010, 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 around 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 is being undertaken during the planned outage programme, commenced in the third quarter of 2007, when we were able to fast track the upgrade of a high pressure turbine module on one of our units. The early start to the programme enabled valuable engineering experience to be gained, along with some modest efficiency gains, ahead of the upgrade of two high pressure and six low pressure turbines during the major outages on two of our generating units planned for 2008.

With regard to extending our biomass capability, we expect to invest around £80 million to meet our target to produce 10% of our output from burning biomass by the end of 2009. The largest single investment included in the £80 million programme relates to extending 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. In addition, we expect to make investments in off site processing facilities.

Achievement of the 10% 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. Our dedicated renewables co-firing project team have made good progress in finalising the design of the new biomass handling and direct injection facilities required to meet our 10% co-firing objective.

In February 2008, we were granted planning approval by Selby District Council for the new facilities. Following a competitive tender process, we are on schedule to execute Engineering, Procurement and Construction contracts for the co-firing facilities in the second quarter of 2008, with building works commencing in the second half of 2008. The facilities will come on line during the course of 2009 with full completion being at the end of 2009 in line with our target.

In addition, we will continue to evaluate other investment opportunities which may result in additional capital expenditure. Further investment will be required beyond 2009 and prior to 2016 to meet the requirements of the LCPD.

Share-based incentive plans

Costs charged in the income statement in relation to share-based payments were £3.1 million in the year ended 31 December 2007, compared to £1.7 million in 2006.

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 year ended 31 December 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 year ended 31 December 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 (subject to an overriding maximum of 10% of salary) 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. Under the Drax SIP the ratio is one to one for the 2007/2008 tax year, with the cost of matching shares borne by the Group. As at 31 December 2007, a total of 104,367 matching shares had been purchased and were held in trust on behalf of qualifying employees. The fair value of matching shares awarded up to 31 December 2007 (determined at the award dates) of £0.8 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 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.

Taxation

In December 2007, HM Revenue & Customs issued a consultation document entitled "Principles based approach to financial products avoidance: a consultation document" which is expected to lead to the introduction of new legislation concerning "disguised interest" from 1 April 2008.

It is thought likely that the new rules, if introduced in the form currently envisaged, could adversely impact the future tax efficiency of the Group's existing financing structure. Until the consultation process is completed and the legislation drafted, however, it is not possible to predict with any certainty how the proposed legislation, if and when enacted, might affect the Group tax rate, and the Group is therefore keeping the situation under review.

EBITDA forecast for the year ended 31 December 2007 and closing cash position guidance

We issued a Trading Update on 18 December 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 EBITDA for the year ended 31 December 2007 would be around £500 million and that the cash position as at 31 December 2007 would be in the range £55 million to £60 million (together the "Forecast"). EBITDA was defined as profit before interest, tax, depreciation and amortisation, exceptional items and unrealised gains on derivative contracts.

In arriving at the Forecast, we took account of market prices as of 11 December 2007 for the uncontracted portion of power sales, and coal and CO2 emissions allowances purchases for the period to 31 December 2007. The Forecast also assumed that there would be no significant unplanned outages for the period to 31 December 2007.

Reported EBITDA of £506 million includes the impact on gross margin of a small improvement in dark green spreads between 11 December 2007 and 31 December 2007. The reported cash position as at 31 December 2007 was £60 million.

Contracted position for 2008, 2009 and 2010

Since issuing the Trading Update on 18 December 2007, we have continued to trade in line with expectations and to follow our stated trading strategy of making steady forward power sales with corresponding purchases of 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 22 February 2008, the contracted position for 2008, 2009 and 2010 was follows:

	2008	2009	2010
Power sales (TWh) comprising:	20.5	15.4	10.4
– Fixed price power sales (TWh)	16.0	10.1	5.1
at an average achieved price (per MWh)	at £47.9	at £43.0	at £45.3
– Fixed margin power sales (TWh)	4.5	5.3	5.3
CO2 emissions allowances hedged, including UK NAP allocation, market purchases, structured contracts, and benefit of biomass co-firing (TWh equivalent)	20.5	15.1	18.0
Solid fuel at fixed price/hedged, including structured contracts (TWh equivalent)	22.2	16.6	12.1

Fixed price power sales include approximately 0.8TWh supplied to Centrica in the period 1 January 2008 to 22 February 2008 under the five-and-a-quarter year baseload contract with Centrica which commenced on 1 October 2007.

