



Drax Group plc

Interim Results

Six Months ended 30 June 2006

London
12 September 2006



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Agenda

Welcome

Gordon Horsfield - Chairman

H1 2006 Financial Review

Gordon Boyd - Finance Director

Business Review

Dorothy Thompson - Chief Executive



Welcome

A decorative graphic in the bottom right corner consisting of several overlapping circles of varying sizes and colors, including shades of light blue, purple, and grey.

Gordon Horsfield – Chairman

H1 2006 Financial Review

- EBITDA H1 2006 £239m
- £25m of EBITDA enhancements included
- Special dividend of 80 pence per share
- Ordinary dividend of 4 pence per share

Gordon Boyd – Finance Director

H1 2006 Financial Review

Highlights H1 2006 v H1 2005

	H1 2006		H1 2005
Revenue	£603m	▲	£366m
Gross Margin	£320m	▲	£140m
Average achieved price	£45.7/MWh	▲	52%
Average fuel cost (excl. CO ₂ allowances)	£17.0/MWh	▲	5%
Average fuel cost (incl. CO ₂ allowances) ⁽¹⁾	£22.8/MWh	▲	16%
EBITDA	£239m	▲	£72m
Operating Profit (adjusted) ⁽²⁾	£221m	▲	£54m
Reported Earnings	£232m	▲	£90m

- £19m received on 20 July from TXU administration bringing the total received to date to £330m (net of VAT) - £6m balance expected by mid 2007

(1) No charge is made for carbon allocated to Drax under the UK NAP – equivalent to 14.55 million tonnes in 2006

(2) Operating profit of £329m adjusted for exceptional items and IAS 39 mark-to-market adjustment - £108m in aggregate

H1 2006 Financial Review

Consolidated Income Statement

(in £m)	H1 2006	H1 2005
Power Sales ⁽¹⁾	567	347
Other Revenues	36	19
Fuel Costs ⁽¹⁾	(283)	(226)
Operational Costs	(81)	(68)
EBITDA	239	72
Exceptional Items	19	264
IAS 39 MTM Adjustment	89	(249)
Depreciation and Amortisation	(18)	(18)
Operating Profit	329	69
Interest	(12)	(56)
Profit Before Tax	317	13
Tax (Charge)/Credit	(85)	77
Profit	232	90

(1) Before reclassification of power purchases of £47m (H1 2006) and £38m (H1 2005)

- Net power sales in H1 2006 were £220m higher than H1 2005. Net sales volumes were 0.8TWh higher at 12.4TWh
- Other revenues comprises ancillary services provided to the grid, sales of ROCs and LECs, by-products and sulphur allowances
- Fuel costs in H1 2006 include a charge of £73m relating to CO₂ allowances (H1 2005: £41m), Allowances purchased at an average price of £18.20/tonne (H1 2005: £11.70/tonne)
- Operational costs higher in H1 2006 due to timing of maintenance/outage expenditure, higher use of system charges and investment in people and systems
- EBITDA includes £25m of enhancements (£6m due to commodity price movements)
- £19m received from TXU administrator on 20 July 2006 treated as an exceptional item

H1 2006 Financial Review

Cash Flow

(in £m)	H1 2006
EBITDA	239
TXU receipts ⁽¹⁾	55
Interest	(15)
Decrease in restricted cash	11
Changes in working capital	45
Net cash generated from operating activities	335
Capex	(12)
Cash flow from financing activities	(113)
Net increase in cash and cash equivalents	210
Cash & cash equivalents at 30 June	298

(1) Additional £19m (net of VAT) received from TXU Administrators on 20 July 2006. Included in Operating Profit for H1 2006, shown as a receivable in 30 June 2006 balance sheet, and used to prepay Bridge loan on 25 July 2006

- £335m cash generated from operating activities
 - included £55m of cash received from TXU administration on 19 January 2006 (recognised as income in 2005). Proceeds used to prepay Bridge loan
 - benefited from cash flows arising from four months of the Winter 05/06 season and the absence of tax cash flows which commence in H2 2006
- Working capital reflects seasonality of power sales
- Cash flow from financing activities comprises £113m of debt repayments (£58m amortising term loan, £55m Bridge loan)

