

5 August 2008

DRAX GROUP plc
(Symbol: DRX)

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

Drax Group plc ("Drax" or the "Company"), the UK power generator, announces its Half Year Results for the six months ended 30 June 2008.

Highlights

- EBITDA⁽¹⁾ of £206 million (H1 2007: £288 million), reflecting increases in average achieved power price and power sold which were more than offset by higher coal and carbon costs
- Expectation that full year EBITDA⁽¹⁾ will be modestly higher than £400 million reaffirmed (2007: £506 million), reflecting the lower margins captured in the first six months of the year compared to the equivalent period in 2007
- Further strengthening of contracted position against a backdrop of stronger commodity prices and changing dispatch economics
- Proposed distributions of 14.7 pence per share comprising: interim ordinary dividend of 5.0 pence and interim special dividend of 9.7 pence (£50 million in total)
- Leading operating performance amongst UK coal-fired generation plant maintained:
 - Plant availability of 93% for the Winter quarter ended 31 March 2008 and 87% for the first half of the year;
 - Net sales of 13TWh for first half of the year, 1TWh higher than for the equivalent period in 2007
- Solid progress made on both of Drax's strategic carbon abatement projects:
 - Turbine upgrade installation: two units to be retrofitted this year. First of two units for the year successfully retrofitted and already delivering expected efficiency improvements; retrofit of second unit now underway;
 - New 400MW biomass co-firing facility: planning permission received for full project and £50m contract awarded to Alstom Power Limited for construction of main processing facilities;
 - Attractive biomass supplies identified greatly exceed the requirements of the new co-firing facility. Confidence in biomass supplies supports the continued operation of the existing co-firing facility of 100MW ("through the mill") alongside the new facility. Total co-firing capacity of 500MW now expected to be fully operational by June 2010

Six months ended 30 June 2008 compared to six months ended 30 June 2007

	Six months ended 30 June	
	2008	2007
	£ million	£ million
Total revenue	802	640
Gross profit	307	382
EBITDA ⁽¹⁾	206	288
Operating profit ⁽²⁾	161	283
Profit before tax	150	273
	Pence per share	Pence per share
Basic and diluted earnings per share	35	60
Ordinary dividend ⁽³⁾	5.0	4.7
Special dividend ⁽³⁾	9.7	Note (4)

Notes:

- (1) EBITDA is profit before interest, tax, depreciation and amortisation, exceptional items and unrealised gains / (losses) on derivative contracts.
- (2) Operating profit includes unrealised losses on derivative contracts of £22 million (2007: operating profit includes unrealised gains on derivative contracts and exceptional income of £13 million in aggregate).
- (3) Based on the number of shares in issue at 30 June 2007 and 30 June 2008 respectively.
- (4) Share buy back programme transacted in 2007 totalling £83 million.

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

“During the first half of 2008, we have continued to focus on delivering value for our shareholders by maintaining leading performances in trading and production whilst developing our biomass capability.

“Both of our strategic carbon abatement projects, to deliver efficiency improvements by upgrading our turbines and to grow our co-firing capability have made good progress. Due to the success of our biomass procurement strategy, we are also pleased to announce today an increase in our forecast co-firing capacity from 10% of output (or 400MW) to 500MW. These investments are critical to the UK’s transition to a low carbon economy, whilst delivering reliable and secure supplies of electricity.

Overall, our environmental performance continues to improve. We are successfully driving down all our emissions per unit of electricity generated, strengthening our position as the UK’s cleanest and most efficient coal-fired generator.”

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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 5 August 2008, at the City Presentation Centre, 4 Chiswell Street, London, EC1Y 4UP.

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

A copy of the presentation will be made available from 7:00am (UK time) on Tuesday 5 August 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: Half Year Results
Event Date: Tuesday 5 August 2008
Event Time: 9:00am (UK time)

UK Call In Number: 020 7162 0025
International Call In Number: +44 (0)20 7162 0025
US Call In Number: +1 334 323 6201

Webcast details

Live Event Link: <http://events.webeventsolutions.com/Drax/2008/08/05/>

UK Instant Replay

Start Date: Tuesday 5 August 2008
Delete Date: Tuesday 2 September 2008
Dial In Number: 020 7031 4064
Freephone number (UK only): 0800 358 1860
Passcode: 803923

US Instant Replay

Start Date: Tuesday 5 August 2008
Delete Date: Tuesday 2 September 2008
Dial In Number: 1-954-334-0342
Freephone number (US only): 1-888-365-0240
Passcode: 803923

Video Webcast

Start Date: Tuesday 5 August 2008
Delete Date: August 2009
Archive Link: <http://events.webeventsolutions.com/Drax/2008/08/05/>

For further information please contact:

	On the day	Thereafter
Dorothy Thompson, Chief Executive Gordon Boyd, Finance Director	+44 (0) 20 7353 4200	+44 (0) 1757 618381

Andrew Koss, Investor Relations	+44 (0) 20 7353 4200	+44 (0) 1757 612333
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Melanie Wedgbury, Media Contact	+44 (0) 20 7353 4200	+44 (0) 1757 612438
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Tulchan Communications
David Trenchard and Peter Hewer +44 (0) 20 7353 4200

Website: www.draxgroup.plc.uk

Chairman's introduction

It gives me great pleasure to introduce the half year report for 2008, the first publication since I became Chairman in April 2008 following the retirement of Gordon Horsfield. Gordon led Drax through a period of significant change over nearly five years. I have inherited a talented team and I am looking forward to working with them to create value for our shareholders.

I am pleased to report that the combination of favourable commodity markets and leading production performance has underpinned a solid financial performance for the first six months of the year, which we expect to persist in the second six months.

We currently anticipate that our full year EBITDA will be modestly higher than £400 million. This will be lower than 2007 EBITDA of £506 million, reflecting a decrease in margins captured for power sales.

Half year performance

We continued to deliver leading environmental and operational performances.

In the first six months of the year we saw significant progress made on our strategic projects to deliver efficiency improvements and carbon abatement. The delivery of our £80 million 400MW direct-injection biomass co-firing project and £100 million turbine upgrade project remain a high priority. These investments are critical to the transition of the UK towards a low carbon economy whilst delivering reliable and secure supplies of electricity.

I am pleased to report that we have established biomass sources greatly in excess of our co-firing target of 10% production. This will enable us to run our new 400MW direct-injection co-firing capacity alongside our existing 100MW co-firing facilities. The new project will be completed by June 2010 bringing our total operational co-firing capacity to 500MW.

Looking ahead it is evident that much investment will be required in the sector if the environmental and security of supply energy policy objectives are to be met.