Fixed margin power sales include approximately 4.5TWh in 2008 and 5.3TWh in each of 2009 and 2010 in connection with the contract. 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 4.8 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.

We will provide the next update on our contracted position in our Interim Management Statement which is expected to be issued on 19 May 2008.

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. These final and special dividends were subsequently paid on 16 May 2007.

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 (equivalent to approximately £16 million). This interim dividend was subsequently paid on 24 October 2007.

Special distribution – share buy-back programme (completed)

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. The buy-back programme represented approximately 3.5% of the Company's issued capital as of 6 September 2007. The programme was completed between 7 September 2007 and 13 December 2007, and resulted in the repurchase and cancellation of 13,005,304 ordinary shares for an aggregate consideration (inclusive of all expenses) of £83.5 million.

Dividends proposed

At the forthcoming Annual General Meeting the Board is recommending to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2007 of 9.9 pence per share (equivalent to £33.6 million) payable on or before 7 May 2008. Shares will be marked ex-final dividend on 16 April 2008.

The Board has declared a further interim dividend (payable as a special dividend) of 7.8 pence per share (equivalent to £26.5 million), also payable on or before 7 May 2008. Shares will be marked ex-special dividend on 16 April 2008.

Consolidated financial information

Consolidated income statements

	Notes	Years ended 31 December	
		2007 £m	2006 £m
Continuing operations			
Revenue		1,247.4	1,387.0
Fuel costs		(546.1)	(641.3)
		701.3	745.7
Other operating expenses excluding exceptional items	4	(239.4)	(197.6)
Exceptional operating income	3	6.2	19.0
Total other operating expenses, net		(233.2)	(178.6)
Unrealised gains on derivative contracts		3.3	90.8
Operating profit	4	471.4	657.9
Interest payable and similar charges		(34.3)	(37.1)
Interest receivable		11.4	13.4
Profit before tax		448.5	634.2
Tax charge	5	(95.5)	(170.7)
Profit for the year attributable to equity shareholders from continuing operations		353.0	463.5
		pence per share	pence per share
Earnings per share from continuing operations			
– Basic and diluted	7	99	116

Consolidated statements of recognised income and expense

	Notes	Years ended 31 December	
		2007 £m	2006 £m
Profit for the year		353.0	463.5
Actuarial (losses)/gains on defined benefit pension scheme		(3.3)	8.6
Deferred tax on actuarial losses/gains on defined benefit pension scheme	5	0.9	(2.6)
Impact of reduction in tax rate on deferred tax on defined benefit pension scheme	5	(0.4)	–
Fair value (losses)/gains on cash flow hedges		(584.3)	468.2
Deferred tax on fair value losses/gains on cash flow hedges	5	171.1	(140.5)
Impact of reduction in tax rate on deferred tax on fair value losses/gains on cash flow hedges	5	1.0	–
Net (losses)/gains recognised in equity		(415.0)	333.7
Total recognised (expense)/income for the year attributable to equity shareholders		(62.0)	797.2