H1 2006 Financial Review

Net Debt

(in £m)	30 June 2006	“Proforma” adjustments	“Proforma” net debt
Cash and cash equivalents	298	(248)	50
Amortising term loan ⁽¹⁾	428	100	528
TXU bridge facility ⁽²⁾	22	(19)	3
Total debt	450	81	531
Net debt	152	329	481
Letter of credit / working capital facilities			
Letter of credit facility	200		200
Working capital facility	100		100
Total	300		300

(1) Net of £14m deferred financing costs

(2) Facility secured against TXU receipts

- Net debt of £152m comprises £298m cash and £450m gross debt
- Cash boosted by carbon settlement terms: £76m carbon accrual at period end
- “Proforma” adjustment of £248m comprises:
 - £326m special dividend (80p per share)
 - £22m payment to pension fund
 - less £100m debt facility drawn in full on 3 July
- “Proforma” adjustment of £19m represents prepayment on 25 July following additional receipt from TXU Administrators
- “Proforma” net debt of £481m comprising £50m cash and £531m gross debt

H1 2006 Financial Review

Distributions and timetable

- Distribution policy recognises Drax's exposure to commodity prices
 - Stable amount by way of ordinary dividends (£50m pa)
 - In addition, substantially all excess cash flows generated in the period will be distributed
- Ordinary dividend (4 pence) declared and special dividend (80 pence) proposed for the six months ended 30 June 2006 and share consolidation (subject to shareholder approval):

	Ordinary Dividend	Special Dividend
Dividend per Share	4 pence	80 pence
Ex-Ordinary Dividend Date	4 October	-
Record Date	6 October	6 October
EGM Date	-	6 October
New Drax Shares issued (Ex-Special Dividend)	-	9 October
Payment Date	25 October	25 October

H1 2006 Financial Review

Share Consolidation

- Purpose
 - To maintain the comparability of share price and earnings and dividend per share
 - To maintain the position of the participants under the Drax Share Plans
- Mechanism and timing – subject to shareholder approval
 - Existing ordinary share to be replaced by new ordinary shares which are expected to commence trading on 9 October 2006
 - Consolidation ratio =
$$\frac{\text{13 September closing share price less 80 pence}}{\text{13 September closing share price}}$$
 - Ordinary and special dividends to be paid to the holders of shares on the basis of the number of existing ordinary shares held on 6 October (the “record date”) prior to consolidation
- A worked example, based on an illustrative share price of 900 pence is included in Appendix 4

Business Review

- Strong trading and operational performance
- Robust dark green spread to 2009
- Removal of regulatory uncertainty
 - 9.6Mt pa EU ETS Phase II allowances
 - Energy Review supports coal generation
 - Co-firing back on the agenda