Distributions

In October 2008 shareholders will receive an interim ordinary dividend of 5.0 pence per share, equivalent to approximately £17 million. In line with our policy of distributing cash surplus to the needs of the business, the Board has also declared an interim special dividend of 9.7 pence per share, equivalent to approximately £33 million.

Refinancing

We have previously stated that it is our intention, subject to market conditions, to undertake a refinancing of the Group's current debt facilities. However, conditions in the debt markets have continued to be turbulent. The Board continues to monitor the situation, and whilst committed to maintaining balance sheet efficiency, will currently only consider proceeding with a refinancing once market conditions have improved and we are able to secure more attractive terms than are available at present.

Our people

On 4 March 2008, we announced that Gordon Boyd, Finance Director, had decided to leave the Company during the second half of 2008. I am pleased to advise that the search for a suitable replacement was successful and we announced on 23 July 2008 that Tony Quinlan will join us as Finance Director in September.

Last but not least, I should like to thank all Drax employees for their hard work and contribution in a demanding first half of the year, and I look forward to developing the business with them over the remainder of this year and beyond.

Charles Berry
Chairman

Business review

Chief Executive's review

Introduction

During the first half of 2008, we have continued to operate in line with our strategic focus on delivering value for our shareholders, whilst maintaining leading performances in trading and production. This has resulted in an EBITDA of £206 million for the six months ended 30 June 2008, compared to £288 million in the first six months of 2007. The decrease reflects the very high margins captured on forward sales made during 2005 and 2006, for power delivered during the first half of 2007.

Trading performance and commodity markets

As a power generation business operating in commodity markets, we are exposed to the prices of power, coal and carbon.

In the first half of the year, commodity market conditions have been generally favourable for Drax. Commodity prices have been highly volatile. Power prices, underpinned by firm gas and oil prices, have risen. Coal and carbon prices have also risen, but importantly for the business, the combined effect has been an overall increase in the margin coal-fired generators earn from power revenues less the costs of coal and carbon (the dark green spread).

We have continued to deliver successfully against our trading strategy, as our strong market presence and credit rating have provided us with excellent access to all the markets in which we trade. Our strategy remains to hedge progressively our output, whilst targeting market or better dark green spreads and retaining a balanced market exposure. Accordingly, we generally hold the capacity of around two of our six generating units to be sold six months or less ahead of delivery.

In the first half of the year we increased the total size of our forward sales of power, taking advantage of the attractive dark green spreads across the traded markets. Liquidity in the forward power market has been robust out to Winter 2010, but thin thereafter. In a sector which will require significant investment over the coming years, it is essential that liquidity of the market extends beyond just a couple of years and that the true value of generation is discovered.

We continue to procure our fuel supplies from a variety of geographical areas and we continue to test burn new fuels to give us the widest possible options and to mitigate the risk associated with an over-reliance on a few sources.

In June, we were granted a gas shippers licence, a necessary part of our move to implement a gas trading capability to our business. We believe that the ability to trade gas will present us with further, non-speculative opportunities and enhance our ability to hedge positions in the market, given that power and gas price movements are often closely correlated.

Production performance

During the period we sustained our solid operating performance. This is illustrated by high plant availability of 93% for the traditionally high margin Winter quarter ended March 2008; underpinned by a 5.1% Winter forced outage rate for the same period. Plant availability for the first half of the year was 87%, with a load factor of 78%. This year, as in 2007, two of our six units are undergoing their four-yearly major planned outage. The first of these outages has been completed and the second is on schedule to complete in the third quarter of this year.

Our strong operational performance has its foundations in a successful delivery of our continuing plant improvement programme which remains on track to deliver vital incremental efficiency gains and emission reductions.

Importantly, under the new Large Plant Combustion Directive ("LCPD") operating regime we have experienced no issues with compliance, and we are working towards a position where plant performance will be largely unaffected by LCPD constraints. Overall, our environmental performance continues to improve. We are successfully driving down our emissions of carbon dioxide ("CO₂"), sulphur dioxide ("SO₂") and nitrogen oxides ("NO_x") per unit of electricity generated, strengthening our position as the UK's cleanest and most efficient coal-fired generator.

Health and safety performance remains a key priority for all at the Drax site, and achieving excellence in performance is fundamental to our business philosophy. The significant increase in man-hours worked

during major planned outage periods presents considerable challenges to ensuring a safe working environment.

We were delighted to receive third party recognition of our achievements in the field of health and safety in May 2008, when we were awarded the RoSPA Gold Award for the fourth year running.

Strategic investment

Both of our strategic carbon abatement projects, to deliver efficiency improvements by upgrading our turbines and to grow our biomass co-firing capability, have made pleasing progress. During the first major planned outage of this year we successfully completed the installation of one high pressure and three low pressure turbine modules on one of our units. This unit is now operating well and delivering the guaranteed performance levels of 40% thermal efficiency. We are well placed, in terms of engineering knowledge and experience, to replicate the successful installation of new turbine modules during the second major planned outage of the year.

Thereafter, with just over one-third of our units upgraded, we expect to see some real benefit, in terms of efficiency gains and CO₂ emissions reduction.

Two major milestones in our project to build a new 400MW direct-injection co-firing facility were met in the first half of the year. In February, we received planning permission to construct biomass handling, processing and co-firing facilities on the Drax site. In May, we awarded a contract to Alstom Power Limited for the design, construction and installation of the main processing works associated with the co-firing facility. We anticipate commissioning of phase one of the project will be completed towards the end of 2009, with achievement of the full 400MW capacity expected around the middle of 2010.

In addition to achieving major milestones towards growing our co-firing capability, we have also made good progress in furthering our biomass procurement strategy. We have identified attractive biomass supplies which greatly exceed the requirements of the new 400MW direct-injection co-firing facility. Confidence in our fuel supplies will allow us to operate the new co-firing facilities alongside our existing, through the mill delivery, co-firing capacity of 100MW. This will provide us with a total co-firing capacity of 500MW when the new 400MW direct-injection project is fully commissioned. We firmly believe in procuring biomass from sustainable sources and to this end we have established a sustainable sourcing policy framework.

As part of our development of biomass supply sources we are also in the process of developing a pilot project for the production of pellets from locally sourced straw. A pelleting plant is being constructed in Goole, approximately three miles from the Drax site.

The plant will take straw from the local area and produce around 100,000 tonnes of straw pellets annually, to be brought to Drax for combustion in the co-firing facility. If successful, similar pelleting plants could be developed in other, local cereal growing regions.

Looking ahead

Due to existing and forthcoming environmental legislation, emanating from the European Union, many of the UK's existing coal-fired power stations will progressively exit from the market. 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 to our shareholders relative to the commodity markets in which we operate.