Consolidated balance sheets

		As at 31 December	
	Notes	2007 £m	2006 £m
Assets			
Non-current assets			
Property, plant and equipment		1,080.4	1,042.2
Derivative financial instruments		1.6	93.9
		1,082.0	1,136.1
Current assets			
Inventories		108.3	76.9
Trade and other receivables		129.6	171.4
Derivative financial instruments		15.0	257.2
Cash and cash equivalents		59.7	154.8
		312.6	660.3
Liabilities			
Current liabilities			
Financial liabilities:			
– Borrowings	8	9.9	19.8
– Derivative financial instruments		145.6	6.8
Trade and other payables		94.1	166.8
Current tax liabilities		70.4	63.2
		320.0	256.6
Net current (liabilities)/assets		(7.4)	403.7
Non-current liabilities			
Financial liabilities:			
– Borrowings	8	387.0	456.4
– Derivative financial instruments		107.7	–
Deferred tax liabilities		201.6	390.9
Retirement benefit obligations		13.5	12.5
Other non-current liabilities		1.4	0.7
Provisions		2.4	2.2
		713.6	862.7
Net assets		361.0	677.1
Shareholders' equity			
Issued equity		39.2	40.7
Capital redemption reserve		1.5	–
Share premium		420.7	420.7
Merger reserve		710.8	710.8
Hedge reserve		(161.3)	250.9
Retained losses		(649.9)	(746.0)
Total shareholders' equity	9	361.0	677.1

Consolidated cash flow statements

	Notes	Years ended 31 December	
		2007 £m	2006 £m
Cash generated from operations	10	437.7	586.5
Income taxes paid		(104.7)	(50.0)
Decrease in restricted cash		–	11.2
Interest paid		(31.3)	(36.1)
Interest received		11.1	13.5
Net cash generated from operating activities		312.8	525.1
Cash flows from investing activities			
Purchase of property, plant and equipment		(67.8)	(27.0)
Net cash used in investing activities		(67.8)	(27.0)
Cash flows from financing activities			
Equity dividends paid		(171.3)	(342.0)
Purchase of own shares under share buy-back programme		(83.5)	–
Repayment of borrowings	8	(82.9)	(189.1)
Debt issued	8	–	100.0
Purchase of own shares held by employee trust		(2.4)	–
Net cash used in financing activities		(340.1)	(431.1)
Net (decrease)/increase in cash and cash equivalents		(95.1)	67.0
Cash and cash equivalents at 1 January		154.8	87.8
Cash and cash equivalents at 31 December		59.7	154.8

Notes to the consolidated financial information

1. General information

The consolidated financial information for Drax Group plc (the “Company”) and its subsidiaries (together “the Group”) set out in this preliminary announcement has been derived from the audited consolidated financial statements of the Group for the year ended 31 December 2007 (the “financial statements”). This preliminary announcement does not constitute the full financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”). The financial statements were approved by the Board of directors on 3 March 2008. The report of the auditors on the financial statements was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

The Annual Report will be posted to shareholders by the end of March 2008 and will be available on request from the Company Secretary, Drax Group plc, Drax Power Station, PO Box 3, Selby, North Yorkshire, YO8 8PQ. The Annual General Meeting will be held at The City Presentation Centre, 4 Chiswell Street, London EC1Y 4UP at 11am on 17 April 2008. The financial statements for the year ended 31 December 2007 will be delivered to the Registrar of Companies following the Annual General Meeting.

2. Basis of preparation

The financial statements have been prepared in accordance with IFRSs. The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the consolidated financial statements comply with Article 4 of the EU IAS Regulations.

The financial statements have been prepared under the historical cost basis, except for the revaluation of financial assets and liabilities under IAS 39 “Financial instruments: recognition and measurement”.

3. Exceptional operating income

	Years ended 31 December	
	2007 £m	2006 £m
Distributions under the TXU Claim	6.2	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 all proceeds have been used to prepay debt secured against the claim, which has now been repaid in full.