Dorothy Thompson – Chief Executive

Trading

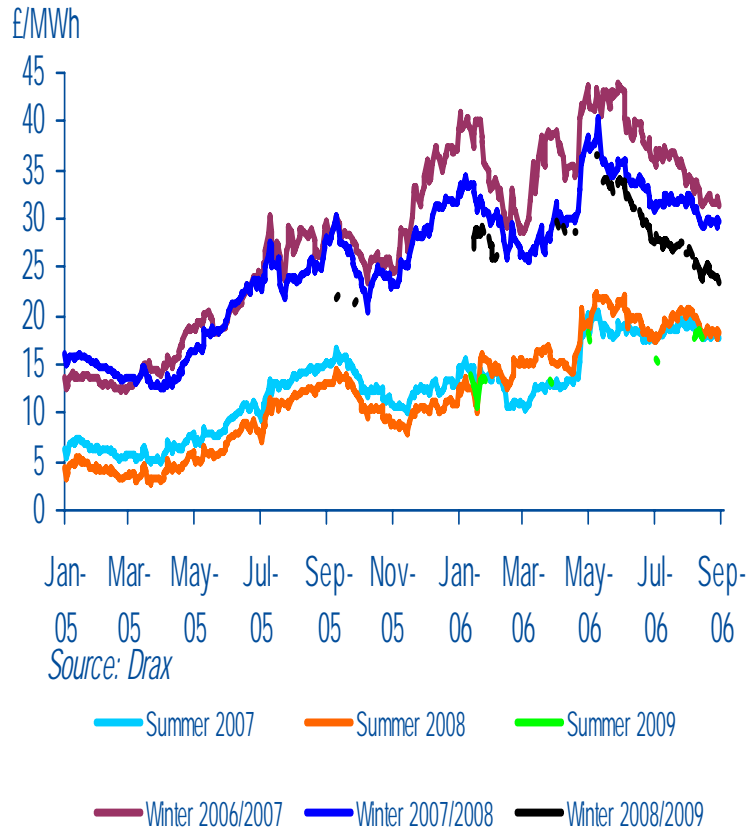
Strategy and Market Access

- Strategy
 - Commodities prices (power, gas, coal and carbon) drive gross margin
 - Progressive forward power sales locking in dark green spread
 - Results in exposure to prompt, seasonal and term markets
- Investment grade status of Drax Power Limited has underpinned good market access
 - Bilateral market – now trading through to Summer 2009
 - Structured deals
 - Centrica 600MW 5.25 years from October 2007 at fixed dark green spreads
 - Remain active in the market on smaller structured deals
- Trading Focus
 - Investment in people and systems to
 - capture dark green spreads at market or better
 - capture value from flexibility and increased plant reliability