Dorothy Thompson

Chief Executive

Business and financial review

Results of continuing operations

	Six months ended 30 June 2008 £m	Six months ended 30 June 2007 £m
Total revenue	801.8	639.7
Fuel costs⁽¹⁾		
Fuel costs in respect of generation	(412.8)	(221.6)
Costs of power purchases	(82.3)	(36.2)
	(495.1)	(257.8)
Gross profit	306.7	381.9
Other operating expenses excluding depreciation, amortisation, unrealised (losses)/gains on derivative contracts and exceptional items ⁽²⁾	(100.7)	(94.3)
EBITDA⁽³⁾	206.0	287.6
Depreciation and amortisation	(23.5)	(17.4)
Exceptional operating income	–	6.2
Unrealised (losses)/gains on derivative contracts	(22.0)	6.9
Operating profit	160.5	283.3
Finance costs	(14.8)	(17.4)
Interest receivable	3.8	7.2
Profit before tax	149.5	273.1
Tax charge		
– Before impact of reduction in tax rate on deferred tax	(31.3)	(71.5)
– Impact of reduction in tax rate on deferred tax	–	18.5
	(31.3)	(53.0)
Profit for the year attributable to equity shareholders	118.2	220.1
	Pence per share	Pence per share
Earnings per share		
– Basic and diluted	35	60

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 (losses)/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 (losses)/gains on derivative contracts.

Solid operating performance, an improvement in our average achieved electricity price and an increase in net power sold were offset by an increase in coal prices and the cost of CO₂ emissions allowances, resulting in EBITDA of £206 million for the six months ended 30 June 2008 compared to £288 million in 2007. The business and financial review includes further explanation and commentary in relation to our principal performance indicators and the results for the period.

Results of operations

Total revenue for the six months ended 30 June 2008 was £802 million compared to £640 million in 2007. Power sales were £777 million for the six months ended 30 June 2008 compared to £614 million in 2007, reflecting an improvement in our average achieved electricity price (see Price of electricity) and an increase in net power sold to 13.0TWh, compared to 12.0TWh in 2007.

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 SO₂ emissions allowances. In the six months ended 30 June 2008, these revenues were £25 million compared to £26 million in 2007. Increased competition in the market to provide frequency response services to National Grid plc resulted in lower ancillary services revenues, which was largely offset by higher ROC sales.

Fuel costs in respect of generation during the six months ended 30 June 2008 were £413 million, compared to £222 million in 2007. The increase was primarily due to higher generation, an increase in the price of coal and other fuels and the impact of higher prices for and increased purchases of CO₂ emissions allowances (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 cost 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 included within fuel costs. For the six months ended 30 June 2008, the cost of purchased power increased to £82 million compared to £36 million in 2007, primarily due to higher market prices for electricity.

Gross profit for the six months ended 30 June 2008 was £307 million compared to £382 million in 2007.

Other operating expenses excluding depreciation, amortisation, unrealised (losses)/gains on derivative contracts and exceptional items were £101 million for the six months ended 30 June 2008 compared to £94 million in 2007. The increase includes higher balancing services use of system (BSUoS) and grid connection and use of system (TNUoS) charges, as well as the impact of increased generation on preventative and breakdown maintenance costs. In addition, operating expenses includes the impact of an increase in our average monthly headcount for the six months ended 30 June 2008 to 705 compared to 638 in 2007.

EBITDA (defined as profit before interest, tax, depreciation, amortisation, exceptional items and unrealised (losses)/gains on derivative contracts) for the six months ended 30 June 2008 was accordingly £206 million compared to £288 million in 2007.

Depreciation and amortisation for the six months ended 30 June 2008 was £24 million compared to £17 million in 2007. The increase reflects accelerated depreciation of plant and equipment we expect to replace under our capital expenditure investment programme.

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

The Group recognises unrealised gains and losses on forward contracts which meet the definition of derivatives under International Accounting Standards. Where possible, we take the own use exemption permitted by IAS 39 for derivative contracts entered into and held for the Group's own purchase, sale or usage requirements, including forward domestic coal and CO₂ emissions allowances contracts. As such, the unrealised gains and losses recognised principally relate to the mark-to-market of our forward contracts for power yet to be delivered.

The unrealised gains and losses recognised in the income statement represent mark-to-market movements on a small proportion of our derivative contracts which do not qualify for hedge accounting under IAS 39. Unrealised losses on derivative contracts recorded in the income statements were £22 million for the six months ended 30 June 2008 compared to unrealised gains of £7 million in 2007.

Mark-to-market movements on most of our derivative 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. Movements in unrealised gains and losses recognised in the hedge reserve are mainly the result of unwinding mark-to-market positions relating to power delivered during a reporting period, and recording mark-to-market positions on power yet to be delivered at the end of that period. The net movement in unrealised losses recognised through the hedge reserve in the six months ended 30 June 2008 was £944 million, compared to £153 million in 2007.

As a consequence of 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 (included in captions described as Derivative financial instruments). As a result of further significant increases in power prices over the first six months of 2008, the differential widened, resulting in the recognition of a net unrealised loss under IAS 39 of £1,203 million in the balance sheet as at June 2008.

Although the significantly increased net unrealised loss results in the balance sheet reflecting a net deficit position of £269 million at 30 June 2008, there are no adverse EBITDA or cash flow implications which arise from this balance. EBITDA is driven by our strategy of optimising the dark green spread (i.e. the difference

between the price available in the market for sales of electricity and the marginal cost of production, being the cost of coal and other fuels including CO₂ emissions allowances), not by the absolute price of electricity at any given date.

Operating profit for the six months ended 30 June 2008 was therefore £161 million compared to £283 million in 2007.

Finance costs for the six months ended 30 June 2008 were £15 million compared to £17 million in 2007, as a result of higher interest rates partially offset by lower debt levels.

The tax charge for the six months ended 30 June 2008 was £31 million, compared to £53 million in 2007. The tax charge for 2007 included a one-time credit of £19 million to reflect the impact on deferred tax of a reduction in the rate of UK corporation tax from 30% to 28% with effect from 1 April 2008.

Reflecting the above factors, profit attributable to equity shareholders for the six months ended 30 June 2008 was £118 million compared to £220 million in 2007, and basic and diluted earnings per share was 35 pence compared to 60 pence in 2007.

Key factors affecting the business

Price of electricity

The table below shows the average achieved electricity price realised for the six months ended 30 June 2008 and 30 June 2007, together with the market closing price on the last day each season illustrated was traded as a product.