4. Operating profit

	Years ended 31 December	
	2007	2006
	£m	£m
The following charges have been included in arriving at operating profit:		
Staff costs	42.9	34.6
Depreciation of property, plant and equipment (all owned assets)	43.7	34.9
Repairs and maintenance expenditure on property, plant and equipment	50.4	34.1
Other operating expenses	102.4	94.0
Total other operating expenses excluding exceptional items and unrealised gains on derivative contracts	239.4	197.6

5. Taxation

The income tax expense reflects the estimated effective tax 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 31 December 2007 the rate reduction was substantively enacted, and accordingly the tax charge for the year ended 31 December 2007 includes a credit of £17.9 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 31 December 2007 and accordingly have not been reflected in the Group's results for the year ended 31 December 2007. The directors have estimated that, had these amendments been reflected in the Group's results for the year ended 31 December 2007, the effect would be to increase the deferred tax liability held in the balance sheet by approximately £13 million.

HM Revenue & Customs ("HMRC") issued a consultation document in December 2007 entitled "Principles based approach to financial products avoidance: a consultation document" which is expected to lead to the introduction of new legislation concerning "disguised interest" from 1 April 2008. It is thought likely that the new rules, if introduced in the form currently envisaged, could adversely impact the future tax efficiency of the Group's existing financing structure. Until the consultation process is completed and the legislation drafted, however, it is not possible to predict with any certainty how the proposed legislation, if and when enacted, might affect the Group tax rate, and the Group is therefore keeping the situation under review.

	Years ended 31 December	
	2007	2006
	£m	£m
Tax charge comprises:		
Current tax	112.2	108.2
Deferred tax:		
– Before impact of reduction in tax rate	1.2	62.5
– Impact of reduction in tax rate	(17.9)	–
	95.5	170.7

	Years ended 31 December	
	2007	2006
	£m	£m
Tax on items credited/(charged) to equity:		
Deferred tax on actuarial losses/gains on defined benefit pension scheme	0.9	(2.6)
Impact of reduction in tax rate on deferred tax on defined benefit pension scheme	(0.4)	–
Deferred tax on fair value losses/gains on cash flow hedges	171.1	(140.5)
Impact of reduction in tax rate on deferred tax on fair value losses/gains on cash flow hedges	1.0	–
	172.6	(143.1)

The tax differs from the standard rate of corporation tax in the UK (30% for both years). The differences are explained below:

	Years ended 31 December	
	2007 £m	2006 £m
Profit before tax	448.5	634.2
Profit before tax multiplied by rate of corporation tax in the UK (30% for both years)	134.6	190.3
Effects of:		
Adjustments in respect of prior periods	(0.4)	1.2
Expenses not deductible for tax purposes	1.5	0.5
Tax effect of funding arrangements	(22.9)	(20.9)
Other	0.6	(0.4)
Change in UK tax rate	(17.9)	–
Total taxation	95.5	170.7

In addition to the foregoing, under the current financing structure, Drax Holdings Limited 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 Drax Holdings Limited income statement. Were HMRC to successfully challenge the deductions claimed in respect of the Eurobond coupons for open years to 31 December 2007, it is estimated that the additional tax liability would be up to £85 million, together with interest and penalties.

Further details of the Group's financing structure, and related contingent tax liability described above are included on pages 78 and 79 of the listing particulars issued on 28 October 2005 in respect of the introduction of Drax Group plc to the Official List of the UK Listing Authority.

6. Dividends

	Years ended 31 December	
	2007 £m	2006 £m
Amounts recognised as distributions to equity holders in the year (based on the number of shares in issue at the record date):		
Interim dividend for the year ended 31 December 2007 of 4.7 pence per share paid on 24 October 2007 (2006: 4.0 pence per share paid on 25 October 2006)	16.3	16.3
Final dividend for the year ended 31 December 2006 of 9.1 pence per share paid on 16 May 2007	33.6	–
Special interim dividends for the year ended 31 December 2006 of 32.9 pence per share paid on 16 May 2007 (2006: 80.0 pence per share paid on 25 October 2006)	121.4	325.7
	171.3	342.0

	Years ended 31 December	
	2007 £m	2006 £m
Amounts not recognised as distributions to equity holders in the year:		
Proposed final dividend for the year ended 31 December 2007 of 9.9 pence per share (2006: 9.1 pence per share paid on 16 May 2007)	33.6	33.6
Declared special interim dividend for the year ended 31 December 2007 of 7.8 pence per share (2006: 32.9 pence per share paid on 16 May 2007)	26.5	121.4
	60.1	155.0

The Company undertook share consolidations in connection with the special interim dividends paid on 16 May 2007 and 25 October 2006.