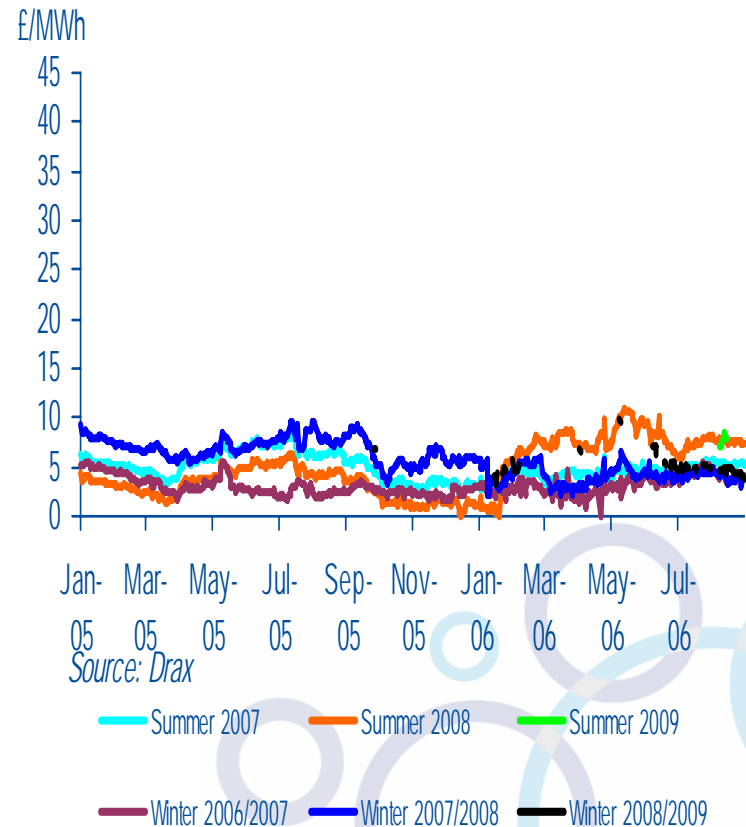
Trading

UK Forward Power Spreads

Dark Green Spread



Green Spark Spread



Assumed typical efficiencies: Dark Spread - 36%, Spark Spread - 49.1349%

Trading

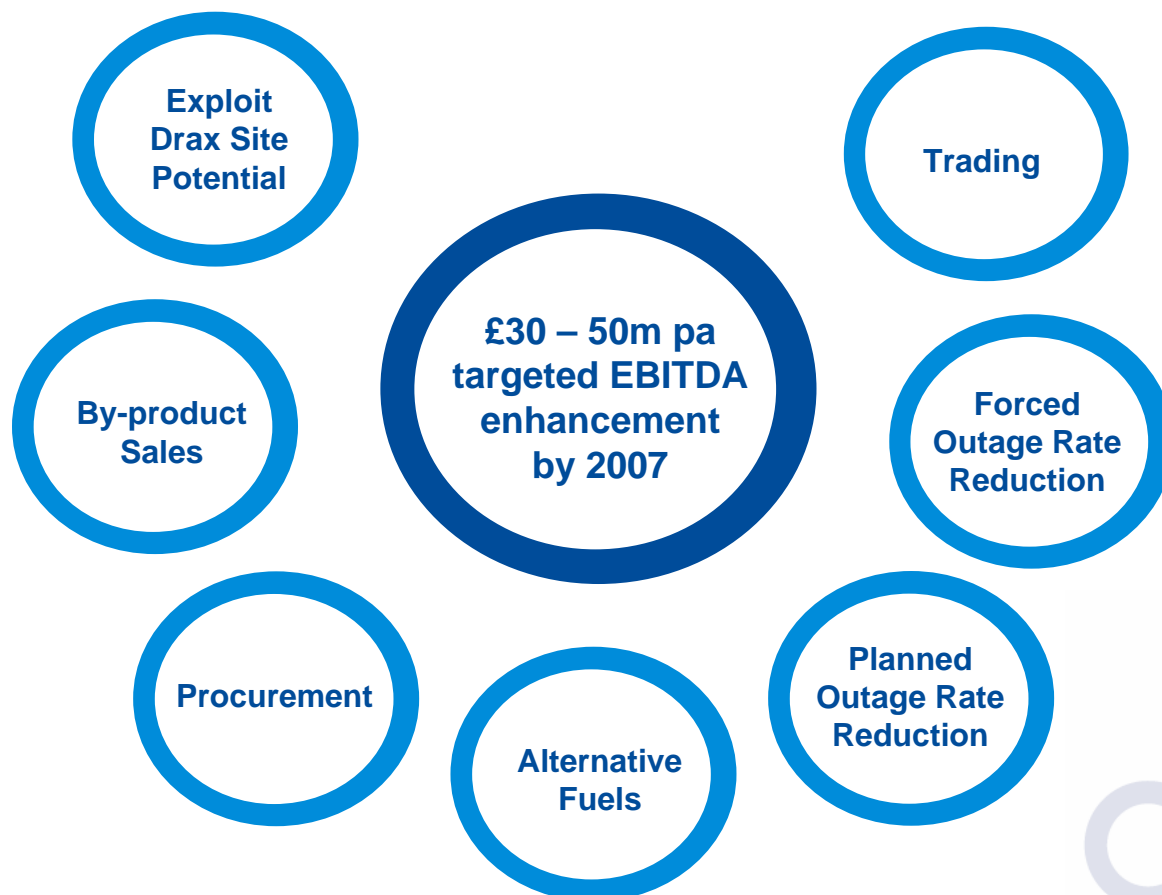
Contracted Position 2006, 2007 and 2008

As at 5 September 2006	2006	2007	2008
Output - % of expected production hedged	93%	65%	52%
comprising:			
-fixed price power sales at average achieved price/MWh	93% @ £48.1	59% @ £50.1	29% @ £49.7
-fixed margin power sales ⁽¹⁾	-	6%	23%
Carbon - % of expected requirement (including UK NAP allocation, market purchases and structured contracts)	93%	72%	67%
Coal - % of expected requirement at fixed price / hedged	100%	63%	54%

(1) Fixed margin power sales include contracts which fix the dark green spread and may have a variable power price. Approximately 1.3 TWh and 5.3 TWh in respect of 2007 and 2008 respectively of production are under the five and a quarter year baseload contract with Centrica which commences on 1 October 2007. Under this contract Drax will supply power on terms which include Centrica paying Drax for coal, based on international coal prices, and delivering matching CO₂ allowances. The contract provides Drax with a series of fixed dark green spreads.