	Six months ended 30 June 2008	Six months ended 30 June 2007
Average achieved price (£/MWh)	53.6	48.1
	2008	2007
Summer baseload market close (£/MWh)	56.0	23.5
	2007/2008	2006/2007
Winter baseload market close (£/MWh)	40.4	51.7

Average achieved price for the six months ended 30 June 2008 was £53.6 per MWh compared to £48.1 per MWh in 2007. Average capture price (being the price attained prior to Balancing Mechanism activity) for the six months ended 30 June 2008 was £52.9 per MWh compared to £46.4 per MWh in 2007. The forward baseload power prices for Winter 2008/2009 and Summer 2009 were approximately £86.3 per MWh and £74.7 per MWh respectively as at 25 July 2008.

The increase in average achieved price primarily reflected the impact of forward sales contracts secured in the last six months of 2007 and early in 2008, during which time power prices were generally increasing relative to the levels of late 2006 and early 2007, for power now delivered in 2008.

Price of coal and other fuels

We burnt approximately 5.0 million tonnes of coal in the six months ended 30 June 2008 compared to approximately 4.8 million tonnes in 2007. 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, before increasing dramatically over the second half of last year, reaching US\$127 per tonne on 31 December 2007. Spot prices have continued to increase to record levels over the first six months of 2008, reaching US\$218 per tonne by 30 June 2008. Prices have reflected continued 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 Russia and Australia.

We also burn biomass, petcoke and fuel oil, although coal comprised around 93% of total fuel costs in the six months ended 30 June 2008 (excluding CO₂ emissions allowances) compared to 97% in 2007, primarily reflecting improved fuel diversity. The average cost of fuel per MWh (excluding CO₂ emissions allowances) for the six months ended 30 June 2008 was £23.6 compared to £17.6 in 2007, with coal prices continuing to rise throughout the period.

CO₂ emissions allowances

For Phase II of the EU ETS (2008–2012), Drax has an allocation of 9.5 million tonnes of CO₂ emissions allowances per annum under the UK NAP, compared to 14.6 million tonnes per annum for Phase I (2005–2007). Our CO₂ emissions allowances requirement for the six months ended 30 June 2008, in excess of those allocated under the UK NAP, was approximately 6.5 million tonnes compared to approximately 3.6 million tonnes in 2007, as a result of the lower UK NAP allocation and higher generation.

The price for Phase II CO₂ emissions allowances began 2008 at approximately €22.4 per tonne, and after initially falling to €19.3 per tonne at the end of January, rose steadily over the remainder of the period to €28.4 per tonne at 30 June 2008. The price for Phase I CO₂ emissions allowances began 2007 at approximately €6.6 per tonne, and as a result of oversupply, fell steadily over the first six months of last year to €0.13 per tonne on 30 June 2007, subsequently falling away further to €0.04 per tonne by 31 December 2007. As a result, the average price expended for purchased CO₂ emissions allowances during the six months ended 30 June 2008 was £16.5 per tonne compared to £3.0 per tonne in 2007.

Outages and plant utilisation levels

	Six months ended 30 June 2008	Six months ended 30 June 2007
Load factor (%)	78.2	73.9
Electrical output (net sales) (TWh)	13.0	12.0
Availability (%)	87.1	86.9
Winter forced outage rate (%)	5.1	3.6
Forced outage rate (%)	4.9	7.0
Planned outage rate (%)	8.5	6.6
Total outage rate ⁽¹⁾ (%)	12.9	13.1

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.

The load factor for the six months ended 30 June 2008 was 78.2% compared to 73.9% in 2007. The improvement arises from an increase in electrical output (net sales) to 13.0 TWh in 2008 compared with 12.0 TWh in 2007, reflecting higher generation in 2008 in what have historically been low margin periods. Current commodity market conditions are such that it is profitable to generate these additional volumes, albeit at moderate margins.

Plant availability in the six months ended 30 June 2008 and 2007 was 87%.

The planned outage rate achieved for the six months ended 30 June 2008 was 8.5% compared to 6.6% in 2007, with a major planned outage on one unit completed by 30 June 2008, compared to a major planned outage on one unit, which although commenced in the first half of 2007 was not completed until the second half. Our maintenance regime includes a major planned outage for each of our six units once 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 each undergo a major planned outage. Two major planned outages (units 2 and 3) were completed during 2007, and two major planned outages (units 5 and 1) will be completed in 2008.

The forced outage rate for the six months ended 30 June 2008 was 4.9%, compared to 7.0% in 2007. In relation to the 2007 forced outage rate, approximately 1.3% 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.

The Winter forced outage rate in the first quarter of 2008 was 5.1% (3.6% in 2007), just outside our long-term target of 4.5%.

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 0.10 for the six months ended 30 June 2008 compared to 0.44 in 2007. This continues to demonstrate 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 £280 million as at 30 June 2008 compared to £271 million at 30 June 2007. Cash and cash equivalents and short-term investments together were £101 million as at 30 June 2008 compared to £165 million at 30 June 2007. An analysis of cash flows in the period is set out in the following table.

Analysis of cash flows

	Six months ended 30 June 2008 £m	Six months ended 30 June 2007 £m
Net cash generated from operating activities	167	234
Net cash used in investing activities	(105)	(24)
Net cash used in financing activities	(80)	(200)
Net (decrease)/increase in cash and cash equivalents	(18)	10

Net cash generated from operating activities was £167 million in the six months ended 30 June 2008 compared to £234 million in 2007. The decrease reflected a reduction of £82 million in EBITDA in 2008, an increase of £7 million in tax payments and lower cash received under the TXU Claim (final payment of £6 million cash received under the claim in the six months ended 30 June 2007), together partially offset by an improvement in working capital. The working capital movement in 2008 includes the impact of a higher liability with respect to CO₂ emissions allowances.

Net cash used in investing activities, includes payments in respect of capital expenditure of £47 million for the six months ended 30 June 2008 compared to £24 million in 2007. 2008 also includes purchases of short-term investments, comprising cash deposits with a maturity of more than three months at inception of £59 million (2007: £nil). Substantially all such deposits matured in July 2008.

Net cash used in financing activities was £80 million in the six months ended 30 June 2008 compared to £200 million in 2007. The 2008 amount includes equity dividends paid of £60 million, a term loan repayment of £18 million and purchases of own shares to meet commitments under share-based incentive plans of £2 million. The 2007 amounts included equity dividends paid of £155 million, a term loan repayment of £43 million and purchases of own shares to meet commitments under share-based incentive plans of £2 million.

The decrease in cash and cash equivalents was therefore £18 million in the six months ended 30 June 2008, compared to an increase of £10 million in 2007. Drax's policy is to invest available cash in short-term bank, building society or other low risk deposits.