At the forthcoming Annual General Meeting the Board is recommending to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2007 of 9.9 pence per share (equivalent to approximately £33.6 million) payable on or before 7 May 2008.

The Board has declared a further interim dividend (payable as a special dividend) of 7.8 pence per share (equivalent to approximately £26.5 million), also payable on or before 7 May 2008.

The final dividend of 9.9 pence per share and the special dividend of 7.8 pence per share have not been included as liabilities as at 31 December 2007.

7. Earnings per share

During the year 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 year. 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 Savings-Related Share Option Plan ("SAYE") and contingently issuable shares under the Group's Executive Share Incentive Plan ("ESIP").

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

	Years ended 31 December	
	2007	2006
	£m	£m
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	353.0	463.5

	Years ended 31 December	
	2007	2006
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	354.9	400.0
Effect of dilutive potential ordinary shares under share options	0.1	0.1
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	355.0	400.1

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

	Years ended 31 December	
	2007	2006
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share as previously reported (millions)	349.6	368.9
Effect of share consolidations from beginning of relevant period (millions)	5.3	31.1
Weighted average number of ordinary shares for the purposes of basic earnings per share under revised basis (millions)	354.9	400.0
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings (£ millions)	353.0	463.5
Basic earnings per share as previously reported (pence per share)	101	126
Basic earnings per share under revised basis (pence per share)	99	116

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

8. Borrowings

	As at 31 December	
	2007	2006
	£m	£m
Current:		
Term loans	9.9	19.8
	As at 31 December	
	2007	2006
	£m	£m
Non-current:		
Term loans	387.0	453.5
Bridge loan	–	2.9
	387.0	456.4

Maturity of borrowings

The following table details the remaining contractual maturity, including interest payments, for the Group's borrowings at the balance sheet dates:

	As at 31 December	
	2007	2006
	£m	£m
In less than one year	33.0	48.4
In more than one year but not more than two years	28.5	36.2
In more than two years but not more than five years	393.8	478.9
Total contractual maturity	455.3	563.5
Less interest payments	(58.4)	(87.3)
Carrying amount of borrowings	396.9	476.2

Interest payments are calculated based on forward interest rates estimated at the balance sheet date based on publicly available information.

The interest rates payable at the balance sheet dates were as follows:

	As at 31 December	
	2007	2006
	%	%
Term loans	6.01	6.01
Bridge loan	–	6.28

Analysis of borrowings

Borrowings at 31 December 2007 and 31 December 2006 consisted of bank loans held by the Company's subsidiary Drax Finance Limited as follows:

	As at 31 December 2007		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Term loans	405.0	(8.1)	396.9
Total borrowings	405.0	(8.1)	396.9
Less current portion of debt	(10.0)	0.1	(9.9)
Non-current borrowings	395.0	(8.0)	387.0

	As at 31 December 2006		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Term loans	485.0	(11.7)	473.3
Bridge loan	2.9	–	2.9
Total borrowings	487.9	(11.7)	476.2
Less current portion of debt	(20.0)	0.2	(19.8)
Non-current borrowings	467.9	(11.5)	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 set out above 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.

Term loans repayments of £40.0 million were made on each of 29 June 2007 and 31 December 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 into a new credit facility agreement providing a further £100.0 million term loan 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 used to make a payment of £22.5 million into the employee pension scheme to reduce the actuarial deficit.