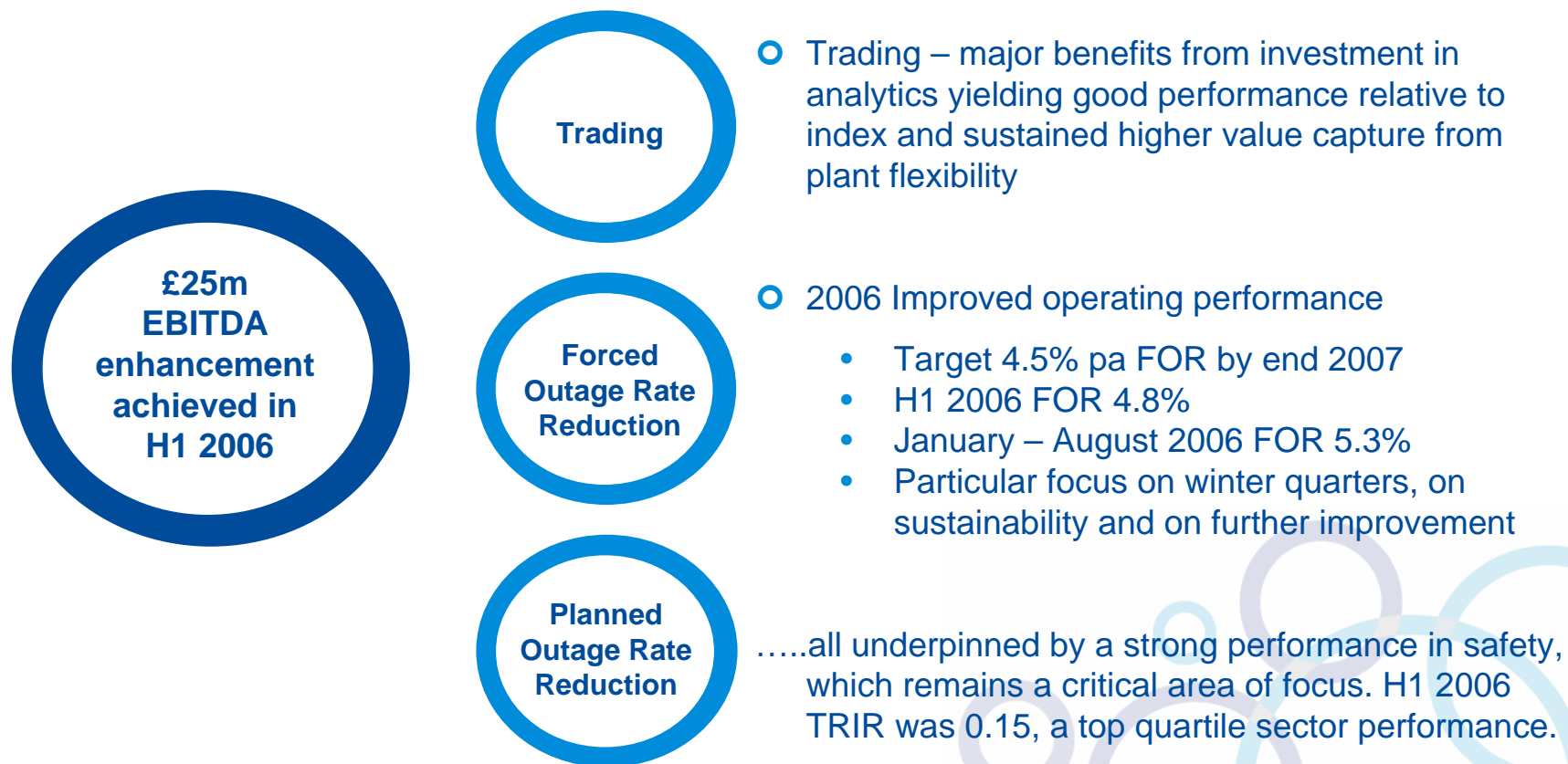
○ Drax expects to issue a further trading update on or around 13 December 2006

EBITDA Enhancements



- Trading - investment in people and systems to improve ability to capture value
- Outage rates - process redesign of maintenance systems
- Alternative fuels – petcoke trials, biomass extension project design
- By-product sales – gypsum and ash
- Site – longer term proposition

Progress on EBITDA Enhancements



Further opportunities to invest

- Base capex
 - 2005 plan - £100m spend for 2006-2008 inclusive
 - Early engineering underway to achieve compliance with 2016 NOx emission limits

- Additional investment to deliver additional value enhancements, examples:
 - Condenser and Feed System Improvements
 - £17m investment committed, equipment to be installed in 2007 and 2008
 - 4 to 5 year payback through efficiency and reliability improvements
 - Turbine Re-blade
 - Currently evaluating for high and low pressure turbines
 - Significant efficiency improvements anticipated – lower coal consumption and CO₂ emissions
 - 5 year installation during routine planned outages
 - Final decision expected late 2006

- Remain alert to sector opportunities

Regulatory Matters

EU ETS

- Drax allocated 9.6Mt pa EUA under UK NAP for Phase II EU ETS
 - Shortfall of 11.2Mt pa assuming 2005 generation level to be met from
 - 4.7Mt pa delivered under the Centrica contract
 - Balance from market purchases including permitted 0.9Mt pa other Kyoto instruments under UK NAP

- Total Phase II EU ETS wide allocations including JI and CDM restrictions still unclear
 - Phase II NAPs deadline was June 2006 less than 1/3 submitted end August
 - Final allocations end 2006 - should give Phase II more direction
 - Market close 5 September Phase II 2008 trading at €18.20* (Phase I 2007 €17.10*)

- Status of Phase III EU ETS remains uncertain
 - EU ETS Directive provides for Phase III – detail has yet to be agreed
 - Preliminary consultation now expected September 2006
 - Drax part of UK Emission's Working Group
 - Pressure on EU to give up linkage to resolution of next phase of Kyoto