Capital resources and refinancing

Following a scheduled repayment of £18 million during the period, senior secured debt was £388 million at 30 June 2008 (before deferred financing costs). Scheduled debt repayments for the remainder of 2008 are £18 million and for 2009 are £65 million in total, under an amortisation profile ending on 31 December 2010. We have previously stated that it is our intention, subject to market conditions, to undertake a refinancing of the Group's current debt facilities. However, conditions in the debt markets have continued to be turbulent. The Board continues to monitor the situation, and whilst committed to maintaining balance sheet efficiency, will currently only consider proceeding with a refinancing once market conditions have improved and we are able to secure more attractive terms than are available at present.

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 30 June 2008.

Capital expenditure

In March 2008, we announced that we expected to incur total capital expenditure of approximately £250 million over the three years 2008 to 2010. 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 £41 million in the six months ended 30 June 2008 (£38 million in 2007), we remain on track to achieve this target.

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 improvements. During the first major planned outage of this year, we successfully completed the installation of one high pressure and three low pressure turbines on another unit, and we are well placed in terms of engineering knowledge and experience to replicate the successful installation during the second major planned outage of this year.

Thereafter, with just over one-third of our units upgraded, we expect to see some real benefit, in terms of efficiency gains and CO₂ emissions reduction.

With regard to extending our biomass capability, we expect to invest around £80 million to develop a 400MW direct-injection co-firing biomass facility. 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 one and a half million tonnes of biomass material per annum. In addition, we expect to make investments in off site processing facilities. Delivery of the 400MW facility 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.

Two major milestones in our co-firing project have been met in the first half of the year. In February, we received planning permission to construct biomass handling, processing and co-firing facilities on the Drax site. In May we announced that, following a competitive tender process, we had awarded an Engineering, Procurement and Construction contract for £50 million to Alstom Power Limited for the design, construction and installation of the main processing works associated with the co-firing facility. The processing works will receive, handle, store and process various biomass materials ready for direct-injection into the power station's coal-fired boilers.

We expect to award contracts for the direct-injection equipment and a rail unloading facility in the next few months. Work has already commenced to prepare the site for construction, which is scheduled to start in the second half of 2008.

We anticipate commissioning of phase one of the project will be completed towards the end of 2009, with achievement of the full 400MW capacity expected around the middle of 2010.

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.

Taxation

In December 2007, HM Revenue & Customs ("HMRC") 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 April 2009, one year later than originally envisaged following an extension of the consultation period.

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. However, until the consultation process is completed and the legislation drafted, it is not possible to predict with any certainty how the proposed legislation, if and when enacted, might affect the Group tax rate, and we are therefore keeping the situation under review.

Share-based incentive plans

We have continued to operate the share-based incentive plans (SIP, ESIP and SAYE Plan) described in our annual report and accounts for 2007. Costs charged in the income statement in relation to share-based payments for the six months ended 30 June 2008 were £2.8 million, compared to £2.0 million in 2007.

The Company purchased a total of 518,718 shares for cash consideration of £2.4 million in the six months ended 30 June 2008 to meet its obligations under the SIP, compared to 382,950 shares for cash consideration £2.3 million in 2007. No shares have been issued or purchased to date with respect to the ESIP or SAYE Plan.

Market risks

We manage the commercial risks faced by the Group in accordance with policies approved by the Board.

Commodity risk

We are exposed to the effect of fluctuations in commodity prices, particularly the price of electricity, the price of coal (and other fuels) and the price of CO₂ emissions allowances. Price variations and market cycles have historically influenced our financial results and are expected to continue to do so.

Our policy is to make forward sales of power when profitable compared to marginal costs of fuel and CO₂ emissions allowances. We purchase coal under either fixed or variable priced contracts with different maturities from a variety of domestic and international sources. We purchase CO₂ emissions allowances under fixed price contracts with different maturity dates from a variety of domestic and international sources.

Counterparty risk

As we rely on third party suppliers for the delivery of coal and other goods and services, we are exposed to the risk of non-performance by these third party suppliers.

We purchase a significant portion of our coal requirement under contracts with a number of UK suppliers. There is a risk that if a large supplier falls into financial difficulty and/or fails to deliver against the contracts, there would be additional costs associated with securing coal from other suppliers.

We enter into fixed price and fixed margin contracts for the sale of electricity to a number of counterparties. The failure of one or more of these counterparties to perform their contractual obligations may cause us financial distress or increase our risk profile.

The investment of surplus cash is undertaken to maximise the return within Board approved policies. These policies set out minimum rating requirements, maximum investment with any one counterparty and the maturity profile.

Interest rate risk

We are exposed to interest rate risk principally in relation to our outstanding bank debt. In particular, we are exposed to changes in the LIBOR interest rate of sterling denominated debt, as all of our debt is both denominated in sterling and has a variable LIBOR rate. We mitigate this risk with interest rate hedges on a proportion of our debt facilities.

Foreign currency risk

Foreign currency exchange contracts are principally entered into to hedge substantially all of our fixed price international coal purchases in US dollars, and our CO₂ emissions allowances purchases in euros.

Related party transactions

There have been no material changes to the related party transactions described in the 2007 annual report.

Closing cash position guidance

We issued a Trading Update on 30 June 2008, which reported our contracted positions for 2008, 2009 and 2010 in respect of power, coal and CO₂ emissions allowances. In addition, we reported management's expectation that the cash position as at 30 June 2008 would be approximately £100 million. The reported cash position as at 30 June 2008 was £101 million, comprising cash and cash equivalents of £42 million and short-term investments of £59 million. The short-term investments represented cash deposits with a maturity of more than three months at inception, substantially all of which matured in July 2008.

Contracted positions for 2008, 2009 and 2010

Since issuing the Trading Update on 30 June, we have continued to experience attractive trading conditions in the commodity markets in which we operate. We currently anticipate that our full year results will result in EBITDA being modestly higher than £400 million, reflecting our current contracted position as well as prevailing conditions in the commodity markets in which we operate.

Our contracted position below reflects the fact that we have generated and expect to generate additional volumes of power in what have been historically low margin periods. Current commodity market conditions mean that it is profitable to generate these incremental volumes, albeit at moderate margins. Therefore, based on current commodity market conditions, we would expect our generation levels for the full year to be modestly higher than in previous years.

We continue 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 25 July 2008, the contracted positions for 2008, 2009 and 2010 were as follows:

	2008	2009	2010
Power sales (TWh) comprising:	23.8	19.0	16.1
– Fixed price power sales (TWh) at an average achieved price (per MWh)	21.5 at £52.8	13.7 at £49.3	10.8 at £56.7
– Fixed margin power sales (TWh)	2.3	5.3	5.3
CO ₂ emissions allowances hedged, including UK NAP allocation, market purchases, structured contracts, and benefit of biomass co-firing (TWh equivalent)	24.8	19.3	18.1
Solid fuel at fixed price/hedged, including structured contracts (TWh equivalent)	24.6	19.3	16.5

Fixed price power sales include approximately 3.0TWh supplied to Centrica in the period 1 January 2008 to 25 July 2008 under the five-and-a-quarter year baseload contract with Centrica which commenced on 1 October 2007.