The Group's debt is guaranteed and secured directly by each of the principal subsidiary undertakings of the Company, as set out in note 3 to the Company's separate financial statements. Drax Group plc is not a guarantor of the Group's debt, but has granted a charge over the shares in its subsidiary, Drax Finance Limited.

Letter of credit facility and revolving credit facility

In addition to its borrowings, the Group has access to a letter of credit facility which provides credit support of up to £200.0 million to the Group's trading activities. The letter of credit facility, which has a final maturity date of 15 December 2012, provides a mechanism whereby it may be extended for a further 12 months at any time after 15 December 2007, but no later than one year before the final maturity date. The Group guarantees the obligations of a number of banks in respect of the letters of credit issued by those banks to counterparties of the Group. As at 31 December 2007 the Group's contingent liability in respect of these guarantees amounted to £133.3 million (2006: £153.6 million).

In addition, the Group has access to an undrawn £100.0 million revolving credit facility, which may be used to issue letters of credit or for working capital, with a final maturity date of 15 December 2010.

9. Shareholders' funds and statement of changes in shareholders' equity

	Share capital £m	Capital redemption reserve £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 year	–	–	–	–	–	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 on fair value gains on cash flow hedges	–	–	–	–	(140.5)	–	(140.5)
Movements in equity associated with share-based payments	–	–	–	–	–	1.7	1.7
At 1 January 2007	40.7	–	420.7	710.8	250.9	(746.0)	677.1
Profit for the year	–	–	–	–	–	353.0	353.0
Equity dividends paid	–	–	–	–	–	(171.3)	(171.3)
Purchase and redemption of own shares under share buy-back programme	(1.5)	1.5	–	–	–	(83.5)	(83.5)
Actuarial losses on defined benefit pension scheme	–	–	–	–	–	(3.3)	(3.3)
Deferred tax on actuarial losses on defined benefit pension scheme	–	–	–	–	–	0.9	0.9
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	–	–	–	–	(584.3)	–	(584.3)
Deferred tax on fair value losses on cash flow hedges	–	–	–	–	171.1	–	171.1
Impact of reduction in tax rate on deferred tax on fair value losses on cash flow hedges	–	–	–	–	1.0	–	1.0
Movement in equity associated with share-based payments	–	–	–	–	–	3.1	3.1
Own shares held by employee trust	–	–	–	–	–	(0.8)	(0.8)
Own shares purchased and vested with employees	–	–	–	–	–	(1.6)	(1.6)
At 31 December 2007	39.2	1.5	420.7	710.8	(161.3)	(649.9)	361.0

10. Cash flow from operating activities

	Years ended 31 December	
	2007	2006
	£m	£m
Profit for the year	353.0	463.5
Adjustments for:		
Interest payable and similar charges	34.3	37.1
Interest receivable	(11.4)	(13.4)
Tax charge	95.5	170.7
Depreciation	43.7	34.9
Unrealised gains on derivative contracts	(3.3)	(90.8)
Non-cash charge for share-based payments	3.1	1.7
Operating cash flows before movement in working capital	514.9	603.7
Changes in working capital:		
Increase in inventories	(31.4)	(9.1)
Decrease in receivables	43.8	19.7
Decrease in payables	(87.7)	(4.4)
Decrease in pensions	(2.1)	(23.6)
Increase in provisions	0.2	0.2
Cash generated from operations	437.7	586.5

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 CO ₂ 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 mechanism policy introduced across the EU to reduce emissions of CO ₂ ; 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.
Frequency Response Service	Services purchased by The National Grid Company used to maintain system frequency.
Group	Drax Group plc and its subsidiaries.
IASs	International Accounting Standards.
IFRSs	International Financial Reporting Standards.
LECs	Levy Exemption Certificates. 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) safety assessment series 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.
Refinancing and Listing	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.
ROCs	Renewables Obligation Certificates. Under the current regime, 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.
Technical Availability	Total availability after planned and forced outages.
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 £336.0 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.