*Source: International Petroleum Exchange

Regulatory Matters

2006 Energy Review

- No change in competitive generation market - Government confident that the free market will supply generation to cover tightening reserve margins
- Facilitates fast track new build nuclear capacity but unlikely to be on line before 2015
- Coal-fired generation confirmed as critical part of the UK energy mix in the long term
- Significant progress on co-firing
 - From 1 April Drax not burning significant biomass due to cap on all co-fired generation
 - Energy Review provides for changes which, if implemented, could result in significant increase in co-fired generation at Drax
 - Short term (2007 implementation): remove the cap on co-firing of energy crops
 - Medium term (2009 implementation): remove all caps and introduce banded ROC with a fractional ROC for non-energy crop co-fired and wind generation

Conclusions

- Successfully delivering on our strategy
 - Strong operating and trading performance to date
 - Special dividend of 80 pence per share

- Robust dark green spread to 2009 in current traded market

- Continue to explore investment projects whilst remaining alert to sector opportunities



Questions



Definitions

- CDM** - **CLEAN DEVELOPMENT MECHANISM** :Mechanism for project-based emission reduction activities in developing countries. Certificates generated via CDM from projects that lead to certifiable emissions reductions that would otherwise not occur.

- CER** - **CERTIFIED EMISSION REDUCTION** : CERs are permits generated through the CDM.

- EUA** - **EU ALLOWANCE** : EU Allowances, the tradable unit under the EU ETS. Equals 1 tonne of CO₂

- EU ETS** - **EU EMISSIONS TRADING SCHEME** : Trading Scheme within the European Union. The first compliance phase is from 2005-07, while the second compliance phase continues from 2008-12.

- JI** - **JOINT IMPLEMENTATION** : Mechanism for transfer of emissions permits from one country with Kyoto target to another. JI generates certificates on the basis of projects leading to quantifiable emissions reductions.

- Kyoto Instruments** Collectively : JI / CDM and emissions trading

- LEC** - **LEVY EXEMPTION CERTIFICATE** : The levy is chargeable on the industrial and commercial consumers on the supply of taxable commodities for lighting, heating and power. LECs are issued as evidence that eligible renewable source electricity has been generated. They are used by suppliers to claim the CCL exemption.

- ROC** - **RENEWABLES OBLIGATION CERTIFICATE** :The Obligation requires licensed electricity suppliers to ensure that specified and increasing amounts of the electricity they supply are renewable. Eligible generators of electricity using renewable energy sources receive 1 ROC for each MWh of electricity generated from renewable sources. These certificates can then be sold to suppliers.

- TRIR** - **TOTAL RECORDABLE INJURY RATE**: The frequency rate calculated on the following basis (number of accidents * 100,000) / hours worked.

- UK NAP** - **UK NATIONAL ALLOCATION PLAN** : Allocation of UK emission allowances at the national level to individual sites under EU ETS

Appendices

- 1 - Financial calendar
- 2 - Commodity price movements
- 3 - Forward power prices
- 4 - Share consolidation – worked example