Fixed margin power sales include approximately 2.3TWh 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.

Distributions

Distribution policy

The Board has previously stated that the Group will pay a stable amount (£50 million) by way of ordinary dividends each year (the base dividend) subject to availability of cash and appropriate reserves. In addition to the base dividend, the Group's policy is to distribute substantially all of any remaining cash flow, subject to

the availability of reserves and after making provision for debt payments, debt service requirements (if any), capital expenditure and other expected business requirements, to shareholders.

Dividends paid

On 3 March 2008, the Board resolved, subject to approval by shareholders at the Annual General Meeting on 17 April 2008, to pay a final dividend for the year ended 31 December 2007 of 9.9 pence per share (equivalent to approximately £34 million). Also on 3 March 2008, the Board resolved to pay a further interim dividend for the year ended 31 December 2007 (payable as a special dividend) of 7.8 pence per share (equivalent to approximately £27 million). The final and special dividends were subsequently paid on 7 May 2008.

Dividends proposed

On 4 August 2008 the Board resolved to pay an interim dividend for the six months ended 30 June 2008 of 5.0 pence per share (equivalent to approximately £17 million) on 8 October 2008. Also on 4 August 2008, the Board resolved to pay a further interim dividend (payable as a special dividend) of 9.7 pence per share (equivalent to approximately £33 million) on 8 October 2008. Shares will be marked ex-interim dividend and ex-special dividend on 17 September 2008.

Gordon Boyd

Finance Director

Responsibility statement

We confirm that to the best of our knowledge:

- (a) the condensed set of financial statements has been prepared in accordance with IAS 34;
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- (c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Dorothy Thompson
Chief Executive

Gordon Boyd
Finance Director

Condensed consolidated income statements

	Notes	Six months ended	Year ended	
		30 June	31 December	
		2008 (Unaudited) £m	2007 (Unaudited) £m	2007 (Audited) £m
Continuing operations				
Revenue		801.8	639.7	1,247.4
Fuel costs		(495.1)	(257.8)	(546.1)
		306.7	381.9	701.3
Other operating expenses excluding exceptional items		(124.2)	(111.7)	(239.4)
Exceptional operating income	5	–	6.2	6.2
Total other operating expenses		(124.2)	(105.5)	(233.2)
Unrealised (losses)/gains on derivative contracts		(22.0)	6.9	3.3
Operating profit		160.5	283.3	471.4
Finance costs		(14.8)	(17.4)	(34.3)
Interest receivable		3.8	7.2	11.4
Profit before tax		149.5	273.1	448.5
Tax charge	6	(31.3)	(53.0)	(95.5)
Profit for the period attributable to equity shareholders from continuing operations		118.2	220.1	353.0
Earnings per share from continuing operations				
		Pence per share	Pence per share	Pence per share
– Basic and diluted	7	35	60	99

Condensed consolidated statements of recognised income and expense

	Six months ended 30 June	Year ended 31 December	
	2008 (Unaudited) £m	2007 (Unaudited) £m	2007 (Audited) £m
Profit for the period	118.2	220.1	353.0
Actuarial (losses)/gains on defined benefit pension scheme	(10.8)	9.2	(3.3)
Deferred tax on actuarial losses/gains on defined benefit pension scheme before impact of reduction in tax rate	3.0	(2.8)	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	(944.3)	(152.6)	(584.3)
Deferred tax recognised on fair value losses on cash flow hedges before impact of reduction in tax rate	263.5	45.8	171.1
Impact of reduction in tax rate on deferred tax on fair value losses on cash flow hedges	–	1.0	1.0
Net losses not recognised in income statement	(688.6)	(99.8)	(415.0)
Total recognised (expense)/income for the period attributable to equity shareholders	(570.4)	120.3	(62.0)

Condensed consolidated balance sheets

		As at 30 June 2008	As at 31 December 2007	As at 31 December 2007
	Notes	2008 (Unaudited) £m	(Unaudited) £m	(Audited) £m
Assets				
Non-current assets				
Property, plant and equipment		1,097.6	1,062.3	1,080.4
Derivative financial instruments		50.4	42.0	1.6
Deferred tax asset		72.0	–	–
		1,220.0	1,104.3	1,082.0
Current assets				
Inventories		125.5	97.6	108.3
Trade and other receivables		165.6	65.4	129.6
Derivative financial instruments		124.0	181.6	15.0
Short-term investments		59.0	–	–
Cash and cash equivalents		41.6	164.6	59.7
		515.7	509.2	312.6
Liabilities				
Current liabilities				
Financial liabilities:				
– Borrowings	9	12.4	14.8	9.9
– Derivative financial instruments		750.8	8.5	145.6
Trade and other payables		167.8	90.2	94.1
Current tax liabilities		53.4	82.5	70.4
		984.4	196.0	320.0
Net current (liabilities)/assets		(468.7)	313.2	(7.4)
Non-current liabilities				
Financial liabilities:				
– Borrowings	9	368.5	420.3	387.0
– Derivative financial instruments		626.9	16.6	107.7
Deferred tax liabilities		–	332.9	201.6
Retirement benefit obligations		20.5	2.3	13.5
Other non-current liabilities		2.0	1.0	1.4
Provisions		2.5	2.3	2.4
		1,020.4	775.4	713.6
Net (liabilities)/assets		(269.1)	642.1	361.0
Shareholders' equity				
Issued equity	10	39.2	40.7	39.2
Capital redemption reserve		1.5	–	1.5
Share premium		420.7	420.7	420.7
Merger reserve		710.8	710.8	710.8
Hedge reserve	11	(842.1)	145.1	(161.3)
Retained losses		(599.2)	(675.2)	(649.9)
Total shareholders' (deficit)/equity		(269.1)	642.1	361.0

Condensed consolidated reconciliations of movements in 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 2007	40.7	–	420.7	710.8	250.9	(746.0)	677.1
Profit for the period	–	–	–	–	–	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)
Net losses not recognised in income statement	–	–	–	–	(412.2)	(2.8)	(415.0)
Movement in equity associated with share-based payments	–	–	–	–	–	3.1	3.1
Own shares purchased 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
At 1 January 2007	40.7	–	420.7	710.8	250.9	(746.0)	677.1
Profit for the period	–	–	–	–	–	220.1	220.1
Equity dividends paid	–	–	–	–	–	(155.0)	(155.0)
Net (losses)/gains not recognised in income statement	–	–	–	–	(105.8)	6.0	(99.8)
Movement in equity associated with share-based payments	–	–	–	–	–	2.0	2.0
Own shares purchased by employee trust	–	–	–	–	–	(0.7)	(0.7)
Own shares purchased and vested with employees	–	–	–	–	–	(1.6)	(1.6)
At 30 June 2007	40.7	–	420.7	710.8	145.1	(675.2)	642.1
At 1 January 2008	39.2	1.5	420.7	710.8	(161.3)	(649.9)	361.0
Profit for the period	–	–	–	–	–	118.2	118.2
Equity dividends paid	–	–	–	–	–	(60.1)	(60.1)
Net losses not recognised in income statement	–	–	–	–	(680.8)	(7.8)	(688.6)
Movement in equity associated with share-based payments	–	–	–	–	–	2.8	2.8
Own shares purchased by employee trust	–	–	–	–	–	(0.6)	(0.6)
Own shares purchased and vested with employees	–	–	–	–	–	(1.8)	(1.8)
At 30 June 2008	39.2	1.5	420.7	710.8	(842.1)	(599.2)	(269.1)

Condensed consolidated cash flow statements

	Notes	Six months ended	Year ended
		30 June 2008	31 December 2007
		(Unaudited)	(Audited)
		£m	£m
Cash generated from operations	12	233.6	290.9
Income taxes paid		(55.3)	(48.1)
Interest paid		(13.4)	(15.9)
Interest received		2.5	7.0
Net cash generated from operating activities		167.4	233.9
Cash flows from investing activities			
Purchase of property, plant and equipment		(46.5)	(23.9)
Purchase of current asset investments		(59.0)	–
Net cash used in investing activities		(105.5)	(23.9)
Cash flows from financing activities			
Equity dividends paid	8	(60.1)	(155.0)
Purchase of own shares under share buy-back programme		–	–
Repayment of borrowings	9	(17.5)	(42.9)
Purchase of own shares held by employee trust		(2.4)	(2.3)
Net cash used in financing activities		(80.0)	(200.2)
Net (decrease)/increase in cash and cash equivalents		(18.1)	9.8
Cash and cash equivalents at beginning of the period		59.7	154.8
Cash and cash equivalents at end of the period		41.6	164.6

Notes to the condensed consolidated financial statements

1. General information

Drax Group plc (the "Company") is a company incorporated in England and Wales under the Companies Act 1985. Drax Group plc and its subsidiaries (together the "Group") operate in the electricity generation industry within the UK. The address of Drax Group plc's registered office and principal establishment is Drax Power Station, PO Box 3, Selby, North Yorkshire YO8 8PQ, United Kingdom.

2. Basis of preparation

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

The information for the year ended 31 December 2007 does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under Section 237(2) or (3) of the Companies Act 1985.

The condensed consolidated financial statements were approved by the Board on 4 August 2008.

3. Significant accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

4. Segmental reporting

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

5. Exceptional operating income

	Six months ended 30 June	Year ended 31 December	
	2008 (Unaudited) £m	2007 (Unaudited) £m	2007 (Audited) £m
Exceptional operating income:			
Distributions under the TXU claim received April 2007	–	6.2	6.2
Total exceptional operating income	–	6.2	6.2

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 are net of VAT and costs, and proceeds were used to prepay debt secured against the claim, which has been repaid in full.

6. Taxation

The income tax expense reflects the estimated effective tax rate on profit before taxation for the Group for the six months ended 30 June 2008 and the movement in the deferred tax balance in the period, so far as it relates to items recognised in the income statement.

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

Various changes were also proposed to the industrial buildings allowance regime in the 2007 budget announcement. Provision in respect of the withdrawal of industrial buildings allowances forms part of the Finance Bill 2008 which was not substantively enacted at 30 June 2008. The directors believe that the result of these changes when substantively enacted will be a deferred tax charge of approximately £9 million, based on the estimated loss of tax base in April 2011.

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 April 2009, one year later than originally envisaged following an extension of the consultation period. 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. However, until the consultation process is completed and the legislation drafted, 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.

	Six months ended 30 June	Year ended 31 December	
	2008 (Unaudited) £m	2007 (Unaudited) £m	2007 (Audited) £m
Tax charge comprises:			
Current tax	38.4	67.3	112.2
Deferred tax:			
– Before impact of reduction in tax rate	(7.1)	4.2	1.2
– Impact of reduction in tax rate	–	(18.5)	(17.9)
	31.3	53.0	95.5

In addition to the foregoing, under the current financing structure, Drax Holdings Limited, a wholly owned subsidiary undertaking of the Company, is partially funded by a Eurobond payable to another group company, with a tax deduction being claimed for all of the corresponding interest charged in the Drax Holdings Limited income statement. Were HMRC to successfully challenge the deductions claimed in respect of the Eurobond coupons for open periods to 30 June 2008, it is estimated that the additional tax liability would be up to £97 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.

7. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. In calculating the weighted average number of ordinary shares outstanding during the period, the number of shares in issue is amended from the date any share consolidation takes place.

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

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

	Six months ended 30 June	Year ended 31 December	
	2008 (Unaudited) £m	2007 (Unaudited) £m	2007 (Audited) £m
Earnings:			
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	118.2	220.1	353.0

	Six months ended 30 June	Year ended 31 December	
	2008 (Unaudited) millions	2007 (Unaudited) millions	2007 (Audited) millions
Number of shares:			
Weighted average number of ordinary shares for the purposes of basic earnings per share	339.4	364.8	354.9
Effect of dilutive potential ordinary shares under share options	0.2	0.2	0.1
Weighted average number of ordinary shares for the purposes of diluted earnings per share	339.6	365.0	355.0

8. Dividends

	Six months ended 30 June 2008	Year ended 31 December 2007	Year ended 31 December 2007
	2008 (Unaudited) £m	2007 (Unaudited) £m	2007 (Audited) £m
Amounts recognised as distributions to equity holders in the period (based on the number of shares in issue at the record date):			
Final dividend for the year ended 31 December 2007 of 9.9 pence per share paid 7 May 2008	33.6	–	–
Special interim dividend for the year ended 31 December 2007 of 7.8 pence per share paid 7 May 2008	26.5	–	–
Interim dividend for the year ended 31 December 2007 of 4.7 pence per share paid on 24 October 2007	–	–	16.3
Final dividend for the year ended 31 December 2006 of 9.1 pence per share paid on 16 May 2007	–	33.6	33.6
Special interim dividend for the year ended 31 December 2006 of 32.9 pence per share paid on 16 May 2007	–	121.4	121.4
	60.1	155.0	171.3