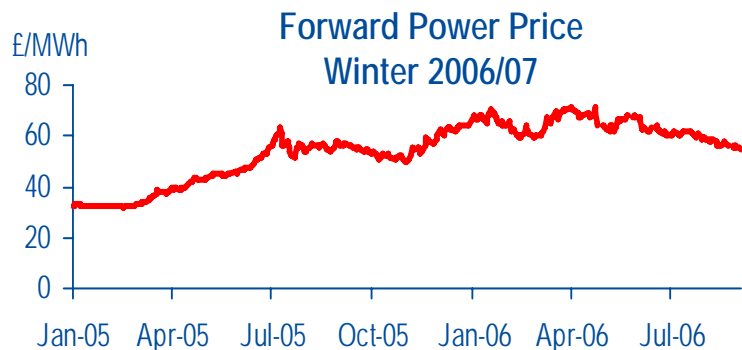
Appendix 1

Financial calendar

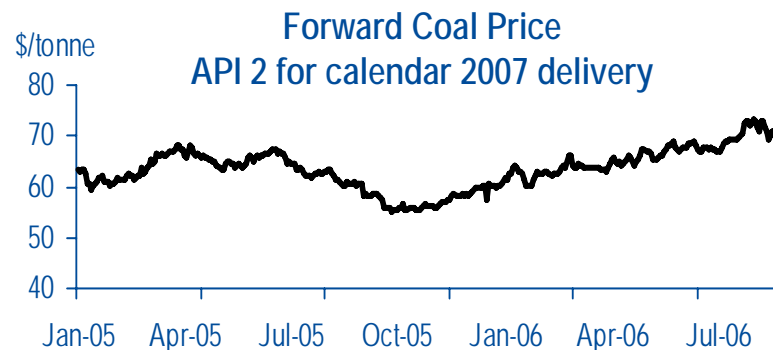
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|--|------------------|
| Existing ordinary shares marked ex-interim dividend | 4 October 2006 |
| Record date for interim dividend, special dividend and share consolidation | 6 October 2006 |
| Extraordinary general meeting | 6 October 2006 |
| Existing ordinary shares marked ex-special dividend and admission of new ordinary shares | 9 October 2006 |
| Interim Ordinary and Special dividend payment date | 25 October 2006 |
| Trading update | 13 December 2006 |
| Financial year end | 31 December 2006 |
| Preliminary results | March 2007 |
| Annual General Meeting | late April 2007 |

Appendix 2

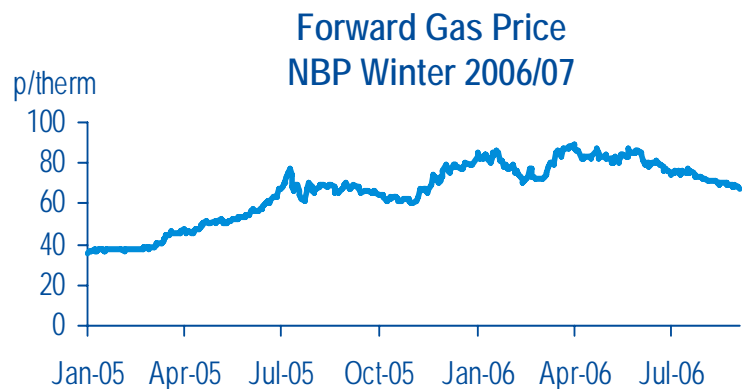
Commodity Price Movements



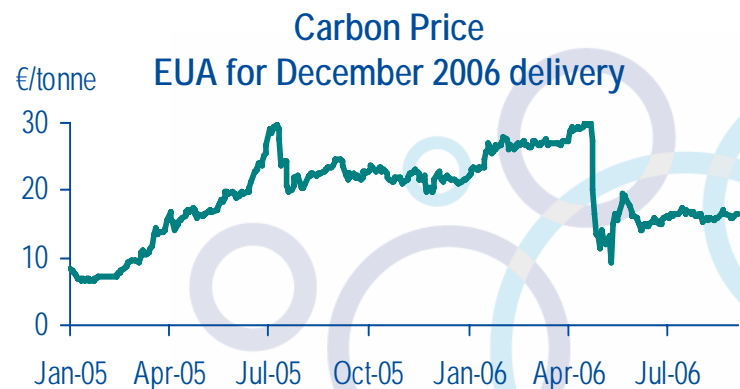
Sources: Brokered Trades, Prebon, Spectron, ICAP, GFI



Source: McCloskey



Source: Spectron



Source: Bloomberg

Appendix 3

Forward Power Prices 2006, 2007 and 2008

As at 5 September 2006		2006		2007		2008	
Pricing £/MWh	- Winter base load	n/a		2006/07	54.8	2007/08	53.6
	- Summer peak load	n/a		2007	52.1	2008	n/a
	- Summer base load	n/a		2007	42.1	2008	42.9
	- Winter base load	2006/07	54.8	2007/08	53.6	2008/09	48.3

Sources: Brokered Trades, Prebon, Spectron, ICAP, GFI

Appendix 4

Share Consolidation – worked example

- Worked example assuming a share price of 900 pence on 13 September
- Consolidation ratio = (900 pence less 80 pence) / 900 pence
= 0.9111
- For every 100 existing Drax shares held the holder would receive 91 new Drax shares and the dividend of 80 pence per existing Drax share, being a total of £80.00
- Fractional entitlements to new shares will be paid in cash to the shareholder in the event that they exceed £3.00
- Number of new Drax shares issued would be $407,085,395 * 0.9111 = 370,900,026$

Drax Group plc

Interim Results

Six Months ended 30 June 2006

End

London
12 September 2006