	Six months ended 30 June 2008	Year ended 31 December 2007	Year ended 31 December 2007
	2008 (Unaudited) £m	2007 (Unaudited) £m	2007 (Audited) £m
Amounts not recognised as distributions to equity holders in the period:			
Declared interim dividend for the six months ended 30 June 2008 of 5.0 pence per share (2007: 4.7 pence per share paid on 24 October 2007)	17.0	16.3	–
Declared special interim dividend for the six months ended 30 June 2008 of 9.7 pence per share	32.9	–	–
Final dividend for the year ended 31 December 2007 of 9.9 pence per share paid 7 May 2008	–	–	33.6
Special interim dividend for the year ended 31 December 2007 of 7.8 pence per share paid 7 May 2008	–	–	26.5
	49.9	16.3	60.1

On 4 August 2008 the Board resolved to pay an interim dividend for the six months ended 30 June 2008 of 5.0 pence per share (equivalent to approximately £17 million) on 8 October 2008. Also on 4 August 2008, the Board resolved to pay a further interim dividend (payable as a special dividend) of 9.7 pence per share (equivalent to approximately £33 million) on 8 October 2008. The interim dividend of 5.0 pence per share and special dividend of 9.7 pence per share have not been included as a liability as at 30 June 2008.

9. Financial liabilities – borrowings

	As at 30 June 2008	As at 31 December 2007	As at 31 December 2007
	2008 (Unaudited) £m	2007 (Unaudited) £m	2007 (Audited) £m
Term loans (net of deferred finance costs):			
Current	12.4	14.8	9.9
Non-current	368.5	420.3	387.0
	380.9	435.1	396.9

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.

£17.5 million of the term loans was repaid on 30 June 2008. Previously, repayments of £40 million were made on each of 29 June 2007 and 31 December 2007. All repayments have been made in line with the target repayment profile as a result of the levels of cash available for debt service.

10. Called up share capital

		As at 30 June 2007	As at 31 December 2007
	2008 (Unaudited) £m	(Unaudited) £m	(Audited) £m
Authorised:			
865,238,823 ordinary shares of £0.11 16/29 each	100.0	100.0	100.0
Issued and fully paid:			
30 June 2008 and 31 December 2007 – 339,397,000 ordinary shares of £0.11 16/29 each	39.2	–	39.2
30 June 2007 – 352,402,304 ordinary shares of £0.11 16/29 each	–	40.7	–
	39.2	40.7	39.2

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

		Six months ended 30 June 2007	Year ended 31 December 2007
	2008 (Unaudited) Number	(Unaudited) Number	(Audited) Number
At beginning of the period	339,397,000	368,921,151	368,921,151
Issued under employee share schemes	–	–	–
Effect of share consolidation	–	(16,518,847)	(16,518,847)
Cancelled under share buy-back programme	–	–	(13,005,304)
At end of the period	339,397,000	352,402,304	339,397,000

Effect of share consolidations

The Company undertook a share consolidation in connection with the interim special dividend paid on 16 May 2007. Following approval at the Annual General Meeting held on 26 April 2007, the share consolidation under which shareholders received 64 new ordinary shares of 11 ¹⁶/₂₉ pence each for every 67 existing ordinary shares of 11 ¹/₂₉ pence each, became effective on 30 April 2007.

Share buy-back programme

Under a share buy-back programme completed between 7 September 2007 and 13 December 2007, the Company purchased 13,005,304 ordinary shares for an aggregate consideration (inclusive of all transaction costs) of £83.5 million. Transaction costs of share purchases under the programme amounted to £0.5 million. All shares purchased through the share buy-back programme were cancelled.

11. Hedge reserve

The Group's cash flow hedges relate to commodity contracts, principally commitments to sell power and interest rate swaps. Amounts are recognised in the hedge reserve as the designated contracts are marked-to-market at each period end for the effective portion of the hedge, which is generally 100% of the hedge. Amounts held within the hedge reserve are then released as the contract matures and the hedged transaction impacts profit or loss. For power sales contracts, this is when the underlying power is delivered. The expected release from equity of post-tax hedging gains and losses is as follows:

	As at 30 June 2008 (Unaudited)			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	413.0	301.2	131.6	845.8
Interest rate swaps	(1.7)	(1.4)	(0.6)	(3.7)
	411.3	299.8	131.0	842.1

12. Cash flow from operating activities

	Six months ended 30 June 2008 (Unaudited) £m	Year ended 31 December 2007 (Audited) £m	Year ended 31 December 2007 (Audited) £m
Continuing operations			
Profit for the period	118.2	220.1	353.0
Adjustments for:			
Finance costs	14.8	17.4	34.3
Interest receivable	(3.8)	(7.2)	(11.4)
Tax charge	31.3	53.0	95.5
Depreciation	23.5	17.4	43.7
Unrealised losses/(gains) on derivative contracts	22.0	(6.9)	(3.3)
Charge for share-based payments	2.8	2.0	3.1
Operating cash flows before movement in working capital	208.8	295.8	514.9
Changes in working capital:			
Increase in inventories	(17.2)	(20.7)	(31.4)
(Increase)/decrease in receivables	(35.1)	106.0	43.8
Increase/(decrease) in payables	80.8	(89.3)	(87.7)
Decrease in pensions	(3.8)	(1.0)	(2.1)
Increase in provisions	0.1	0.1	0.2
Cash generated from operations	233.6	290.9	437.7

Independent review report to Drax Group plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises the condensed consolidated income statements, the condensed consolidated statements of recognised income and expense, the condensed consolidated balance sheets, the condensed consolidated reconciliations of movements in equity, the condensed consolidated cash flow statements and related notes 1 to 12. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements 2410 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditor
London, UK

Glossary

Ancillary services

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

Availability

Average percentage of time the units were available for generation.

Average achieved price

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

Average capture price

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

Balancing Mechanism

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

Baseload

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

Bilateral contracts

Contract with counterparties and power exchange trades.

Company

Drax Group plc.

Dark green spread

The difference between the price available in the market for sales of electricity and the marginal cost of production (being the cost of coal and other fuels including CO₂ emissions allowances).

Direct-injection co-firing

Is a process whereby biomass is fed directly (that is avoiding the pulverising mills) to the burners situated in the boiler walls.

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 CO₂; the scheme is capable of being extended to cover all greenhouse gas emissions.

Forced Outage

Any reduction in plant availability excluding planned outages.

Forced Outage Rate

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

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 merchant sales

Net volumes attributable to bilateral contracts and power exchange trades.

Net sales

The aggregate of net merchant sales and net Balancing Mechanism.

Planned Outage

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

Planned Outage Rate

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

Power exchange trades

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

Power revenues

The aggregate of bilateral contracts and Balancing Mechanism income/expense.

ROCs

Renewables Obligation Certificates. 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.

Through the mill co-firing

Is a process whereby biomass passes first through the pulverising mills before going to the burners situated in the boiler walls.

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.